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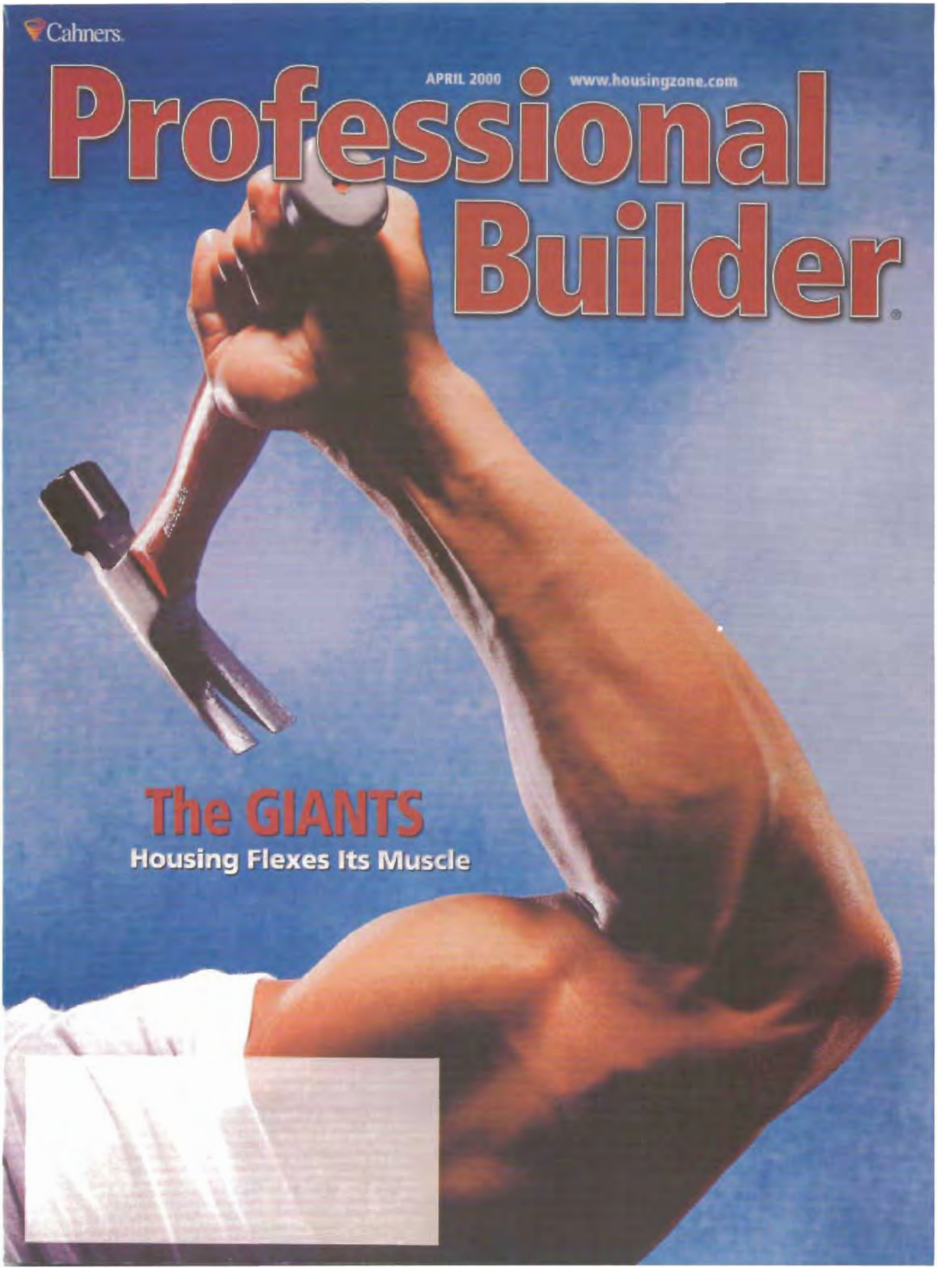


The GIANTS

Housing Flexes Its Muscle

Movers and Shakers

Within the Giant 400, a few stand out, by climbing rapidly through the ranks or staking claim to strategic high ground.

By Bill Lurz, Senior Editor

Pay attention. Pay specific attention to Lennar Homes. Regis Homes. Morrison Homes. Newmark Homes. Brookfield Homes. The Estridge Companies. Crossman Communities. ALH Holdings. The leaders of these companies are dedicated to changing the future of the housing industry—each in their own profound way. We tell their stories here for the lessons offered by each apply to every business at any stage of development. We'll say it one more time—pay attention. They are talking to you.

Lennar Redefines Bigness

We've seen big before, but never *this* big.

A decade ago, Centex topped the Giant 400 with $2.29 billion in 1990 home building revenue. Then the billion-dollar club had seven members. Last year, Pulte was No. 1 with $2.95 billion and 13 builders topped a billion bucks in 1998 revenues. But when No. 5 Lennar recently announced it will close later this year on the purchase of No. 8 U.S. Home Corp., the Miller family's Miami-based juggernaut suddenly made this year's ranking nebulous.

Uneasy rests the crown as Pulte ends the 1990s on top with $3.84 billion in 1999 dollar volume, but with the knowledge that Lennar and U.S. Home combined to deliver 21,658 homes for $4.9 billion last year. What will this new behemoth do in 2000?

Lennar president and CEO Stuart Miller says the merger is immediately accretive to earnings and the management and cultural fits promise a *better* company, not just a bigger one.

"Our resulting size provides valuable benefits from both operational and financial market perspectives," says Miller. "While we both have a significant presence in Florida, Texas, and Arizona, U.S. Home brings a substantial presence in Denver,

The Lennar/U.S. Home brain trust includes (from left) Stuart Miller, Isaac Heimbinder, and Robert J. Strudler. "Our resulting size provides valuable operational and financial benefits" says Lennar president/CEO Miller.

Photo by John Blackmer

Minneapolis, and the Eastern seaboard states. Lennar's extensive land holdings in California will accelerate U.S. Home's expansion there, as well as affording Lennar faster absorption of its land bank."

U.S. Home chairman Robert Strudler said when the deal was announced that U.S. Home sought the merger because the firm's proven track record of profitability in the 1990s was unappreciated on Wall Street.

It remains to be seen whether combining with Lennar will change much, since the whole home building sector is undervalued by Wall Street. But if there is new power here, where will it be unleashed first?

"In Denver," says Miller. "We'll bring the Lennar name and product offering into that market very fast, to expand the market share U.S. Home has already achieved. We'll move the Lennar franchise into all of the new markets eventually. And on the east coast of Florida, you'll see U.S. Home building on Lennar land."

"In the three years before Skanska, I spent 65 percent of my time looking for financing. Now it's zero." —Spectrum Skanska president Mitch Hochberg

Miller acknowledges that people will eventually move from one side of the combined company to the other, but discounts that possibility in the near term. "Right now, you'll see a lot of business as usual."

In the long run, the ace up Miller's sleeve may be Isaac Heimbinder, the former U.S. Home president, now "executive vice president of e-commerce initiatives" in the combined corporation. Heimbinder has locked himself in a room somewhere to contemplate where big builders fit into the New Economy.

"We've sold people the largest product they ever buy, and in the past, we've said, 'We'll see you again in seven years,'" says Heimbinder. "Now, we are asking what else we can provide while the owner lives in the house.

"Then there's the Internet. Since we already have an on-line relationship with the customer that developed during the sales and construction processes, we might want to expand that to provide things they need after they move in. It may sound grandiose, but there's the potential of creating a customer for life."

Heimbinder obviously has big plans. The housing industry, especially the big public builders on top of the Giant 400, will be watching closely to see if the new Lennar is greater than the sum of its parts.

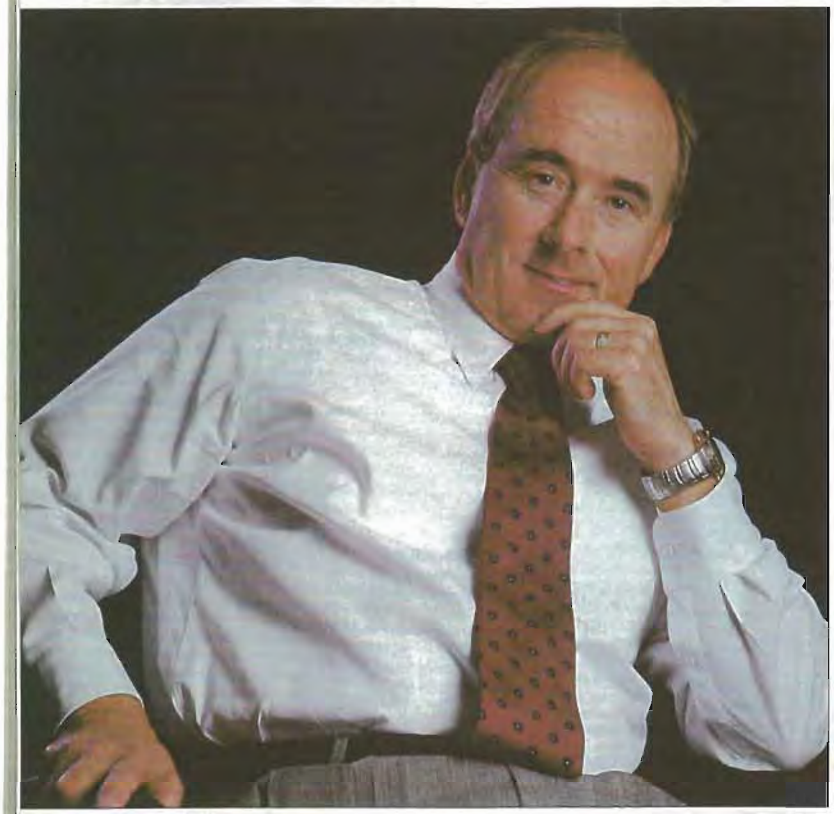
Spectrum Skanska Hits Highest Price Point

Mitch Hochberg is no day-trader, but he's riding Wall Street's bull market to *home building* nirvana.

"New Yorkers are making a lot of money. A lot of our buyers are cashing in on stock market gains," says Hochberg, explaining his success. His firm, Spectrum Skanska, has the highest average sale price in the Giant 400: a lofty $800,000 on 175 units sold, to hit $140 million in total revenue.

At No. 100, Spectrum is a long way from the top of the Giant 400. Still, the Valhalla, N.Y.-based firm wasn't even ranked a year ago. "In three years, we've doubled our volume," admits Hochberg, "but we are not intoxicated with our success. We came through the crash in '89. We will never get too far extended."

The lifestyle community developer and builder occupies one of the most lucrative niches in the American housing industry, and with a sugar daddy like Swedish construction conglomerate Skanska to sign the



"Our warranty innovations are not motivated by defect litigation concerns. It's just the right thing to do."— Regis Homes president Joe Richter

checks, the sky's the limit for Hochberg.

"I formed Spectrum 16 years ago to build custom, high-end product," he says. "About ten years ago, we saw an opportunity to do lifestyle communities in the northern suburbs of New York City. No one was doing them here, because the land was so expensive. We felt that with our local knowledge and contacts, we could find the land and get entitlements for *small* lifestyle communities of 50 to 100 units."

Hochberg did exactly that, but as Spectrum grew, Hochberg found himself spending most of his time searching for equity for his planned communities. "I got in this business because I'm a good developer and builder. I enjoy creating product. I didn't want to spend my life looking for money."

Enter Skanska AB, a Swedish conglomerate that does business in 80 countries. Skanska's U.S. subsidiary is headquartered 10 minutes from Hochberg's office. On one of his equity searches, he paid a call.

"Over the course of a year, Skanska acquired us," says Hochberg. "Spectrum had a great brand name in New York as a builder. Skanska wanted to increase awareness of its brand here in the U.S. Hence the name, Spectrum Skanska. We are now a very small part of their business, but disproportionately high-profile. We've both benefited.

"In the three years before Skanska, I spent 65 percent of my time looking for financing. Now it's zero," says Hochberg.

Spectrum has taken off, doing larger projects like Bellefair, in Rye Brook, N.Y., the New York market's first neotraditional town, a short 30-minute drive north of Manhattan. The company followed it with Legend Yacht & Beach Club, a gated marina community in Glen Cove, N.Y., priced at $850,000 to $2 million. "Most of what we do now is very high-end."

With Skanska behind him, Hochberg is venturing farther from New York, to do second home/resort projects in the Poconos in Pennsylvania and even the Berkshires in Massachusetts. "We made our reputation building for empty-nesters, and baby boomers are now aging into second-home buyers."

Hochberg says Spectrum Skanska will hit $200 million in sales this year, and $250 million within three years, but he's getting cautious. "We don't think the market will support exponential growth. Right now, we have nothing in the pipeline more than four years out."

Regis Homes Ups Ante On Quality

Orange County, Calif., builder Joe Richter is setting benchmarks for commitment to quality and customer service that the whole housing industry might be well-advised to emulate.

Richter is president of Regis Homes, the Southern California housing division of Sares-Regis Group. That Irvine, Calif.-based, multi-faceted real estate and construction firm is 99th in this year's Giants rankings (up from 128th last year) based on total housing revenue of $143.9 million. Besides Richter's operation in Orange County, which closed on 113 attached and 70 detached homes last year, there's also a smaller for-sale housing division in Northern California. But it is Richter who is raising the bar on quality.

Regis recently extended its new home warranty from one to two years on single-family detached homes, to three years on attached units, and to five years on high-density condo flats. In addition, Richter created the new position of asset manager, a person responsi-

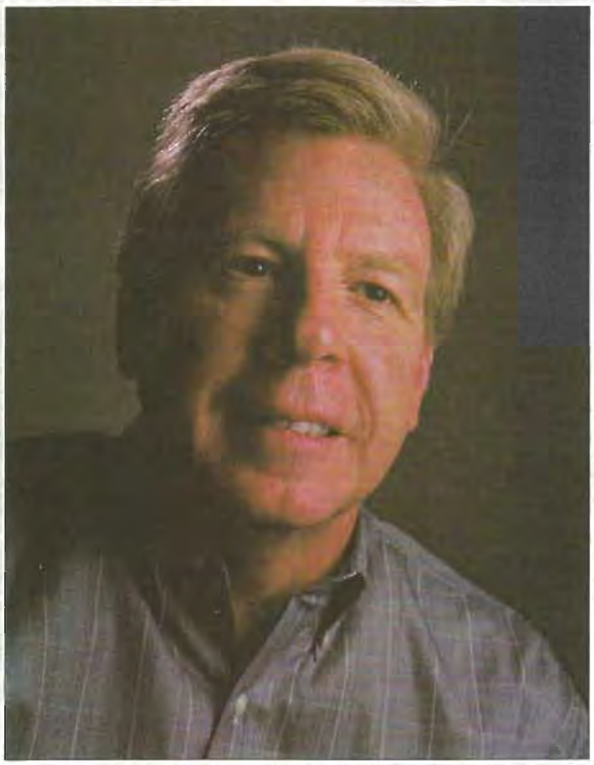
Photo by Lee White Photography

ble for working with home owner associations in Regis developments for *five* years after the last unit is sold.

All this in a firm that in 1991 was among the first to hire third-party inspectors to check each phase of the home building process. Such inspections are now the norm in Southern California, where construction defect litigation is rampant.

Regis' high quality control standards are one reason the firm has avoided construction defect litigation. Now Richter is raising the bar even higher.

"I was a custom builder for many years before I went into production housing," he says. "When I made that switch in the 1980s, I was appalled at what I saw on production job sites. Buyers do not hold us to a lower standard just because the houses are production-built. Our warranty innovations are not motivated by defect litigation concerns. It's just the right thing to do."



"TND is becoming an important factor in the market and we're in a strong position to benefit."— Stewart Cline, Morrison Homes

Photo by Robin Nelson Photography

Richter calls the time under coverage a "customer service period" rather than a warranty period. "We're still taking calls on houses we built three years ago, so extending a written commitment to two years is not really so radical," he says. "We're just telling people in our single-family communities that we will be there to help them for two years. I think the commitment, and the creation of the asset manager position, will be the key to being in business ten years from now."

The asset manager will be a one-person, standalone department, not part of the construction, sales, or even customer service departments. This person will attend home owner association board meetings as a representative of the builder, but have no voice in the proceedings. "He will act as an observer, a note taker, and develop an action list of corrections requested by the HOA from the builder," says Richter.

Morrison Leads The Charge To TND

As no-growth initiatives and smart-growth referenda pop up from one end of America to the other, more and more developers (not to mention elected officials and planners) are turning to Traditional Neighborhood Design. Their hope is that a nostalgic New Urbanist village will have some political viability when nothing else does. This state of affairs catches many builders flatfooted, with nary a plan in their product portfolios to fit a 60-foot, alley-loaded lot.

Many...but not Morrison. Alone among the large, publicly-held builders, Alpharetta, Ga.-based Morrison Homes has staked a claim to TND. Ready, willing, and able to appear on a moment's notice, with a portfolio of market-tested, top-selling house plans, Morrison gets a foot in the door where others fail.

The firm decided to pursue TND when Disney invited Morrison into Central Florida's landmark Celebration, that most famous of all neotraditional developments, nearly four years ago. The logic is easy to read: if you're getting into that game, why not learn something you can use elsewhere.

At No. 30, Morrison is not pounding out product with the big boys in the billion-dollar club. The firm sold 2639 houses in 1999, for $518.5 million in revenue. That's 107 more houses, and $80.3 million more in revenue than the previous year. Yet Morrison actually lost ground, dropping from No. 28 last year. Never mind. We think they've staked out a valuable franchise in the TND high ground that will serve them well on the bottom line as well as the top.

"Since we position ourselves as something of a design leader, our product is not quite as value-driven. So our absorption rates are a little lower and our build times a little longer," says Morrison president Stewart Cline. "But we get a little more margin.

"We spend more money on architecture than most other public builders, so, yes, I think we do get the first call when someone decides they need TND product. We're in nine TND communities now, and the pure, alley-loaded product is about 12% of our sales. We do another 15% of sales in what I would call modified

TND, where you have all the neotraditional architectural influences, but not rear-loaded garages. TND *is* becoming an important factor in the market, and we're in a strong position to benefit."

Newmark Has New Model For Growth In Roaring 2000s

Lonnie Fedrick's Houston-based Newmark Homes is a strange duck: public, but not very, and decidedly disinterested in dancing to Wall Street's tune. But even if Fedrick is a tad old-fashioned, he may have the right plan for growth in the Roaring 2000s, where there are signs the growth-by-acquisition model is leaking oil. Fedrick's new millennium vehicle looks a little like a Model T (but don't fix it 'cause it ain't broke): he counts on *training* young managers and turning them loose in greenfield start-ups.

Newmark is 80% owned by Technical Olympic Inc., a Greek heavy construction behemoth traded on the Athens stock exchange. Technical acquired that 80% interest several months ago from Pacific Realty, a holding company owned by Pacific Wire & Cable, a Taiwanese conglomerate that took Newmark (20% of it) public on the Nasdaq exchange in March, 1998.

The company traded at a 10 multiple shortly after. But like many other small cap public builders, Newmark's stock now languishes at a 4 to 4½ multiple, despite carefully controlled growth from $406.4 million in 1998 revenues to $484.7 million in 1999. Unit volume was also up from 1874 to 1989.

Fedrick was Exhibit A in the road show for the 1998 IPO. It's way better than even money he won't do it again. "It wasn't my idea in the first place," he says with a laugh. "Even at a 10 P/E, it's not a great thing, but there is absolutely no reason for a home builder to want to be public now. Not even the biggest builders are getting much out of it. And I don't see that changing anytime soon. Mergers of equals, where both are public, are the only thing that makes any sense today. I'd rather stay where we are," says Fedrick. "We should do over $500 million this year, just on the start-ups we've already got in place."

Ah, the start-ups. The bright spot in a world gone bleak. Fedrick is adding markets the old-fashioned way, by hiring and training managers and sending them off to do start-ups of new operations in other cities. He did it last year in Nashville and Charlotte. The Nashville operation turned black in eight months. Charlotte is a tougher nut, but Fedrick believes it will hit the black this year or early next year.

What makes Fedrick's approach truly old-fashioned is that the young managers he sends on the road may actually be ready for it, even amid industry-wide shortages in management talent.

Photo by Larry Pullen

"We don't send managers to a new city until they complete our eight-year training program."— Lonnie Fedrick, Newmark Homes

"We hire them right out of college. But we don't send them to a new city until they complete our *eight-year* training program," says Fedrick. "It takes five years to get through the building program, which starts at raw super and moves through construction manager to project manager. We put them through another two years in our custom company, Fedrick-Harris Homes, building million-dollar homes. There is a year or two in sales management before they get to leave Houston."

He admits the dropout rate is high. "We lose two-thirds of them along the way, most in the first year, when they learn how hard we expect them to work," he says.

"Right now, we have two groups of young managers just about ready to go. I'm looking at two cities, Indianapolis and Atlanta. We'll probably pick one for a start-up this year. Our greenfields are very calculated and we keep them spread out."

Fedrick is a stickler for making sure houses are 100% complete before closing. To make sure no one closes a house with punch-list items outstanding, he sends "post-closing" inspectors to every house within 30 days after occupancy. If they find outstanding items, Fedrick imposes stiff penalties.

"That keeps us out of the courthouse," he says.

"With steel, we're getting design innovations we could never achieve with wood."— Brookfield Homes president Jeff Prostor.

"We've never been there yet with a buyer. Building them right and standing behind the product are critical in the high-end move-up and relocation markets.

"It pays off for us in the long run. One of the ways I get into markets is through phone calls from developers complaining about the builders in their town."

With quality declining because of shortages in supers and skilled labor, finding a way to get houses built right, and guaranteeing that they are, may be the best strategy of all. Fedrick's Model T runs smooth.

Brookfield Has Steely Resolve

Brookfield Homes president Jeff Prostor sees trouble brewing in Southern California's construction labor market, and he's a little uneasy about lumber supply and prices. Fortunately, he's *steeling* his Orange County home building operation against both.

All puns aside, Prostor and Brookfield vice president of design and development Adrian Foley are leaders in the use of steel framing. They're also setting benchmarks in trade contractor relations that all builders can follow to become the employer of choice in tightening labor markets.

The Orange County incarnation is one of nine Brookfield home building entities scattered across the continent from South Florida to San Diego to Calgary. All are owned by Brookfield Properties, a Toronto-based real estate conglomerate. A decentralized and highly entrepreneurial corporate structure allows Prostor to operate with remarkable autonomy. He uses the freedom to stay on the cutting edge. To his credit, Prostor keeps the innovation focused on the bottom line as well as the top, which shows 400 homes delivered for $160 million in revenue, a tidy contribution to Brookfield's total of $715 million in home building revenue. That lands Brookfield at No. 20 in this year's Giants rankings, up from 27th a year ago.

However, it is the Orange County firm's use of steel framing and trade relations that builders elsewhere should think about emulating.

Prostor and Foley developed an interest in steel framing ten years ago. Price spikes in framing lumber were the motivation then. What they learned about steel from doing small, experimental projects is to avoid thinking of it as a commodity to replace wood studs on a stick-by-stick basis.

"Steel can do a lot of things wood can't. We educate our architects and engineers on all those capabilities, so they take advantage of them in their designs. For example, the gauges of steel can vary between load-bearing and non-load-bearing walls. At one project, we used 10-inch-*wide* steel studs to create deeper architectural relief on window insets. To do that with wood, you'd have to double-frame everything," says Prostor.

Take a look at Brookfield's designs and it's easy to see it is building some of the most architecturally exciting product on the West Coast. "We're getting design innovations we could never achieve in wood," says Prostor. Brookfield also uses the obvious advantages of steel over wood in structural strength, fire resistance and termite resistance to market homes.

On the labor front, Brookfield is a leader in creating field efficiencies that allow piece-working trade

Photo by Lee White Photography

crews to make more money. "That's the bottom line," says Adrian Foley. "If the job site is more efficient, work can be done faster. We make better margins, but trade contractors and individual workers also make more money. That's what it takes to be the employer of choice in a tight labor market."

Brookfield and trade relations consultant Steve McGee employ "job ready/job complete" survey forms, which are filled out every day by every trade. They create a record of the condition of the job site for each trade when the crew arrives and leaves. That allows all the trades to work as an integrated team.

"We have a responsibility to act as a catalyst, to bring the concepts of self-measurement and continuous improvement to the trades," says Foley. Prostor and Foley both spend six days per month on job sites, working with the trades to convince them that measurement is a tool for self-improvement, not a club the builder will use to beat them down on price.

"We have to show them there's commitment from the top in Brookfield, that we want them to improve, and that measurement is the way to make it happen."

"We own that moment when people disconnect from the old and reboot into the new." — Estridge Cos. president Paul Estridge Jr.

Photo by Casey Cronin Photographer

Estridge Pioneers "First Mile"

When we look back at the turn of the millennium from the perspective of a few years, we may count Paul Estridge Jr. as a *personal* giant in the history of the housing industry: the father of "the first mile."

The CEO of Indianapolis' The Estridge Cos. is busy proving that builders and developers, as land owners, own the technology rights to what the New Economy calls "the last mile," the actual connection of voice, video and data services to the houses this industry builds. "We call it the first mile, because we have a little different perspective," Estridge says with a laugh.

The Estridge Cos. ranks 146th in this year's Giants, with 450 homes closed in 1999 for just under $100 million, but it may have the most significant single housing development in the country. Centennial is a 350-acre, 900-home community on the outskirts of Indianapolis that Estridge calls "a Hoosier TND":

"It has a church at the center that we built on spec," says Estridge. "It has a business district with a supermarket and a lot of service businesses. We have a townhouse section, and five single-family product lines scattered through villages. We've sold 125 houses since last June, and closed about 60."

Centennial also has all local phone, long distance, cable TV, and Internet connection services provided via contracts negotiated by First Mile Technologies, Estridge's breakthrough application of his right to control access of those service providers to his home buying customers.

"The deregulation of energy stirred my thoughts that we, as builders, are in a position to aggregate our customers, so that when they buy a home, they could be buying an energy package as well. We can get a better deal by pulling together that aggregation," says Estridge.

(Indiana is still a regulated state for gas and electric utilities, so those services are not included in First Mile's portfolio at Centennial.)

"That realization brought into focus a critical point: the 'reboot phenomena.' When people move to a new house, they disconnect from their old life and 'reboot' in a new one. Beyond any industry, we control that reconnection to service providers like telephone, long distance, cable TV, etc.

"We own that moment in time," says Estridge. "It's our advantage over AT&T, Yahoo and AOL. Our customers are predisposed to accept all new connections. We own the last mile and we've been giving it away."

Estridge launched an extensive legal search. What he found confirmed his belief that builders' rights to the last mile, as land owners, are unassailable. "We can retain those easements indefinitely, and charge an access fee. It's protected under the U.S. Constitution, property rights, and contract law precedent."

He also believes the 1996 Telecommunications Act, which broke the monopoly of the Baby Bells on local telephone service, and established the rights of "competitive local exchange carriers," transforms the housing industry into the critical player in the last mile.

"It's ironclad," he says. "We can negotiate contracts for access to the customers we are creating."

However, Estridge is just as convinced that builders should not get into those businesses themselves. "It's vital for us to partner with acknowledged experts."

Estridge partnered with Nortel Networks to develop a technology design and deploy it in Centennial. It provides local phone service, long distance, cable TV, Internet access, and is now rolling out video-on-demand services, with 2000 movies available in 30 seconds, ordered right off the computer. "We also handle security monitoring, and we have an intranet service that provides news, weather and e-commerce connections."

Estridge believes the future of First Mile is unlimited. "The proof is AOL's purchase of Time Warner. The hidden reason for that deal is Time Warner's 17 million subscriber connections. Without them, AOL is another dot-com. Those connections are valuable."

"We focus on the basics of the business—good land buys, sales velocities and efficient building operations."—Crossman Communities CEO John B. Scheumann

Photo by Casey Cronin Photographer

Crossman: Quiet, But Profitable

You don't hear a lot about Indianapolis-based Giant Crossman Communities, a public company that concentrates on entry-level and first move-up buyers in Indiana, Ohio, Kentucky, Tennessee and the Carolinas. But over the past ten years, the firm has recorded compounded growth rates of over 30% in sales and over 50% in net income. Few public builders specializing in the value-driven segments of the market boast net margins approaching 7 percent. Crossman does.

Ask CEO John Scheumann the secrets to his success and he'll tell you there aren't any. "There are no silver bullets. We just stay focused on the basics of the business—good land buys, sales velocities and efficient building operations."

However they do it, Crossman is sneaking up the Giants rankings, from 29th last year to 24th this year, on 1999 revenues of $609.3 million from 5100 closings, most of them on single-family houses averaging $121,500. That compares to 3714 closings in 1998 for $421.9 million. Net income for 1999 was $39.7 million, up 33% from $29.9 million in 1998.

This firm still has a strong upside, because it has so few mature markets. There's plenty of room for growth in every market except the headquarters location in Indianapolis and southern Indiana, where Crossman closed 2413 units in 1999.

Toward that end, Scheumann is driving for more affordability in his product with innovations in land planning. "The number of plans we build has grown in the past few years because we keep building on smaller and smaller lots. A few years ago, everything we had was for 60- or 70-foot (frontage) lots. Today we have plans for 50-, 45-, even 40-foot lots. There, we can get house prices starting in the low $80,000 range. That broadens our market a lot."

Crossman will push any concept that allows houses

ALH Holdings' consolidation game is a privately financed one led by (from left) Shalom E. Lamm, Jonathan Zich and John D. Hourihan—three men with a plan and the capital to make it happen.

to be priced more affordably, since lower prices drive velocity. And inventory turns are a big part of his plan.

ALH: Private Acquisitor Rising

In case you thought industry consolidation was ending, think again. Only this time, it's a private game.

Over the past nine months, ALH Holdings of New York City dropped hard cash to buy Atlantic Builders of Jacksonville, Fla., Bowden Building Corp. of Memphis, Tenn., and Mulvaney Group of Charlotte, N.C. Those are, respectively, No. 137, No. 183, and No. 184 on last year's Giants list.

ALH is now No. 59 in this year's rankings, with $253 million in revenue on 1915 closings, all on entry-level and first move-up houses. But who is ALH?

ALH Holdings is the acquisitions arm of New York City-based Lion & Lamm Capital, an investment banking firm headed by Shalom Lamm, Jonathan Zich and John Hourihan, men who *do* have a plan.

When you think globally, it all makes sense. As Lion & Lamm managing director John Hourihan explains, "Capital is a commodity that chases opportunity and yield. A lot of people believe our story."

Lion & Lamm tells them that American home building is a fragmented industry, ripe for consolidation. And that the time is right because all home builders are now out of favor with investors enchanted by high-tech and dot-com stocks. They tell them builders are in a cyclical industry, on the down slope of the current cycle, and undervalued. In short, a classic buy.

How much money does Lion & Lamm have to pursue acquisitions by ALH? "This is going to sound arrogant, but for the right transactions, we have as much as we need."

ALH's strategy is to acquire market-leading entry-level and first move-up builders in Sun Belt states, beginning in the Southeast. Operation headquarters are in Jacksonville, under the leadership of president and CEO John Laguardia, formerly executive vice president of Atlantic Gulf Communities.

"Some single-market home building companies can be acquired now for 3 times earnings, with an upside to go to a 10 multiple quite easily," says Hourihan. "There are also great opportunities to grow these companies in their local and regional markets, by getting enough land out in front of them to keep them churning."

How many more deals will ALH do this year? "We'll close one in a Southern city by the middle of this year. We've identified two more targets. Our next deal will bring us to 2500 units a year. When we get to $350 million in annual revenue, we'll have enough critical mass to target larger, multiple market builders."

Hourihan admits this is not an entirely new story: "We're not the first to come up with a consolidation strategy. Fortress Group comes to mind, but we think we can do it better with private financing." ■

Photo by Cherry Kim