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HOME BUILDERS ASSOCIATION OF WEST FLORIDA

63rd Annual Parade of Homes Ends with Great Attendance & Memories

PAGES 07-11

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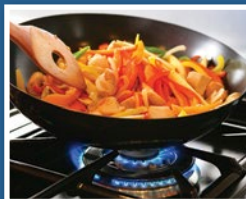
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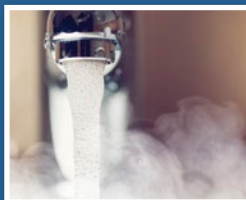
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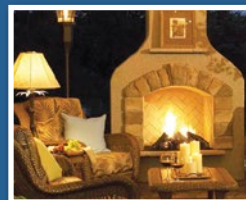
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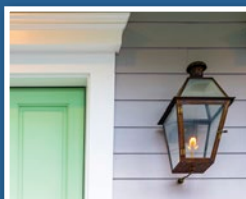
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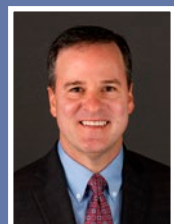
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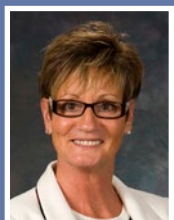
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HBA Provides Construction Trade Scholarships to Local Students

Most young adults say they know what they want, in terms of the field in which they want to have a career. The fields they most mention are medical, management/business, and technology/IT. Relatively few, however, mention the construction trades.

Among the few who do envision a career in the construction trades, the most important of this line of work is good pay, followed by the view that it provides useful skills. In contrast, many of those who say there is no or little chance they would work in the trades attribute it to wanting a less physically demanding job and to the notion that construction work is difficult. The current scarcity of construction labor is all the more concerning given projections from the Bureau of Labor Statistics that the construction sector will add around 790,000 new jobs in the decade leading up to 2024.

Well, the Home Builders Association of West Florida is doing its part by working in the local schools to help students achieve careers in the construction industry. I appreciate the work that the HBA Tradesmen Education Council, led by Chair Mary Jordan, of Gulf Coast Affordable Insurance, is doing to promote careers in the construction industry.

The winners of Home Builders Association of West Florida's Tradesmen Education Council Construction Scholarship for 2021-2022 have been announced: Tylen Sorrells of Jay (not pictured), Colton Hayes of Milton (below left), Gavin Brandt of Pace (below center), and Ja'Marcus Wilkerson of Pensacola (below right) each received \$1,500, respectively.

continues on page 6



"...we are very pleased that this community event is taking place, especially since this is our 63rd year."



BLAIN FLYNN

HBA Provides Construction Trade Scholarships to Local Students

from page 5

These young men have demonstrated academic achievement, skills development, leadership, honesty, responsibility, and good character. Going forward, they will continue to develop their skills in the fields of plumbing, electricity, HVAC, and general construction while completing a degree at their chosen accredited college, university, or vocational/technical school.

"We congratulate these students on their outstanding achievements, wish them the best of luck as they pursue their respective fields, and look forward to welcoming them into the workforce," said Mary Jordan, of Gulf Coast Affordable Insurance, and Chair of the HBA's Tradesmen Education Council.

In closing, I would like to share this message from longtime HBA Member Mark Cotton of Cotton Electric.

"As you know we have an electrical contracting company, Cotton Electric Inc. in Pace. We primarily contract with new production homes and, like most everyone else, we have difficulty sometimes and securing a qualified and qualified and interested workforce. Our grandson, Gavin Brandt, was a recipient of one of the Tradesmen scholarships from our HBA for the electrical program at Locklin technical in Milton. He is in his second year there and also in his second year of "co-oping" with our company. He is doing extremely well in the trade and loves this opportunity in his life.

I would just like to thank the HBA, and of course the committee in their efforts toward bringing tradesmen into our industry. There are often unseen and far-reaching human impacts for what they do. Other than the financial help with the program, Gavin feels a boost of self-confidence in his otherwise complicated venture into adulthood."



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63rd Annual Parade of Homes Ends with Great Attendance & Memories



The 63rd Annual Parade of Homes Kick Off Event was an evening of excitement, fun, food and live music at Yellow River Ranch. HBA members enjoyed a nice evening as the HBA celebrated the best in the home building industry. Congratulations to all of the Outstanding Home Award Winners.

The Home Builders Association of West Florida would like to thank the home builders, Realtors and attendees who made the event a memorable experience. Over the 10-day period, thousands of people attended homes scattered throughout Escambia and Santa Rosa Counties.

The HBA would like to thank HBA President Blaine Flynn, of Flynn Built, for building the ever-popular American Dream Home, in the beautiful community

of Yellow River Ranch. Also, the team of professionals at Flynn Built worked with donors/subcontractors.

We hope you enjoyed the Official Parade of Homes Guide produced by Ballinger Publishing. The team at Ballinger knocked it out of the park and the HBA was very pleased with the finished product in terms of quality and readability.

More Parade of Homes Coverage Next Page!



Thanks to our Parade of Homes Sponsors!



2021 PARADE OF HOMES OUTSTANDING HOME AWARD WINNERS!

HBA President and American Dream Home Builder Blaine Flynn, of Flynn Built.
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Category 11 • Over \$610,000
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(Not pictured)



Group picture of this years winners with HBA President Blaine Flynn



More Parade of Homes Coverage Next Page!

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November 2021

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Kick Off Party



*Dream Home photos courtesy of:
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HBA Truly Appreciates It's Donors

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House Democrats Seek Overhaul of Energy Tax Incentives

The House is moving forward with its \$2 trillion tax plan, which includes significant changes to energy tax incentives used for residential construction and remodeling. Many of these proposed changes are positive, but some would diminish the utility of these credits moving forward.

• **Section 45L New Energy Efficient Home Credit.** This credit, which expires at the end of the year, would be extended through the end of 2031. However, starting in 2022, the credit would take on a completely different form. NAHB opposes these changes, and we detailed our concerns in this letter to the House Ways and Means Committee.

multifamily units certified as zero-energy ready under the Department of Energy Zero Energy Ready Home Program are eligible for a \$1,000 credit per unit, or \$5,000 per unit under Davis-Bacon prevailing wage requirements.

• **Section 25C Non-business Energy Property Credit.** This credit, which expires at the end of year, would be extended through 2031. It provides financial incentives for consumers to install qualifying energy efficient products in their home, such as doors, windows, HVACs, etc. These changes are largely positive, including increasing the credit from 10% to 30% and eliminating the lifetime cap with a \$1,200 annual limit. The bill would update various standards and limits, remove eligibility of roofs and advanced main air circulating fans, and expand the credit to include home energy audits.

• **Section 25D Residential Energy Efficient Property.** This credit is being phased out, but the bill would slow down the phase out and extend the credit through the end of 2033. The credit helps cover the cost for installing solar electric, solar water heating, fuel cells, small wind, biomass fuel stoves and geothermal heat pumps. Originally a 30% credit, it has been lowered to 26% for 2022 and phases out after 2023. The bill would restore the credit back to 30% for eligible expenditures from 2022 through 2031, phasing down to 26% in 2032, and 22% in 2033, before expiring. The bill also would make battery storage technology eligible.

• **Section 179D Energy Efficient Commercial Buildings Deduction.** This deduction is a permanent feature of the tax code designed to incentivize energy efficient commercial buildings, including residential buildings built under the commercial codes. Qualifying for this deduction is challenging, and the bill makes several changes to make qualifying easier. These temporary improvements would begin for 2022 through 2031.

Specifically, the bill would increase the deduction amount; adjust the energy percentage threshold; remove the lifetime limit; and offer an alternative approach for retrofit projects. The bill would also provide a bonus deduction for projects that comply with prevailing wage requirements and also use registered apprenticeships.

These provisions reflect only a small portion of the \$2 trillion tax bill being assembled in the House. As the bill moves forward in the coming weeks, significant changes are likely — including shrinking the scope of the overall bill — and there are no guarantees that any of these energy tax provisions are included in a final agreement.

NAHB supports incentivizing energy efficiency through the tax code but will continue to advocate for revisions to changes we oppose, particularly as it relates to Section 45L.

Since its inception, qualifying for Section 45L was based on meeting a specific energy savings goal above a baseline energy code (currently the 2006 IECC). Starting in 2022, the bill proposes to base eligibility on participating in the Energy Star Residential New Construction Program. The credit amount would increase from \$2,000 to \$2,500 for qualifying homes. It would also create a higher-tier credit of \$5,000 for eligible single-family homes certified as zero-energy ready under the Department of Energy Zero Energy Ready Home Program.

For multifamily projects, starting in 2022, eligibility would be based on participating in the Energy Star Multifamily New Construction Program. The credit would be reduced from its current \$2,000 per qualifying unit to \$500. However, projects that pay prevailing wages are eligible for a higher credit amount of \$2,500 per unit. In addition,



FEMA Reinstates Federal Flood Risk Standards

The Federal Emergency Management Agency (FEMA) on Aug. 27 announced a new interim policy to partially implement the Federal Flood Risk Management Standards (FFRMS) that will require certain structures

located in Special Flood Hazard Areas to conform to higher flood elevation standards if they use Hazard Mitigation Assistance (HMA) grant funds.

Although the FFRMS was reinstated through Executive Order 14030 Climate-Related Financial Risk, signed by President Biden on May 20, the interim policy — effective immediately — is the first step toward implementation.

While further actions are anticipated by FEMA and other agencies to fully implement FFRMS, the interim policy applies to certain projects funded through hazard mitigation grant programs. Specifically, the interim policy applies to Fiscal Year 2021 funding for the Building Resilient Infrastructure and Communities (BRIC) and Flood Mitigation Assistance (FMA) programs; the Hazard Mitigation Grant Program (HMGP) for any major disaster declared on or after Aug. 27 and assistance authorized for all 59 COVID-19 disaster declarations. In addition, it applies to HMGP Post Fire for any Fire Mitigation Assistance Grant (FMAG) declarations issued on or after Aug. 27.

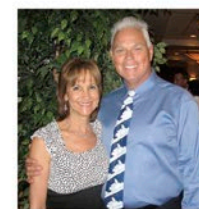
The interim policy partially implements the FFRMS by requiring higher flood elevations for three types of actions — elevation, dry floodproofing and mitigation reconstruction — when done in the Special Flood Hazard Area. FEMA's approach requires additional elevation (Base Flood Elevation plus 2 feet) except in situations where doing so would result in the project being unable to meet applicable cost-effectiveness requirements.

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There are five key numbers, or key performance indicators (KPIs), in a residential building company's financials that builders should be aware of on a quarterly basis.

The analyses should be conducted quarterly because most residential building companies generate less than \$10 million in revenue a year, and their claims can be six to seven weeks apart, which means their monthly income can be a little volatile. So, it makes sense for builders to look at their financials quarterly rather than monthly when comparing to the previous period, or the same period last year.

Of course, if builders don't calculate their work in progress accounting adjustment (WIPAA) each month, then their financial reports are not going to make too much sense to anyone, no matter how frequently they are reviewed. That means calculating the work in progress accounting adjustment figure each month is the first number that builders must know in their financials.

REVENUE

The next KPI to review is revenue. It's important to look at the numbers quarterly rather than monthly, because revenue can easily get distorted by the time that invoices are sent to clients. However, over a 90-day period of time, things tend to even out, so it's important for builders to look at their revenue and compare it to their budget, last quarter's revenue and the revenue for the same period last year. That helps with taking seasonal fluctuations into account.

GROSS PROFIT MARGIN

This is a builder's gross profit, which is the revenue from their

projects less the cost of sales relating to their projects, as a percentage of their total revenue. A lot of builders confuse this with markup, which is different, so it's important to understand the difference. The benchmark for custom home builders is 25% margin, which is a 33.3% markup.

Builders should check their gross margin every quarter and compare it to their target gross margin, last quarter's gross margin and their gross margin for the same period last year. By doing this, builders will see how much margin they are actually getting out of their jobs compared to how much margin they are adding to their jobs when they price them. And that may be a bit of an eye-opener for many builders, especially if they are not achieving the industry benchmark.

FIXED EXPENSE RATIO

Fixed expenses are any costs that cannot be directly attributed to a project; things like, rent, administrative staff and software costs. On its own, this figure does not mean too much — unless it's higher than the gross profit figure.

The way to look at fixed expenses is as a percentage of revenue, which is known as the fixed expense ratio. The benchmark for a residential building company is 15%, which includes the owner's salary at market rate and a healthy investment in advertising and marketing of around 3% of revenue.

It is possible to artificially lower this ratio by either not drawing a salary, or by investing very little in marketing and advertising. So those are the two key areas to look at closely when builders calculate this number and compare their building company to others in the industry.

NET PROFIT MARGIN

Finally, it's important to review net profit margin, which is the profit remaining after accounting for all of the project costs and fixed expenses and then calculating it as a percentage of the total revenue. If builders do not take a salary and instead draw a net profit of what the company makes as income, then their build-

ing company isn't really making a profit, it's just breaking even. And that's a very risky situation to be in, because after a few quiet months, these builders might be out of business.

The industry benchmark for a custom home building company is 10% net profit margin. A well-run building company will operate between 10%-15% net profit depending on where they are in their growth cycle and market conditions. Unfortunately, most custom home building companies are not achieving double digit net profit margins because they are focusing on revenue rather than margins and ratios.

A professional builder should look at all five financial KPIs in order to understand how well their building company is doing, rather than just focusing on the bank balance.

To learn more, download the Professional Builders' Secrets to Increasing Margins checklist. This checklist helps builders:

- Understand the difference between markup versus margin.
- Understand the difference between the cost of sale versus fixed expenses and why it's critical to factor this into a pricing strategy.
- Calculate fixed expenses as a percentage of revenue.
- Determine the exact net margin a building company needs in order to be profitable.



5 KPIs Every Builder Should Know

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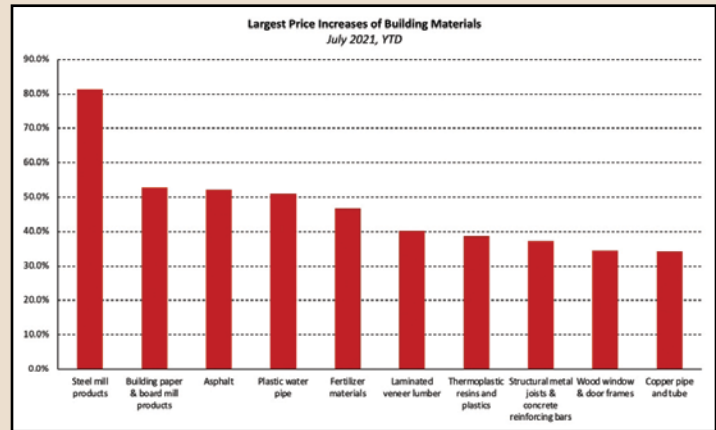
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Building Material Prices: Large Increases Year to Date

Although the recent drop in softwood lumber prices since mid-May is helping bring costs down (after having driven them up drastically earlier in the year), the decline has been offset by large increases in the prices of several other building material products.

The prices of these 10 have increased the most thus far in 2021, and all are up at least 30%:

- Steel mill products
- Building paper and building board mill products
- Asphalt
- Plastic water pipe
- Fertilizer materials
- Laminated veneer lumber
- Thermoplastic resins and plastics materials
- Structural metal joists and concrete reinforcing bars
- Wood window and door frames
- Copper pipe and tube



Over the first seven months of 2021, the majority of these products' prices have increased many times more than they did in 2020. The price change of steel mill products is the most glaring example, up 81.3% year to date following a 2020 increase of 11.1%.

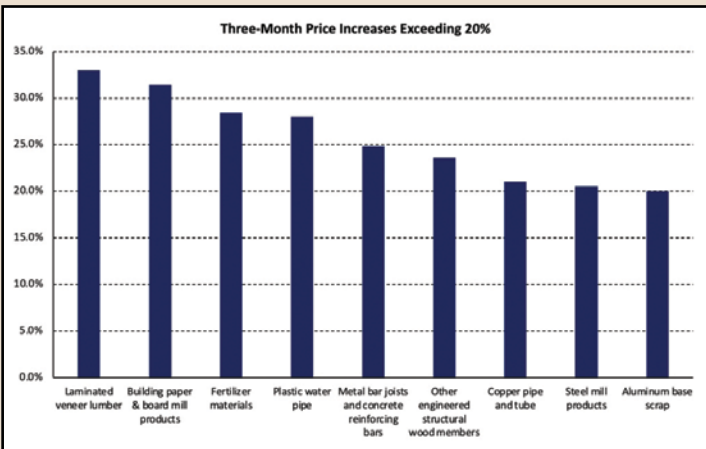


The prices of a subset of building materials were stable in 2020 but have seen substantial price increases in 2021.

Average Monthly Price Change		
Product	2020	2021
Hot rolled steel bars & structural shapes	0.0%	4.2%
Medium density fiberboard	0.0%	3.9%
Construction polystyrene foam products	-0.1%	3.7%
Water heaters	-0.2%	3.1%
Steel nails, staples, and brads	0.0%	3.0%
Metal doors and frames	0.1%	2.1%
Heating equipment	0.0%	1.5%
Builderrs' hardware	0.0%	1.4%
Nonthreaded metal fasteners	0.0%	1.2%

Some building materials and inputs to building materials have seen especially acute increases over the last three months. Of the goods analyzed here, nine experienced price increases exceeding 20% between April and July:

- Laminated veneer lumber
- Building paper & building board mill products
- Fertilizer materials
- Plastic water pipe
- Fabricated structural metal
- Other engineered structural wood members
- Copper pipe and tube
- Steel mill products
- Aluminum base scrap



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NOVEMBER 5, 2021

Registration 11:00 p.m. | Bags Fly at Noon

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- Two Complimentary Teams registration | (4) players
- Tent space with opportunity to distribute promotional items (must provide tent, table and chairs)

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