

Remodeling to Build Wealth

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Walking with remodeler Steve Jordan through a once-dilapidated, modest-sized home that his firm, Rebuilding America Inc., renovated in Pensacola, Fla., you hear a certain pride-of-ownership in his voice as he explains the work that was done to improve the condition of the home, and how quickly it all came together.

“People don’t believe us when we tell them how efficient we are,” says Jordan. “But when we show them, they understand how quickly and inexpensively it can be done.”

The once-dilapidated home is steps from Pensacola Bay and during the storm surge from Hurricane Ivan in the fall of 2004, the home was flooded with 3 ft. of water. Rebuilding America ripped out the soaked wall boards, replaced the mechanicals and electrical. Everything was painted. Flooring was added. Lastly, a new garage door, reinforced to handle high-impact winds, was added. Yet the company cleverly preserved a lot, too. For example, countertops and upper cabinets in the kitchen were cleaned and painted. The work, says Jordan, was completed in three weeks and cost about \$20,000, labor included. “Everyone says it can’t be done, but we do it all the time,” says Jordan.

Jordan’s pride-of-ownership is genuine. He and his investors own this home among many others in the area. They buy ugly houses, upgrade them and hold them as rental properties. Rebuilding America, with 10 employees, is the opposite of “a flipper.” They might best be described as “a holder.” They rebuild old houses, betting on solid demand for workforce rental housing. And they are also betting that, over the long term, the local real estate market will sustain generally higher housing values.

With the paint still wet, newly acquired and remodeled homes are rented out and added to a portfolio of dozens of other nearby homes owned by Rebuilding America. As a group, the portfolio represents an ever-increasing, income-producing asset. As such, the somewhat rare practice of remodeling and holding homes might just be the best way that top-quality remodeling, renovation and repair companies can be a vehicle to build wealth. In this fashion, remodeling can drive a strategy to build a real estate portfolio that provides income and asset appreciation. And, if ever there was an American industry where a large number of its business owners have a hard time earning real profits — let alone accumulating wealth — remodeling is it.

According to the Census Bureau’s Census of Construction, between 1997 and 2002, tens of thousands of remodeling contractors entered the remodeling industry and almost as many didn’t make it. Experts theorize that with its low barriers to entry, the remodeling industry attracts many people who know how to design and build, but only a small percentage of those who enter the industry understand what it takes to run a business profitably. What’s more, even among those who operate in remodeling profitably, fewer manage to create wealth over the long haul.

Qualified Remodeler columnist and former Remodelers Council chairman Mike Weiss, CGR, CAPS, is well-known for calling the traditional remodeling business model “a get-rich slow” scheme. Jordan believes

that his model of property ownership and management can turn remodeling into a more solid pathway to wealth and ultimately create a more respected profession.

Jordan, 65, relaunched Rebuilding America Inc. two years ago in Pensacola after moving it clear across the country, away from the overheated residential real estate market of San Diego, where the company got its start in the mid '90s. The company sold all of its properties at the high end of a hot market there and feverishly re-invested the capital in Pensacola. Why Pensacola? That is a question a lot of people have asked, says Jordan, and the answer is straightforward.

“Pensacola in 2004 was a lot like Oceanside, Calif., a decade earlier,” he explains, referencing the working-class San Diego suburb where he began acquiring homes in 1995. But as home values in that market peaked in the early part of the decade, it became nearly impossible for Jordan and his team to find the kind of properties that fit the sweet spot of their buy, renovate, rent and hold profile. It was too expensive for the rents to generate the needed cash flow.

Faced with a choice of abandoning its buy-and-hold strategy in San Diego or moving to a more suitable market, Rebuilding America began researching other regions of the country. They had nearly settled on San Antonio, Texas as the new location when a realtor friend on vacation in the Gulf Coast called Jordan and told him she had “found his new Oceanside.” That friend was very correct, says Jordan. He flew to Pensacola and began buying property within weeks of his first visit.

Pensacola in 2004 mirrored the Oceanside of 1994. Both housing markets were undervalued. Good homes in stable areas of town could be purchased and upgraded for historically low prices. In some areas of Pensacola today, three-bedroom homes can be purchased for around \$100,000. In 1994, Oceanside had similar values. And like San Diego of the mid-'90s, Jordan believes that Pensacola with its coastal location and resort-like amenities is poised for a similar upsurge in real estate values over the next 10 years.

“The longer I am here, the more I like it,” says Jordan. “And the more I am convinced that the area will thrive.”

Now, two short years later, Rebuilding America has almost completely disposed of its California assets and replaced it with more than 150 homes it has purchased and renovated in and around this Gulf Coast metropolis. Jordan's ownership share in the total portfolio is now valued at about \$20 million.

Back From Busted

Steve Jordan's \$20 million (and growing) net worth is a solid accomplishment for any successful remodeling contractor. But it is a particularly strong accomplishment given that in 1990 he was financially ruined, along with many others, when the commercial real estate market in Southern California tanked and he could not meet the obligations of hotel he owned. He had to declare bankruptcy, lost the home where he and his wife lived, and had to move in with his daughter and son-in-law. Depressed and unsure of his next steps, he had to go back to “square one” and match his skills with available jobs. He could hang a door, paint, and do carpentry, so that is what he did.

“At the age of 50, I went broke and lost everything,” says Jordan. “Up until that point I had made a nice annual income but like a lot of Americans I had not saved much money. I knew I needed to change my direction immediately or I would never be able to retire, much less retire rich.”

In doing handyman and remodeling work, Jordan forged relationships with real estate agents in San Diego and at one point, helped completely renovate a dilapidated single-family home that was owned by a bank after a foreclosure. It was a small job that turned into a big idea.

As Jordan toured the home with a realtor, he offered a deal for the owner/banker. He would fix up the home for \$30,000 in under 30 days and help the banker fetch a higher asking price. The banker agreed and for the next four weeks Jordan holed-up in the home, replacing windows, cabinets, flooring, and putting a fresh coat of paint on every surface. When it was time to show the home to the banker and the realtor a month later, they drove past as it was unrecognizably improved from its former run-down condition. Ultimately, the deal worked exactly as promised.

The house sold quickly during a down market. And a new business was born, Dirty Work Construction Inc.

Three years later, the company had grown into an enterprise where hundreds of foreclosed homes owned by Fannie Mae and other mortgage banks were being readied for market by Jordan and his team. By 1999, Dirty Work had renovated and repaired over 5,000 homes in San Diego County. This was aside from the additional single-family properties Jordan began buying and holding in 1995, eventually becoming Rebuilding America.

“We continued working for banks, rebuilding foreclosures until 1999,” notes Jordan. “After that, we concentrated all of our efforts in rebuilding our own properties and formed a new company called Rebuilding America Inc.”

By 2004, homes that Rebuilding America originally purchased for \$75,000 had risen in value to an average of \$450,000. The assets of the company were strong, but as was previously mentioned, the area did not support an improved-rental-property strategy. The area was switching over to owner-occupied.

The Rebuilding America formula for purchasing a home is not complicated. They look for homes that can be purchased and improved for an amount where the eventual monthly rent does not exceed 1 or 2 percent of the total cost. For example, a home purchased for \$75,000 and improved with \$25,000 for a total investment of \$100,000 would need to be able to support a monthly rent of at least \$1,000, preferably more.

Through a network of realtors, whom Jordan refers to as “truffle pigs,” Rebuilding America finds homes that he affectionately refers to as “Wapos.” Wapos is an acronym of for “What a piece of s___.” Around the Rebuilding America office Wapos is a common word and driving through a neighborhood adjacent to the Pensacola Naval Air Station – an area where the company owns and manages dozens of home – Jordan will point out the homes they own and others that he’d like to buy. “There’s a Wapos,” he says. “And there’s another Wapos. We love Wapos.”

Rebuilding, Managing and Spreading the Word

When Rebuilding America relocated to Pensacola from San Diego there was a lot of attrition, but Jordan kept the key players and quickly built a new team in his adopted home town. Jordan’s son-in-law Andy Nadsady has worked with him from the very beginning of Dirty Work Construction. Nadsady is manages the renovation and repair operation for the company. And it is the skills he learned turning hundreds of homes for Dirty Work that help keep Rebuilding America profitable today. Another key player from San Diego, Tracy Matthias, did not initially plan on making the move. Today she is general manager of the company an owner along with Nadsady and Jordan. She came out from California on a temporary basis in early 2006 to implement, upgrade and operate the same financial systems she ran when the company was located in San Diego.

In a little over two years, the company has almost completed its transition from its properties in San Diego to new ones in Pensacola. For tax reasons it was important that capital gains be limited and that the transfers all qualify for IRS 1031 Tax Deferred Exchanges. For the past two years, the work flow has followed a set pattern. Jordan and some of his local real estate pros identify properties to buy. The agents enter negotiations

to buy the properties. Once a property is closed, Nadsady and his team of regular subcontractors descend on the property in a SWAT-team fashion. Nadsady is armed with a well-proven checklist for the house. With the goal of minimizing investment to bring the house up to code to make it clean, comfortable and attractive, Nadsady and Kim Strong, another manager with the company decide item-by-item which parts of the home can be salvaged and which parts need to be replaced during the renovation. Items as small as a \$300 shower/tub liners have been sources of disagreement between Nadsady and Strong. She will take the side of the future renter arguing for improvements that will yield higher rents and quicker rental turnarounds. (See the sidebar, below, “Renovating the RBA Way.”) An early challenge for Nadsady was educating trade contractors on how they could make money working at with RBA, without charging their usual prices.

“We’ve got a great group of subcontractors in place right now,” says Nadsady. “Once they understood that we had the capability to keep them busy five and six days a week for months at a time, and that we faithfully paid them every week, we earned their trust.”

Depending on the original condition of the purchased property, the home is ready for rental within days or weeks of closing. The quick turnaround, replacing locks, re-roofing the house, repairing a deck etc., painting the interiors and exteriors is key to the company’s profitability.

The financial systems managed by Matthias enable accurate daily reporting on company cash flows across each of the properties owned wholly, or in part by RBA. Investors in RBA are not partners directly in RBA, but in LLC subsidiaries that own baskets of properties. Jordan is always a 50 percent investor in each of the LLC companies, which are typically capitalized in tranches of approximately \$250,000. As a longtime remodeler, Jordan’s ties to some of the industry’s most respected professionals are strong. For confidentiality reasons, the names of the investors must be withheld but many remodeling industry notables are among the partners. Matthias’ reporting mechanisms allow key measures of success to be monitored on a constant basis. For example the loan to value of the entire RBA portfolio has fallen steadily since 2004 as rents pay down mortgages and property values tracked by Zillow.com fluctuate, but generally move higher.

This fall, Jordan took a month off to travel to Turkey and Europe with his wife Betsy, perhaps as a reward for moving her from San Diego to the panhandle of Florida. The couple had finally begun reaping the rewards of nearly 15 years of non-stop work to rebuild their finances. As he begins to feel more assured of a comfortable eventual retirement, he has begun teaching seminars on the topic of how to retire rich.

“It is a message that I think most remodelers should really hear,” says Jordan.

“I started this when I was 50, and my only wish is that I would have been able to do it 10 years earlier.”

Fast Facts About Rebuilding America Inc.:

Founded: 1995

www.rebuildingamerica.com

Owner and CEO: Steve Jordan

Key executives and owners: Tracy Matthias and Andy Nadsady

Important milestone: 2004: After searching for a new place to operate, the company began its relocation from San Diego (Carlsbad, Calif.) in June and completed transition just in time for hurricane Ivan. In the aftermath of the Hurricane, the company was able to acquire many more properties “as is” from owners not willing to endure the rebuilding process.

Employees: 10

Properties owned in part or in total: 150-plus

Company assets: \$27 million.

Renovating the RBA Way

Renovating workforce housing requires a clear eye on the bottom line and a little bit of trial-and-error. Andy Nadsady's system in place for RBA in Pensacola, Fla. is bullet proof after 15 years of experience in renovating workforce housing first for Dirty Work Construction and the Rebuilding America Inc. To illustrate the point, the company supplied a real scope-of-work for renovating its acquisitions. At \$29,722.25 for a 3-bedroom, 2 bath home it was one of RBA's more costly renovations. Below is a sampling of the expenses in that scope.

New Roof: \$3,500. Fence and gate repair: \$450. Install two front shutters: \$150. Repair two windows: \$225. Rework porch and entry with patches and new posts: \$530. Soffit repair: \$200. Siding repair: \$300. Replace concrete steps with wooden steps and railing: \$350. Paint exterior: \$1,500. Install new HVAC: \$3,500. New gravel driveway: \$400. Cabinet repairs and replacements: \$1,600. New electric range: \$400. New refrigerator: \$465. Carpentry drywall repairs: \$70. Electrical repairs: \$35. Closet door with shelf: \$150. Replace shower valve and head and strainer: \$195. Interior paint for 949 sq. ft. of floor space: \$1,186.25. Interior tile for 949 sq. ft. of floor space: \$3,796. Window blinds: \$325.

Ability to retire rich: Priceless.



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