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Question of the Month: Heading toward on-demand everything - How can contractors in commercial real estate keep up?

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The on-demand economy we live in has conditioned people to expect to have what they want or need now. Rides, tools, labor, food, a place to stay...you name it and it can be “on the way.” Should owners, investors, and managers of commercial, office, and multi-unit residential properties have the same standard? Can commercial contractors meet or even approach an “on demand” expectation as we head into 2019? The renovation needs of today’s commercial and multifamily owners and managers as well as commercial real estate agencies depend on contractors—their availability, their lead time, and their capacity/scale to name a few variables. This dynamic has existed for decades in the industry, of course. The continued labor shortages, particularly of skilled labor, are a nationwide challenge and are acutely present in the Northeast. The Associated General Contractors of America (AGC) says 80% of contractors nationwide and 77% of contractors in the Northeast have difficulty finding quality craft workers to hire. This shortage adds extra hurdles in the form of time and costs for many commercial real estate renovation projects—the opposite of “on demand” services.

Customer needs amidst labor shortages: Owners, managers and investors renovating existing properties rely on commercial contractors to provide timely site visits, accurate quotes, and competent crews to perform the work on time and within budget. The AGC expects the environment for these segments of non-residential spending in 2019 to include continued workforce labor shortages and rising interest rates, among other headwinds. Among private non-residential spending segments, commercial construction including retail and warehouse construction rose 4.8%, and office construction increased 7.4% so far in 2018. Those are healthy clips of growth in an industry badly plagued with labor shortages. But the combination of increased spending and labor shortages implies a deterioration of service availability and capacity needed to approach “on demand” response times and service. Beyond these two macro trends, commercial contractors know their customers’ focus is always on transforming their space to fit their company’s specific needs and to do it right and on time. The central questions are typically how much does it cost, and what can we and can’t we do. Owners and managers are faced with prioritization decisions around what is a “need” versus a “want.” Often times their contractor’s capacity, scale, and service influence where the line is between what is deemed a “need” and a “want.” The process of working with a contractor to determine this is often time consuming and frustrating and another example of the opposite of the broad “on demand” trend.

In a common example of an office space turnover, a tenant can visit multiple properties before finding the right space and the right price, let alone evaluating the renovation process needed to make it their own. But the renovation process quickly becomes a bottleneck in many transactions and a headache for tenant and owner alike.

On-demand groundwork: So what processes or capacities can a commercial contractor offer to at least make progress toward an “on demand” standard? Does inclusion in the design process make sense? As a contractor we hold knowledge of best practices and materials and what product fits the particular space. End users generally do not have experience in historical processes or possess product knowledge to make decisions inherent in the renovation process. Our solution is to be an “M-shaped contractor,” which is a term we use to summarize a more modern approach to commercial construction management. Essentially, an M-shaped contractor is a general contractor who possesses deep knowledge across a range of trades and skills that allows them to quote and

handle broad scopes of work across many trades. This matched with technology-driven processes relying on software applications available, both proprietary and third-party, is a powerful combination in an industry dominated by dinosaurs, for the lack of a more apt term.

The diversity of expertise of an M-shaped contractor enables the ability to provide standardized pricing more broadly across many different scopes of work, trades, and property types and, in many projects, before the first site visit. In some instances, it means having the capacity to provide quotes for all trades frame to finish which precludes the need to call numerous contractors to get a quote. In others, it means getting multiple quotes for one trade. Perhaps most importantly, it means doing so with a much faster turnaround time.

When this is done in conjunction with standard best practices in service—specifically around responsiveness, consistent communication, and transparency—and with dozens of crews and a capacity to scale, then the groundwork for an “on-demand” experience for a commercial renovation exists.

Marketplace realities: Most if not all, commercial and multifamily property owners, managers, and investors seem to have a very familiar process for procuring contractors: Request three (or similar) bids, and go with the lowest / in budget that is tolerable from a quality and scope point of view. Many times, to achieve that, there are compromises to quality or scheduling at the end of the day. This is likely a very familiar narrative to anyone reading this.

Despite the universal familiarity of the situation, everyone has a unique perspective. The variables change if you’re the commercial real estate broker or a general partner managing real estate assets for LPs, to name just two examples. An M-shaped contractor can help commercial real estate brokers, for example, close deals faster since standardized pricing for a tenant improvement or a build-out means the client or end user gets a final price and full picture faster. As contractors, we see understanding the realities of the commercial real estate business as a requisite to providing better outcomes and resetting expectations in an “on-demand” world. Our processes and approach has to be agile and customized to the processes of those around us. Our ability to eliminate the need for multiple site visits or the ability to lock in a price on an annual basis lowers the chance of a bottleneck with the contractor. Avoiding bottlenecks translates to fewer lost deals and more instances of “surprise and delight” for owners, managers, brokers, and investors alike in a segment of the industry accustomed to the opposite of “on-demand” service.

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