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## **Firms who provide services from start to finish will provide clients with the best value available**

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"Survive 'til 95" was the catch-all phrase in the early 1990s. That is when the commercial real estate market collapsed and banks and regulators aggressively foreclosed on a majority of the commercial properties that failed a required loan-to-value ratio formula. Regardless of an owner's ability and performance to pay the monthly debt service if the loan-to-value ratio did not meet the loan requirement, foreclosure occurred. Bank regulators created RECOLL to deal with the large numbers of failed properties, which in hindsight created and launched a number of real estate careers here in New England. In 2010, the lessons learned in the 1990s have resulted in a much more patient state of mind in the commercial lending world, where so far a policy of bend and extend has prevented many properties from similar fates of past recessions. Vacancies hover above 20% in most sub-markets and there is a long list of buildings on the market. Asking prices have stayed too high to move most of these buildings, but price points in early 2010 are starting to reflect reality.

According to the December Kiplinger Letter, one out of every four construction professionals is out of work with near-term prospect of getting rehired slim. With existing building inventories high, market activity for ground-up construction is almost non-existent; and build-to-suit projects will only occur with specific specialty buildings whose operational requirements will not easily fit into existing older buildings. For design/builders, renovations and interior tenant improvement projects will keep the heat and lights on, but volume will be reduced and casualties and fallout will occur in the next six months. Architectural firms are already challenged and will continue to be affected if their markets are not tied into infrastructure, institution, or stimulus package projects.

The construction market is presently in the silly season, where project awards are being made irrespective of the contractor's ability to deliver for the price quoted. Although not quite a Ponzi scheme, the ability of a company to survive in the long term buying project awards eventually results in failure. Design/build companies who provide the best value and most complete menu of services are in the best position to survive this market.

For developers, corporations and end users, 2010 will be a great time to take advantage of a construction market that is being seriously discounted at both the general contractor and subcontractor level. Buyout of projects, the subcontractor award process, is realizing significant savings from the initial accepted bid award price as subcontractors struggle to maintain market share and keep their employees working. It's a great time to build.

Everyone is very focused on not leaving any money on the table. However, in these extraordinary times, caution is the key in buying design and construction services. The bottom line is important; however, those design/build firms who provide services from pre-construction services through engineering and build-out in a project partnership relationship will weather the storm and provide

their clients with the best value available in the market.

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