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2010 design/build mid-year market report: Challenging yes, but still a great time to build!

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Dacon Corp. celebrates its 25th anniversary this year and 2010 has been as challenging a year as any in our quarter century in business. As a traditional design/builder, ground-up build-to-suit projects have typically represented the majority of Dacon's contracts. The first five months of 2010 have seen very few ground-up projects for medical office buildings, corporate office, laboratory, manufacturing, distribution or cold storage. Commercial properties of all types are selling for half the replacement costs for a new building. Paired together with the challenges and availability of credit, the cost of money, and corporate America primarily in a holding pattern, design/builders are nothing less than resilient to have survived over the past 18 months.

Project size has deteriorated substantially reducing annual revenue. There is a mad scramble for every project. Dacon's focus has been on our TI (tenant improvement) initiative and medical suite renovations. In the commercial market, tenant improvement projects are often based on an allowance, not the actual cost for the build out of their space. Landlords are often directing tenants to build out their own space using the negotiated allowances for TI as a hedge against overruns in the engineering and construction process. It is not uncommon to have 8 to 10 potential bidders on every project that is not a negotiated design/build contract. Experienced buyers are short listing qualified firms to a 3 or 4 count to make the bid review process less cumbersome. On the larger projects, the general state of mind is the low bidder is making the largest mistake or is buying the project. In the medical market, smaller medical and scanning suites are finally being released into engineering and construction after a 9 to 12 month period of reduced activity.

On the positive side, my 2010 six-month prediction was titled "It's a Great Time to Build." This is still the case, as materials and labor are less expensive and subcontractors are still very hungry for market share. This particularly applies to existing building expansions or renovations. Dacon's recent buyout experience has been consistently benefitting owners as Guaranteed Maximum Price (GMP) contracts are returning shared savings upon project completion. This window to cost-effective construction may have seen signs of closing as copper and steel have recently seen modest increases in price, indicating other cost escalations may soon follow.

Success has been found in the aforementioned tenant improvement project build out and renovations market. The month of May has seen a definite increase in estimating and sales activity. Commercial brokers are active with commercial buildings trading ownership and leases being signed. The key to success in the second half of 2010 is converting the increase in marketing activity, estimating, and sales efforts into contract revenue.

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