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Design/build: Those who react favorably to these times will be more successful than those who don't

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On February 16, 1979, I went to work for a small suburban industrial brokerage firm located at 53 State St. in Boston. I worked on straight commission with no expense reimbursement. All I had was a phone, a phone book, a desk, a chair and insurance coverage. Charles Stoddard and Doug Porter of The Begley Company were the only guys at that time willing to give me enough rope to enter the commercial real estate and brokerage business in the middle of a recession. Of course, I didn't even know what a recession was.

Thirty years later, having worked as a broker, for a developer, as a broker again, and now for a design/builder currently in the middle of the worst economic downturn since 1929, you would think I would have a pretty good handle on what might happen next. This one is easy-barring a depression, we have no place to go but up.

Military doctrine states that every battle plan looks great on paper, but once combat begins, new initiatives and proactive reactions to the changing situation are required in order to achieve victory. Every brokerage house, architect, design/builder, and general contractor must think in a similar manner. Those who react favorably to these challenging economic times will be more successful than those who do not.

In eastern New England, design/build, build-to-suit and renovation market clients are paranoid about leaving one dollar on the table. Dacon Corp.'s experience over the first half of 2009 is that most projects are being pursued by six to eight different teams. Some are true design/build firms. Others are individual companies that are teaming up to create a united front in terms of architectural, engineering and construction services. This level of competition results in delays in project commencement, which ultimately delays occupancy date for the user. Throw in the financing process and you can see why, regardless of decent project activity this spring, only a few projects of significance have actually hit the ground.

The largest project in eastern Massachusetts that broke ground in April is for Medline, a Chicago-based private manufacturer and distributor of medical products. Medline's self-funded project totals 350,000 s/f with a 7,000 s/f office area and 80 cross dock tailboard doors sited on a former AMB property on West St. in Mansfield, Mass.

Other market activity includes a locally based national manufacturing company that has commenced with renovations on its 118,000 s/f former warehouse building, also located in Mansfield, looking for occupancy this fall. A German-based logistics company also broke ground in early May on a 45,000 s/f U.S. headquarters building in Peabody. In addition, Sapphire Engineering broke ground in Middleboro for an 82,000 s/f manufacturing company after two years of negotiations.

There are six office projects now under construction on Rte. 128, three in Waltham and three in Burlington, which also merit mention in this overview of market activity. These projects are not

design/build, but still have a very positive impact on the construction and commercial real estate market. Half are build-to-suit projects for committed tenants.

If you are a developer or corporate user who has broken ground or is about to start a project, this is the best time in many years to buy out a project given the state of the construction industry. Material costs are down by 12-15%. Labor and fee structures are down due to stiff competition. General contractors and subcontractors are in survival mode and fighting for market share, which is benefiting building owners. Construction prices have plateaued and could see modest increases when more projects become realities. The mammoth stimulus package put forth by the present administration has not provided a dime to the corporate or commercial real estate market, and that will not change in the near term.

The crystal ball is telling me that the current decent amount of project activity will result in a stronger second half of 2009 provided unforeseen economic factors do not surprise us again. There is pent-up demand in several sectors of the economy. The trick is to find them, engage them, and hope the deal can be financed.

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

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