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NH CIBOR president's message: Supply chain, labor and inflation

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With the spring season upon us and substantial changes continuing to affect commercial real estate on a daily basis, experts in the construction and permitting sectors see marginal relief from the trends experienced since the start of the pandemic. In fact, despite efforts from central banks and governments across the world, supply chain, labor, and inflation challenges continue.

Perhaps a more timely and acute impact to our market is being illustrated by the run on several banks in the last month, and several large players stopping their debt payments on institutional assets. Experts are predicting some turbulence for commercial real estate and major banks for quite some time, though it remains to be seen how much the northeast, and our local and regional banks will be affected in the short term. The results of those influences on our market are still developing, and will be the subject of a future CIBOR-NH president's message.

In the meantime, continuing with the theme of cost and timing trends that we're experiencing in New Hampshire that I've touched on in previous messages, particularly related to commercial construction projects, I reached out for up-to-the-minute insight to several local experts. Bill Jean at Fulcrum Construction Managers, and Steve Keach at Keach Nordstrom Associates, a civil engineering firm, echoed very similar summaries of the landscape facing commercial construction, though from different perspectives.

My conversation with Keach led to a great conversation where he boiled down a number of turns our market has taken from a historical view. He reported this "There continues to be supply chain issues and a world of surprises when pricing out projects. A lot of local contractors and subcontractors continue to have labor shortages, and this is affecting both timelines and cost. It's not to the extreme that we experienced several years ago, but it's impacting projects. We're still experiencing periodic water main, transformers, and similar manufactured products delays, and they continue to plague timelines. Cost almost becomes irrelevant to availability at times, time is more pressing than the cost, even though a transformer can be expensive, in the scope of the project, that item is not worth holding up the project and dealing with other costs."

Keach continued, "We're probably telling you the same thing that the construction managers like Bill Jean are telling you, but they're dealing with the decision makers before the project is committed to, while what I'm telling you from my experience is validating the insight they're providing in the real world after the project is started. They're giving their insight up front to warn of the environment we're in, and I can tell you from looking back that it's true. We do a lot of work in the public sector also, and things are delayed there as well, with most of it tied back to the delayed availability of manufactured products coming out of the supply chain."

Next, I spoke with Jean, a fellow member of NH CIBOR with his finger on the pulse of the market and an eye to where it's going in future months. He said most notably, "We've stopped experiencing entirely unpredictable escalations. Most quotes are now good for three months, not three days. However, product supply timelines - even for things already on order - are being delayed and timelines not honored. Also, anything with embedded fuel cost is still much higher and less reliable."

Reaffirming what Keach is seeing in ongoing projects came as no surprise, so we turned to his view on the specific sectors of the market in which he sees trends that will continue.

Jean noted that the industrial and multifamily demand has been strong, but reuse and reconfiguration have been far more feasible than ground up projects. “Well we all know that no one is building office right now. You just can’t make it work. But even more than industrial, medical office is the one standout that is strongest currently, even in the construction space.”

Labor continues to be a challenge for some, and a major factor in several high-profile projects, though they’re seeing relief in that area, even in steel and specialized mechanical. In an environment that has rising interest rates and costs as unpredictable as these experts are describing, it’s no surprise that we’re seeing mostly user related construction, with very limited investor activity in the ground up build to suit or speculative space. Uncertain margins due to these inputs has caused most to shy away, despite significant spikes in lease rates across industrial and medical office.

As a parting thought, “The good news is radical swings are no longer happening like they were, and we’re far more confident in pricing” Jean said.

Other updates:

Several large legislative initiatives in NH received a significant amount of input from NH Realtors, and lawmakers are listening. <https://www.nhar.org/news/article/legislative-update-mar-28-2023>

New video published by NH Association of Realtors regarding workforce and affordable housing definition. It’s a short watch, I suggest you take the 5 minutes! <https://www.youtube.com/watch?v=KfOrGNmdesk>

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