

Hamptons Luxury Homes

By A. Citron

The typical factors that influence the real estate market and determine the average homeowner's real estate holdings do not affect the arena in which one Long Island builder continues to operate and prosper. Where do exclusive luxury and an escape from the everyday economic forecasting meet: New York's Hamptons, the ultra-luxury vacation and resort home sector of Long Island. This sector is consistently outperforming its primary-home market counterparts in nearly every U.S. region in terms of home sales. Since the nation's wealthiest consumers are not subject to most disposable-income statistics, typically do not seek mortgages for home purchases and feel no pressure from rising interest rates, this market is not starving for appreciation.

In New York's Hamptons, one of the nation's most prestigious and sought-after housing markets, Hamptons Luxury Homes, Inc. (OTCBB: HLXH) has been redefining luxury for the past two decades. The Bridgehampton-based company builds and maintains extravagant homes to meet the demands of the world's highest-net-worth individuals.

WHAT IS ULTRA-LUXURY?

In popular use, the word "luxury" has come to mean anything from a well-equipped family car to Donald Trump's living accommodations. Hamptons Luxury Homes' construction and renovation projects are valued at a staggering \$3 million to \$65 million. This demanding market



requires true opulence—the ultimate in details, custom designs, as well as high-end, one-of-a-kind products and workmanship that supersede previous levels of home renovation and building projects. In fact, the cost of the exterior portion of a recent project, which included custom design and fabrication for window and exterior door details, exceeded the entire cost of what most companies call a "luxury home."

The company operates in one of the nation's wealthiest and most luxury ZIP codes. The consistently hot real estate market supplies an ongoing demand for homes that fit the ultra-luxurious detail.

"One thing we have realized over the years is that, in the ultra-luxury

market, money never really goes away, it just changes hands," says Hamptons Luxury Homes President Roy Dalene.

A COMPLETE FRAMEWORK

In ultra-luxury home building, establishing a reputation for quality and reliability and sustaining a market presence in the area are critical success factors. Most of the Hamptons Luxury Homes' work comes from word-of-mouth referrals from past clients, architects, real estate brokers and other members of the community, as well as the companies tied to their magnificent work.





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For many a luxury builder or general contractors specializing in a particular aspect of the home building or renovation process, relying on subcontractors for services and outside companies to source products becomes a difficult task to manage. This balancing act typically results in significant expenditures for the homeowner, which cut into margins and can thus affect the outcome of a project.

For Hamptons Luxury Homes, integrating a number of complementary providers has allowed them to enjoy the benefits of its wholly owned maintenance and service, construction supplies, real estate development and business consulting subsidiaries. Thanks to the companies housed under its umbrella, Hamptons Luxury Homes enjoys a competitive edge in the lucrative Hamptons and achieves substantial economies of scale across its subsidiaries.

Their primary operating subsidiary, Telemark, Inc., provides a complete suite of construction and renovation services and offers the highest-quality, customized services that are uniquely tailored to individual client desires. These services cover all clientele, from those interested in new construction, renovations, additions and historic restoration, as well as preservation projects and commercial work.

What's more, Telemark has cultivated a solid brand name and impressive reputation in the marketplace. It has won numerous

construction and custom builder awards, including the national Custom Builder of the Year award in 1998 from *Custom Builder* magazine, and has been featured in some of the best-known luxury decoration and home periodicals, such as *Architectural Digest*, *Interior Design*, *House Beautiful*, *Classic Home* and *House*.

A BASE IN TRADITION

The fine Scandinavian craftsmanship that is embodied in all of Telemark's projects can be traced back to Hugo Dalene. The now-retired Patriarch arrived from Norway in the early 1950s, setting out to construct homes with honesty and craftsmanship traditionally revered in his homeland.

Frank, Hugo's son, now President and Chief Executive Officer, worked from an early age as a carpenter's helper. He continued to work in the trade as he was earning his degree from Nyack College. After graduation, he rejoined his father, forming Telemark Construction. As the father-and-son team built their reputation for producing a quality product grew and so did the demand for Telemark-built homes.

Roy Dalene, after receiving his degree in civil engineering from Polytechnic Institute of New York and working with Bechtel Power Corporation in the structural design and construction of electrical power plants, joined the company as Chief Operating Officer.

From meticulous historic restorations to some of the Hamptons' most striking residences, Telemark's projects continue to show the Old-World Scandinavian craftsmanship established by Hugo. The emphasis on craftsmanship is blended with a companywide emphasis on team building. This team-building atmosphere extends from Telemark to clients, architects and trade contractors alike, and utilizes current technologies to ensure smooth and open communications.

TWO FOR THE PRICE OF ONE

A second Hamptons Luxury Homes subsidiary, Telemark Service and Maintenance, Inc., provides complete property management, maintenance, service contracts, insurance repairs and handyman services, in perfect complement to Telemark's construction services.

While the Telemark companies may set the stage, it's the company's complementary subsidiaries that form the cornerstone of Hamptons Luxury Homes' unique value proposition. As opposed to being tied to outside vendors to supply the high-quality materials and timely services associated with the Hamptons Luxury Homes name, the company controls its margins via three wholly owned construction companies: Bridgehampton Lumber Inc., Telemark Service & Maintenance, Inc. and Architectural Woodwork of the Hamptons, LLC. Every Hamptons Luxury Homes project is supplied with material needs, custom construction packages, carpentry and painting labor as well as architectural woodwork through these subsidiaries.

The span of Hamptons Luxury Homes' subsidiary umbrella doesn't stop at the building end of the spectrum. In addition to construction or renovation, many vacation and resort homeowners require consulting services. Hamptons Luxury Homes has an additional subsidiary, DWD Construction Service, Inc., rounding out the company's offerings, making Hamptons Luxury Homes a one-stop shop for all construction and service needs.

Through the use of its own labor, lumber, real estate, maintenance and consulting companies, Hamptons Luxury Homes is able to retain ultimate control over the quality of the custom work that has put them on the map. Another impressive feature of this entirely intercompany work is the substantially shorter construction period on most custom estate homes, which allows many to be finished in under a year. Not many of their competitors can say the same.

The company's strategy is to cross sell each of its services and emphasize the simplicity of dealing with a single company for property management. In addition, the inherent economies of scale allow clients to receive a higher quality of service at a more reasonable price.

PUBLIC BUILDING

To gain credibility and access to new acquisition candidates, Hamptons Luxury Homes' management decided that the company needed to become publicly traded. Unfortunately, this decision was not without some short-term costs.



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Thirty-year veterans of ultra-luxury construction with more than 25 years of experiences in the Hamptons, company management embarked on a reverse merger that resulted in its public listing on the OTC Bulletin Board. It sought public support to gain credibility for the company's unique, all-inclusive business model and to rapidly implement an aggressive roll-up strategy that includes acquisition of high-quality service providers and trade contractors while allowing for both cash and stock transactions.

Though going public undoubtedly affords unique access to funding sources and creative financing solutions, public offering via reverse merger can also be expensive and all consuming.

Dalene explains, "While public structure



and regulatory compliance were important steps in the public process, a significant amount of human and capital resources were distracted from our core business, affection both top- and bottom-line growth. As we refine our strategy to capitalize on core strengths and continue to grow service offerings and market share, we expect to resume profitability in the coming quarters."

With the reverse merger now complete and profits once again in sight, offerings have been refined and a number of a new comprehensive sales and marketing initiatives have been introduced by management to ensure the core business of Hamptons Luxury Homes continues to benefit.

MAINTAINING THE EDGE

"Owners of homes in the Hamptons have made investments that historically appreciate approximately 10% or more annually as long as that home is properly maintained," says Dalene.

"Yet, many of these homeowners are only in those homes on weekends, primarily during the summer season. In conversations with our clients, we found that they spent a great amount of that time meeting with a variety of service providers for property maintenance because the market is highly fragmented."

With part-time residents accounting for 39% of total home ownership and 49% of the vacant property belonging to second-home owners, a reliable, one-stop shop for maintenance, upkeep and improvements to the lavish homes of the Hamptons is exactly what the doctor ordered, and exactly the market opportunity Hamptons Luxury Homes was after.

To meet the demands of these homeowners, the company has launched an integrated property maintenance program that places all the service providers and individual maintenance contracts onto one simple comprehensive property maintenance contract. Not only does this program open new doors to further assist the company's existing clientele and provide a one-stop full spectrum of services to the most demanding of homeowners, it provides the company with a recurring revenue stream.

In conjunction with this program's launch, Hamptons Luxury Homes has recently formed strategic partnerships with four real estate firms and has plans to include nearly every major Realtor in the Hamptons. These agreements offer fully disclosed incentives to the region's Realtors who sell either Hamptons Luxury Homes construction services or the company's all-inclusive service contracts.

This is the first-ever formal sales program implemented in the Hamptons and management believes it will be a win-win proposition. Agents will have their opportunity to further serve their clients and generate additional income while the company gains new sales leads generated by agents. Meanwhile, homeowners benefit not only from an all-inclusive contract but avoid costly repairs through a single point of contact for maintenance and upgrades.

The recently reported sales activity and backlog figures are not only encouraging, but suggest that the company's strategies are paying off in a big way. From January 1, 2007, to November 14, 2007, the date the company filed its third quarter 10-Q, Hamptons Luxury Homes has commitments for \$10.6 million of work with a backlog that is projected to complete by May 2008. They also reported bids



for \$20.7 million of work and discussions with potential clients that may generate another \$17.5 million of work.

While management's immediate goal is to generate organic growth in current subsidiaries through the marketing and sales initiatives, it also plans to implement strategy to acquire trade contractors such as plumbers, electricians, HVAC contractors and landscapers. These new acquisitions would be strategic additions to the company's existing subsidiaries and will also capture the income that was previously paid in the cost of goods sold during the construction of the home.

FROM RAKING IN THE GREEN, TO GOING GREEN

Building upon their years of success on the East End of Long Island, Hamptons Luxury Homes and Telemark Inc. have recently announced the formation of the Hamptons Green Alliance. This alliance is intended to bring together leading businesses located on the East End of Long Island committed to sustainable and green-building practices.

"The purpose of the Hamptons Green Alliance is to provide pragmatic educational tools, leadership and to be a resource to the public in the area of sustainable green-building practices," said Frank Dalene. "Our goal will be to work toward providing the information required to build zero-energy homes and carbon-neutral homes," he affirmed.

The purpose of the Hamptons Green Alliance is to provide its members and the general public with a platform to provide and exchange practical information and ideas concerning material, systems, best practices and the benefits of sustainable green building.

The alliance, which is to be comprised of six to eight charter members from the building industry on the East End of Long Island, will contain different components or categories involved in the sustainable green-building industry to create an all-around effect and encourage

consumers and their contractors to incorporate green-building elements into their projects from the beginning.

BEYOND THE HAMPTONS

Over the long term, Hamptons Luxury Homes management is looking beyond the Hamptons to create its nationwide footprint in the ultra-luxurious vacation and resort home market.

"While we've built our core business in the Hamptons and continue to see rising demand here, we have also identified several similar high-growth vacation and ultra-luxury markets where we would expect the Hamptons Luxury Homes model to be equally successful," says Dalene.

In the at least 66 similar luxury vacation home markets across the country, such as Palm Beach, Cape Cod, Aspen, Telluride and Palm Springs, where the world's wealthiest consumers own property, housing construction and related services are always in high demand. Unlike the simplicity of home building and renovation offered in the Hamptons, building is mainly offered by specialized fragmented independent operations. Hamptons Luxury Homes expects to leverage its existing relationship with national real estate firms and its proven model to acquire an ultra-luxury home builder to enter these markets and create a nationwide name for themselves.

Even with today's declining primary housing and property real estate conditions, the vacation and resort luxury home markets are being fueled by baby boomers who are only now reaching their highest income levels, continuing to show tremendous growth throughout the country. With an upwards trajectory that shows no sign of stopping anytime soon, we may not have to abandon the real estate boat just yet. Sometimes it pays to look just a little bit further. ■