

FROM THE FIELD

Hydronics forecast: Looking ahead to 2012

BY DAN FOLEY CONTRIBUTING WRITER

As we're in the process of closing out 2011 here at Foley Mechanical, I took some time to reflect on 2011. We're ending the fourth quarter on an upswing and had a positive year. Gross revenues stayed about the same as 2010, but our margins improved from 6% net to 11% net. And there is still room for improvement.

I have the good fortune to work in a thriving local economy. The Washington, D.C., metro area seems to weather economic downturns better than most. Our economy is diverse, with no single dominant sector. The federal government stokes the economic engine, but it's actually the companies doing business with the federal government and the military that really give the economy a boost. In particular, defense and other government contractors have done well for the last several years, helping to cover the dip in the residential housing market. The commercial market remained steady throughout.

My outlook for 2012 is positive. If 2010 was about holding ground and not slipping backwards, and 2011 was about improving the bottom line, then 2012 will be about growth and ever-higher margins. After two years of keeping a tight handle on overhead spending and keeping operating costs in check, I've made the following changes in my company:

- Hired four new field employees in the past month (for a total of 17 employees at FMI)
- Invested in a new website (in development), logo, and professional services
- Ordered two new trucks
- Purchased new design software
- Purchased new tools to improve the efficiency of field staff

I've made these changes so that my company will be in a good position to respond when the recession loosens its grip. This past fall, I closed three significant deals, totaling more than \$2M, which allowed me to invest in the new employees and infrastructure.

"Luck is what happens when preparation meets opportunity," said the first-century Roman philosopher Seneca. I plan on being "lucky" in 2012.

I asked old friend and super rep Skipper Joyce how he envisions the coming year. Skipper is owner of The Joyce Agency (www.thejoyceagency.com) located in Springfield, Virginia, which was awarded 2010 Rep of the Year by Plumbing & Mechanical magazine. Skipper reps many of the lines we use, such as Viessmann, Grundfos, Mitsubishi and Watts Radiant. He also carries a full plumbing line.

"2011 was a good year for the Joyce Agency," said Joyce, "especially on the commercial side. 2012 is going to be a mixed bag, with commercial business expected to drop a little. We're planning on residential to be up slightly. Repair and remodel work will hold steady. Moving forward into 2012, we're looking to react to the market

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and be able to change direction quickly."

For a broader insight into the state of the hydronics industry, I contacted Lino Santoro, director of radiant sales at Viega North America. Lino has a pulse on the national market. "Viega is forecasting a double-digit increase in sales in 2012 for our residential radiant product line," said Santoro. "We expect this trend to hold true for our commercial snowmelt, heating and cooling line as well. We're also forecasting an increase in our Pro-Press line."

What recession? It appears that Viega has chosen to ignore the economists and create its own market. I like Lino's optimism and make-it-happen attitude.

Larry Drake, president of Teal International Corporation and former executive director of the Radiant Panel Association, is well connected within the hydronics industry. He is presently working on an innovative graphical hydronics design software program. He shared his thoughts on the future of the hydronics market: "2012 will be a year of 'if' this, 'then' that. As with most election years, the mood of the country's economic outlook will depend on who stays in office and who goes. If the current administration continues, then we can expect to see things remain pretty much the same. The world market will continue to struggle, and any recovery is years away.

"On the other hand, if there is a new administration, regardless of one's political bent, then it will bring a spurt of optimism. This will fuel a temporary uptick in the economy. There is a lot of pent up energy. Industry has been winding its spring. If a new administration offers any kind of regulatory relief for industry, then the spring will begin to unwind once again.

"Politicians like to say jobs fuel the economy, but it is optimism that makes our system work. Give industry a reason to believe in the future, and it will create jobs. Jobs create wealth, and wealth builds homes."

To benefit from a West Coast perspective, I talked with Bill Shady, P.E., owner of Sustainable Design and Product Management, a Santa Cruz-based consulting engineering and product development firm (www.sustainabledesignpm.com). Bill's primary market covers the entire state of California, but he has projects all over North America, as well as international commissions. "2011 was a recovery year for everybody," said Shady. "The economy and construction industry contracted so quickly, it took people by surprise. We look



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for 2012 to be a year of positive growth.”

Bill certainly has a positive outlook. He’s rolling out a brand new, innovative product called the Climate Right System, a packaged mechanical and control system that I plan to cover in greater detail in a future column. The product is in growth mode, with nine systems on order.

“My market is full of young, wealthy, stock-laden Internet and software entrepreneurs,” says Shady. “I foresee the high-end custom estate home market picking up.”

Bill also forecasts growth in the hydronics market for the multi-family high-rise commercial market. The owners of these projects are looking for mechanical systems with a small footprint that are economical to operate and allow for sub-metering, according to Bill. So it sounds like this is a good time to be in the hydronics business in California.

Here in the DC market, I’ve observed a number of trends. In my daily contact with architects, builders, engineers and clients, I’ve observed the following:

- There is a continuing focus on sustainable technologies such as solar thermal, ground-source heat pumps, air-to-water heat pumps and bio-fuel systems. The one thing these systems have in common is hydronics.
- Passive house and related building envelope technologies will become mainstream. We completed our

first passive house mechanical system this year (See my June and July 2011 columns) and have two more in the design phase.

- A larger percentage of hot water boiler installations will be 95%+ condensing gas boilers. We will probably install eight low-mass condensing gas boilers for every one cast iron atmospheric boiler we install.

- New control systems allow mechanical contractors to achieve what used to be subbed out to specialty contractors. Uponor CCN, tekmar and Taco iWorx are three I have used, but many more are available.

- Radiant cooling will be a growth area. Our first system is going in now. The affordable control systems mentioned above now make radiant cooling systems possible for residential projects.

I’m optimistic about the opportunities for growth and higher margins in 2012. I hope you’ll write to us and share your thoughts for the year ahead, and I wish you all a healthy and prosperous new year. ●

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