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Two big builders slow to pay bills

Two of Atlanta's most prominent home builders appear to be having trouble paying their bills.

Liens filed against Robert Harris Homes Inc. and Hedgewood Properties Inc. spiked sharply in the first quarter, a check of Atlanta's Top 25 and other prominent home builders found.

The liens are another indicator of financial woes in metro Atlanta's residential real estate industry, which has also seen a surge of foreclosures.

Robert Harris Homes and Hedgewood Properties had a high number of mechanics liens -- filed by construction workers or vendors over nonpayment of services -- compared with other area home builders.

Robert Harris Homes, Atlanta's 19th-largest home builder as ranked by Atlanta Business Chronicle's 2007-2008 Book of Lists, topped the list with 466 liens filed against it in the first quarter, compared with three filed in the first quarter of 2007 and 55 liens filed in all of 2007, a records search of the Georgia Superior Court Clerks Cooperative Authority found.

Hedgewood Properties Inc., builder of EarthCraft homes in communities such as Vickery and Newgate at Windermere in Forsyth County, had 75 liens filed against it in the first quarter, compared with two in the first quarter of 2007 and 86 in all of 2007.

By comparison, metro Atlanta's top home builder, D.R. Horton Inc. (NYSE: DHI), had just two liens filed against it in the first quarter, compared with five in first-quarter 2007 and 55 in all of 2007.

Pulte Homes Inc. (NYSE: PHM), Atlanta's second-largest home builder, had 22 liens filed against it in first-quarter 2008, compared with one in first-quarter 2007 and 15 for the whole year.

Robert "Bob" Harris, CEO of Robert Harris Homes in Woodstock, said most of the liens filed against his company occurred in January and February "when we had a temporary cash-flow problem."

He is working to satisfy the liens and has been in touch with a majority of his vendors, he said. "We're working toward getting them removed."

Hedgewood Properties President Pam Sessions, a past president of the Greater Atlanta Home Builders Association who has served on the boards of the Home

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Builder's Association of Georgia and the National Association of Home Builders, did not return several calls for comment.

About 85 percent of all mechanics liens filed are against new residential construction, said Chris Huff, founder and CEO of CDI Credit Inc., which tracks liens filed and offers a credit bureau for the construction industry.

When residential construction begins to slow, "suppliers start to feel the pinch and file a lien," Huff said. "It's an indicator that suppliers and vendors aren't being paid."

By law, contractors and vendors have 90 days from the date their work was complete to file a lien, Huff said.

Liens sit on a property -- the house where the work was done or that was built with materials from the supplier -- until the lien is paid off or until the lien expires in a year, Huff explained. An expired lien goes unpaid.

If a house goes into foreclosure, the liens are wiped out "and the suppliers and vendors are left with nothing," Huff said. "A good example of that was Levitt and Sons. They had close to 1,000 liens filed against them."

Levitt and Sons LLC, the home building unit of Fort Lauderdale, Fla.-based Levitt Corp., declared bankruptcy Nov. 9. Levitt and Sons was building two active-adult communities in metro Atlanta when it went belly up.

The liens filed against Hedgewood Properties and Robert Harris Homes are "a large number for a quarter," said Michael Davis, partner in the construction section of law firm Chamberlain, Hrdlicka, White, Williams & Martin. "That's a large number of liens for a year for a builder. I think we are seeing the beginning of the wave. I think it is going to get worse."

The lien numbers likely reflect the difficulty builders had in selling new homes in the fourth quarter of 2007 and into the first quarter of this year, he said.

The builders can't pay contractors or suppliers and the contractors can't pay the subcontractors, Davis said. "A lot of trade contractors live hand to mouth, from paycheck to paycheck."

Eddie Clark, president and owner of Accent Fence Inc. in Lawrenceville, filed several liens against Robert Harris Homes, including one filed Feb. 6 for \$2,451.88 worth of unpaid work.

"I think there is a good possibility they will be satisfied," Clark said.

Clark believes once the sale of new homes picks up, builders will have more cash to satisfy liens that are out there.

Carolyn Cornell, credit manager of SMC Acquisition, doing business as Staircase & Millwork Co. in Alpharetta, is more cautious.

Staircase & Millwork filed several liens against Hedgewood Properties, including one Feb. 13 for \$3,262.56 for work done on a Woodstock community.

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"With some of our customers, it is harder and harder to collect because they are sitting on 10 homes that are not being sold," Cornell said. "They are waiting to get paid and we are waiting to get paid. It's a vicious cycle. Honestly, I don't know if the liens will be satisfied."

CDI Credit's Huff thinks liens are waning, but that's because there is much less construction going on. He fears much worse is ahead.

"We may see just half as many liens this year, but twice as many foreclosures," he said.

[Click here](#) to listen to Mike Davis's interview on News/Talk 750 WSB.

