



REAL ESTATE



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These Quadrant Homes are being built on the Snoqualmie Ridge, about a mile north of Interstate 90, just northeast of Issaquah. Quadrant is the state's largest homebuilder. The strong local economy and Quadrant's disciplined strategy have helped keep it busy during a rocky time for the U.S. real-estate market.

7 HOUSES A DAY

Despite downturn,
Quadrant Homes
keeps pounding ahead

BY JON TALTON
Special to The Seattle Times

It's just another day in the "Command Center," the unofficial name of a cluster of cubicles at Quadrant Homes' headquarters in Bellevue. A large screen fills a wall, tracking work in six counties: 16 developments, 50 vendors, 350 houses under construction.

Command Center employees help to choreograph what everyone here calls "the dance" — making sure the work is done with minimum delays and false starts. On this morning, paving in one development threatens the schedule for 33 houses.

"There's definitely a vibe of pressure



Quadrant President Peter Orser at the company's Bellevue headquarters. He became president in 2003 and has been with the company for 20 years.

in the Command Center," said Wes Guyer, one of two directors of construction. But the experienced staff members soon have things sorted out and on schedule.

Quadrant Homes has spent a decade

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perfecting home building as a predictable, disciplined manufacturing process.

The goal, President Peter Orser said, is “to have a unique way to deliver value to customers: more house for less money.” That focus has helped make Quadrant, a unit of Weyerhaeuser, the largest home-builder in Washington.

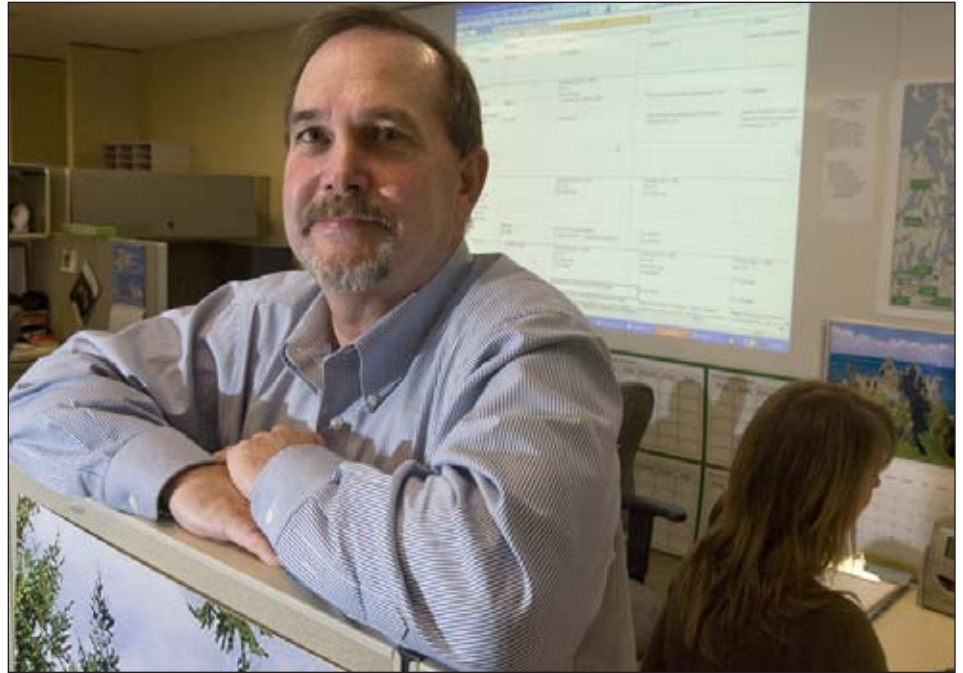
Now, with the industry facing its most severe contraction in decades, the “Quadrant Way” is paying another dividend. Along with Seattle’s relatively stable housing market, it is helping to protect Quadrant’s already-strong position.

It wasn’t always that way. Quadrant started building here in the 1960s and was acquired by Weyerhaeuser, of Federal Way, in 1969.

Before 1996, Quadrant built houses on spec, waiting for buyers. This traditional industry practice is now causing much pain among major production builders, especially in former hot spots such as Nevada and Arizona.

Research led Quadrant in a different direction. Many buyers didn’t like the houses being offered, the company found.

Shifting away from spec building eliminated some risk, while pushing for a faster production timetable could save



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Wes Guyer, construction superintendent, at the headquarters command center. “There’s definitely a vibe of pressure in the Command Center,” said Guyer, one of two directors of construction.

money. Increasing safety was also a goal. Thus, Quadrant embarked on a change of culture.

“We wanted to create predictability in the process,” said Orser, a 20-year Quadrant veteran who became president in

2003. “We wanted to make it manufacturing but still deliver on design and quality.”

That was difficult in an industry that is still largely based on craft.

Quadrant buyers have approximately 10,000 choices to personalize their new homes, from kitchen appliances and countertops to carpeting or hardwood flooring.

“A house is not like a car. It’s not seen as a highly engineered piece of equipment,” said Orser. “Yet this is probably the biggest purchase most people will ever make.”

Quadrant’s goal was to begin the permitting and building process only when the house had been sold, and to move quickly to complete it.

A rigorous scheduling process would kick in, designed to make the tasks of building a house flow seamlessly. Gone, for example, is the futile trip of a vendor to install a bathtub, only to find that the promised preparation work hasn’t been completed.

Orser cites the “just-in-time” manufacturing process of a Boeing or Toyota. Quadrant began with a 63-day timetable. Now it takes 54 working days to complete a house. Ten years ago, Quadrant started



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Rafael Duarte, with BMC West, uses an air hammer to attach siding at a Quadrant Homes development in Snoqualmie Ridge. Quadrant is a unit of Weyerhaeuser.

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one house per day; now it starts seven, a number unchanged by the national downturn.

“It’s the secret sauce to affordable housing,” Orser said.

Subcontractors key

At the heart of Quadrant’s process is its relationship with what its employees call “vendor partners.” Subcontractors do most of the work at any developer’s subdivisions. Quadrant typically has only two or three employees on each site.

Changing its strategy and culture meant a long wooing of vendors that would buy into the new methods. Now, executives say, their vendors prefer the Quadrant approach, and long-term relationships have been built.

Plumbing contractor Karel Peltram has worked with most of the major builders in the region and with Quadrant since 1989.

He said he liked the new concept when he first heard it, but he was skeptical the company could pull it off. “All builders try to do this, about halfway,” he said. “But it takes a huge commitment.”

Now Auburn-based Peltram Plumbing, with approximately 100 employees, is Quadrant’s exclusive plumbing contractor. The disciplined process “has really spoiled us,” Peltram said. “It works really good, and we enjoy working with them.”

Part of a big player

Executives decline to break out Quadrant’s financial numbers. It’s one of five homebuilders in the Weyerhaeuser Real Estate Co., which posted \$3.3 billion in revenue in 2006. The company says it is the No. 2 homebuilder nationally in gross margin, sixth by pretax earnings and 15th in closing volume and revenue.

In the third quarter, Weyerhaeuser reported that earnings from real estate and other related assets totaled \$60 million, down 55 percent from the same period in 2006.

Gross margins for single-family housing for all five Weyerhaeuser homebuilders was 17.9 percent in the quarter, as the subprime loan bust and housing slowdown affected all builders nationally. In 2006, the Weyerhaeuser homebuilders reported a



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Quadrant Homes’ showroom in Bellevue is where homebuyers can choose fixtures, wall color, lighting and appliances.

gross margin of 26.5 percent.

By comparison, KB Home reported a gross margin of 19.5 percent for its fiscal 2006, ending Nov. 30. Homebuilders generally saw business grow markedly worse this year, dragged down by the subprime-loan bust.

Weyerhaeuser said the market in the Puget Sound area has been its strongest in 2007, and in late October the company said it remains bullish on the housing market over the long term.

In an age of giant national homebuilders, Weyerhaeuser gives its regional units considerable autonomy. As a producer of wood products, the forest-products giant also gives stability that freestanding homebuilders lack in a downturn.

Those aren’t the only advantages, according to Orser.

“Weyerhaeuser is not free money,” he said. “They expect a return on investment. On the other hand, we don’t have to get bank loans. They are the bank.”

Orser is blunt about the downturn. “The market is in turmoil right now. People talk about Seattle being immune or better-off, and rightly so. But it will hit here.” He said it will take time for the industry to “return to sanity,” where housing grows with jobs and incomes.

He paused and added, “If I were starting a homebuilding company today, I’d still put my money on Seattle.”

Quadrant Homes

Headquarters: Bellevue

Employees: 250

Volume: 1,345 houses sold in 2006

Operations: 16 active developments in Washington

Specialty: Entry-level and single-family homes, base priced from the high \$100,000s to the low \$400,000s.

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