

HEARTLAND REAL ESTATE BUSINESS®

The Midwest's Real Estate Source

FIRST PUCK SET TO DROP AT NEW ARENA IN DETROIT

The opening of Little Caesars Arena in September is part of city's ambitious goal to transform downtown.

By Kristin Hiller

Part of the legacy of the late Mike Ilitch, founder of Little Caesars Pizza and owner of the Detroit Tigers and Red Wings, is taking shape at I-75 and Woodward Avenue in the heart of the city.

Little Caesars Arena — part of what city officials hope will be a thriving 50-block District Detroit — is scheduled to open this September with five Kid Rock performances. The Detroit Red Wings will play their opening game at the arena on Oct. 5 against the Minnesota Wild.

The District Detroit, spearheaded by Ilitch Holdings Inc. and its real estate arm Olympia Development, will be home to five neighborhoods, six

theaters and three professional sports venues. The \$1.2 billion project is expected to have a \$2.1 billion total economic impact on Detroit, the region and Michigan, according to the project website.

A full build-out of the development will take years to complete. Cost of the arena alone is reportedly now up to \$863 million, according to local media reports.

"The newly developed district will become a central hub for entertainment and residential in the city," predicts Albert Ellis, senior associate at Southfield, Michigan-based Farman Group. "It is a much-needed connector between the CBD and Midtown ar-



Little Caesars Arena is scheduled to open in September. The Detroit Red Wings will play their first game at the 20,000-seat arena in October.

see DETROIT page 16

CONSTRUCTION SURGE BENEFITS BUILDERS

General contractors in Midwest zero in on industrial properties, report revenue growth.

By Kristin Hiller

Construction activity is on the rise across property types, which spells good news for general contractors. Approximately 371,000 apartment units will be completed nationally in 2017, according to data from Marcus & Millichap. This outpaces last year's total of 320,000 units. Developers are expected to complete 82 million square feet of office space this year, also exceeding 2016 deliveries.

In the industrial sector, approximately 268 million square feet of space was under construction nationally at the close of the first quarter, reports CoStar Group. Over 500 industrial

buildings were completed across the country during the first quarter. Similar numbers of building completions were reported in the third and fourth quarters of 2016.

Heartland Real Estate Business spoke with four Midwest-based general contracting companies for a mid-year update regarding projects currently underway, their volume of business and general outlook for the construction industry.

Build-to-suit blitz

Meridian Design Build is most active in the industrial and food and beverage sectors. The Deerfield,



Peak Construction Corp. is completing a 347,205-square-foot industrial facility for football equipment manufacturing company Riddell in North Ridgeville, Ohio.

see CONTRACTORS page 18



New Boutique Hotel Coming
to Downtown Detroit in 2018

page 15

'Uncertainty' Creeps Into Lenders'
Outlook

page 20

Unprecedented Development in
Downtown Milwaukee Office Sector

page 13

CONSTRUCTION SURGE BENEFITS BUILDERS ACROSS THE BOARD

CONTRACTORS from page 1

Illinois-based company has several build-to-suit projects underway in the Midwest, mostly for food users and logistics companies looking to expand and modernize their distribution networks.

Beyond build-to-suit projects, Meridian has constructed over 1.4 million square feet of speculative product in the last year for developers such as Venture One, Prologis, Exeter Property Group, Molto Properties, ML Realty Partners and Scannell Properties. Most of these spec developments are located in the western suburbs of Chicago, with a few buildings in the Cleveland area and Southeast Wisconsin.

Meridian recently completed construction of a 185,210-square-foot industrial building for Scannell Properties in Strongsville, Ohio, a suburb of Cleveland. Situated on a 21.8-acre site, the multi-tenant building features 28 loading docks, two drive-in doors and parking for 164 cars.

In Glendale Heights, Illinois, Meridian completed a 112,288-square-foot industrial tenant build-out for Prologis and OSM Worldwide. The project features 10,601 square feet of office space, 13 loading docks, 95 vehicle parking stalls, 21 trailer stalls and one drive-in door for the parcel shipping company.

Paul Chuma, president of Meridian, says that the current development wave, which benefits general contractors, is driven by strong tenant demand and low vacancy rates. On the flip side, the difficulties include labor issues and site selection.

"The challenge on the real estate side is that manufacturers want to remain closer to the population centers for labor. The inventory of infill sites is minimal in the more desirable loca-

tions," says Chuma.

Meridian's revenues for the last 12 months have been healthy overall, although figures for the first quarter of 2017 were not as robust as 2015 or 2016, says Chuma. He still expects revenues for all of 2017 to increase 10 to 15 percent over last year.

"Our backlog has increased significantly with upcoming projects in the queue. Part of that buildup is by design, but it's also partly due to the longer time it takes to get some projects through the entitlement process or for clients to finalize their financing," explains Chuma. "That said, we'll continue to be fairly selective about the projects that we take on in order to focus our resources in areas where we can deliver successful outcomes and add value for our clients."

Warehouses fill void

Headquartered in Itasca, Illinois, PREMIER Design + Build Group is also most active in the industrial sector. Current projects include a 157,525-square-foot industrial property in Schiller Park, Illinois, near the Chicago O'Hare International Airport. The project will include demolition of a bakery in order to build two separate industrial buildings in its place. Easily accessible to I-294, the property will feature an 84,700-square-foot building and a 72,825-square-foot building for multiple tenants.

In Lake Zurich, Illinois, PREMIER is constructing a 49,835-square-foot expansion for ECHO Inc.'s headquarters. The new addition will bring the outdoor power equipment supplier's corporate campus to 578,000 square feet of office and manufacturing space.

When anticipating future industrial construction, PREMIER likes to monitor consumer goods reports and con-

sumer sentiment. According to Brian Paul, executive vice president and co-founder, disappointing consumer goods reports will cause manufacturers to pull back on production. This results in less of an immediate need for warehousing of those products.

If consumer sentiment is low, that typically results in less spending by consumers and reduces the immediate need for manufacturing new products, thereby also reducing the demand for warehousing and manufacturing space.

PREMIER is diversifying the product type that it builds this year in order to enhance revenues, according to Paul. New product types for the company include a health club, multi-unit apartment building and mid-rise tenant improvements, among others. Landing projects outside metro Chicago is also helping to strengthen the company's overall forecast for 2017 revenues.

Spec saturation nears

Peak Construction Corp. is most active in the industrial and hospitality markets. Projects in various stages of the development pipeline for the Chicago-based company include an 80,000-square-foot warehouse and distribution center for Blue Ribbon Products and a 291,728-square-foot speculative industrial building for developer IDI Gazeley. Both projects are located within IDI Gazeley's Rock Run Business Park in Joliet, Illinois.

Peak is also wrapping up construction on a four-story, 77,000-square-foot Marriott Residence Inn in Bolingbrook, Illinois, and a 347,205-square-foot industrial facility for football equipment manufacturer Riddell in North Ridgeville, Ohio.

Steve Golumbeck, a vice president at Peak, says 2016 was Peak's best year for revenue growth in the company's 20-year history. He also sees 2017 as a year of growth driven by the current economy.

"The first half of 2017 has seen an uptick in development that will carry through the end of the year," he says. "As we near saturation in the speculative industrial building market, we're seeing more build-to-suit opportunities, which coincide with overall market confidence."

As for challenges, Golumbeck urges all construction-related businesses to keep an eye on the proposed changes to the tax treatment of imports and exports. A proposal by the Republicans in the U.S. Congress would tax American imports while exempting exports.

"Many of the materials used on projects, especially in the hospitality sector, are imported. We'll see those rising costs trickle down to the project's bottom line," he explains.

Looking ahead, Golumbeck sees the industrial sector as an opportune market for developers, largely due to e-commerce and the overall build-to-suit demand. Other markets Peak plans to tap into include the seniors housing market in the Midwest.

Healthcare beat goes on

Headquartered in St. Louis, McCarthy Building Cos. is active in many property sectors, particularly healthcare, higher education, hospitality and advanced technology/manufacturing. At Washington University's Danforth Campus in St. Louis, McCarthy is constructing three new academic buildings, two multi-use pavilions and an underground parking facility. The project also includes a new landscape and an expansion of the Mildred Lane Kemper Art Museum.

Notable components include Anabeth and John Weil Hall, an 82,100-square-foot interdisciplinary building. The majority of the construction at the university is slated for completion prior to spring 2019 commencement.

Other projects the company is currently undertaking include the expansion of a pharmaceutical manufacturing facility for Meridian Medical Technologies in St. Louis, construction of the National Bio and Agro-Defense Facility Animal Disease Laboratory for the U.S. Department of Homeland Security in Manhattan, Kansas, and the new City of O'Fallon Justice Center in O'Fallon, Missouri.

Despite uncertainty about the future of the Affordable Care Act and potential replacement legislation, many hospital systems continue moving forward with decisions regarding building projects, according to John Buescher, president of McCarthy's central division.

McCarthy has also been able to capitalize on the trend toward decentralization, where more off-campus construction of ambulatory surgery centers, outpatient facilities and specialty clinics is taking place.

"We are cautiously optimistic that the new administration's stated infrastructure goals will begin to take shape in the near future and we look forward to the impact that would have on the construction industry," says Buescher, referring to one of President Donald Trump's top priorities.

McCarthy's revenue increased 20 percent nationally in 2016 over the prior year, according to Buescher. He expects revenue to increase an additional 5 to 10 percent this year. The growth is not tied exclusively to any one single industry or market, emphasizes Buescher, but he notes that the renewable energy sector and solar work are growing appreciably. ■



PREMIER Design + Build Group is constructing a two-building, 157,525-square-foot industrial property in Schiller Park, Illinois.

CONSTRUCTION INDUSTRY TACKLES WORKER SHORTAGE

In an effort to solve a persistent labor shortage in the construction industry, general contractors are taking a number of steps that range from partnering with universities on job training programs to investing in new technology.

The industry lost nearly 2 million construction jobs during the Great Recession, according to data from the Bureau of Labor Statistics. As construction activity continues to accelerate during the current economic recovery, the worker shortage problem is becoming more acute.

Between April and May of this year, 25 states and the District of Columbia lost construction jobs, according to the Associated General Contractors of America (AGC).

Ken Simonson, chief economist for the association, says that there is ample private-sector demand for construction projects, so states with monthly employment declines are facing a shortage of workers rather than a slowdown in work.

Between May 2016 and May 2017, Missouri lost the largest number of construction jobs nationwide, down 4,100 jobs or 3.4 percent. Illinois ranked third in losses, with a decrease of 1,700 jobs.

The construction industry recorded a net gain of 11,000 jobs in May, according to the Bureau of Labor Statistics. But the AGC believes that labor shortages likely limited the number of new jobs being added.

"There is no magic number as to how many workers the construction industry needs to hire,

but the number is rising as more workers retire and the volume of construction projects increases," says Simonson.

Officials from the AGC have urged lawmakers and public officials to increase funding for solutions such as the Perkins Act, which provides federal funds for career and technical education programs.

Peak Construction Corp. has partnered with university co-operative programs in the last few years to employ students pursuing construction-related degrees. Co-op programs enable students to work in the field and receive career training with pay prior to graduation.

"The availability of skilled trade labor remains a challenge," acknowledges Paul Chuma, president of Meridian Design Build. "In general, I sense that subcontractors are managing growth at a carefully measured pace. With this in mind, we need to be cautious that we don't overcommit."

Chuma sees the shortage of construction workers as an issue for the foreseeable future. Meridian plans to continue spending more time prequalifying subcontractors and discussing project schedules and manpower requirements in detail prior to awarding subcontracts.

The worker shortage is also driving up the cost of labor and materials. Construction input prices rose for a fifth consecutive month in April, increasing by 0.7 percent on a monthly basis and 4.3 percent on a year-over-year basis, according to Associ-

ated Builders and Contractors.

To combat the labor shortage issue, McCarthy Building Cos. is prefabricating building components offsite whenever possible to help improve efficiency. Building information modeling (BIM) and virtual design and construction technology (VDC) allow the company to build projects virtually prior to constructing them in the field. This way, workers are more knowledgeable when they arrive onsite and are able to complete jobs faster.

"Though the construction labor pinch is expected to continue, we're focused on increasing our value-added services through the use of technology," says John Buescher, president of McCarthy's central division.

Beyond the shortage in construction workers, PREMIER Design + Build Group has experienced difficulty in finding competent project management and support staff in all the commercial real estate markets in which the company is active.

"We are currently engaged with several recruiters to assist with our hiring efforts, which is a newer concept for us," says Brian Paul, executive vice president and co-founder of PREMIER. "Prior to 2016, we did not require the assistance of a recruiting firm, but given our existing workload and the lack of known viable candidates, we have opted to engage consultants for some assistance."

— Kristin Hiller