Rising costs, labor and supply chain disruptions - by Stephen DiPrete

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Amid a global pandemic, a shifting work environment, and evidence of inflation seemingly dominating the news cycle, where does that leave construction, expansion, and development? The crystal ball may appear like a fuzzy snow globe. For a future prediction, we can look to the past as importantly as we look at our current environment and ask ourselves: How much has construction, development, and lending learned from past economic downturns that apply to this challenging environment? Despite these challenges, could we be in the middle of the good old days of development and financing?

Rising labor, material costs, and access to much needed supplies, among other challenges, are driving up budgets and the cost of development and directly impacting the affordability of housing, apartments, and business expansion. A strong economy, low unemployment, and a diverse, highly skilled and educated workforce have made Greater Boston and New England a desirable area which in turn is driving demand to all-time highs. Theory of supply and demand would indicate these desirable attributes as positives, but the stress of higher costs will impact buyers, tenants, business owners, and developers seeking to achieve their project goals.

Looking at today's capital markets, more financing and equity sources are available to developers and business owners seeking expansion, beyond traditional banks, such as institutional lenders, private family offices, investment funds, just to name a few. Further, traditional banks find themselves with a great deal of capital and liquidity due to conservative practices and stronger banking regulation that arose after the great recession. Normally, this combination of excess capital and high demand could be issues amongst themselves, but these capital sources in the ecosystem of development find themselves working side by side, sometimes all within the same project.

Watching the equity markets, project financing with a higher degree of equity than debt, or as bankers call "skin in the game", can make all the difference in turbulent times. Higher equity ratios will generate a team approach to projects as more eyes on a project and proper reserves will be ammunition in the fight against headwinds such as delays and rising costs. As these levers are pulled, quick decisions can generate positive outcomes and lead to innovative solutions. From a lender's perspective, access to equity, experience, and hands-on management, are lessons learned and can be applied in successful projects.

Technology now plays an even bigger role in construction and financing from start to finish. At South Shore Bank, we use technology to monitor construction progress, communicate about project timelines, and of course ensure all the bills are paid. Now more than ever – whether it be by Zoom or in person – project team meetings, construction draw reviews, and legal matters all benefit from greater technology and faster communication. Of course, lenders will always want to visit a site to monitor progress. When else would we get the opportunity to wear a hard hat?

Like technology, social media in the business of development is also playing a bigger role. South Shore Bank customer Ricky Beliveau of Volnay Capital, a full-service real estate development, management, and brokerage firm has built an extensive social media following. Implementing technology and social media tools, Ricky understands “it’s not about bragging, but more marketing yourself, if you are not out there promoting what you are doing, no one will do it for you, even my banker follows and likes my posts” Ricky shared, “With over 5 million followers, the bank has confidence in my marketing plans and ability to reach a wide audience of new buyers and renters and can see projects in real time”

With innovation, sources of equity, and experience creating positive outcomes, there are additional factors necessary to navigate toward success. In the Greater Boston and New England markets, government and business communities have ramped up efforts to build an inclusive economy. Work to close wealth and income gaps has only begun and has a long road ahead. In creating an inclusive economy, government and private sector partnerships can champion this effort and further drive demand for housing, workspaces, development, and improving the social fabric.

The capital markets are watching closely to see how far and wide the impact of innovative and high-tech companies expanding in our markets will be felt. From biotech to pharmaceutical, along with Google and Amazon expanding their square footages in the seven-figure range, developers and lenders recognize both the opportunity and challenges this creates. These are often recognized as positive events by both the public and private sectors; however, they can have downstream effects in the ever-increasing demand for development dollars, product, and available inventory.

Today’s environment presents rising prices, interest rate concerns, supply chain challenges, and a growing wish list for business owners and developers, beyond those hard-to-find appliances for their latest project. It’s no doubt, these challenges are here to stay and will need to be addressed urgently and pro-actively. By applying experience, lessons learned, innovative solutions, and a goal of inclusion, along with household names like Amazon expanding in our region, it’s possible these are the good old days for lending and development.

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