

# Q & A ON TOPIC: CONSTRUCTION TRENDS

As the ground begins to thaw, the construction industry starts to look forward to a new season of building. *Heartland Real Estate Business* asked two Midwest-based construction firms about upcoming trends and the outlook of the 2010 construction industry. David Birk, executive vice president of Swansea, Ill.-based Holland Construction Services, and Paul Chuma Jr., president/co-owner of Deerfield, Ill.-based Meridian Design Build, filled provided insight and expertise on the upcoming year.

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

**Birk:** LEED projects are increasingly popular with all ownership groups. Integrated Project Delivery seems to be getting a lot of attention as well. Owners are beginning to see the benefits of teaming with the large stakeholders.

**Chuma:** Meridian is currently experiencing several trends affecting construction in the industrial market. Investors and building owners with vacancies are seeking our expertise in making the necessary improvements to reposition their buildings to be more attractive in a very competitive leasing market. We're also seeing expansions and retrofits of user owned facilities like the Kerry Ingredients and Flavours project in Melrose Park and the Highland Baking renovation in Northbrook. There is also significant activity for user owned build-to-suits.

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

**Chuma:** The American Recovery and Reinvestment Act of 2009 is creating significant activity for public sector projects. This should continue as more of the appropriated funds are released. In our sector, we've seen an uptick in activity in manufacturing and medical office.

**Birk:** Holland Construction sees more activity in multifamily construction. We currently have two more than 200-unit apartment projects in the

works. The multifamily activity is increased because less people can afford to buy homes so the alternative is renting.

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

**Birk:** We currently have two apart-



Birk

ment projects, medical office, recreational projects, commercial and schools.

**Chuma:** It should come as no surprise that the vast majority of projects that we are involved in are user driven. We are experiencing increased activity and inquiries on the manufacturing side whether it be tapping our expertise on United States Department of Agricultural processing or cold storage facilities, plastic injection molding, machine shops, or electronic component assembly companies. Whether or not these businesses are picking up, they are considering facil-

ity improvements to increase productivity in the near term.

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

**Chuma:** In some way, almost all businesses, no matter what industry, have seen increased competition through the economic downturn. Meridian has carefully managed overhead and risk-taking to successfully pursue new contracts. Maintaining our reputation for service and commitment is stressed throughout our



organization from top to bottom. Price is always important, but the clients that we are working with right now are also heavily weighing intangibles like service, value and quality.

**Birk:** Yes, the competition is driving down fees, but we are having success selling value. To overcome the challenges, we focus on sell value, reputation and trust.



Chuma

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

**Chuma:** Meridian is involved in several expansions and retrofits that involve demolition of

existing improvements. Among other sustainable construction methods, we've placed a significant emphasis on re-using and recycling materials. This has an immediate and quan-

tifiable result. For instance, on the Kerry Ingredients and Flavours project in Melrose Park, we crushed and recycled 6,000 tons of concrete debris. There was a real cost savings to the client as a result of a reduction in fill materials that would have otherwise been imported to the site and we significantly reduced hauling away the debris to a landfill. We're also seeing more equipment manufacturers producing high efficiency mechanical equipment, light fixtures, motion sensors, etc. This increased competition is lowering the equipment costs making their use more cost effective and, thus, more palatable to clients due to a shorter payback period on their investment.

**Birk:** White roof membranes, efficient HVAC systems, lighting control systems, day-lighting and low-flow plumbing fixtures.

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

**Birk:** We received a notice today for increased costs for metal studs,

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— Paul Chuma Jr., Meridian Design Build

drywall, acoustical ceilings and insulation. We're told that the increases are due to decreased stock of materials. If construction spikes, the prices could soar throughout the year.

**Chuma:** With the significant decline in construction activity, not only in the United States but globally, the result has been decreased demand for materials. Thus, material costs are lower, most likely at the bottom, and beginning the trend up. Generally speaking, the construction cost of new warehouse/distribution facilities are significantly reduced from their peak. This drop is significantly skewed by an approximate 20 percent decrease in

steel products and lower energy costs impacting both production and transportation of materials. We are seeing more time restrictions on new proposals from subcontractors and material suppliers as increased demand could quickly reverse both the cost of commodities, production of materials, energy and transportation.

**HREB:** How is your firm handling liens from projects that have been stopped due to financial issues?

**Chuma:** Meridian been fortunate in not having any projects that we have been involved in stopped due to

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financial issues. However, we remain careful in performing due diligence on new clients similar to the way we expect them to look into Meridian. Thirty months ago we were making commitments on behalf of clients for

long-lead construction materials prior to being formally under contract. It is much more difficult for us to do this today due to the increased risk of financing falling apart on deals.

**Birk:** This has not been an issue for

Holland.

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

**Chuma:** Because we don't borrow money, the credit crunch does not have a direct impact to our daily operations. However, our clients and prospective clients are the ones being directly affected. As a result of the challenges they are facing to secure financing for new projects, we are experiencing longer pre-construction and design phases. This longer time frame negatively impacted our revenue in 2009, however, it has provided backlog for 2010. We see this continuing as many of the projects we are looking at today may not break ground until 2011 due to the availability of financing. Regarding loosening credit in the near future, I think the real estate and financial experts are in the best position to address timing.

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

**Birk:** Most owners are very cautious to build projects that seem viable to build. The economy seems to have them very concerned. We always make sure that funding is in place and try to understand the potential of the funding being pulled.

**Chuma:** Maintaining our high level of client service in the current, extremely competitive environment is a big challenge. We identified this as a major goal early on in the downturn. Most general contractors and subcontractors have reduced staff in an effort to cut costs. As a result, they are having a difficult time responding to clients needs or are doing so with inexperienced staff. At Meridian, we have retained our most senior people in both the office and field. Despite a slight decrease in profitability in the short-term, we have maintained our ability to provide a high level of service and expertise to clients on both current projects and in assisting them with new proposals.

**HREB:** Any additional information about current construction trends?

**Chuma:** The ability to assist clients in incorporating sustainable design features in an economical manner, with quantifiable paybacks, is continuing to be a prevalent qualification as a design/build. This includes understanding various incentives, rebates, and tax credits as a "value add" to projects. Clients are more sensitive to being environmentally friendly regardless of whether or not they are seeking LEED Certification for their project.