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Something to BUILD ON

Vacant leasable building spaces offer contractors build-out opportunities in a recovering marketplace. BY RON MROZEK

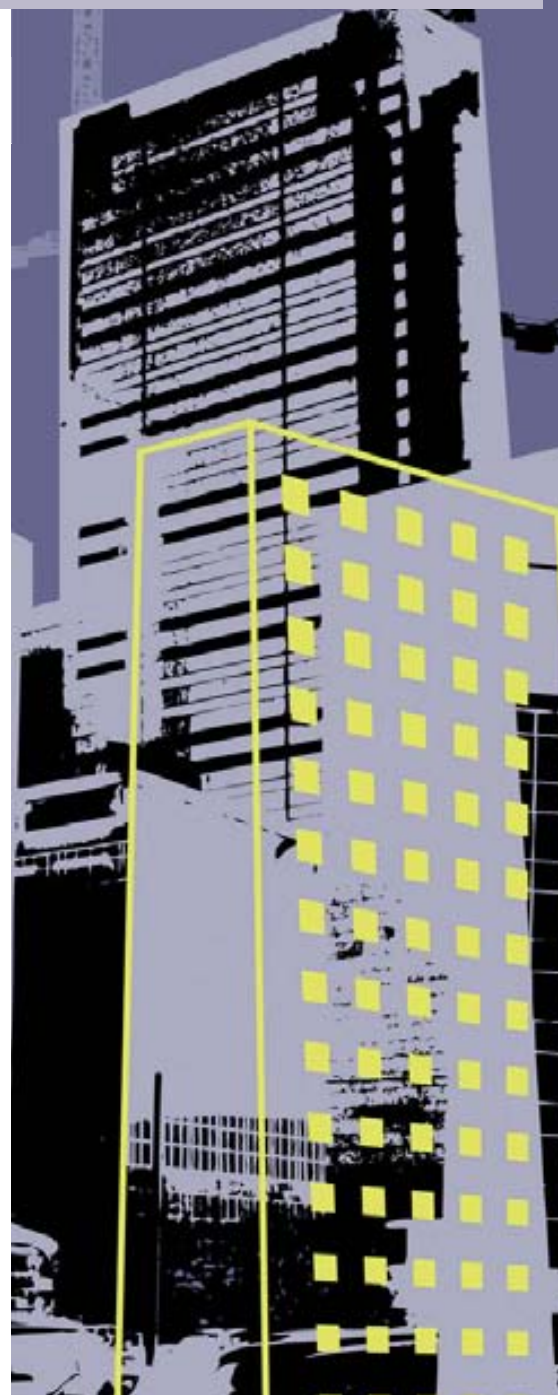
While the punishing recession of the past few years may be technically at an end, the lingering aftereffects of the extended period of economic challenges have been felt across a number of industries. The construction and development industry has been particularly hard hit and, despite some positive indications that for the first time in years the light at the end of the tunnel is beginning to look a little bit less like an oncoming train and a little bit more like actual daylight, the industry-wide sense of general sluggishness continues. A tentative credit market and a general reluctance to commit to costly up-front investment has put a number of high-profile developments on hold and delayed countless projects that were in the pipeline when the bottom fell out of the marketplace.

But even the most significant challenges are accompanied by corresponding opportunities. While the slowdown in large-scale projects and ground-up new construction has been a much-publicized byproduct of the national recessionary cycle, perhaps not as much attention has been paid to the potential upside for savvy contractors in the tenant improvement marketplace. From a real estate perspective, it is still a tenant's market.

In markets around the country, "zombie buildings" – vacant leasable spaces with no money available to build out or improve the space – continue to languish. With landlords unwilling to commit the dollars and belt-tightening tenants understandably leery to settle for anything less than a great deal, these spaces remain in a kind of real estate limbo – neither dead nor alive.

The most successful construction professionals understand that, in leaner times, a business-as-usual approach is unlikely to succeed; it is necessary to adapt and adopt different strategies.

Flexible contractors are developing comprehensive new strategies to leverage their development expertise and real estate acumen to better take advantage of this marketplace dynamic, and positive trends across the country support the notion that build-out opportunities are available for construction professionals who can use the following strategies to provide build-out expertise for both landlords and tenants.





Understand Context

Creating a win-win environment begins with understanding what “winning” means for all parties involved in the negotiation and construction processes. A clear understanding of not only the tenants’ requirements, but also landlords’ perspectives and priorities can help contractors apply available resources efficiently and propose a development plan that is precisely tailored to meet the needs and acknowledge the limitations of all parties.

Some of the best contractors who specialize in providing quality build-out services deliver what is in essence a full-service model: leveraging comprehensive knowledge of the brokerage aspect and strong relationships and experience within the brokerage community to complement proven construction expertise.

Think Big

Economies of scale can be critically important when every penny counts. Cost-savings are always welcome, but can amount to a difference-maker with regard to marginal projects. Construction professionals who are able to take advantage of positive relationships with landlords and tenants to work on a larger number of projects or larger volume of project dollars typically find themselves in a position to take advantage of additional economies of scale.

Be Selective

The most successful build-out contractors are generally able to build and maintain a large network of trusted vendors. An approved vendor list should be generated by more than just pricing and convenience. All vendors should go through a review process and a period of evaluation to ensure that they are not only able to supply competitive pricing, but are able to deliver a high-quality finished product within an acceptable timeline.

An ongoing commitment to work with the most experienced, talented and cost-effective vendors will literally and figuratively pay off in the long run. From the perspective of securing tenant and landlord approval for a proposal, the ability to confidently assure them that they will be receiving the lowest possible pricing from a trusted and experienced professional is a tremendous asset.

Get Creative

Committing to a true problem-solving, creative approach is often the difference between success and failure when it comes to getting build-out and improvement projects approved and completed in fragile economic times. From competitive bidding and cost modification, to creative use of space and using more affordable materials in non-essential space or in areas where aesthetics are less important, there is always room for creativity and compromise.

A project that requires an expensive generator upgrade to accommodate a tenant’s essential functionality needs, for example, might be able to find that money by sacrificing nonessential luxuries – such as a marble countertop in the employee kitchen – or developing a cost-sharing plan to make the numbers work. In one recent office center project in Troy, Mich., for example, the range of tenant improvements achieved with some creative reuse and recycling – from reusing exist-

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Building on basics

Construct a new mindset to develop work in a tough economy.

- Adapt and adopt. Leverage your skills to offer different, more affordable build-out service options in tough economic times to clients who are avoiding investment in large-scale projects.
- Collaborate and consolidate. Bring in landlords and tenants in the beginning. Keep them involved together to develop an understanding of each party's priorities and make the project a win-win.
- Prioritize and simplify the project. Find financial and architectural common ground. Be sure to develop and utilize a network of trusted, cost-effective vendors you can be confident proposing to push landlord and tenant approval.
- Get creative. Focus on more affordable materials and a creative use of space. Committing to a creative, problem-solving approach can be the difference between a client taking on build-out and improvement projects during tough times.

Source: Huntington Construction Company

ing doors, frames and hardware, to relocating existing glass entry doors in lieu of purchasing new doors – ultimately saved the client more than \$50,000 on a project that cost \$177,305.

Other solutions included patching and repairing damaged ceiling tiles instead of redoing the ceiling, eliminating unnecessary under-floor whips in the IT computer room, reworking existing power in the IT room in lieu of installing a new transformer and panel, and relocating an existing AC unit from the tenant's old building to avoid having to purchase a new unit.

Prioritize and Collaborate

Experienced contractors understand that encouraging collaborative meetings with both tenants and landlords in attendance can go a long way toward making a project a reality. Reviewing all available options together and determining what items are the

highest priority and where cuts can be made is a great way to find financial and architectural common ground.

A \$213,000 new mezzanine addition for a tenant location demonstrates clearly how relatively small-scale cost savings can add up quickly.

Eliminating one of five proposed viewing windows saved \$1,200, adjusting the location of new steel stairs saved \$8,000 by eliminating the need to move electrical transformers, changing a stair side rail from decorative perforated metal to standard vertical pickets saved \$3,000, opting for a steel deck and concrete flooring saved \$15,000 over the more expensive wood joist and plywood alternative, storage area fire protection piping was left exposed in a storage area in lieu of concealed joists to save \$3,500.

Other alternative strategies and materials included painting a block wall instead of adding metal studs and drywall and using approved alternate joist hangers, which saved \$2,500 and \$1,000, respectively.

It can also be a good idea to bring in professional space-planners and other outside experts; showing all parties involved where and how they can save money through the creative use of space and other strategies.

Bringing landlords and tenants together is also an effective way to demonstrate good faith on the part of a contractor.

If both sides understand that you are doing the best possible job to cut non-essential costs and bring them to an accommodation, it is more likely they will be willing to accept a mutually beneficial agreement.

As a tenuous recovery continues to filter in to the marketplace and new tenants look to act on a pent-up demand for new retail opportunities and improvements to existing spaces, the marketplace for build-outs and renovation projects will continue to grow.

The bottom line is that providing quality build-out expertise and needed retail improvements during a tentative economic recovery demands a professional commitment to making it work. That commitment encompasses both an overall mindset and a wide range of details and techniques.

For contractors and other construction professionals who embrace these strategies, the result can truly be a win-win. ♦

