

# CRAIN'S DETROIT BUSINESS

## Focus



Steve Friedman and Howard Fingerroot formed Pinnacle Homes. The company entered the market positioned well to survive — not saddled with debt.

*Photo credit: Nathan Skid/Crain's Detroit Business*

### FOCUS: Real Estate

## Startups and those who change their business plans are slump survivors

By [Daniel Duggan](#)

Homes in Northville's Kirkway Estates subdivision were selling in the mid-\$500,000s when Farmington Hills-based **Curtis Building Co.** owned the project.

However, the development went back to the bank in the fourth quarter last year and is now being finished as a joint venture with the lender and Farmington Hills-based **Pinnacle Homes**, a new company made up of veteran real estate executives. With the land at Nine Mile and Napier roads massively devalued because of the real estate slump, the asking prices for homes are \$200,000 less.

Yet, money is being made.

As a startup company with experienced principals and no debt, Pinnacle — and companies like it — is expected to be a rising player in the residential real estate market when the dust from the downturn settles.

"They represent the beginning of who will be developing residential lots and houses in Michigan in the future," said Brian Wenzel, president of Ann Arbor-based land developer and consultant **Atwell-Hicks**, which has done work for Pinnacle.

Wenzel said he expects a lot of changeover in the coming years among the region's roster of top builders.

"You look at the top 20 homebuilders from five years ago, and I'd bet 75 percent won't be here in five years," he said.

The key to survival is "legacy costs" right now, he said.

Many homebuilders have them now as debt costs pile up on the homes that have been built and not sold. Likewise, many of the companies are sitting on large parcels of land that can't be sold.

That means some companies are canceling projects, walking away from properties they have loans or options on, or selling inventory at huge losses.

Some companies can shoulder these costs and survive, observers say. Some also are trying adaptation strategies like changing product niches or marketing tactics. If they can weather the storm, statistics point to an improvement in coming years. Some companies, though, simply won't be able to wait. (See box, Page 10.)

## **Building from scratch**

Expected survivors

Real estate professionals expect fewer homebuilders to be left standing in Southeast Michigan as the industry rebuilds. Here are some companies considered to be set up for survival:

### **National company**

**Pulte Homes**, Bloomfield Hills

Ranked as one of the largest homebuilders in the country, it soon is expected to become the only national homebuilder working in Michigan. Executives expect it will be easier to compete for consumers in the local market when the national competitors have all left.

### **Selected private companies**

**MJC Cos.**, Macomb Township

**Lombardo Cos.**, Washington Township

Both have ranked near the top as private, locally based homebuilders for the past few years. Many say they have made enough money in the good times to be able to afford losing money in the bad times and emerge again with the upturn in the market.

### **Upstart models**

**Pinnacle Homes**, Farmington Hills

Started in 2005, Pinnacle isn't saddled with the same debt problems as others in the market.

Howard Fingeroot left a post at Bloomfield Hills-based **Pulte Homes** and formed Pinnacle Homes with Steve Friedman, who sold **The Selective Group** to Dallas-based homebuilding giant **Centex Corp.** several years ago.

Forming a company in 2005 drew crazy looks, Fingeroot said, but their advantage is not being saddled with the same debt as everyone else.

"We can have a good relationship with the banks because we're not behind in payments or deep in debt," he said.

Kirkway Estates is a typical deal for Pinnacle. They were hired by the lender to complete unbuilt homes in a subdivision. Pinnacle then sells the homes for a percentage of the profit.

At least one large national builder is also on the potential list of survivors: Pulte.

Ranked among the largest U.S. homebuilders, Pulte built the most local sites in 2006, 2007 and so far this year, according to Clarkston-based **Housing Consultants Inc.**

Comparatively, Centex already announced it is selling its inventory and leaving Michigan. Chicago-based **Neumann Homes** left the market last year.

And no other national homebuilders have taken out a building permit this year, according to Housing Consultants.

Pulte expects not only to take advantage of the image of the only national in town but also to take over more of the local market share, said Steve Atchison, president Pulte's Michigan division.

"We'll be paying attention to doing the right things now," he said. "And when we get through this slow time, we will be known as the builder who stuck it out."

The company has stepped up its marketing with "sale events" on weekends, similar to programs at car dealerships: Homes are sold for a discount for a short period of time. They've also issued a guarantee that if someone buys a home now and prices drop more, Pulte will issue the buyers a check for the difference.

### **Private power**

Real estate insiders also expect large, private homebuilders, such as Macomb Township-based **MJC Cos.** and Washington Township-based **Lombardo Cos.**, to survive because their sheer size should push them through.

"If those who made record profits in this market put some of it aside, they'll be able to lower their selling prices by 25 percent and find some traction," said Gilbert "Buzz" Silverman, chairman and CEO of Bingham Farms-based **Silverman Cos.**

For the smaller companies to survive, they'll need to be creative, he said.

And he'd know.

His company had to reinvent itself in the downturn of the early 1980s, he said. By focusing on affordable housing, he had a way to diversify the business away from just homebuilding. He did general contracting work, built churches and did work for labor unions and apartments.

He survived the downturn of the 1980s and again in the 1990s. Silverman got out of the Michigan homebuilding game in 1999, selling his business to **Toll Bros.**

"It was my belief that the market was nearing its peak," he said.

Those still in the business can turn to home remodeling work, insurance work or the conversion of houses to rental units, he said.

That adaptation is the plan for Mark Lewis. He's a partner in the newly formed **Community 1st**, a joint venture, based in Farmington Hills, between **Lewis/Klein Properties** and **R&H Development**. While Lewis has focused on affordable housing in the suburbs, lending for those customers has become difficult. To survive, Community 1st will work on an inner-city housing program in which the city of Detroit and Wayne County subsidies supply a down payment for potential buyers tight on funds.

"You can't change the direction of the winds, you have to adjust your sails," Lewis said. "Find a niche if you're going to grow a business."

But surviving this downturn can't be compared to surviving others, said Bernie Glieberman, president and CEO of Novi-based **Crosswinds Communities**.

While there is the common problem of lending shortages, the lack of jobs in the region will hamper the pending upturn seen in other times.

"In the 1980s, the problem was high interest rates, but we were nowhere near the job factors we have now," he said.

More changes are on the horizon with banks foreclosing — and poised to foreclose — on land across the metro area, said Mark Rubenfire, a real estate attorney with Southfield-based **Jaffe Raitt Heuer & Weiss P.C.**

"There's so much land that's ready to be developed that's now just frozen," he said. "The question is how that will shake out."

Resolving the unsold inventory in the region will take some time, said Kelly Sweeney, broker-owner of Birmingham-based **Weir Manuel Realtors**.

"The amount of inventory we have out there is better than it was a year ago," he said. "But it's still going to take a couple years to get through what's out there."

If there's any good news, it's that Detroit has always been a leading market for downturns, but also upturns, Silverman said.

"From a Michigan perspective, the view is that it's worse here than in other parts of the country, but that's not true," he said. "The oversupply is more robust in other top 10 markets, so they have more excess inventory to flush out."

*Daniel Duggan: (313) 446-0414, dduggan@crain.com*

© 2007 *Crain* Communications Inc.