

## Hard times in a soft market

Builders adjust to changing conditions

By John Kinmonth



**Todd Lapinsky of Credo Construction said his company is seeking work in other markets as a way to diversify business.**

While the regional economy of Northwest Washington may not currently warrant such bleak descriptions, recent data released from the Northwest Multiple Listings Service suggests a slight cooling from the “hot” real estate market of recent years. A first-quarter drop in median sales price and number of homes sold in Whatcom County in comparison to last year is leaving real estate professionals hoping that the market is shifting back to a “buyer’s market.” Also, tighter lending restrictions has squeezed some marginal buyers out of the market, compounding the situation.

While some would-be sellers might opt to hold onto their houses a little longer than they had hoped and others might sell at a price for less than they had expected, the Northwest has not experienced a free-fall in home prices or a glut of houses on the market that may have occurred in other areas of the country. But what about those whose livelihoods depends on the demand for new buildings?

“I would say the housing sector is definitely off and the commercial clients we have are being very cautious about starting new projects,” said

Todd Lapinsky, president of Credo Construction, Inc. Launched in 2000, the Bellingham-based company’s initial years were spent riding the wave of a regional building boom. Now, with nearly 40 employees and simultaneous projects, Lapinsky said that his company would deal with the slower real estate market by looking to compete more outside of Whatcom County.

“We will continue to market our services locally, but we will also be seeking work in other markets,” he said. “We are licensed in B.C. and Hawaii.”

Lapinsky formerly operated Lapinsky Construction in British

Columbia before setting his sights south of the border.

“B.C.’s economy is still strong and we will continue to expand into that market,” he said. “Hawaii is slower than B.C., but we are looking at a couple long-term projects there for affordable housing.”

Although Credo will be venturing afar for projects in the near future, Lapinsky said they are actually busier now than in 2007.

“We are bidding and planning more work than we were last year, but until we have the building contracts signed, it is hard to tell,” he said. “We are doing more custom homes than we



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Jon Roberts of Cascade Custom Homes and Design is still seeing strong demand for high-end homes and remodels.

did last year.”

Credo currently has a mix of projects in the construction and planning phases from an addition to the Zazen Spa by the Hotel Bellwether to two steel buildings for the Naval Air

Station on Whidbey Island. Lapinsky said their specialty lies in steel structures and building restoration. Credo is also currently working on two residential projects.

Lapinsky’s advice for other others in

the industry: “Continue to seek innovative ways to build sustainably and affordably, as it will serve you well in the long run,” he said. Lapinsky also suggests seeking public sector work and state government projects.

### ISLAND BUILDER FOCUSES ON REMODELS

Cascade Custom Homes and Design is certainly no stranger to changing market conditions. Operating in the Whidbey Island area since 1970, Cascade has built more than 1,000 homes throughout the region.

Jon Roberts, owner and principal designer, said the market slowdown hasn’t greatly affected his business yet.

“We have noticed that, in certain sectors of our market, the leads have slowed down, but overall work has appeared steady,” he said.

“It appears that the middle market range – \$350,000 to \$500,000 – is slowing heavily,” he said. “I attribute this to buyers not being able to get financing or having to sell to buy.”

“The higher end homes – over \$750,000 – appear to be strong and remodel work is strong,” he added.

He said that Cascade’s remodel work tends to be of two types: The first consists of putting \$25,000 to \$50,000 into an existing home, while the second is comprised of taking a new purchase and gutting the existing structure to the tune of \$150,000 to \$300,000.

While his business has continued to stay busy with residential work, Roberts has seen a recent change in client’s attitudes.

“I have noticed buyers being a little more stingy in frill items,” he said. “Not putting the elevator in or not upgrading certain options in order to watch the overall dollars spent.”

The five-employee operation is currently working on several custom homes in the middle and high-end range as well as another half-dozen small and mid-sized remodels and additions. Cascade is also the custom builder for The Highlands at Langley, a low-impact development on south Whidbey Island.

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Roberts doesn't think the building industry has seen the full extent of the affects of the current market yet.

"With this being an election year combined with the already slower economy and uncertain feelings of potential owners, I do think it will slow further," he said. "Buyers are sitting at home watching the market on their computers, and they will play when they feel the market has finally hit bottom."

How does Roberts plan to weather the changes in the market?

"We have already purposely diversified further into more remodeling and have been working on beefing up our marketing," he said.

#### COMMERCIAL BIDDING HAS INCREASED

While new residential construction may have felt the shudders of a stagnating economy, commercial and government projects have continued at a steady pace.

**"We are seeing some residential contractors starting to bid on institutional work."**

**Steve Isenhart,  
Tiger Construction**

"Most of the institutional projects such as Western Washington University, Bellingham Technical College and Whatcom Community College aren't affected by the real estate market," said Steve Isenhart, co-owner of Tiger Construction. "We have seen a reduction in the number of real estate developments, but there is still a lot of road and utility work by government agencies."

The Everson-based company has two construction divisions, one specializing in heavy highway jobs and the other concentrating on commercial and institutional buildings.

While the real estate market hasn't

directly affected Tiger's profit margins, Isenhart said there has been a noticeable increase in residential builders bidding in other sectors.

"We are seeing some residential contractors starting to bid on institutional work," he said. "Last year, a lot of projects closer to Seattle were having a difficult time getting bidders. Now, it seems that all projects are getting several bidders."

This past fall, Tiger Construction won a \$20.1 million contract to build

the Skagit Valley College's Science and Allied Health Building in Mount Vernon. Slated for completion by September 2009, the 65,000-square-foot building is going to accommodate students interested in the medical field. Along with the Skagit Valley College project, Tiger is currently building Wade King Elementary School in Bellingham, the new People's Bank building in Barkley Village and a waterline replacement for the Guide Meridian widening project.



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Isenhart said the construction industry would also be boosted by major projects at the local oil refineries. "All of the oil refineries have construction campaigns, which are quite significant," he said. The BP Cherry Point refinery plans to spend more than \$100 million on smaller projects in 2008 with major projects planned in the next few years.

"Residential construction has slowed, but the balance of construction is going strong," Isenhart said.

Another builder who has seen many changes in the industry over the years is Jim Spane, owner of Spane Buildings, Inc. in Stanwood. Operating for more than 60 years, Spane specializes in post-frame buildings from barns to commercial buildings and custom homes.

For Spane, 2008 has brought changes for his company, and not all of them have been bad.

"Residential construction slowed some from last year, but commercial has increased," he said. "The Pacific Northwest is still stronger than other markets, but profit margins may be less as things become more competitive through time."

Similar to other builders, Spane is trying to diversify to make his company more competitive.

"The real estate market has affected the entire building industry," he said. "It's harder for people to get financing and sell their properties. We have adjusted by being diversified in the services we offer."

Moving beyond barns, Spane builds a variety of different post-frame buildings, and even won the Skagit/Island Counties Builders Association award for 2006 Commercial Project of the Year.

"Based on the post frame building industry, we offer more diversification with post-frame, steel-frame and stick-frame construction, from basic buildings to very custom high-end buildings," he said.

## MATERIAL COSTS CUT INTO PROFIT MARGINS

Although many focus on the cur-

rent real estate market as a major factor in the construction industry, fluctuating material costs can often cut even quicker into a builder's profits.

This past fall, the Associated General Contractors of America released a "construction inflation alert" that highlighted the rates of change in construction costs from 2003 to 2007. The producer price index for highway and street construction inputs such as steel, concrete, asphalt and diesel fuel rose 43 percent in the past four years

outstripping the consumer price index. Also, the costs to build single-unit residential buildings climbed 22 percent while multi-unit residential and commercial buildings rose 27 percent.

AGC Chief Economist Ken Simonson attributes some of the rise to the heavy demand for new construction both nationally and abroad.

"Many of the materials used by the U.S. construction industry are in strong demand in China, India and other developing countries," the report



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read. “Those countries are simultaneously building infrastructure, industrial capacity and housing with modern conveniences. Many of the goods they are producing for their own new consumer class and for export also add to demand for materials needed for construction in the U.S.”

The recent fall in demand for residential construction has slowed material cost increases since 2006.

“Homebuilding seems mired in a deep trough that will maintain downward pressure on prices for lumber and plywood and gypsum products, and will ease demand for other materials used in both residential and non-residential construction,” Simonson wrote. “Tighter credit standards on the part of lenders may trim the number of new office, retail and hotel projects that are started, which will also help bring supply and demand for construction materials into balance.”

Simonson still expects material costs to exceed the consumer price index by a larger margin in the next five years. He cautions against using the consumer price index in construction budget projection because they will “rapidly fall short of actual costs.”

According to Simonson, because many construction materials need relatively little processing, price increases often show up with little delay for builders. Also, price increases are typically not mitigated by the construction industry as they can be for the average consumer. The report cites an example of more people carpooling or driving less when the price of gas increases, but construction projects still need the same number of vehicles.

Yet, while major media outlets continue to speak of recession in much of the country, builders in this region have continued to stay busy while cautiously observing the residential market.

If all else fails, Lapinsky of Credo Construction has some advice for making it through tough times.

“If you have land, plant a garden to help offset high food prices, and get a good fishing rod so you can have fish with your veggies,” he said. ■

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