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Builder The Information Source for the Home Building Industry

10 Companies to Watch in 2010

We single out the builders and suppliers that should make some noise this year.

By: John Caulfield
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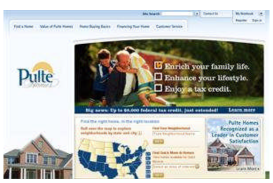
Recessions have a way of separating winners from losers. And as the housing market inches closer to recovery, indications about which companies are likely to survive or fail become clearer.

Some companies are exploiting the economic downturn to strengthen their competitive positions. Others have used the recession to reinvent themselves. And a handful of new builders and suppliers have entered the market either to create new demand or to fill voids vacated by companies that have tripped or fallen. The following list of companies to watch this year includes builders and suppliers that are poised to take advantage of an economic upswing or, at the very least, stay ahead of the pack if the recession lingers. Our choices also include two builders whose very survival would be a rebuke to critics who had already written them off for dead.



1. Pulte Group, Bloomfield Hills, Mich.

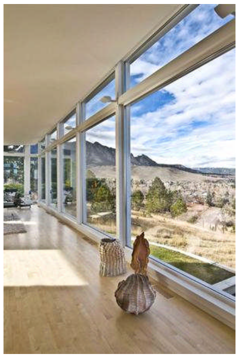
Everyone has heard the arguments: Pulte bought Centex too soon. It paid too much money. The deal added too much debt to Pulte's balance sheet. And why add market share when there's no market in which to sell?

Each of these points may have some validity. But Pulte's $1.4 billion merger with Centex, which closed last August, is still worth keeping an eye on now, if for no other reason than it's virtually impossible to ignore a $6 billion home builder whose estimated unit closings in 2009 accounted for more than 3% of total new-home sales.

This "combination," as Pulte's CEO Richard Dugas calls the merger, extended Pulte's reach to 69 markets in 29 states. Centex's product for first-time buyers diversifies Pulte's active-adult-heavy portfolio. Since the merger, Pulte Group has paid down nearly $2 billion in debt and made optimistic projections about synergistic operational savings.

But the litmus test could be whether Pulte can pull off its branding strategy in an industry sector that mostly has resisted name-brand marketing.

Pulte this year is assigning a brand to every piece of dirt it owns or controls: Centex for entry level lots, Pulte for first move-up, Del Webb for active adult, and “TBD” (apparently a brand still in formation) for luxury products. It’s worth noting that Pulte now controls the marketing, sales, construction, and design of its products corporately, leaving its areas and divisions to focus on land acquisition and customer service.



ENERGIZED BY INNOVATION. Serious Materials is gaining wide recognition for its array of energy efficient building products, including its Serious Windows, which deliver R-values four to five times higher than standard windows. Credit: Daniel O'Connor

2. Serious Materials, Sunnyvale, Calif.

When President Obama recently heralded the reopening of Serious Materials’ plant in Pittsburgh, he called attention to a company that is making a name for itself as a job-creating manufacturer and supplier of energy-saving building materials.

Serious—which launched in 2002 and introduced its first product a year later—operates under the assumption that the best way to reduce greenhouse gas emissions is to make buildings more efficient by reengineering products that use or lose energy. The company has brought out several breakthrough construction materials, such as its non-gypsum EcoRock drywall that, Serious claims, uses 80% less energy to produce; and its Serious Windows, which deliver R-values four to five times higher than standard windows.

Inc. Magazine named Serious’ CEO, Kevin Surace, its Entrepreneur of the Year for 2009.

Serious wants to save one billion tons of greenhouse gases annually, and investors have pumped $120 million into the company to help it achieve that goal. Serious has acquired two of its five plants within the last 12 months. It currently supplies companies that are retrofitting tens of thousands of windows in public buildings in the United States. On the global stage, Serious recently was selected as one of the World Economic Forum’s 2010 Technology Pioneers, which recognizes innovative startups.

America's new-home construction and renovation markets are Serious' next frontiers, but ones that its officers admit will be difficult to conquer, "like pulling a wet noodle up a hill," COO Mark Mitchell told the *Daily Telegraph* in London.

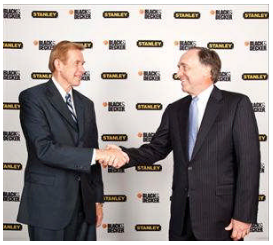
3. Trumark Homes, Danville, Calif.

In late December, startup builder Trumark Homes was preparing to close on its fourth land deal, a parcel in Granada Hills, Calif., near Los Angeles, which it acquired from a bank and includes 13 standing townhouses and lots for 81 more. This deal, when consummated, would bring to 245 the number of total lots Trumark, a division of the Irvine, Calif.-based developer Trumark Communities, has secured since being formed in May 2008.

This month, the builder opens its first models at Wyeth Cove, a community on 4.38 acres in Upland, Calif., which will have 39 single-family courtyard homes ranging from 1,717 square feet to 2,401 square feet and priced in the $700s. Trumark's president Mike Maples tells BUILDER that his company will keep its selling prices "under the conforming loan limits" in their respective markets for at least this year and next.

Trumark's goal is to close 60 homes this year, and to generate $20 million in revenue with a slight profit. (Its houses will range from 1,100 to 3,000 square feet.) Going forward, the company projects its closings to be between 150 and 200 in 2011 and between 300 and 400 in 2012. Maples and his partner Gregg Nelson control another 223 tentative map lots, and Trumark's growth will continue to focus on acquiring finished lots throughout Northern and Southern California in "constrained areas," or markets where new inventory is in short supply.

STARTING WITH A PURPOSE: Startup builder Trumark Homes this month opens its first models at Wyeth Cove, its 39-unit community in Upland, Calif. Trumark, which currently controls nearly 300 lots on four parcels in California, expects to close 60 homes this year, and to double its closings in each of the following two years.



RETOOLING: November's merger of The Stalney Works with Black & Decker , if consummated, would bring together the world's two best-known tool brands. John Lundgren (r.), Stanley's chairman and CEO, will be president and CEO of the combined company; Nolan Archibald, B&D's longtime chairman, will be the new company's executive chairman for three years.

Credit: The Stanley Works

4. Stanley Works, New Britain, Conn.

Stanley Works' blockbuster $4.5 billion agreement to acquire Black & Decker in November might turn out to be the beginning of a major expansion drive for this powerhouse home-improvement supplier.

The B&D deal, which recently received SEC approval and should close in mid-2010, would create an $8.4 billion monolith. The combination is projected to reduce the company's costs by $350 million and boost earnings per share by $1 within three years. But bumps in the road could lie ahead: Shareholder groups opposed to this merger have sued Stanley, which wants to increase its shares outstanding by 50%, to 300 million, to finance this all-stock purchase, which converts each B&D share to 1.275 shares of the new company. Stanley and B&D also generate a sizable portion of their annual revenues from just two dealers—The Home Depot and Lowe's—that only now are starting to pull out of the recession.

Initial reaction to this deal from a distribution standpoint has been positive. And Stanley officials are looking for other growth opportunities. In December, Stanley agreed to buy HSM Electronic Protection Services (the fourth-largest electronic security company and second-largest commercial monitoring company in North America) from private investors for $545 million in cash. And Stanley's COO James Loree said in a recent speech that his company wants to significantly expand its businesses serving the healthcare and infrastructure sectors.

ATTENTION TO DETAIL: Modular manufacturer Haven Custom Homes has made its reputation on the architectural refinement of its house plans. The Maryland-based company now
has its eye on expanding into the Midwest and Southeast.

Credit: Haven Custom Homes

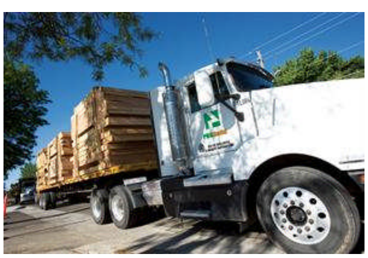
5. Haven Custom Homes, Linthicum, Md.

Four years ago, the Philadelphia investment firm [Wind River Holdings] acquired [The Haven Group], a modular home manufacturer then based in South Carolina. Within a year, Wind River was replacing and expanding Haven's management team (mostly with former Rouse Company execs) and relocating its corporate headquarters to Maryland. Wind River was also refining Haven's product to conform with market research that found distinct consumer preferences for architecture and design based on demographic status.

Architectural detail and quality control are Haven's calling cards. Instead of relying on its own house plans, it prefers instead to work with award-winning architects. It also uses its own crews to assemble its modules at job sites. While much of what it manufactures is higher-end custom, "we also bring precision and quality to our more affordable price points," says CEO Jerry Smalley. "For us, it's clearly a technique."

Haven sells to semi-custom and custom builders from Maine to Florida, and from the Mississippi River east. Its Web site identifies nine Midwest and Southeast states as "future service areas." When it might expand remains uncertain, but such a move would probably require opening a third factory, says Smalley.

He wouldn't reveal sales figures, but Smalley says business in 2009 was flat and should be profitable this year. "Our 'book' for 2010 is as big as it's been since new management came on board."



ROLLING FORWARD: Despite not having made money in the past three years, the pro dealer chain Pro Build continues to exploit expansion opportunities, thanks in part to its parent Fidelity

Credit: Pro-Build Holdings

6. ProBuild Holdings, Denver

The recession weakened the supply-chain link that contractor-oriented building materials distributors and retailers represent. Our sister publication, *Pro Sales*, has been keeping tabs on the attrition within the pro dealer ranks, the most prominent being Stock Building Supply, which under new majority ownership has pared down to about one-third the size it once was.

ProBuild, the nation's largest pro dealer, watched helplessly as its revenue fell by nearly one third in 2009. It hasn't made money in three years, including the last three quarters of 2009 when it lost an estimated $400 million, according to Fidelity, its parent company.

Still, ProBuild continues to pursue its goal to achieve market dominance nationwide. That effort began last spring, when the company, with more than 470 branches, reorganized into six regions (from four divisions), and moved towards a "shared services" model that consolidated corporate and regional back-office functions. This move is expected to save the company "millions of dollars" annually, predicts ProBuild's CEO Paul Hylbert.

In September, ProBuild initiated a specialty products division, which is distributing hardware, fasteners, tools, concrete accessories and ancillary products to framing, concrete, and specialty building contractors. The company still seems intent on becoming the industry's largest gypsum distributor. And even as its losses have mounted, ProBuild is still adding yards and component plants.

ON THE MOVE. LGI Homes' business model is to convert renters to first-time buyers with aggressive marketing and affordable products. The builder expects to close 600 homes in Texas this year.

Credit: Joshua Hernandez

7.LGI Homes, Conroe, Texas

Something unexpected happened at LGI Homes in 2009: Its revenue and closings went down for the first time in four years.

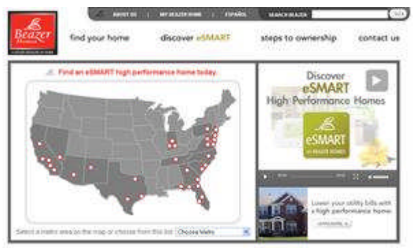
The company—which in 2008 was the only builder among the top 200 that reported sales and closings gains—closed 425 homes last year, versus 476 the year before. The problem wasn't demand, according to president Eric Lipar. "It was just harder to get buyers approved for loans," he says.

While closings were off, LGI ended 2009 with its sixteenth consecutive profitable quarter. "We made $5 million [in 2009], our gross margins were up, and our costs per sales were down," says Lipar.

LGI's business model is to convert Texas renters into first-time buyers. It methodically sends out flyers to apartment dwellers within 30 miles of its subdivisions and keeps its sales offices open for nearly 12 hours each day, seven days a week.

This formula is working again at the company's newest subdivision, which is also its fourth and is located in South Fort Worth, where LGI picked up 210 completed lots on which Sovereign Bank had foreclosed. The bank not only helped finance that acquisition, but provided $3.5 million in construction loans. LGI also raised $2 million from private equity sources, which Lipar says made that deal possible.

In mid-December, Lipar said LGI had sold 15 homes in South Fort Worth and had 15 others under contract. He's now projecting 600 total closings for 2010, when his company will have a full year of selling under its belt in that subdivision, and expects to add new neighborhoods in Houston and the Dallas-Fort Worth markets.



8. Beazer Homes USA, Atlanta

It was easy to forget last year that Beazer Homes is a home builder. As it bid adieu to 2009, the company was suing a Bermuda-based re-insurer it alleges wrongfully denied claims for losses incurred from defending Beazer's executives against shareholder and other litigation. Its CEO, Ian McCarthy, was girding for a possible civil suit by the SEC to collect bonuses and other compensation he received when the builder's accounting was out of compliance. And the company still has to contend with lawsuits filed by homeowners and the states of Georgia and North Carolina.

Beazer's marketing, mortgage lending, and accounting practices threw it into a maelstrom of investigations and litigation from which it spent most of 2009 extricating itself. But despite its legal problems, which date back to 2007, Beazer ended its latest fiscal year on Sept. 30 having delivered 4,330 homes and generating a tad more than $1 billion in revenue. It had another 2,000 homes in construction and owned or controlled about 30,000 lots. Its net loss in fiscal 2009, $189.4 million, was significantly less than the $951.9 million loss it reported the previous year.

Having exited unprofitable markets, Beazer--which once seemed to be teetering towards oblivion--is attempting to move forward positively with significant cash, less (but still miserably rated) debt, a more realistic expansion blueprint, and a consistent national brand marketing strategy. Its diversified product mix now incorporates the company's eSMART initiative, which emphasizes environmental stewardship through energy-saving, water-conserving, and improved air quality components that are now standard features in its homes.

NEW LEASE ON LIFE: Having emerged from bankruptcy on January 1, Oregon-based Renaissance Homes has a clean balance sheet and ambitious plans to close between 140 and 180 houses in the Portland and Seattle markets in 2010.

Credit: Renaissance Homes

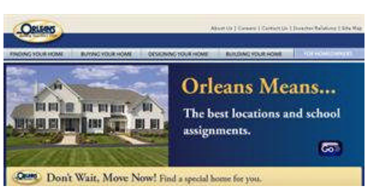
9. Renaissance Homes, Lake Oswego, Ore.

Few builders have survived bankruptcy. For some reason, though, builders in the Pacific Northwest have managed to get through the Chapter 11 ordeal better than builders in other parts of the country. In November, a bankruptcy court approved Marnella Homes' reorganization plan. And on Jan. 1, Renaissance Homes finally emerged from 15 months of court protection from its creditors.

While in bankruptcy, Renaissance kept building. In 2009, it closed about 80 homes, which generated $45 million in revenue. The builder also lowered its bank debt from $165 million to only $4 million, according to owner and president Randy Sebastian, whose family pumped nearly $8 million into Renaissance to keep it going under Chapter 11.

Sebastian reduced the size of his average house plan in the Portland, Ore., market by 500 square feet to 3,000 square feet, and its average selling price to the $600s from $800,000. In November, Renaissance opened its first sales office in the Seattle market, where it will build entry-level homes that range from 1,700 to 3,000 square feet and sell for $229,000 to $289,000. Sebastian expects to start his first six homes there this month.

He hopes Renaissance can close between 60 and 80 homes in Portland in 2010, and between 80 and 100 in Seattle. When asked what he's learned from bankruptcy, Sebastian answers "that leverage can be a killer." Indeed, his company restructured most of its land deals into LLCs in which investors shoulder more of the debt load.



10. Orleans Homebuilders, Bensalem, Pa.

Even as some segments of the housing industry are showing a pulse again, many builders are hanging on by their fingernails financially. One of these is Orleans

Homebuilders, the industry's 35th-largest builder in 2008, which limps into 2010 playing beat the clock to find some way to either meet its debt obligations or find a buyer for its operations.

In late December, Orleans and its lenders began executing a limited waiver and amendment extension to the company's $375 million revolving credit line, which as of Dec. 21 had approximately $317.9 million outstanding. The amendment extends the maturity of the credit line to at least Jan. 29, and possibly Feb. 12, depending on whether Orleans meets the terms of this agreement and doesn't default further.

Some industry watchers seem convinced, however, that the amended loan agreement amounts to little more than Orleans waving the white flag. *TheStreet.com*, for example, pointed to loan-term agreements that are linked to the potential sales of Orleans or the liquidation of its undeveloped land. (As of March 31, 2009—the last period for which the builder has filed a financial report with the SEC—Orleans owned or controlled 5,893 lots. The builder's filing did not indicate what portion of these lots is undeveloped.)

The builder has hired two "strategic advisors"—BMO Capital Markets Corp. and Lieutenant Island Partners—to explore a potential sale or recapitalization. Short of either, Orleans has stated it probably won't have enough capital to continue normal operations for an extended time.

John Caulfield is senior editor for BUILDER magazine.