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The Top 400 Contractors — Health Care Remains in Good Health but Other Market Sectors Hurting

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The general building market has been in a stall for the past couple years. As the economy floundered, more space opened up and vacancy rates rose, leaving contractors in the broad market wondering what will come next.

"The market changes every day," says Peter J. Davoren, the new president of Turner Construction. He notes recent studies of the interiors renovation market in New York City. "In the year 2000, 40 million sq ft of office space changed hands or was renewed on a long-term basis," says Davoren. "In 2002, that figure shrunk to 18 million sq ft. At an average of \$50 per sq ft, that means the renovation market shrunk from \$2 billion to \$900 million in two years."

One of the few hot sectors in the U.S. building market continues to be in health care. "Part of this is that the baby boomers are aging," says Bart Eberwein, a Portland, Ore.-based vice president of Hoffman Corp. But he notes that boomers' affluence and expectations are as critical as their aging. "They are demanding single rooms in lodge-like settings," says Eberwein. "And they have the money and the medical coverage to get it."

One firm that has benefitted from the hospital boom is Brasfield & Gorrie. "We're just finishing the replacement hospital for the University of Alabama, Birmingham, and are working on Childrens' Hospital in Atlanta," says Jim Gorrie, president.

Robins & Morton is also enjoying health-care-related prosperity. "We see the for-profit hospitals take off faster than the not-for-profits because of the pressure to begin generating a return sooner," says Robin Savage, R&M's chief operating officer. "But we have seen delays in project starts as health-care providers are facing budget pressures to justify giving the project the green light."

However, the market is not immune to financial woes affecting its owners. Brasfield & Gorrie's work on a \$300-million hospital in Birmingham for HealthSouth Corp. was halted last month after that health-care provider became enmeshed in federal securities fraud charges (ENR 4/7 p. 20).

Savage sees an additional problem in health care: new competitors. "We've been among the top ten contractors in the health-care field for years. Now we see competitors hire one person with health-care experience and suddenly believe they can compete in this market," he says. "And when they're not doing hospitals, they're doing strip malls and office buildings."

Another market showing surprising broad-based strength is multi-unit residential. "We're doing a lot of high-rise residential in California," says Andy Ball, CEO of Webcor Builders, one of the few large general building contractors in the state to escape a major fall in revenue. He sees low interest rates continuing to fuel the building boom, but rising insurance costs for contractors and developers will continue to be an obstacle. "These residential projects are very price sensitive and insurance has put some of them on the brink of not happening," says Ball. Another firm enjoying the boom in multi-family residential work is Bovis Lend Lease. "We see the market strong in Miami, D.C. and the West Coast," says Charles Bacon, president. He notes the condominium market is particularly strong in San Francisco but agrees with Ball that some projects are finding financing tough because of the insurance costs or shortages. The Miami residential boom is being fueled mostly by South American investors trying to protect their money from the wild currency fluctuations in such countries as Argentina and Brazil, he says.

Much of this residential development is in newly renovated downtown areas. "With the new light-rail system in downtown Houston, we're seeing a lot of renovation work, including loft and office conversions," says Leonard Rejcek, president of the southwest region of Manhattan Construction. Eberwein of Hoffman also sees that trend. "You now have people moving into downtown Portland [Ore.] and doing a reverse commute to jobs in the suburbs," he says.

The retail market generally is sluggish, but some strong national retail chains are providing an exception to the trend. "Chicago and Texas are strong retail markets for us, led by work for Nordstrom," says Rich Erickson, CEO of O'Neil Industries. Another firm benefiting from strong retail clients is Pepper Construction. "We are seeing real strength in retail in Chicago and California working for Target Stores and IKEA. They've been pretty strong clients for us," says Rich Tilghman, senior vice president.

O'Neil Industries has also found new opportunities in the gaming market. "We recently finished a Native-American casino for Harrah's for the Rincon Tribe northwest of San Diego," says Erickson. "That worked out so well that now we are looking at Native American gaming facilities in Arizona, as well."

But other building markets are faring more poorly, particularly manufacturing, which was one of the first sectors to sag. "Manufacturing often counterbalances sluggishness in the commercial market during a downturn," says Richard J. Haller, president of Walbridge Aldinger. "But now, the commercial investment market is off despite the low cost of capital. This has caused a lot of uncertainty. So everything is out of cycle."

One of the nation's biggest manufacturing markets, automotive, has been sluggish. "Auto work has been slow," says Robert McCooles, CEO of Alberici Constructors. "I'm glad we made a conscious decision a few years ago to diversify." But other contractors are finding opportunities working for foreign automakers sitting in the Sun Belt. "Automotive work, especially in Alabama, has been very hot for us," says B&G's Gorrie.

"I think that the big automakers want to do a lot and are positioning themselves for new work," says McCooles. "Automotive work tends to come in waves and there should be new work coming along by the end of 2003."

One major challenge in the corporate building market is the increasing use of lease-back arrangements. Corporate clients increasingly are not building their own facilities but are working with developers to erect structures that the corporations will lease.

"It's a new way of doing business," says Rejcek of Manhattan Construction. "You may have a long-term relationship with a corporate client. Suddenly, you are building something for this client through a third-party developer. It can become a problem when you have, in effect, two clients on the job."

Building contractors are also seeing an increase in client demand for sustainable design. "We now have a group within the company to work with the architects on this," says Peter Nosler, CEO of DPR Construction. "It's a big trend," agrees Eberwein. "Of course, [owners] would love to go to heaven and not pay for it, but we are seeing many now showing a willingness to pay to make it happen."