nerej
CELEBRATING 55 YEARS

2011 will continue the renovation/tenant improvement focus, but at a more robust pace

January 27, 2011 - Spotlights

2010 was undoubtedly the most challenging year not only for design-builders but for most general contractors focusing on New England's commercial market. Build-to-suit projects for ground-up office, medical office, industrial, manufacturing, and distribution facilities were almost non-existent. As price points continued to drop, corporate users or developers were able to purchase existing properties for anywhere from half to one-quarter of the replacement cost of a new facility. That's a major corporate dis-incentive, both financially and strategically for the build-to-suit route and it eliminates the process, personnel resources, and the required corporate focus necessary to purchase a green field site, permit, engineer, and construct a new building.

Traditionally, the design-build market has been ground-up projects in the $50 to $110 per s/f price range. Today's market is almost exclusively renovation projects averaging $10 to $25 per s/f for industrial/manufacturing projects and $30 to $60 per s/f for office projects, preventing design-builders from making up the difference in annual revenue.

Remarkably, very few if any design-builders or general contracting firms became victims of the market despite numerous bid projects being awarded at ridiculous low overhead and profit fees. This market dynamic is unsustainable; prevents profitability; leads to maximizing the potential for change orders; and sets up a divisive working relationship for the project. If the project was design-build, the quest to maximize change order strategy fails as the design-builder has a fiduciary responsibility for the construction documents.

On the positive side, after three years of recession, an interesting 2010 fourth quarter trend appeared. Local developers, who have been mostly on the sidelines since 2007, bought vacant or soon-to-be vacant commercial property in eastern Massachusetts. Leggat McCall Properties, Maric, Inc., Taurus New England Investments, Brookwood Management Partners, LLC, Parsons Commercial Group, and Campanelli Companies all had confidence the bottom of the market was finally here. These projects will provide extensive renovation and tenant improvement projects throughout 2011.

As leasing activities continue to pick up pace, vacancy rates will decline. Not to the point where new developer-driven projects will create ground-up projects in 2011, but it represents a pattern that trends to new construction activity getting closer to reality.

2011 will continue the renovation and tenant improvement focus in the commercial markets but at a more robust pace. New expansion projects of existing corporate facilities will create ground-up construction as corporations have procrastinated enough and recognize it is time to grow. There is plenty of capital available in the market at competitive interest rates. Construction prices stabilized in 2010, but are very competitive. It is still a great time to build.

Chuck Reilly is vice president of Dacon Corp., Natick, Mass.