

Survival Time

The homebuilding industry continues to suffer and struggle. In the Sarasota-Manatee area, a big company swallows its contingency plan, while a small one figures out how to grow.

This tale of two Greater Sarasota-area homebuilders has all the makings of a stellar story.

For starters, it has underdog-style heroes: One is a former paramedic who's three years into running his own luxury, custom homebuilding company. The other is a former home site superintendent and salesman who, in 15 years, built what was once a \$130 million company after starting out in his single-car garage.

The story has a fast-pace, beginning at the turn of the century

frenzy in the Gulf Coast real estate market. And it has a big, bad enemy, too, in the collapse of that very same market.

Finally, its stars, John

Cannon and Christopher Hilgeman, are near-perfect 'how-to' examples of one of the biggest challenges in business: How to maintain, or even grow a company in a struggling industry. And what better industry to showcase this challenge than homebuilding, the epicenter of the Gulf Coast residential real estate earthquake?

Showerheads and Vikings

John Cannon fits prominently in the story. His self-named homebuilding firm has essentially been on a six-year revenue arc, from \$31.4 million in 2001 to reaching as high as \$132 million in 2004 to \$36.7 million in the first 10 months of 2007.

In June 2006, the company moved into its new headquarters — one that cost nearly \$9 million to build. The tsk-tsks from the Sarasota-area homebuilding community came rolling in just days after the company moved in.

And why not? Turns out that as the three-story Lakewood Ranch building was going up, the area's real estate market was crumbling down.

Still, Cannon, a multiple finalist for the Review's Entrepreneur of the Year Award, has no regrets about the building. For one, it has been a good morale boost, at a time when his company's employees were in dire need of one.

The building also represents a coming-of-age for Cannon, who went out on his own in 1990 after working in several other roles for other Sarasota-area homebuilders.

The ground floor of the John Cannon Homes headquarters is home to a top-notch design center, in which many of the homebuilder's suppliers



REVIEW SUMMARY

Businesses. John Cannon Homes, Lakewood Ranch; Christopher Homes, Sarasota

Industry. Homebuilding

Key. Companies create different ways to survive the market downturn.

and contractors display materials, from Viking Refrigerators to carpet trims to showerheads. It's the first time the company's been big enough to have its own design center and it's a money-saver, too, because the suppliers pay a bulk of the costs to display materials in it.

"We have a rather sophisticated and a rather expensive looking design center," says Cannon, "but the cost was minimal to John Cannon Homes."

Finally, Cannon considers the

Christopher Homes, co-founded by **Christopher Hilgeman** in 2004, has grown its revenues by nearly 40% the last two years.

Mark Wemple

mansion style 58,000-square-foot building, of which he is leasing out half to other businesses, a good financial investment.

Contingency time

Even saying all that, Cannon's aware it will take more than plush design centers and happy employees to survive the latest housing down-

turn. It will take some real cash.

"I can hold on for a long time," Cannon says, "but that's not why I'm in this business. I'm in this business to make money."

To that end, Cannon and his top executives are currently implementing a contingency plan the company came up with in 2005, fully expecting the good times of 2003 and 2004 to

end one day. The plan includes seriously scaling back on land purchases — including turning down 200 consecutive potential deals — as well as selling off other lots for cash.

The plan is working. The company's debt-to-equity ratio, for instance, is slightly more than one-to-one, considerably better than the industry average of 4 to 1. Cannon

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John Cannon started his own homebuilding company in 1990 along with his wife, Phillipa, pictured here. The company moved into this new building in Lakewood Ranch in 2006 and has since watched the homebuilding market continue to struggle. Says Cannon: "I'm working on the lowest margins I've ever worked on."

declined to release specific financial figures for the privately held company, other than annual revenues.

Other aspects of Cannon's survival efforts are more standard fare, at least standard in the Gulf Coast homebuilding industry, circa 2007. The company hasn't raised its prices in several months and it's constantly negotiating with its suppliers and subcontractors for lower prices.

And past the contingency plan, Cannon is subtly making a move to alter the company's business model. His ultimate goal in that area is to build in a lower price range, going from the \$2 million and up category to the \$600,000 to \$800,000 section. "I'm trying to build more homes at a lower price," says Cannon. "I haven't gotten there yet."

'A personal troubleshooter'

Of course, John Cannon Homes is far from the only Gulf Coast homebuild-

ing firm trying to survive the tough times. In the Sarasota-Bradenton market, both Bruce Williams Homes and Lee Wetherington Homes, for instance, have seen revenues and employees drop significantly. And further south, in Bonita Springs, the letters WCI have now become synonymous with the poor-performing homebuilding market.

But while Cannon survives, another homebuilding company, albeit one much smaller, is thriving. Christopher Homes, a three-year old custom homebuilder with a focus on building high-end second homes for out-of-staters, has grown revenues nearly 40% the last two years, from \$4.5 million in 2005 to \$7.5 million through the first 10 months of 2007.

Christopher Hilgeman, along with his father Joe Hilgeman, founded the firm in 2004. The elder Hilgeman, a longtime construction foreman in

Michigan and Missouri who once owned a high-end cabinetry business, brought the building expertise, while the son, a former firefighter and paramedic with the Sarasota County Fire Department, brought the moxie and entrepreneurial spirit.

"I had larger aspirations in life," Christopher Hilgeman says. "I wanted to control my own destiny."

The younger Hilgeman now uses those control methods on the job. For example, the firm takes the unusual and expensive step of providing each client with its own building superintendent. It works, though, because it allows the Hilgemans to easily monitor the building process while also providing each customer with a personal troubleshooter.

And the latter part is not a small detail, not when a Christopher Homes home can run anywhere from \$200 a square foot to \$600 a square foot, and individually, some homes are as big as 5,000 square feet and as high as three-stories. "They are building these as second homes," Christopher Hilgeman says of his customers, "but they aren't building these to lose money."

The 'Taj Mahal'

Most of the company's clients are savvy homebuyers, Christopher Hilgeman says. They own real estate, land and properties in other parts of the country, from North Carolina to Oregon.

Christopher Homes has built homes in areas between Tampa and Sarasota, most recently in Siesta Key and Bellair Beach.

And when it comes to the actual home, the Hilgemans approach is of the spend more, provide more philosophy. That includes using a sturdier form of concrete, in addition to commercial grade steel, which is about 20% stronger, but 15% more expensive than regular residential steel.

BY THE NUMBERS

CHRISTOPHER HOMES

Year	Revenue	% Growth
2005	\$4.56 million	
2006	\$5.74 million	20%
2007	\$7.50 million*	23%

Source: Christopher Homes

JOHN CANNON HOMES

Year	Revenue	% Growth
2001	\$31.4 million	
2002	\$42 million	25%
2003	\$77 million	44%
2004	\$132 million	71%
2005	\$85 million	-55%
2006	\$72 million	-18%
2007	\$36.7 million*	

Source: John Cannon Homes
* through October

What's more, the company builds by both green and hybrid housing methods. The hybrid process, an industry trend newer than even green building, combines pre-fabricated parts with traditional on-site construction. The process, Christopher Hilgeman says, can shorten the time to build a home by as much as 33%.

By selling such a high-end home to such high-end clients, the Hilgemans biggest challenge has become pleasing said customers.

Three, and even two years ago, customers tended to just nod in agreement at the high costs, thinking they'd recoup it all and more in appreciation. Now, Christopher Hilgeman says, customers "still want the Taj Mahal, but it's more difficult to get them to understand the cost."

And finally, despite the double-digit revenue growth over the last two years, Christopher Hilgeman is still hedging against the possibility the market slide will engulf his business, too. Just in case, he's considering opening a custom-made commercial office construction division.