



DESIGN/BUILD IS BACK

The sector gets a shot in the arm from new home construction breaking ground and homeowners' loosened purse strings. **BY KRISTEN HAMPSHIRE**

Homeowners who have been dreaming of a better backyard – one enhanced with hardscape, water and fire features and full-blown outdoor kitchens – are tired of holding back and are making a move on those projects now.

That's the report from design/build contractors around the country who are seeing an increase in more "luxury" design and installation work, and a resurgence of new construction, triggering a demand for design/build projects.

Scott Cohen's design/build business is up about 50 percent this year compared to 2013. "A key indication of how the economy is looking right now is whether people are buying 'extras' or keeping projects bare bones," says the president of The Green Scene in Chatsworth, Calif.

In his area, clients are buying the original design he presents – and then adding on sophisticated color-changing lighting, outdoor speakers, misting systems to cool down areas and more. These are items clients might have omitted when Cohen proposed them, even as late as last year.

"I think people have been sitting on the sidelines for the last five to seven years, and they are chomping at the bit of the opportunity to get their yards fixed," Cohen says.

Meanwhile, median home values have increased in California by about almost 13 percent during the last 12 months, according to Zillow, compared to 6.5 percent nationwide. "So people are feeling like they can invest in their properties," Cohen says. "They feel like their investments won't be lost and they will get their money's worth."

Pete Bryant, president, Southern Exposure Landscape Management, Summerfield, N.C., says his firm never suffered a decline in business in 2008 and 2009. "We did see a slump in growth during that time," he says, "But the last two years have been excellent for our company, not only maintaining our current customers but also seeing substantial growth with new customers looking to finally do that backyard project they've been dreaming of."

But is this upswing here to stay? According to Lawn & Landscape's research, the answer is yes. Design/build was the second most popular answer when contractors were asked what their fastest

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Reed Dillon & Associates**

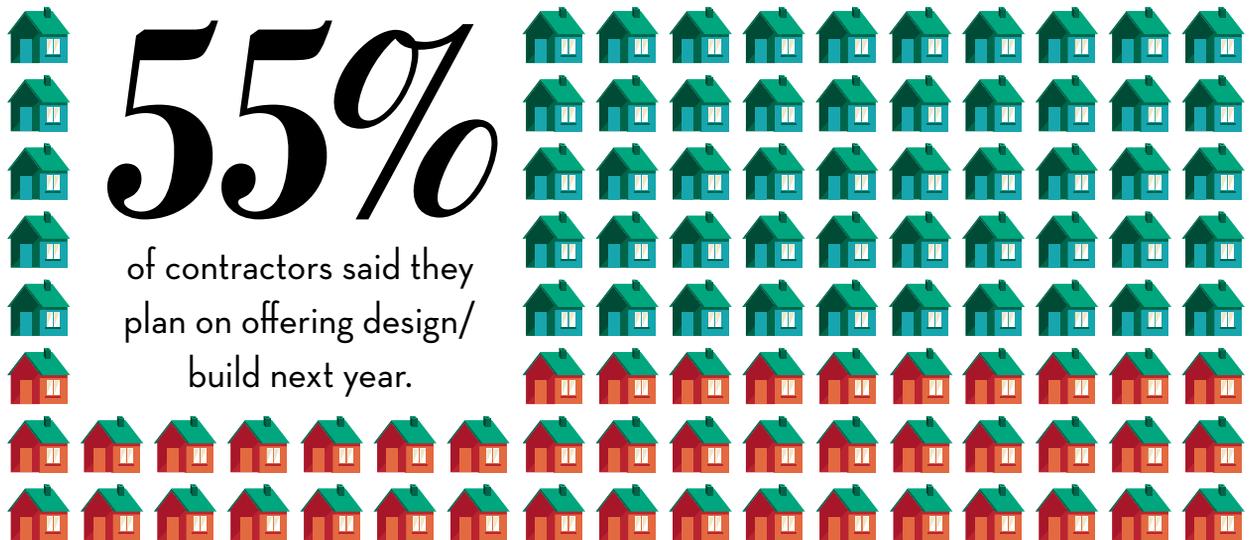
growing service was in 2014. The optimism was the same from contractors with design/build landing as the second most popular answer when asked about which service would grow the fastest in 2015.

"Unless we have another free fall in the stock market, yes, I think this (business) is here to stay," says Reed Dillon, president, Reed Dillon & Associates, Lawrence, Kan.

JUST ADD LUXURY. That free fall in the stock market – and the years of recession after – forced many landscapers out of the market or into different services. Those contractors with established companies who were left standing have an opportunity to take on the more complicated projects customers are now asking for. And Dillon says 2014 is just the beginning.

"There is opportunity (in design/build) as outdoor living is getting more elaborate and sophisticated," Dillon says. "It's harder for homeowners to find qualified contractors who can really handle all aspects of a project."

Because his company got involved with a referral network including builders and architects, new work has been coming in the doors and filling up



the schedule. The referral network has turned the firm on to high-end projects at custom-built homes, Dillon says.

For example, one project the firm is completing in exclusive Mission Hills includes a terraced property, pool, cabana house, outdoor fireplace and extensive plantings and outdoor lighting. “There is a lot of demand for outdoor living, and if you are in the right market, there is an expectation of what the outside environment will be like in terms of materials and degree of sophistication,” Dillon says.

In other words, the outdoor living space is a given rather than an option in the custom home world.

Back in North Carolina, Bryant says the abundance of work means his firm doesn’t have to jump at every job.

“We can be more selective and focus on the services we thrive at (landscaping and deck and patio lighting), and subcontract the tangent services that we don’t do as often,” he says. “When a company spreads itself too thin and tries to take on everything within the landscape field, something will lack excellence.”

Bryant’s focus on higher-end construction helps separate him from the competition. He says the company’s specialization in more projects in the

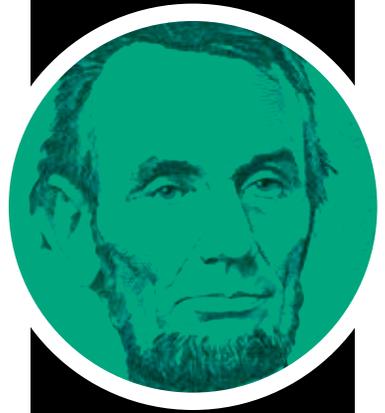
\$300,000 range has given the company an edge because there are fewer qualified firms that can even bid these jobs.

PUSHING UP PRICES. There’s more work in the design/build sector today – but how profitable is it? The landscape design and installation firms we spoke with said they’re minding their margins to stay competitive. And while profit margins are healthy, increasing material and labor expenses mean they aren’t blowing anyone out of the water.

“We have kept the profit margins tight because we want to be busy,” Cohen says, adding that the firm will increase prices moving into 2015 to defray increasing labor and materials costs.

Labor expenses, in particular, are a growing burden in Cohen’s California market because of the minimum wage increase and the “trickle up” effect that has on other employees’ wages, he says. “Our staff has responded to the increase in minimum wage by saying, ‘Hey, if everyone is getting \$1.50 per hour more, I want that, too,’” he says. “The minimum wage increase we saw here is affecting our whole staff.”

Bryant says in his North Carolina market, he expects prices to continue a slow increase, indicating stability (as opposed to spikes that show market



turbulence). “I don’t think the current economy has bounced back enough to sustain a rapid price jump,” he says.

Meanwhile, Bryant says his firm tends to be more expensive than others in the region, but potential clients are willing to spend the extra money if they know they’ll get quality work. “Mainly, we quote a job accurately so clients don’t have lots of surprise expenses throughout the project,” he says.

Dillon says his firm has tweaked pricing slightly to see what the market will bear. “But we have not really done too much with that,” he says of pricing. “We are doing higher volume now than before, so we are making more profit.”

But the cost of materials continues to creep, Dillon says. “I’m actually kind of amazed with some of these hardscape projects and where the bids are coming in,” he says. “If it’s shocking to me, I can’t imagine what it is to the client.”

But those clients seem willing to pay the price today compared to prior years. And, Dillon says, because his clients want to do business with him, he is rarely bidding against another company. He is sometimes altering the bid to accommodate clients’ budgets, but clients have expressed that they feel they’re getting value.

Besides, Dillon says his firm is “very lean” now after trimming back significantly in 2008. “We had to do some fairly significant layoffs, which was tough on people who had worked with me for 20 years,” he says. “But through that process, I found out that we could maintain a much leaner operation.”

Cohen did not eliminate staff during the downturn. “We kept everyone, and that is allowing us to respond and rebound quickly,” he says. “Really, the only thing slowing us down is our subcontracted teams because there are not as many guys out there ready to rock and roll as we need.”

Shoring up a larger, qualified network of subcontractors will be critical for taking full

advantage of the market growth, Cohen says. His in-house staff of 45 is supported by professionals such as plumbers and other tradespeople. “Whereas we used to work with one plumber, now we work with three,” Cohen points out. (For more on labor issues in the industry, turn to page 14.)

Another holdup for getting jobs started, Cohen says, is the number of building permits waiting for approval. “The city and county planning offices that issue permits have not staffed back up to be able to accommodate the higher volumes of permits, so we have projects on standby waiting for permit approval for months on end,” he says. “It has been really frustrating for our clients and us as we wait.”

BUILDING IN 2014 AND BEYOND.

“If you are going to make money in 2015, you need to be staffed and ready to go,” Cohen says, adding that if California sees rain, business will be even better. “There is a lot of potential business out there where homeowners are not pulling the trigger because they are concerned about whether they’ll be able to water (their landscapes).”

Cohen thinks that design/build business could easily multiply four-fold if the drought concern dissipates.

Continued construction will sustain the influx of work in the high-end design/build sector, Dillon says. “There are areas of town where builders are doing a lot of tear-down and building new, bigger houses,” he says. “As long as that trend continues, and it shows no sign of abating, the market should remain good here.”

Also, the fact that homeowners are choosing the extras for their projects indicates not only comfort in moving forward with a project, but an ability to splurge on luxury – always a good sign for design/build.

“We’ve seen an increase in clients wanting to invest in their properties and do projects that are not only remedies to issues,” Bryant says, “but additions that would be considered luxury for entertainment and enjoyment.” **L&L**

**THE AVERAGE
CONTRACTOR
SPENDS**

\$9,773

**ON SKID-STEERS
ANNUALLY.**

11%

**OF CONTRACTORS
SAID THEY
PLAN TO
PURCHASE
A SKID-STEER
IN THE NEXT
12 MONTHS**