

Homing In On Affordable Quality


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The New House™

Built by 

In an industrial section of Mira Loma, five suburban homes with American flags fluttering near their front doors, a fragment of Mayberry, have a view of a factory that helped to conceive them.

Placing its sales office and models in a factory parking lot is a bold statement by one of Southern California's newest home builders that sells under the brand The New House Built by RSI.

The New House founder, Ron Simon, identified as one of Orange County's wealthiest businessmen by the Orange County Business Journal, made his fortune developing a highly successful cabinet manufacturing company, RSI Home Products.



Simon, 76, says he is transferring the principals of smart manufacturing to home building.

As a supplier of kitchen and bathroom cabinets to Southern California home builders, Simon said he saw the shortcomings of building homes from scratch in the outdoors.

"I looked at home building and decided it was a very archaic way of building and that homes could be made for a lot less money and with a lot better quality," he said.

Simon says his goal -- to build desirable houses affordable to entry-level buyers with pre-engineered, factory-built components -- was achieved at his first community-size project, The New House at Menifee. All 113 homes were sold out in June, nine months after the community opened, a breakneck pace in the currently sagging housing market.

Richard Gollis, chief executive of the Concord Group, a real estate consulting firm that The New House hired to review market data, said he found that The New House at Menifee was selling houses at twice the rate of its five best performing competitors in the region.

"Our view is that one of the primary reasons is their average asking price was about \$170,000 compared to \$275,000 for the competition," Gollis said.

CUTTING COSTS

A major reason why The New House home prices are ultra affordable, Simon says, is that he manufactures houses with an eye for cutting costs and gaining efficiencies in the factory, the field and the materials supply chain.

In 2007, Simon said he set aside \$100 million of his own money for research and development. For three years the new company developed a process for pre-engineering and pre-cutting building components to exact specifications in a factory so they could be put together in the field "like an erector set" with no need for a drill or saw and with no wasted scraps, he said.

"There are drawings for every single part that goes into the house. We account for every inch of wire, of plumbing, of lumber," he said.

By cutting out middle men like distributors and dealers, he said he also keeps down the cost of building materials and takes greater control of scheduling and work flow.

As another cost savings, Simon broke the home builders' tradition of maintaining a sales office and model homes at each new community. Prospective New Home buyers tour model homes by appointment at the Mira Loma factory, 11350 Riverside Drive, near US 60. It's a 40-minute drive from The New House community in Menifee and from a planned 77-home project in Beaumont set to open in September.

Other trade-offs keep home prices low, such as a limited variety of floor plans, architectural types and interior design choices. There are no vaulted ceilings or spiral staircases. Aside from an option to upgrade the carpeting, what you see is what you get, including vinyl rather than tile flooring in the kitchen."

LOW PRICES



"Our feeling was 'look, I would love to own a Bentley, but if I am only a policeman and I only make \$70,000 a year, I can't afford a Bentley, but I need a car. I will buy something I can afford.' Why should a house be any different," said Simon.

Still, Simon said he decided to include several higher quality and green features as standard such as granite countertops, stainless steel appliances, windows with casings and tankless water heaters.

Jen Bellis, 28, who bought one of the Menifee homes, said she was "a little nervous at first" that the houses built by New House might resemble mobile homes. But she said that worry evaporated when she saw the models.

Bellis said she and her husband liked the energy-saving features, particularly the extra insulation that keeps their house cooler in the summer. She said they are convinced the \$198,000 they paid for their four-bedroom Craftsman-style house was a good deal.

A low price "was super important just in case the market gets any worse, and it was what we could afford," she said, so she can work fewer hours and spend more time with their two-year-old son.

STREAMLINING WORK

Wall panels are delivered from Mira Loma to the building site with windows, rough plumbing and electrical wiring already installed, said William Jones, manager of the Menifee building site. As a result, workers are able to frame a 1,232-square-foot, single-story house in a day, a job that he said takes about a week and a half with conventional building techniques.

Because of prefabrication, the walls and corners also are straighter than in a conventionally built house, said Steve Johnson, a director in the Riverside office of MetroStudy real estate consulting firm. "They do look good," he said. The idea of meshing factory manufacturing with home building is not new, but has not widely caught on.

"Across the years a lot of companies have given this a try, but it didn't pan out because they didn't invest in research and development," said Jones. He said the New House approach is continually improved on. Field crews that work directly for the company, rather than for subcontractors, are cross trained to do whatever task is needed, he said, rather than being confined to a single trade.

DEPENDENT ON VOLUME

Pulte Homes in 2004 started manufacturing walls, underground plumbing and other components for its home building projects in Arizona and Nevada. But the company decided last year to discontinue prefabrication because of the sharp downturn in home sales, said Pulte spokeswoman Jacque Petroulakis. The approach was "not economically viable at reduced production volumes," she said.

Simon says it is not right to compare The New House to other attempts at factory assisted home building. "Ours is a very, very different system. You can't compare us," he said.

While declining to say how much savings he currently is getting from his construction methods, Simon said he expects to build houses for 30 to 35 percent less than traditional builders. But he acknowledges that achieving that level of savings demands a much higher volume of production. He said he is doing infill projects on the coast and more traditional subdivisions in the Inland Empire.

Lisa Gordon, president of New House land acquisition and development, said it is a fortunate time for a small builder like Simon to shop for land because many of the big builders who would compete with him are on the sidelines. Also she said he has the advantage of being able to offer cash for lots when loans are difficult to get.

Simon said he recently bought 26 lots in San Jacinto and is negotiating to buy 300 more in the Inland region.

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