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## Q & A ON TOPIC: CONSTRUCTION TRENDS

**A**lthough the construction and development industry is slow to recover from the economic downturn, construction companies are still plugging away with new development projects throughout the Midwest. *Heartland Real Estate Business* recently spoke with Deerfield, Illinois-based Meridian Design Build's President and Co-owner Paul Chuma Jr. and Overland, Missouri-based Vertegy's General Manager Thomas Taylor to gain insight to the construction industry and sustainable development.

**HREB: What is the most popular trend that you are currently seeing in the Midwest construction/design market?**

**Chuma:** The incorporation of sustainable design, or "green", features in an economical manner, with quantifiable paybacks, continues to be a prevalent trend in both design and construction. This includes the pursuit of incentives, rebates, and tax credits as a "value add" to projects. Clients and users are generally more sensitive to being environmentally friendly regardless of whether or not they are seeking LEED certification or meeting other specific criteria for their project.

**Taylor:** I don't know if there's enough construction work going on to have a trend. I think what I see more than anything else is there has been a slowdown in spending across the board, I see that we are starting to see private development happen again. It's probably more on the public side of things and, with that, I think we're seeing a higher percentage of buildings seeking some sort of level of sustainability or LEED certification requirements than in the past. The pool of work has shrunk but maybe the demand for green has stayed the same, but because the pool shrunk the percentage of projects seeking green has gotten larger.

**HREB: Which sector (office, industrial, multifamily, retail, mixed-use, civic) is seeing the most activity? What is spurring this activity?**

**Chuma:** In regards to commercial and industrial, similar to 2010, we continue to see the most activity in adapt/retrofit to use for private purchaser/users in manufacturing and food pro-

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## Q&A: CONSTRUCTION TRENDS

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cessing. This is spurred in part by the fact that most businesses have stabilized and those that have the ability to grow during these challenging and slowly improving times are seeking to capitalize on reduced pricing of vacant buildings that investors must still sell. However, now we are also seeing a measured, but a trending positive, amount of build-to-suit activity in these areas as well as the healthcare sector.

**Taylor:** I think that retail is a little bit slower and that it is somewhat due to the type of building. These buildings are typically owned by a management firm and leased and subleased to retailers, so sometimes it is more difficult to apply the sustainable concepts to the smaller leased spaces. It's not to say that it is impossible, it's just more of a challenge. Plus, the retail market is so competitive right now with razor thin margins on their units, it is hard to justify any additional cost

to a product, which would be, in turn, on your operating expense. I think the municipal and commercial buildings is really where you're seeing sustainable building more now, but I think that's more economic driven than anything else. Once the economy turns around, I think you'll see green building come back very robust in all sectors.

**HREB: Why do you think green products are such a driving force in the construction industry now?**

**Taylor:** There's lots of different reasons for [green development]. It can go for the feel good, bi-partisan response and everybody wants to do something that's good for the environment. They don't want to be seen as someone who is damaging the environment. Another motivating factor is the issue of utility costs and all of the information overload that we get in regards to the finite resource

of fossil fuels and what do we do to help that. Those some motivators. There's other things going on in the marketplace where customers are continuing to make decisions about how they're spending money with companies that mirror their social causes or beliefs. With that, the companies that people are purchasing from are held to a higher level of scrutiny. So some people are saying, "our buyers are concerned about the environment, we need to demonstrate that we're concerned about the environment." Other locations have municipal mandates, such as the cities of Clayton and St. Louis, Missouri, require anything that is municipal-funded and over a certain size to be LEED certified. There's lots of different reasons why green building is continuing to gain traction in the marketplace, and I don't think any one reason is more impactful than the others.

**HREB: Has there been much change in technology in the green industry?**

**Taylor:** Yes, the technology as far as the materials and goods coming to the market is ever-changing and rapidly changing. One of the biggest challenges that we have is to stay on top of all the changes and new technologies. As far as other technologies, the technologies in the renewable energy are still there and becoming more efficient and cost-effective, however they're still fairly high priced. There are other manufacturers that are bringing sustainability concepts into their marketing strategy and products manufacturing. Even the retailers are getting on the bandwagon with series of eco-smart or energy-smart labeling. It's not just the ENERGY STAR anymore. Everyday there's something new.



**HREB: What type of projects is your firm currently working on or interested in?**

**Chuma:** Meridian is currently involved in a diverse group of projects. We are in the process of completing a 215,000-square-foot build-to-suit in Grayslake, Illinois, for Scannell Development. Their tenant will be FedEx Ground. Also included as part of this project are 190 acres of mass grading and infrastructure improvements for the park developer. We recently completed a 40,000-square-foot tenant improvement/expansion project for a pharmaceutical company that included both Class 10,000 and Class 100,000 clean room facilities. In Minooka, we are under construction on 1 million square feet of improvements for Grainger. In addition to the interior work there is extensive site work associated with filling and relocating an existing storm water detention pond in order to add parking. We are also constructing a 135-suite, Staybridge Suites Hotel in San Antonio, Texas. I've also mentioned previously activity in the healthcare sector. We'll break ground on at least one of these projects in early summer.

**Taylor:** We have several projects in the Midwest and we just finished our 30th LEED certified building in the past 5 years. We're averaging about six buildings a year.

**HREB: Is your firm experiencing any pricing issues due to an increase in competition? If so, how do you overcome such challenges?**

**Chuma:** We continue to carefully

manage overhead and risk-taking to successfully pursue new contracts. Price is always important, but most clients that we are working with right now also heavily weigh intangibles like service, value and quality. We stress commitment to these intangibles throughout our organization from top to bottom. Managing scope creep throughout the design and construction phases as well as purchasing materials in bulk are also high priorities.

**HREB: What are the most popular sustainable construction/design methods?**

**Taylor:** The thing with green building, is that there are things that you can add to a building that look "green" — a green roof, native planting, etc. But you don't have to do those things to get a building certified. A building can look very conventional and still achieve LEED certification. Even in the Silver and Gold levels, if the building is concentrating on energy savings, the green elements are things that you don't necessarily see when you look at the building. I don't know if there's really any one thing that is more popular than the other. Sustainable construction is very unique for each individual project because each project has its own set of parameters and challenges. So it is almost impossible for us to take a one-size-fits-all approach.

**Chuma:** The question that we are typically faced with early on in the planning process is what sustainable design features can be incorporated to

a project without significantly increasing the overall project cost. The most popular methods also differ with project type. For example the cost benefits of a "green" roof may have different ramifications on a multi-story office building with a small footprint versus a 500,000-square-foot, single-story distribution center. On renovation projects and those with substantial demolition we focus on reuse of existing or demolished materials. On build-to-suit projects we can focus on site selection/location, massing of the building, insulation of the building envelope, natural lighting opportunities, native landscaping, etc. By having LEED APs on our staff we are able to assess each individual project and make the most cost beneficial recommendations to our clients to assist them in achieving their goals.

**HREB: Has cost of materials affected projects? What is the current trend for construction costs?**

**Chuma:** Construction costs have been relatively stable. There are ebbs and tides associated with materials like steel and copper but there is lack of wage pressure on the manufacturing and fabrication side. There is a great deal of global uncertainty right now as we all know. Speculation as well as real increased demand could affect both the cost of commodities, production of materials, energy and transportation. We'll be keeping a keen eye on this because it is taking a longer time period for projects to come to fruition. This leads to the susceptibility for material price fluctuations.

**HREB: How has your firm dealt with the current credit crunch? Do you expect to see a loosening in the near future?**

**Chuma:** We've had a few projects delayed or put on permanent hold due to a lack of financing. It's too bad because prices have been holding at 10-year lows, but, as I mentioned previously, pricing could change due to a variety of reasons. We are seeing deals that were on hold starting to move forward and I hear talk of developers with money they "have to place". So I'm hopeful these are signs of loosening.

**HREB: Is there a lot of competition in the green industry?**

**Taylor:** Yes, there is, and the amount of competition has been growing steadily since we started our business. The more people who see green as an industry and as a possibility of expanding a company's services are

jumping into the market. We are seeing an upward climb in competition, both from outside consultants and also with design firms that are bringing the services in house.

**HREB: What is the biggest challenge for the construction industry right now? How is your firm addressing it?**

**Taylor:** For the design side, I think the biggest challenge is really understanding how to integrate all of the elements of a highly-performing building and doing so in a responsible and economical manner. I think that's a challenge to strike that balance. From the construction side, and it's been there from the very beginning, the biggest challenge is to understand the risks, responsibilities and liabilities that come with green buildings and delivering a green building. An unsuspecting contractor could very easily not understand the obligation when reading a specification or a scope of work that uses green language if they don't clearly understand what the LEED credit points require. When you mirror those two things, I think one of the responsibilities that we have in responding to that challenge in our consulting work with design and construction firms is we really work hard with our design teams to make sure the design clearly states what the sustainability goal is and supports that. That information is put into the specifications and the scope of work in a clear and concise manner to where the contractor understands and can adequately prepare and price for what the deliverable is in that scope. With doing that, it reduces the risk to the owner and developer.

**Chuma:** The availability of public and private funding to create a foundation for broader economic growth is a big challenge for the industry but it is more of a political challenge than technical. Our public infrastructure (water, transportation, energy and education) needs repaired and upgraded nationally. Addressing this will lead to more investment in the private sector. Our firm continues to be flexible in adapting to changes in opportunities pursuing and performing work locally and nationally. □

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