

Manage BY PATRICK O'TOOLE, SENIOR EDITOR

GIANT Killers

How small local builders in big markets give GIANTS a run for their money

The prediction is that home building soon will be dominated by the biggest of the big. The theory goes that the billion-dollar publicly traded companies are on a march toward capturing 50% (and eventually 75%) of all new home completions annually. Not surprisingly, many executives at the biggest builders subscribe to this school of thought. But data from this year's GIANT 400 punch a gaping hole in the logic that acquisitions and competitive advantages of size ultimately will transform the industry away from its small, local, entrepreneurial roots. In a year when everything went right for builders — low mortgage rates and solid demographics led to 1.65 million home completions — the market share of the GIANT 400 actually *decreased* in 2002 by 0.4% to 32.2%.

This market-share decrease by GIANTS illustrates what many small builders already know: Home building remains a local business in which sub-market nuances and pure hustle make the critical difference with legions of home buyers each year. With an estimated 90,000 home building firms operating across the country, the industry is a picture of broad-based vitality. Many small builders do business where the large national firms don't — secondary



Basic Behaviors

There are more ways than one to beat a GIANT, but as these GIANT killers demonstrate, some tools work better:

1. Use local knowledge.
2. Develop ties to local officials.
3. Be nimble.
4. Take advantage of low overhead.
5. Be choosy with bankers.
6. Facilitate customer choice and changes.
7. Do joint ventures.
8. Control land.

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8. Control land.

This is by far the most important rule, our GIANT killers say. If you control land, you control your destiny. The best small-volume builders have sterling reputations and often get the first call from land brokers and sellers. But they have much more than that.

Many know how to avoid the risks and pitfalls in land development. EPA Phase 1 permits don't scare them when the right location is within their reach. Through long-term connections with local officials and decision-makers,

GIANT killers know how come to market quickly by keeping entitlement time lines as short as possible.

It also takes a measure of creativity and flexibility in terms of product offering. A small site passed over for single-family detached might be perfect for buyers seeking low-rise condominiums, duplexes or townhomes. ■



Is your company a GIANT killer? Share your story at www.HousingZone.com/forums/giants or e-mail editor@housingzone.com.

Structure Development Group, Woodland Hills, Calif.

Beat the Big Guys to Niches

Robert Kleiman and Mark Sapiro, the principals who launched Structure Development Group in 1996, share more than just credit for building a home building business that the biggest builders across Los Angeles would like to emulate. As former executives with The Braemar Group, they also share knowledge of merchant home building from a big-builder's perspective. They know the benefits of size and the importance of avoiding head-to-head competition with GIANTS, now that they are not. Ask most successful small builders the best way to beat the GIANTS, and most will tell you the same thing: Avoid them.

As an infill specialist, Structure has become expert at building great new homes on the most common basic land unit across most of Los Angeles — the 50-foot-wide lot. And for now, at least, Structure has the run of the place. GIANTS don't have it in their DNA to build on scattered sites and likely don't have a modern plan in their systems to fit this kind of a lot.

"Huge portions of Los Angeles, particularly the flat areas, are subdivided into 50-foot lots," Kleiman says. "These include all the older neighborhoods throughout the San Fernando Valley and almost the entire city from Santa Monica and the Palisades to Brentwood, Westwood and Beverly Hills. We have product that can go on 50 by 100, 50 by 120, as high up as 190 feet deep."

Structure happened upon the concept organically. In the late 1990s, it began buying run-down homes in these revitalized neighborhoods to remodel them on spec. A product line developed with square footages ranging from 2,800 to 5,500. Now the company has an entire portfolio of different plans with different exterior elevations.

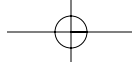
"In certain respects we describe them as catalog homes," says Sapiro, who oversees the operations side of Structure. "We sit down with buyers, and we have a catalog of floor plans and elevations and specifications. And because we come from a merchant background, it's also sort of a production home on an infill basis."



Photo: Lee White

The size and style of the homes they build on spec (others are pre-sales and fee basis) require an understanding of a neighborhood's character — what will sell fast and what won't, says Kleiman. This is a knowledge that few GIANTS could develop overnight, even if they decided to go after a piece of this business.

"In certain neighborhoods we offer a Cape Cod or Connecticut farmhouse, and they fit very beautifully," Kleiman



“ We have a catalog of plans and elevations ... a production home on an infill basis. ”

— Mark Sapir



Los Angeles is Structure Development Group's oyster. Robert Kleiman and Mark Sapir have built a catalog of designs to fit the ubiquitous 50-foot-wide lots in the city's older neighborhoods. Buyers bring lots to them, but mostly they buy tear-downs and offer new homes in great locations in land-strapped L.A.

says. "But as you can imagine, we build a lot of Mediterranean-style homes — Spanish Colonial Revival and Tuscan — which are very popular styles."

So far the results speak for themselves. For the past three years Structure has averaged 15 to 20 closings per year on homes with prices of \$900,000 or more, thanks in large part to their great locations.

Operating as Structure does, the traditional merchant building time

line for building a home is vastly compressed, Sapir says. In a region where entitlement time lines are measured in five-year increments, Structure acquires the land, pulls permits, builds the home and sells it in six to nine months. All the brain damage associated with the approvals process in residential development is minimized.

Sapir says there are a number of reasons for this. First, Structure has

become a known quantity to local officials who handle permits, and chances are they have seen each plan more than once. Second, there is no infrastructure to build. And third, there are no lengthy environmental issues to clear up.

"We have gotten back to being builders again, helping home buyers," says Kleiman. "It's a lot of fun."

And when is the last time anyone heard a GIANT mention fun?

