

- Welcome to Housing Developments, I'm Jerry Howard.

- And I'm Jim Tobin. Hey Jerry, how are you doing?

- Good, Jim, we both have been on the road a lot, but I know you've been keeping your fingers on the pulse of the domestic policy debates that are going on here in Washington. Can you give our readers a little bit of an update?

- Yeah, sure. Boy, last couple of weeks have been in fits and starts for the Democratic majorities in their effort to get a bi-partisan infrastructure bill that's been held hostage by the House Progressives for the last, I think we're going on two months, and then also move the larger three and a half trillion, two trillion, one and a half trillion dollar reconciliation package that's the social spending package that the progressives and the president wants. So last week there was rumors of a deal between the White House and Senator Joe Manchin and Senator Kyrsten Sinema, like everything over the last couple of months, it proved to be kind of a false start. We actually saw some legislative language late last week that we have been insured even though was 1,700 pages long is not the final product. So that's a little frustrating from our perspective, 'cause there's some important things that were left out and some things we have concerns with, but it remains to be seen. I still think this drags out at least a couple more weeks, maybe even into early December after Thanksgiving. So we need that infrastructure bill, something that NAHB supports, but it's being used in a high-speed game of chicken on larger politics.

- Let me ask you a question about the tax packages. As of right now, there is no a general rate increase across the board, or even for high income people. There's only cert taxes on the very wealthy. On the other hand, there are changes that impact our members from a business perspective. Are we better off with... would we be better off with rate increases or are we better off here? I'm sure you guys have run the numbers.

- Yeah, I think in general, it's less bad than the original proposal. So what I mean by that is there's no increase in the corporate rate, yet there is a minimum corporate tax of 15%, which can be offset by the low-income housing tax credits. So mild when they're for housing in general, but corporations are gonna make sure that they're gonna pay something. And then no increase at the top end. Remember there was a rumor that the high income earners, they were gonna go from 37% up to 39.6%, and they were gonna lower the income threshold. Meaning more people are gonna pay that higher tax that is also out of the bill. But like I've said before on this podcast and other venues, the Democrats generally like raising money on rich people. So this cert tax he talks about is gonna hit millionaires, over \$5 million in income they're gonna see their rates go up. And if you make over, I think it's 10 or \$25 million, we're gonna see another cert tax on top of that for a total of, if you're a multimillionaire, you're gonna see your tax trades go up by 8%. The one thing, Jerry, that I do think is gonna impact our businesses that they're gonna extend the net investment income tax. That's a relic of the Obamacare days. That's another 3.8% tax on all investment income. And importantly, I think that's gonna hurt our multifamily members, but it's gonna be a capital gains and rental income in particular. Right now it only applies to passive investments. We're gonna see that move onto the active side. So I think that net investment income tax that's one that I think is gonna have the biggest impact on our members. We're continuing to push back on it, but also be prepared to help our members know more about it as we get to the final product.

- Okay, well, thank you, Jim. You know, we're really lucky today to have the CEO of one of the major plumbing corporations in the world be with us today. And that's trading north of the CEO of Lexel Americas. It'd be interesting to hear his take on the economy on the supply chain. What do you think about this case, Jim?

- Well, yeah, exciting guest, obviously, a great supporter of NAHB, the Trade Show, and industry partner and leader in the industry. So it's great to have Trey with us today to talk about all kinds of stuff that the company is seeing, whether it's infrastructure, whether it's supply chain. So we're looking forward to having a great conversation, Trey, welcome to the podcast.

- Jim, thank you very much. And Jerry, I appreciate the opportunity to be here.

- Trey, we look at what Lexel has underneath its umbrella, and you guys are up to your next in the home building sector, that's for sure. What are you seeing our members are reporting consistently difficulty getting in housing components? And obviously with what you guys produce, there's gotta be problems with getting their hands on your products as well. Can you tell us, are you getting complaints from builders or how's it going out in the field?

- Yeah, certainly Jerry, thanks for the question. Maybe for some of our listeners who aren't as familiar with Lexel, as some of the products we go to market with, we go to market with the iconic brands, American Standard, GROHE and DXV, and we do everything from fittings to fixtures and take care of all your plumbing industry needs. So back to your question, yeah, we've certainly seen supply chain issues all up and down the board, everything from logistics to raw materials, inflation, to delays with long lead components and third-party suppliers. And so for us, I think it really is a bit of the hangover effect that we saw from the beginning of the pandemic when everybody tightened their belt and tried to save cash because we didn't know what was going on. And then we saw a huge demand spike, and then we tried to ramp up our factories to really address that whether it's here with our production facilities in the Americas or overseas as well. And so that hangover effect, I think for everybody is exacerbated by the fact that demand just keeps continuing to go up all over, and we're trying to react to that much like everybody else.

- Do you see a difference in the problems with your domestic product and your imported product?

- Yeah, certainly when we look domestically, a lot of what our issue is, is labor primarily, right? And it's labor within the logistics supply chain. It's getting the products to and from our different distribution facilities, then making sure they're getting produced with the labor that we have in our manufacturing facilities. Now, if I look overseas, it's been more of an issue logistically with containers and ships, and then also with long lead components, having those same issues as a lot of those come from all around the world.

- Does it become a catch 22 then, you can't get to full capacity manufacturing until you can move the finished product into market. And so you don't get up to full capacity or are you at full capacity and just backlogging a product in warehouses?

- Yeah, that's a great question. Right now, if we look kind of globally for us, our bottlenecks aren't really sitting in the logistics area at the moment. They tend to be because demand keeps going up for our products. We can't react fast enough. So the example that I would give you is as as everyone really tighten their belts at the beginning of this pandemic, and then we saw a huge spike in the do it yourself market, right? When everybody was locked home. And then you also saw people wanting to migrate to different areas of the country and purchase housing, we saw a huge spike. And once that spike happened, we addressed it, and we upped our capacities to be able to handle that. Well surprise, the demand didn't stop there. It kept progressing even higher. And I think we've seen that over the last year and a half, and still a lot of it is a catch up game for all of us in the industry, and trying to figure out at the same time, trying to match the capacity to the demand, trying to understand longer-term what's that demand gonna look like because we don't wanna be making investments that we can't utilize two to three years down the road. And so it's a tricky game at the moment.

- And that's pretty interesting. And then it's fair to say that right now, the companies under your umbrella are all fully employed and fully operational, despite the fact that the product isn't getting into market the way it should.

- We are fully employed, fully operational. And from a labor standpoint, we're looking to add more labor, whether it's in our factories or in our offices or in our logistics system, because we see that need. And I guess what's interesting to me when I look at the labor perspective and certainly geographically within the U.S., there's been a shift right over the last year, and I'm starting to get the feeling that the labor market, this might become more structural in nature than maybe we had anticipated, and maybe many industries anticipated in the past.

- Well, this is going a little far field, but if it is structural, do you then look to technology and potentially robotics to replace human employees?

- I think there are certain areas where you could do that, but I don't think it's going to be enough of a pressure release valve for our production, let's say, 'cause that's kind of what you're focused on at the moment. I think the ability to add robotics and the ability to do things using technology and innovation will certainly help us. They won't stem the tide for the overall demand nor the investment that we're going to need to continue to make. And people now seeing that, one of the things that we've done as a corporation for our office employees is we've gone to a fully flexible work arrangement for our organization in total. And what that means is the days of being in the office for a Lexel employee will no longer be the five days a week. It may not even be three days a week, it maybe remote in perpetuity. And I think that's given us the opportunity to tap into additional talent across this great country where in the past, we may have been centered in the Northeast, just based on some of the paradigms that we use to have.

- That's pretty interesting. Let me shift gears here a second. Tell us about, what are your most popular products to the builders and what do you got new that's coming up that's gonna get them all excited?

- Sure, certainly. I keep talking about the pandemic, but it's really had a huge impact on all of us. And I think one of the things that we've seen significant growth in is our touchless products. They have really spiked anything from touchless toilets to faucets and things of that nature. So we've seen a spike there and we've got some of the best, most innovative products in the industry and we're really seeing that shift into the personal housing market as well, and not just within offices and restaurants and things like that because people are now putting in cleanliness at the top of their consumer need, and this gives the option. We have certain products that are kind of hybrids. They can give you the opportunity to be touchless or use the products handles as well.

- I know my wife got one of your touchless faucets in our kitchen. It's not only more sanitary, but it's really helpful when you're cooking and you've got a pots in your hand and you wanna get some more water within the annual possible. It's a really unique and very, very handy innovation.

- Yeah, that's great. And thank you for the support.

- Oh, no problem, no problem. Take me, I'm a husband. I have very little say in what goes in our house.

- I know, I know how that is.

- Tim, I know you've been working on the infrastructure bill and I'm sure that that overlaps with Trey quite a bit, why don't you talk about that for a second.

- Yeah, thanks, Jerry. Yeah, yeah, Trey, Jerry said, in the government affairs space, there's a lot of talk about this big infrastructure bill that's being held hostage by the House progressives, there's also the larger social spending bill, but focused on the infrastructure bill for a minute, obviously as a kind of the end phase of our infrastructure when it comes to water infrastructure in particular, what's your thoughts on the need to improve America's water infrastructure whether it's a business, a bit more important to people's homes?

- Yeah, it is hugely important. There are more than 1.6 million miles of pipes that need to be fixed and addressed. And while we aren't in the business of putting pipes in the ground, we are in the business of making sure that we can help lessen the drain on that infrastructure in total. And that's really where our focus is, whether it's through our products that are easier to install, that use less water, or that eliminate the need for putting certain things into those pipes that you don't necessarily need. We certainly understand it's a huge need for us in total. And we look forward to being able to support that bill.

- Yeah, thank you for that. So just explore it a little bit on, you mentioned kind of efficiency and how people use water. How big of a market is that for you? Now obviously there's federal water standards in usage and flow rates. I understand that, but in the remodeling market, in particular or in the new home market, how much of a demand are you seeing from customers for more efficient fixtures?

- So I think today, what we see is it tends to be more geographic in nature, right? Areas that are more drought prone, it's more important. But what I will say is every consumer would agree that efficiency is paramount, but also so is performance, right? And that tends to be in our industry where the separation

happens. And we're very focused on being able to deliver both of those consumer needs at the same time. And in the past, if you look at the industry in total, you usually get one or the other and they don't come together.

- Right, yeah, no, that's always a challenge with efficiency costs and then performance. Jerry, probably remembers the battles better than I do with the low flow toilets going back, God, that's got five years ago, right? And he can tell you some stories about a lot of the jokes that are running around about the efficiency of toilets in the low flow space. So I certainly understand that because from our member's perspective, it doesn't matter if the fixture is installed correctly. If it doesn't perform right, the first call isn't to you, the first call is back to the builder and they've got to explain why, nope, that's the way it's supposed to work. And then you have an angry customer and that's never a good thing.

- Yeah, we don't want.

- No, definitely.

- Trey, let me ask you a question. You said it's based on geography, is it not based anymore at all on the market point? And by that, I guess, I mean, back in the day, five, 10 years ago, it was very trendy for higher end houses to be able to point and say, yes, we're energy efficient, we're water efficient, but entry-level housing, their consumers were still more concerned with being able to afford to get into the house. Is that not any longer a concern or is it still part of the equation?

- Yeah, Jerry good question. I think it is still part of the equation. And I think the way that it is delivered right now is geographically through certain mandates. If you look at consumers in total, I think consumers in total really want a more efficient and be more conscientious with the environment. I think the question really will be around how quickly we can do that, not just in the plumbing industry, but in the housing industry, in total, at a price that every American can afford.

- That's interesting.

- Okay, Trey. Go ahead, Jim.

- Well, thanks, Trey, you mentioned workforce early in the conversation about one of the challenges you're facing from a manufacturing side, whether overseas or here in America, obviously for us workforce development is probably one of the biggest components that we work on. It's probably the biggest longterm, governor on housing production in the country has been for the last 10 years. And our economists see that move in the future. Tell us a little bit about what you're doing as a company to encourage moving into the trades or workforce training or what do you think the future of workforce is for your company and then maybe for the industry in general?

- Sure, maybe I'll start Jim with the industry in total. Right now, I think what we're seeing is somewhere between every five plumbers that exit the industry, we only get two coming back in, right? And that is a huge issue. I think the first thing that we have to do from a plumbing standpoint is make sure we're educating the population in total that plumbing is a great place to have a career. I think if you look at a lot of the surveys, they'll tell you that the average American thinks that the plumbing as a profession can't be very lucrative. And that is quite the contrary. You can make a lot of money in plumbing, and I think we have to be able to get that message out. And we're doing that with a few different partners, and then also really investing with the trades and making sure we offer great opportunities for people to get in, to learn, and then to be able to move on as plumbers themselves. And so that's important. One of the other things we tried to do to try to help stem that need for labor are easy to install products, right? For the do it yourself for that's for the most part is educated enough to be able to make some of those switches, how do we ensure that we have the right videos to help them understand and then also the right products that are really easy to install. If I shift gears for a second and I talk a little bit about our own labor force within our factories, one of the biggest governors on our production at the start of the pandemic was safety, right? Safety was paramount for us. And if you're in our plants, we really had to put together a lot of protocols that kept people at safe distances with the right personal protection to ensure that everybody was able to come to work, feel safe and ensure that they were safe. And so, as we have progressed and as we've gotten better

and perfected that, we've been able to get our yields up and really been able to see our output go up significantly as well. And we're at a pretty good place because of those safety protocols that our labor force in general in our plants are pretty high at the moment.

- That's great, that's great. I appreciate that.

- Trey, what could NAHB do to help you get your product out in front of a potential market that our builders represent? What more can we do to enhance our relationship?

- Yeah, Jerry, thank you so much for the question. You guys do a wonderful job today, partnering with us. And I think it's just really important as I stated at the beginning is that as we talk about Lixel and that umbrella is just for all of the builders to understand what great iconic brands we have, and that we can satisfy all of their plumbing needs across the industry from a fixtures and fittings standpoint. And so you do a great job in this podcast is gonna help do that. So I wanna say thank you to you and to Jim, but one question I do have, and so I was recently on an international trip. And on the way back, I had a lot of time on the flight, and I downloaded some industry reports and I was looking through them and looking at the supply chain bottlenecks and housing. And if I think about how it started, it started in lumber, right? And we saw a huge spike in lumber, not having it. And then it progressed its way into roofing. And now I was noticing that the big outages and shortages tend to be windows right now, which you guys, I mean, not knowing near as much as you and the rest of our listeners about how to build a house, certainly, would you say that those outages are following the production timelines of a house in general and that we should be thinking insulation and drywall might be the next big thing?

- That's an interesting observation. I'm not sure that I can agree with it because as I traveled, I haven't traveled internationally, but I've been on the road a lot domestically, builders across the country are telling me they're having problems with all products all the time at this point. So the reports you're reading may indicate certain products, and that would seem to establish a pattern. But I can't verify that by conversations with builders around the country. Right now, it looks like everything is in short supply. And I have to tell you, reading President Biden's agreement to ease the tariffs on European steel and nothing else while he was at the G20 last week was disappointing to me because it's not just steel, it's everything.

- Well, I appreciate that insight, Jerry. In some way, that makes me feel slightly better because I don't have to worry about an increase spike and even more demand because of lack of products in plumbing because of the housing timeline. So that'd be great. So thank you for your insight.

- Well, listen, Trey, it's been great to have you with us. Obviously, we appreciate everything you do, and your writing, calling other products that you bring to market through American Standard, and GROHE, and DXV, iconic products. So we know if there's not one product from your company in every house in America, it's gotta be pretty close and we appreciate all you do for the industry and all you do for NAHB. And thanks for taking the time today.

- You're welcome, Jerry. Jim, thank you. I appreciate it.

- Thank you.

- Jerry, it was great to hear from, Trey. And before we go for the day, I'm going to put you on the spot as I want to do it around election time. There are two gubernatorial elections tomorrow, and that are being considered a very, very close right now. And I want your prediction on the Virginia and the New Jersey elections, if you would, sir.

- Well, thank you. I appreciate that. So I'll start with New Jersey. I think that one's a little easier. New Jersey has been a pretty deep blue for a long time now. So I certainly think that the current sitting governor, Democrat will win up there. I think that one is a little bit easier to predict. The one in Virginia, Jerry, where you and I both live that shows a very slight, I think I saw a poll this morning, very slight, but less than a percentage point lead for Glenn Youngkin, the Republican challenger. I call him the challenger. It's an open seat in Virginia, but if former Governor Terry McAuliffe is certainly running like he's the incumbent, but so far the Republicans seem to have all the energy, the issues of parental choice when it comes to schools are

really playing big inside the Republican side of the political spectrum. I don't know if I make a prediction there. I still think Virginia, especially in the area we live in, which is Northern Virginia for all our listeners outside of the Beltway, that is been predictably blue, it's the largest population center. And traditionally has delivered for the Democratic candidate. A lot of it comes down to enthusiasm on the Democratic side so, which I hear is down because they've been pushing... the McAuliffe campaign has been pushing Speaker Pelosi and the president to get a deal on infrastructure and the social spending bill. They think it would be a boon for his campaign. So I'm not gonna predict that one. I think it's gonna come down to the wire. I don't know how many absentee ballots or early voting, which I don't believe has been counted yet. So I don't know if we'll know the true winner as of election night tomorrow. So I'm gonna take a pass on that one, but I don't know, it's a coin toss.

- Well, I'll tell you what, I will go out on a limb myself. And I will say that Youngkin will win in Virginia the Republicans. And the reason I say that is, and by the way, for the listeners, the Republican hasn't won statewide in Virginia in about 20 years. And this is being called a real test of the Biden presidency. And so everyone in politics is watching it. Why do I say the Youngkin's gonna win? Because only recently have they started to point to the New Jersey race as a close race to watch. And I'm with you, Jim, I think Phil Murphy the incumbent Democrat in New Jersey is gonna win and win handily. And that will give the Democrats the ability to say there were two close races, we at least pulled one out and they'll be able to claim something of a victory by winning in New Jersey, and does that sound Machiavellian? Yes, but am I convinced that politics is a Machiavellian game? I think we all know the answer to that. So I'm predicting Youngkin in Virginia, and I'm predicting Phil Murphy in New Jersey.

- Nice, nice. Well, hey, I'm gonna flip one back on you, not any predictions, but tell us about IBS. Obviously, we just had a Trey in north report and Lexel is a good friend of the industry. Tell me what you're hearing about IBS and the excitement that's building.

- Registration and is going great. We are very, very pleased with the number of people that are coming. I think that one of our leadership meetings just concluded in Houston, and the reality is the builders are just thrilled to be back together, to be in a live education session, and be able to ask questions of each other, not just the presenters, but to be able to talk about the product you see by going and having a drink at the bar or going for a workout or in Orlando, maybe even going on one of the ride somewhere. I think the builders are excited to get back together and that's being reflected in our registration. And our space sales, every week they're continuing to be solid. I'm not going to tell you anything different. We are thrilled with the progress so far and looking forward to a very successful IBS in February, down in beautiful Orlando.

- Yeah, I'm encouraged by the virus seems to be... at least the spike seems to be receding so I'm looking forward to Orlando in February as well.

- Well, Jim work hard on this infrastructure bill and the tax provisions this week. And we will talk again soon, probably not next week as I'll be pleased to join best chairman of NAHB, Greg Ugalde at the Global UN Conference on Climate Change in Glasgow, Scotland. So when I get back, I'll have a full report for you on the beautiful weather in Glasgow and the winter.

- Well, I'm glad you're going over there to carry the important work that our members are doing, building housing here in America, and more important to hear what might be coming over the horizon as far as climate change. And certainly our industry is at the forefront of building the most efficient and resilient homes in America. And I'm looking forward to that report.

- All right, so thanks for listening to Housing Developments. For now, I say goodbye. I'm Jerry Howard.

- I'm Jim Tobin.

- Take care.

- Take care.