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Staying Strong

In a slow market, the *Pool & Spa News* Top 50 Builders keep their eyes on the silver lining.

By Rebecca Robledo

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It's no secret that pool sales are down. Builders are treating every lead like gold, and a growing number of firms have been forced to cut expenses across the board.

The primary culprit is a troubled housing market, and thus pool companies that are closely tied to new-home construction have taken the biggest hit.

"[Home builders] are practically giving houses away, so they can hardly afford an affiliation that does anything to raise the price," says Mike Geremia, president of Geremia Pools (No. 36) in Sacramento, Calif.

To make matters worse, a recent spike in subprime foreclosures has dumped even more homes into circulation. And rising interest rates are making it tougher for those buyers who do want to enter the market.

However, it's important to remember that these things are cyclical.

"Over time, people will stop recalling 3 percent loans, 4 percent money," says Bruce Dunn, CEO of Mission Pools (No. 12), based in Escondido, Calif. "That was Fantasy Land. It was fun to do, but it wasn't our real world."

There's no definite word on when the residential housing market will pick up, but experts predict that the home-improvement



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sector could rebound in six to nine months. That bodes well for pool builders, who are trying to keep it all in perspective.

“Do we compare today’s pool sales to 2005 and early 2006, when the housing market was hyper? Or do we compare it to 2001, before the boom?” asks Dave Allen, general manager of Erickson Custom Pools & Spas (No. 31), in Clermont, Fla.

Erickson has seen a significant reduction in leads in the past 18 months, but the company is still doing better than it was in 2001, Allen says. Besides that, when the phones do ring, they’re usually serious inquiries. “I’m seeing fewer tire-kickers,” he says.

So, though times are tough, the *Pool & Spa News* Top 50 builders are taking advantage of remaining market strengths, and hoping that the rest of the year brings an upturn.

Regional roundup

Ironically, the markets that were hit hardest in 2006 were some of the hot spots just one year earlier.

California and Arizona were the first to feel the downturn.

Florida, another spot where home construction was on fire, is suffering an extreme slowdown. Some firms are watching their business drop 30 percent to 60 percent.

“We’ve probably seen eight or nine companies go out of business locally, and there are 35 to 40 in our market,” says John Kennedy, president of Elite-Weiler Pools Inc. (No. 34) in Sarasota and Superior Pools of Southwest Florida (No. 40) in Port Charlotte, Fla. “I suspect there are another nine to a dozen to go.”

However, the Southeast maintained a strong presence in the Top 50 with 12 companies, the same number as in 2005. Total construction revenue for the region in 2006, where all but one firm hails from Florida, was nearly \$209.2 million, a 2.6 percent increase over the prior year.

The Texas contingent definitely made a stronger showing on the list. The South-Central region — with all but one company coming from the Lone Star State — grew from six firms in 2005 to eight in 2006. In addition, the area saw \$181.1 million in construction revenue, and built 3,680 pools — a whopping 74 percent jump over 2005.

Despite this region’s strong showing on the Top 50 list, the serious drop in housing starts there is causing the pool industry to lose its stride.

“We are down 20 percent from last year, and I’ve been talking to a lot of builders throughout the [Dallas/Fort Worth] Metroplex who are down 30- to 35 percent,” says Debra Smith, vice president/ general manager of Pulliam Pools (No. 23) in Fort Worth.

Texas also had to cope with an exceptionally wet spring, which

made its market even slower. “In May, we had 21 days of rain in 70-degree weather,” says Ron Robertson, president of Robertson Pools Inc. (No. 26) in Coppell, Texas. “So it’s hard to get people excited about buying swimming pools.”

Sadly, Texas isn’t alone in its weather woes. Several other areas of the nation, including the Northeast and parts of California, were hit with double trouble this year: a slow housing market and a rainy spring.

But there are some bright spots in the economic landscape.

The Midwest is a historically steady market with few dramatic ups and downs and, so far, 2007 is no exception.

“We’re on track with 2006, at the same pace or really close,” says Bruce Holmes, president of Pools of Fun (No. 41) in Plainfield, Ind. “It’s single digits down [in volume]. But we’re doing a better job of selling and the revenue is higher than a year ago, with fewer pools sold.”

Barrington Pools Inc. (No. 20) also is seeing a continuation of healthy activity. “The Midwest is always good, even through depressions,” says Dale Overson, president of the Barrington, Ill.-based company. “I’m not saying that [they’re] building a house on every corner, but people are still here, and the area’s growing.”

Different parts of the country are going gangbusters due to unique local conditions.

“Parts of the Gulf Coast are strong,” says R’nelle Lazlo, vice president of marketing at San Diego-based Blue Haven Pools (No. 1). The nationwide firm is seeing hearty growth in its Shreveport, La., office, she adds. “Somehow [Hurricane] Katrina has had a positive effect on the pool industry along that area. Louisiana and Houston are relatively strong.”

New vistas

Though this hasn’t exactly been a banner year for the pool and spa market, some business segments continue to thrive. Retail activity remains healthy in many areas along with commercial pool construction, renovation and the demand for high-end projects.

Pool & Spa News’ Top Builders generated retail revenues totaling nearly \$111.8 million in 2006 — a jump of close to 11 percent over 2005. This news is especially welcome considering the state of the portable-spa market. The upsurge in retail sales is likely tied to steady consumer spending overall and, while recent signs show that purse strings may be getting tighter, the outlook is far from bleak. In June, big-box giants Wal-Mart and Target reported higher-than-expected sales.

Retail isn’t the only area of strength either. Many builders are experiencing boosts in commercial work and renovations. In 2006, the Top 50 brought in \$133.5 million from commercial projects, a 41 percent increase over 2005. This accounts for 7

percent of that year's total construction revenue.

"The most active market for us right now is commercial," Mission Pools' Dunn says. "It hasn't missed a beat. Back in 2005 or 2006, that money was probably already put into place for large projects and, once that happens, it's pretty hard to bring it to a stop." This extends to private and government installations, he adds.

Some of this commercial work comes from an unexpected source: home builders. In an effort to lure prospective buyers into their developments, many large construction firms are building recreation centers as a perk.

"In the go-go years, somebody could put up a subdivision and sell every lot without a whole lot of fanfare," Erickson's Allen says. "Now everybody's trying to get one up on the subdivision next door, so they're going back and adding amenities: community pools, kiddie pools, outdoor spas and gathering areas."

Unfortunately, this boom doesn't extend to semicommercial settings such as apartments and condominium pools, Dunn says.

The Top 50 Builders also report an increase in renovation projects, and some are pursuing that work more aggressively to offset the drop in new construction. Others just enjoy an increase in calls from pool owners looking to give their backyards face-lifts.

In fact, \$72.3 million came from renovations in 2006, compared with \$67.5 million in 2005. This made up 4.2 percent of total construction revenue, about the same proportion as the prior year.

Currently, renovation work tends toward the high end, builders say, with homeowners requesting total makeovers and expensive amenities more than basic replaster/retiling.

"A lot of new-pool buyers are barely in their houses," Robertson says. "Maybe they got in with zero equity, so they're stretching their payments as it is. On the other hand, much of our renovation business comes from 50-something empty nesters with disposable funds."

As is true in many industries, companies that serve upscale consumers fare better during leaner times. Top 50 Builders specializing in more expensive pool projects experienced median revenue increases of 8.5 percent last year, with only one firm seeing a drop. On the other hand, the top 10 leaders in volume went up 3.5 percent, while five contended with a dip in business.

Dunn credits the upsurge in high-end projects to baby boomers. "They are coming into the time period when they have disposable income as well as the savings and equity to be able to buy lifestyle," he says. "We happen to be one of the great

products for lifestyle. Therein is the silver lining to what's coming up.”

Editor's note: Though every effort was made to ensure the accuracy of the information in this article, Pool & Spa News relies on the honest disclosure of revenue by participating builders.

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