

Know thy Buyer or Perish

Survive and thrive by asking: "Who's your development?"

By Patrick S. Duffy

In his new book, *Who's Your City?*, author Richard Florida—who brought us the 2002 national best-seller *The Rise of the Creative Class*—argues that not only is the choice of where to live the most important decision someone can make, but those who match their interests and personalities to specific cities tend to find the best-matched careers, spouses and friends.

Frankly, I think this concept should be marketed catnip for homebuilders, allowing them to leverage these ideas (roadmap included in the book), arm themselves with increasingly sophisticated demographic data and decide, both for their companies and their buyers, exactly "Who's Your Development?" In fact, some would argue that only those builders who are able to successfully address these questions throughout their organizations and provide a distinctive yet trusting brand image will both survive and remain strong enough to benefit from the eventual housing rebound.

It's an important concept at a time when builders are shouldering much of the blame—rightly or wrongly—for the current housing slump. When I recently wrote a guest blog post defending the idea of extending the tax loss carry-back for homebuilders at the L.A. Land blog, the reader responses ran 40-to-1 against the idea, so clearly builders have a steep PR hill to climb. Consequently, I think tomorrow's building industry will look a bit different than it has in the past, with a focus on customized solutions to buyers' life stages, personalities and demographic profiles.

I had the chance to talk with Dr. Florida when reviewing this latest book for the Los Angeles Times and a major theme he discusses is the changing nature of what people want from a community. In many urban areas, for example, time has steadily been on the rise—even more than money—as the primary resource for people to live happy and fulfilling lives.

"It's not about the price of oil," said Florida. "It's about the time cost of com-

New Home Buyer Consumer Groups

Entry Level	Feature & Location	Simple Life	Family	Elite	Active Adult Entry Level	Active Adult Feature & Location	Active Adult Elite
<ul style="list-style-type: none"> Seeking pure basics of a home. Price is key determinant Lower income segments (young families, recent immigrants, divorcees/widows) Desire home-ownership, but often credit challenged 	<ul style="list-style-type: none"> Active young professional singles and couples, and career-focused upper middle class professionals Adaptable; will sacrifice bedrooms for features; price focused on technology and style Values convenience over price 	<ul style="list-style-type: none"> Active, laid-back middle class singles, couples, and families High rate of homeownership often in rural settings Affinity for outdoor sports, recreational activities Not traditionally career focused 	<ul style="list-style-type: none"> Traditional middle to middle-upper class families Prefer mid-sized suburban homes High homeownership with strongest affinity towards new homes and communities Home features and community feel are important 	<ul style="list-style-type: none"> Affluent families, older couples Privacy, prestige, and features are important Custom tastes, country club preferences Demand high-end finishes, many options Product of various types, yet location and size are both important 	<ul style="list-style-type: none"> Semi to fully retired lower-middle class adults Mixture of ethnically and racially diverse individuals with strong ties to communities and traditions Only likely to move to downsize or locate closer to family 	<ul style="list-style-type: none"> Middle class adults nearing or in retirement Locations, features and community feel is important as well as ability to remain active Motivated to downsize and have maintenance free lifestyle Consider a retirement purchase their final home 	<ul style="list-style-type: none"> Wealthiest of the active adult segments Middle to upper class adults with an eye on retirement Community/sense of place is important Very active and social lifestyle Stylish features, new construction, community feel are all important

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muting, and meeting people, and leveraging those networks within solid neighborhoods close to employment centers.”

Although "Who's Your City?" focuses its research at the citywide level, Florida and his team provide specific examples of how different neighborhoods have distinct personalities. For example, a slowly revitalizing

Korea town in Los Angeles might be an 'urban mosaic' characterized by ethnic restaurants and relatively cheap rents, whereas Tyson's Corner, Va. or California's Silicon Valley would be two of the country's best-known 'edge cities' in which single-family homes with larger-than-average lots mix with plenty of local employment and shopping opportunities.

But what if you want to identify an area's personality to a more specific level – say a specific neighborhood that's defined not just by existing residents, but also those who might be attracted to a future vision? That's when someone like Jonathan Smoke and two of his companies, BlueSmoke and HousingIntel-ligence.com, can assist. Smoke, as a former SVP for corporate strategy and innovation at Atlanta-based Beazer Homes (and previously their Chief Information Officer), has tapped these experiences to create a national resource of data and analysis oriented towards the supply side of the building industry.

With the company motto "Don't Just Guess," Smoke and his team have partnered with Clari-

tas (a division of Nielsen, the same company which tracks television viewers and website visitors) and Scarborough Research (which tracks shopping patterns, media behaviors and lifestyle decisions) to create proprietary demand models he says are far more accurate than what most builders and consultants currently use. Instead of reviewing what he calls 'demonstrated demand' models—defined as what sold last year—his company focuses on current and projected demographics, preferences and lifestyles, and translates that information into estimated demand for any variety of product types, price ranges or geographic areas. The end result? Higher absorption rates and a better return on investment for marketing dollars.

Moreover, instead of attempting to cram these households into the existing limited array of 'entry-level' to 'luxury' consumer segments that have been relied on for decades, Smoke has developed an expanded and more detailed set of eight categories that include personality traits as well as incomes. As a result, Smoke says his segments are more adaptable to markets that can change over time for a variety of reasons, and are especially useful to assist those developments failing to meet their projected pro forma models.

"It's important for the best use of dirt, for designing product, for marketing and promotional purposes," he said. "Also to be able to adjust as market conditions change due to a new competitor or any host of externalities."

But are most of today's builders even set up to implement such changes quickly? According to development management consultant Philip Simmons, the answer is no. Builders and developers today simply don't know how to strategically adjust their operations to a rapidly changing market, he said. Simmons, a veteran of the building industry who most recently ran the Urban division for John Laing Homes after stints with Archstone, Avalon Bay Communities and Watt Industries, argues that the skills needed for a housing boom are completely different when it eventually busts.

"When times were good you had five people for three jobs," Simmons said. "Whereas in times like this, you need two

people to cover five jobs." Consequently, the past focus on a narrow skill set is somewhat irrelevant to today's situation where it's imperative to understand the dynamics of all of the company's departments and divisions. Says Simmons, "It's a different world and what used to work isn't working."

For Scott Laurie, president and COO of California infill specialist Olson Homes since 2007, his years as both a division president and at the corporate office for a volume builder like KBHome came in handy when he was

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tapped to reorganize Olson Homes. "The easy thing to do is reduce headcount to nothing," Laurie said. "But that's short-term thinking."

Instead of cutting headcount alone, Laurie looked at both salary levels and job functions in order to envision how to keep core talent around for a market rebound. Within nine months of taking the reins, he had reduced staffing by over 40 percent, mostly by eliminating middle layers of management and dramatically consolidating divisions. Since sales people and construction superintendents now report directly to senior level VPs, the benefits are twofold: costs are reduced and at the same time accountability has been restored.

On the marketing side, Laurie has revamped the company's outdated website, which has spiked the percentage of sales leads from

the website to 35 percent today from the low single digits a year ago. He also created a new corporate brochure focusing on Olson's unique strength among the state's production builders: expertise with walkable, transit-oriented (and therefore greener) living.

By salting this new brochure with pithy quotes ranging from the philosopher Cicero to classic author Henry David Thoreau, he manages to convey the important daily benefits of in-town living and that it doesn't mean sacrificing style or safety. The company's motto, "In Town. In Style. In Reach." extends to all of its product lines from mixed-use condominium developments to small-lot single-family detached homes. Olson is also one of the few builders which requires their consultants to use pre-set report templates in order to provide a detailed, objective comparison of proposed developments with a particular focus on demographics, schools, crime rates and proximity to retail services.

It's hard to argue with success. Over the last 20 years, the builder has entered into partnerships with 80 different cities and counties throughout California making them a preferred partner for local redevelopment agencies. Home buyers have also responded; Olson's recent per-project absorption rate is more than one net sale per week which is exponentially greater than the market average.

According to Laurie, this success is no accident, "To be successful you have to be patient to get deals done," he said. "Olson has both patience and great people."

This pro-people attitude certainly makes sense, as you can't hope to define "Who's Your Development" until you've first answered "Who's Your Company?"

Concludes Simmons, "Whenever there's a problem it's always about management. Sometimes it's just about filling in some gaps that should be the mortar in between the bricks."

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• **Tomorrow's building industry will look a bit different than it has in the past, with a focus on customized solutions to buyers' life stages, personalities and demographic profiles.**

• **Different neighborhoods have distinct personalities; knowing the demographic makeup of an area is important to your success**

• **Knowing demographics, preferences and lifestyles means more accurate demand estimates, and, ultimately, a better return on investment of marketing dollars.**