



BUILDING INSIGHTS

A LOOK AT THE AREA'S HOMEBUILDING INDUSTRY

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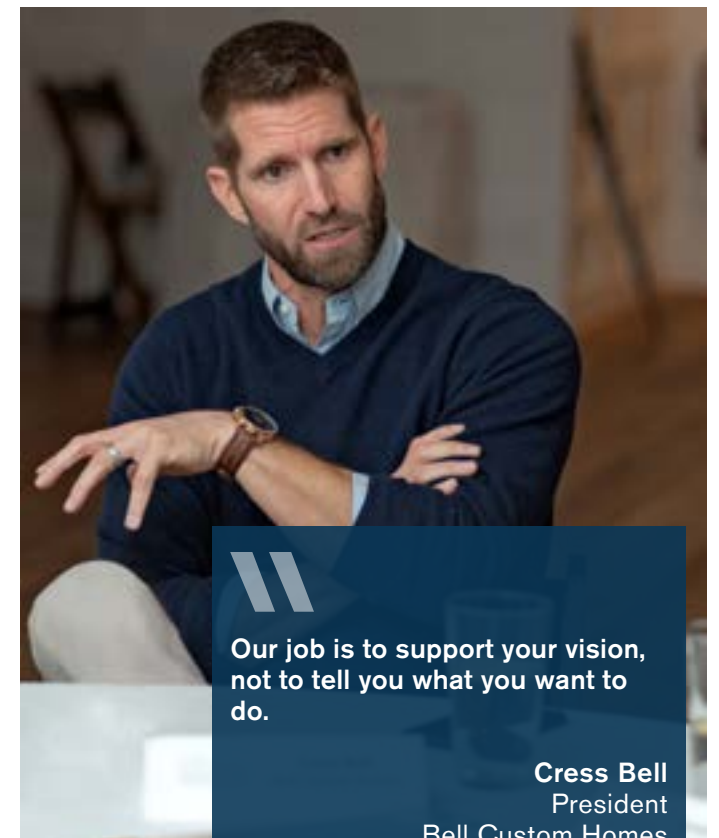
CHARLIE TIPTON
Coastal Carolinas Division President
PulteGroup

A panel from the local building and design industry got together at Oceanic on February 6 to talk about current conditions and what they see ahead. Below is an edited version of the discussion.

FIVE YEARS AGO, PEOPLE WOULD WALK INTO A DESIGN CENTER OR SHOP AND START TO INVESTIGATE. HOW HAS THAT CHANGED?

CHARLIE TIPTON: They typically have a good idea of what they want from whatever source they've seen it on. Social media has played a huge role in that. It's really made us step up our game as a large production builder. Our design centers have expanded dramatically to be able to try to appeal to all the different selections that are available. They're seeing it on Instagram and other sources, and they're walking in and saying, "This is what I want."

CRESS BELL: The resources we have now with Instagram, Pinterest and Houzz are a great starting point for home buyers to begin formulating their designs and ideas. The way I direct them is find a kitchen that speaks to you, and then let's decipher what's important. Our job is to support your vision, not tell you what you want to do. As a builder, we handle the complexity of building the home. The



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Cress Bell
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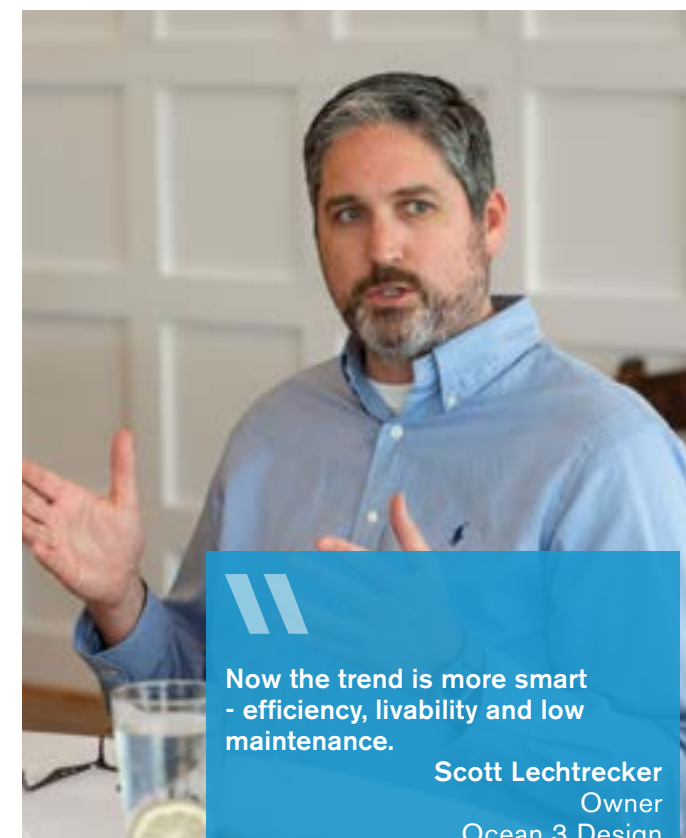
resources can be a little misleading, like HGTV's \$45,000 house renovation in four weeks, but overall they are a huge benefit to our industry.

JENNIFER KRANER: We have a methodology when we work with our clients, but it's almost impossible to know how somebody is going to work with you when you first meet them. One of the things that we're trying to counter is the social media aspect. That's one reason why we're expanding our showroom so we have more of the physical pieces there. We are trying to put more in front of people so they can actually see and feel it.

HOW ARE STYLES AND THE SIZE OF HOMES CHANGING?

SCOTT LECHTRECKER: They say they want small. They want 1,500 square feet until they realize what 1,500 square feet really is. The market for real large houses has shrunk a lot. That was 12 years ago around the recession when we were just creating rooms to create rooms. Now the trend is more smart — efficiency, livability and low maintenance. Those are things we hear day in and day out. That's what it should be.

BELL: I think the culture has changed a little bit. I was in California pre-recession, and it was, "How big can I build my house?" That was the trend — bigger, bigger, bigger. The recession changed the culture to what do you really need. Hardly any home built right now has anything



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Scott Lechtrecker
Owner
Ocean 3 Design



We've got two outdoor (cabinet) lines that we brought in ... the weather lets people entertain most of the year.

Cee Edwards
President
Markraft Cabinets

called “formal” in front of it — your formal living room, formal dining room. Also, open concept has been here and for good reason. I don’t think that will ever go away because it makes sense. You want to put the emphasis of a home where you spend your time and connect those spaces.

JOSH SMYTH: I’m seeing more and more that location is dictating the budget as opposed to the size of the home dictating the budget. People will sacrifice on size and amenities to be in a certain location. I agree completely about how you want to feel in a certain space. I look at our home. We have an open concept house, and I think we’ve sat in the dining room twice. We sit around our island, which is attached to the living room.

TIPTON: The other thing we’ve seen is the amount buyers are investing in the exterior, that indoor/outdoor living. We see just how significant the porches are on the front and the back and double porches and large porches and sliding doors, outdoor fireplaces and all those things. Maybe they’re willing to compromise a little bit on the heated square footage, but they’re not willing to forgo those indoor/outdoor features.

SCOTT BYERS: Do you see that, Cee? Do you see more outdoor living?

CEE EDWARDS: Oh yeah. We’ve got two outdoor lines that we brought in because the demand for outdoor living is

there. People want to entertain inside and out. We’re in a spot in all of our locations where the weather lets people hang out outside and entertain most of the year. They’re asking, “How big can my island be without having a seam in the countertop?” The islands are getting bigger because they want to hang out there.

BYERS: And the countertop materials are obviously adapting as well. You now have the ability to use porcelain-type products indoor and outdoor that are weather resistant.

WHAT PREDICTIONS ARE YOU WILLING TO MAKE FOR THE NEXT OR SEVERAL YEARS?

KRANER: What we’ve seen this year, which is really exciting, is that people are open to possibilities. I hope that this continues into the next year. They are less driven by what the trends are and more interested in the mindset of mixing styles and materials, which lets them get what they want out of their interior space. So I think that’s exciting because I think sometimes when you have parameters driven by a television show or social media, people think they have to kind of stay in that lane. But I think what we’re seeing is that possibilities are opening up.

BELL: The market seems great, aside from the election,



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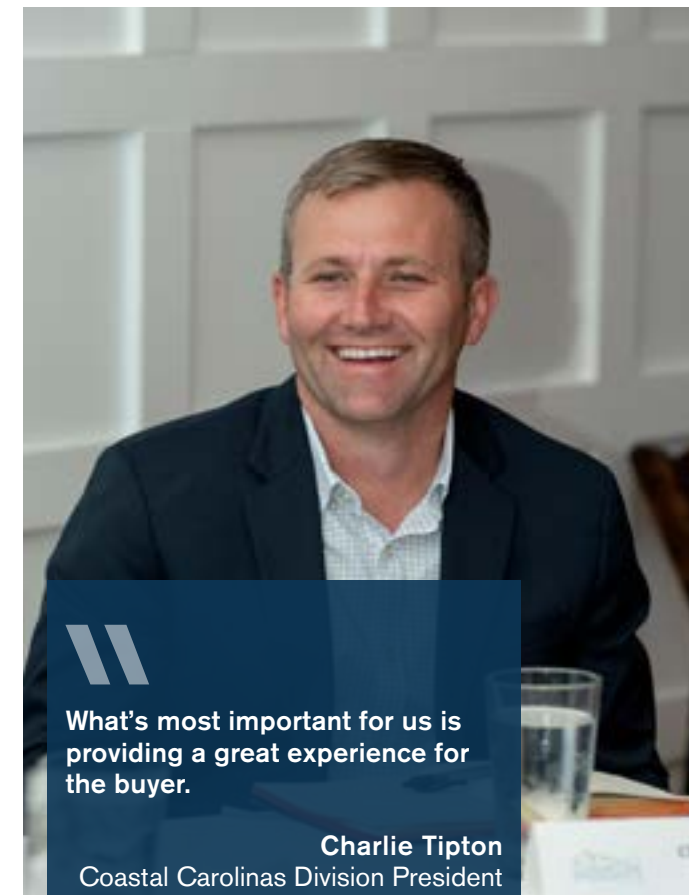
Jennifer Kraner
President
Big Sky Design

where you just don’t know what’s going to happen. Everybody tends to hit a little bit of a pause button to see what’s going to happen. But barring that and being tied to kind of an international economy, there’s no foreseeable change. And I wouldn’t mind it kind of leveling off and letting us catch up and find a nice pace.

SMYTH: Here’s my bold prediction, which may be more towards year three and beyond — production built homes prebuilt in factories without having to worry about the weather or anything else so you have faster turn times and more predictability and efficiency. Then those homes being somehow purchased online, and you show up and your house is ready.

TIPTON: Over the next year, we’re expecting it to be very similar to this past year. We don’t see a lot of changes in the near term. As a national builder, we’ve got a lot of competition. What’s most important for us is providing a great experience for the buyer. You have to overwhelm them with the experience.

EDWARDS: The flexibility of the buyer is changing. They’re more open minded. We’re incorporating wood with white for a modern farmhouse look. I think that is going to get really popular, mixing wood grains and a smooth painted product that’s here. I think we’ll see more of that trend. And you know, the color of the year is blue for 2020. The



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Charlie Tipton
Coastal Carolinas Division President
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Josh Smyth
Director of Sales
Majestic Kitchen & Bath Creations

request for navy cabinets and different shades of blue is a big deal. People are getting a little bold with colors.

LECHTRECKER: I would say it’s more of a hope than a prediction that the coffered ceiling goes away. I’m tired of it. Maybe another year for the barn door. I think some design trends you see just get overdone.

BYERS: I think we’re probably going to curtail our growth as an industry because of our inability to meet the demand. You’re going to see other avenues become more prevalent like apartments and renting of single-family homes because affordability is a real challenge. There’s going to be different competition for living arrangements that we must account for.



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THE BUILDING FORECAST FOR 2020

A panel from the local building and design industry got together at Oceanic on February 6 to talk about what they see happening this year. Below is an edited version of the discussion. *(Note: More of the discussion will be published in the March issue of WilmingtonBiz Magazine.)*

SCOTT BYERS, President and CEO, Majestic Kitchen & Bath Creations: What are you seeing for 2020 and how does it compare to prior years particularly due to Hurricane Florence?

CHARLIE TIPTON, Coastal Carolinas Division President, PulteGroup: You mentioned the hurricane, and it was certainly a big setback for our business here and a slow recovery getting back on our feet. It's been gradual, but we've seen steady improvement from traffic and now we're really starting to see the conversions come through. Del Webb is probably the best to measure. In the October timeframe, we finally got to pre-hurricane traffic in our signups. And November, December and January were all outstanding. So far this year it looks really strong.

CEE EDWARDS, President, MarKraft Cabinets: We had our biggest backlog in company history going into the first quarter at the end of 2019. We

were still dealing with Florence stuff, but now a lot of that backlog is new construction. We're seeing the same thing I think Charlie is, in that the traffic is there. The orders are still coming in. And it's not a lot of spec homes, which is something we keep an eye on. Seeing purchase orders that come over with a homeowner's name is pretty positive, especially going into an election year.

CRESS BELL, President, Bell Custom Homes: It's been interesting the last couple of years, but it's all supported by demand. We're all in a good place. I just feel like everybody's grinding, but you can't forget why. It's a good market. It's been a lot of work and there's pressures and stresses that come along with it. It's a good market. We forgot what it was like.

JENNIFER KRANER, President, Big Sky Design: We have been growing about 30 percent each year in the last couple of years so it has been busy for us. During that time, I've been able to increase our design team to meet the needs that we have for different projects. One of the things we did two years ago to meet some of those needs is we developed a little bit more of a showroom in our space so we have a Big Sky Shop and Studio now. And what that allows is for more people to just walk in the door and have some of those resources at hand.

SCOTT LECHTRECKER, Owner, Ocean 3 Design:

Normally I'm the first one to kind of feel an up or down tick, and it was steady last year. I did notice a little bit of slowing at the tail end of last year, but on January 1st, the phone was ringing again. I think this is going to be a good year. It's an election year, as we all know, and those are always a little strange. But I don't see any change coming. People are spending money, and that scares me a little bit because the costs are so high right now. But they're still spending and that tick just keeps going up and up.



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2019 HOMEBUILDING INDUSTRY OUTLOOK

What is your forecast for the building industry in 2019?

SUSAN STECK: You can still see the remnants of Hurricane Florence. You still have people who can't live in their homes, who didn't get their insurance money yet, and who are still on the fence about whether to repair, rebuild or buy a new home.

It has taken us some time to get back to normal, but I think we're back now. I'm seeing traffic pick up. We're getting a lot more people in the door. They're not always selecting a home; some of them are pre-looking in advance of retiring here.

Interest rates are coming down, which is a good thing. Let's hope that trend continues, because I think it's going to spur the ones who had missed buying the last time around and decided to rent instead. People get scared by interest rates, especially with the price range in Wilmington always creeping up because of land costs. So, hopefully we'll get renters into their own houses this year.

PJ KELLY: Our company was recently at a trade show in New York and we came home with the most leads we've ever had. It was packed, and we got 246 leads.

So, I think people have short memories when it comes to something like a hurricane.

They're still interested in or planning on coming here.

Looking through 2019 into 2020, I think one issue we'll deal with is just getting through uncertainty, whether it's uncertainty in the stock market, the political arena, the tariffs or interest rates. I think there are a lot of things we all have to be aware of and be smart about. Don't be scared but be smart.

To be honest, a little breath of fresh air wouldn't hurt my feelings too much right now. I don't want to see a decline, obviously, but a little leveling off to let the sub-contractors and vendors breathe some wouldn't be such a bad thing. Getting through 2019 and into 2020 is where I think we're going to see that happen.

CRESS BELL: For the last month, it feels like we're finally starting to really catch up. Jobs are loaded, they're running efficiently, and we're finding a rhythm again. Before the storm – and then inflated by the storm – the last six months were a little bit more of a grind, overall.

I think the labor market is going to continue to be an issue this year because it's an ongoing issue. There's a stigma about using your hands and being out in the field, and that's not easy to change, but you can make a really good living doing a trade now.

It's interesting – there's almost more work than people to do it in our market. There's a natural supply and demand, and there's more

demand than supply with our current labor force.

What concerns me in the bigger picture is value. Even at the higher custom levels, people want to see that they're getting good value for their money. Companies with good crews are paying to keep them, so that eventually trickles down to the end user. Just a little bit of an increase across the board can impact the overall budget. We might hire 40 to 45 companies for a particular job and if they all increase prices by three or four percent, it adds up to real dollars.

That's why with that, on top of interest rates and everything else, I kind of see us as being at a pinnacle in terms of loss of value. There is so much pressure on pricing, in general, that the end user – or their respect of the value – affects our livelihood.

I lived out on the west coast for about 10 years and we track what's going on in the housing market there. They seem to lead us a lot; the trends from the west coast tend to trickle out to us. And what I saw was that some of my counterparts there seemed a little scared going into summer 2018.

I think we're an insulated market. This is such a desirable place to live and that shields us a little bit. But being in California during the height of the high and low of the low, I've adopted a kind of cautiously optimistic, borderline-pessimistic outlook.