

Builder

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THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

JANUARY 2006

AMERICA'S BEST BUILDERS 2006



A DAY IN THE LIFE

How do some of the best-run home building companies operate? BUILDER spent a few days with them finding out.

Jeffrey Caruso, owner
and CEO, Caruso Homes



THERE IS NO “TYPICAL” day in the life for those who head home building companies. Some days they’re in the office, running meetings. Other days they’re out in the field, checking on construction. They might be up and out early for a breakfast meeting to discuss a land deal or burning the midnight oil finishing the budget. Crunch time can mean squeezing all those things, and more, into a single day.

This year, we wanted to see what

happens behind the scenes on any given day with the 2006 America’s Best Builders. The days were as diverse as the companies themselves. The top executives of Mid-Atlantic Builders, in Rockville, Md., split their day between meetings and site visits to check on the construction of their high-design homes. We visited another Maryland builder, Caruso Homes, on a Monday filled with meetings that helped plan the company’s future growth. BUILDER’s visit to Newport Beach, Calif.–based John Laing Homes shined light on how this

high-volume builder is managing new, complex growth while remaining true to its core beliefs and goals.

Their differences aside, these builders share some strong characteristics. They each rely on careful financial management, even in boom times. Their home designs, marketing campaigns, and customer service programs reveal an ability to understand and respond to their buyers, and their community involvement is on the agenda both in formal meetings and in casual conversation. —*Michele Mariani*

PHOTO: BRUCE WELLER



CARUSO HOMES, CROFTON, MD 221 UNITS

MARKET TIMING

A 20-year veteran of Washington home building leverages success to grow larger and more sophisticated.

BY MICHELE MARIANI

ON A RECENT MONDAY MORNING, Jeff Caruso's desk was almost clear. That's the way most weeks start—except that for Caruso, the owner and CEO of Caruso Homes, the week starts long before he gets to the office on Monday mornings.

Caruso is rarely off the clock, whether he's using the digital camera he carries

everywhere to snap pictures of interesting homes or driving to the growing number of his company's communities. Most of Caruso's mornings start at about 5 a.m., when he wakes and reaches for his BlackBerry. He dashes off a handful of e-mails, shuttles his daughters to school, and often squeezes in a workout before heading to his company's headquarters in Crofton, Md., 25 miles northeast of Washington.

It's all done with an eye toward continuing to grow and improve Caruso Homes, the company Caruso founded in 1986. He's been through the ups and downs of the Washington housing market since, weathering the bust of the early 1990s and riding the current boom that's helped the company set new records in 2004 and 2005.

8:50 A.M.: MANAGERS MEET

In his first 20 minutes in the office, Caruso glances through the short stack of paper on his desk, reads a few e-mails sent in response to those he sent off at 4:57 that morning, says hello to employees, and heads down the hall to the management meeting that kicks off each week. In addition to Caruso, the dozen people seated around the table include president David Herzog and the department heads of land acquisition, land development, finance, sales and marketing, production, and purchasing.

Karen Samoy, vice president of sales and marketing, begins by telling the group that



the company set a number of records in the previous week: 19 sales, 13 closings, and Randy Clark, director of Maryland sales, sold \$4.4 million worth of homes himself. Applause fills the room when she pauses, and again when she brings in three employees who helped process the closings.

Samoy continues with an update on the company's second House for Hope project. The home built in Maryland in 2004 resulted in about \$100,000 of donations to Hope International, a nonprofit organization that makes small business loans to entrepreneurs in such countries as Afghanistan and Ukraine. Samoy says the 2005 project in Virginia will double that amount. In addition to Hope International, this project's beneficiaries include local domestic violence and health-care centers.

The success Caruso Homes has enjoyed in the past few years helps enable such giving. In 2003, closings fell from 192 to 138 and revenue dropped by \$12 million, due largely to communities finishing before new developments could begin.

The company's fortunes bounced back

FAST TRACK: After weathering bumps in the Washington-area home building market and growing slowly for several years, Caruso Homes has set itself up for rapid growth. Owner and CEO Jeffrey Caruso (above left, center) and president and COO David Herzog pack much into their days to facilitate that growth, meeting with staff members to choose everything from what new products to use in their homes to which new parcels of land to buy. One of the biggest choices lies ahead: A satellite office in Virginia has spurred the company's growth farther south, and it's considering expanding to additional states.

in 2004, with 221 closings for \$96 million in revenue. The numbers only look more promising from there. Caruso predicts it will close 308 homes in 2005 for \$155 million in revenue and expects to grow those numbers to 482 homes and \$275 million in 2006. But the company's top managers have their eyes on a rounder number. "I want to be building 1,000 units before I'm 40," says 36-year-old Herzog.

9:05 A.M.: PURCHASING OVERVIEW

Next up: Harold Horner, director of purchasing. He's having trouble finding plumbers and electricians. "I made 213 calls to get three plumbers," he says.

Those conditions make Caruso's long-

standing relationships with many of its subcontractors invaluable. The company also operates a trade council, through which subcontractor managers meet every other month with Caruso management. The council helps find proactive solutions to disagreements and fosters loyalty between the builder and the trades, Caruso says.

9:14 A.M.: PRODUCTION OVERVIEW

The competition for labor reverberates through the market—and through Caruso. "The biggest issue over the last couple of weeks has been staffing," says Rob Bishop, the company's vice president of production. *(see page 5)*

PHOTOS: BRUCE WELLS

Nevertheless, the warranty department is surpassing its goals, Bishop reports. Caruso developed its customer service and warranty program with the help of its Builder 20 club. "It's the single most productive thing we've done," Caruso says of his participation in the club. When he and Herzog presented the customer service program they were planning to the other Builder 20 members, they found none had used it successfully. In the end, Caruso Homes adopted another member's warranty program. "That taught me to use the club," Caruso says.

Customer service at Caruso starts with the company's "Answer Book," a 100-page, step-by-step explanation of the home building process and the warranty. Caruso requires buyers to bring the book to each meeting they attend. Managers say teaching customers to rely on the book has significantly reduced disagreements and misunderstandings.

The company also has a "100 percent complete" program, with the warranty department signing off on more than 390 details on each home before the buyer's final walk-through. "The warranty department has no reason to accept a house that isn't 100 percent," Caruso says. "The superintendents recognize the value of a tough warranty department when they walk through with the buyer."

9:25 A.M.: FINANCIAL OVERVIEW

Roger Staiger, Caruso's CFO, updates the group on recent investment deals he's secured, including a competitive rate on mezzanine debt that generates a round of applause. Caruso follows with news of a new equity fund that will invest in projects stretching over five or more years, an approach he hasn't found elsewhere.

The equity and mezzanine debt markets are new to Caruso Homes. The company has long relied upon Caruso's continued reinvestment and bank lines of credit to finance its projects, but that process has matured in recent years.

In 2003, it began having its books independently audited, an exercise that has proven both demanding and rewarding. The audits have translated into success in securing deals, as investors feel more comfortable with the company, Caruso says.

9:45 A.M.: ACTIVE ADULT PROJECT MEETING

After a brief update from the land acquisition and development staff, Caruso heads

back to his office, where consultant Bob Karen waits, examining blueprints of Symphony Village at Centreville, Caruso Homes' first active adult development on Maryland's eastern shore.

When Caruso wanted to pursue active adult home building, he sought out Karen, who launched K. Hovnanian's Four Seasons active adult communities. It's a pattern seen many times over at Caruso Homes. Caruso wants to learn from others' expertise and minimize his own company's mistakes. "We're team builders," he says. "We bring in specialists."

Karen's current specialty: helping Caruso brand the Symphony Village concept. Active adult communities feature prominently in Caruso's expansion plans. Caruso thinks it's an underserved niche in the Mid-Atlantic region.

10:02 A.M.: SALES MEETING PEP TALK

Next, Caruso pops into a sales meeting where Samoy has reminded her sales team to have fall mums planted, Halloween candy available, and nice candles burning in the sales centers.

Caruso has some words of encouragement for the sales staff. "Interest rates are going up, and we're still raising prices," he

says. "Work the traffic so we don't have any kind of a slowdown in sales." He speaks often of building relationships with customers, and he returns to the theme again here, emphasizing the importance of knowing each buyer. "Know how many kids they have and where they work. We're not just taking orders," he instructs.

In early October, Caruso is selling homes that will start in late winter and early spring 2006. The company generally doesn't operate off a large backlog of sold homes, in order to better manage customer experience. It has sold through the winter, though, to hedge against the effect rising interest rates may have on traffic. Nevertheless, Caruso and Herzog remain bullish about the D.C. market, thanks to high traffic numbers and strong area employment. The Washington metro area boasts one of the nation's lowest unemployment rates, at close to 3 percent.

10:33 A.M.: LAND DEVELOPMENT MEETING

As employment has grown, so has the definition of the D.C. housing market. The map in the corner of Caruso Homes' main conference room stretches north to Delaware and west to West Virginia.

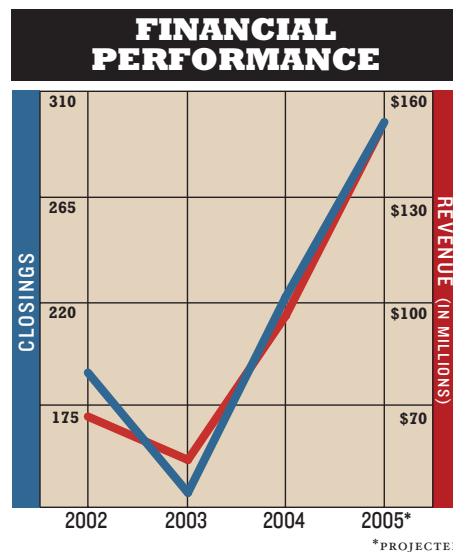
At this meeting, the team wants to identify land near projects that will be closing at the end of 2006 and in 2007. "The effort is on replacing jobs in our core markets," says John Maestri, vice president of land acquisition. The staffers cover the table with plans of current projects and maps of nearby counties, outlining possible deals.

The company took a break from buying raw dirt in the early 1990s, when Caruso picked up lots left behind by builders in the wake of the housing market plunge. Caruso partnered with area landowners and developers who finished the lots for a cut of the profits.

The company returned to developing its own lots about four years ago, when finished lots became increasingly expensive and tough to find. "All the jobs we thought were on the horizon started disappearing," Caruso recalls. Herzog nods in agreement. "It's about controlling our own destiny."

1:57 P.M.: FINANCE MEETING

After a break for lunch at Grace's Fortune, a Chinese restaurant that Herzog and Caruso—and other local builders and developers—frequent, *(see page 6)*



LESSONS LEARNED: When Caruso Homes finished communities ahead of schedule in 2003, others were held up in the permitting process, leading to a dip in closings and revenue that year. The company has concentrated on having more than enough land and projects in the queue since. That philosophy clearly paid off in 2004 and 2005.



AWARD WINNING: Jeff Caruso says the company's Williamsburg model, shown here, is one of his favorite home plans. It has also won more awards than any of the company's other models.

Caruso takes 10 minutes to answer e-mails. A small group gathers in his office to delve further into the company's finances than Staiger went into in the earlier management meeting. Staiger reviews deals with current investors, including those who will soon receive checks from the company.

Though Caruso Homes has a reliable group of investors—every investor has always participated in a subsequent project—he also discusses possibilities for future deals. The company has a goal of meeting with at least one new possible investor each month.

2:30 P.M.: STARTS MEETING

Herzog steps out of the finance meeting to sit in on the end of the starts meeting.

Each week, Samoy and other staffers from the production, purchasing, budgeting, and mortgage departments go through each project, updating start, sale, and settlement dates.

Though tension sometimes creeps into these meetings, as the departments naturally push and pull against each other, the group is satisfied with the outcome of this week's update. "We should be good through February," Samoy says. On that note, Herzog returns to the finance meeting.

3 P.M.: WRAPPING IT UP

His meetings over, Caruso spends the rest of this Monday answering e-mails and setting his schedule for the week.

While he writes, he discusses an eternal question for his company: Is it better to go somewhere new and get a big plot of land or to stay close in smaller projects but better-known areas? The company has started a satellite office in Virginia to use as a template for farther-away offices and has installed video conferencing, but Caruso says true geographic

CARUSO HOMES

Owner and CEO: Jeffrey Caruso
President and COO: David Herzog
Company focus: Move-up and active adult housing in the Washington market priced between \$250,000 and \$750,000
Employees: 131
Year founded: 1986
Web site: www.carusohomes.com
Notable: Building second House for Hope charity home; launched satellite office in Virginia.

expansion is at least a year off.

The company is well prepared for near-by growth through 2007. It controls some 5,000 lots. Future plans include spinning the land development department into a separate business to manage that inventory. At the end of this autumn day, though, Caruso keeps working that part of the business. He shoots off one last e-mail: It's to make a lunch appointment to discuss selling surplus lots.

COURTESY CARUSO HOMES