



Adapt and Overcome

Sally Bach • published in the March 2019 issue

On a national level, non-residential building construction spending is forecast to dip -.2% to \$443 billion in 2019 and climb 8.9% to \$482 billion in 2020. Office buildings, which include data centers, and amusement & recreation support growth in 2019. Education, healthcare, recreation, office and manufacturing all support growth in 2020. (*Construction Analytics 2019 Economic Forecast—Summary*, E. Zarenski, 2018) This is great news for the commercial retail real estate industry across the United States. Forward thinking leaders are focusing on repurposing the plethora of retail space available in urban areas and adapting to the trend of converting these spaces into live, work, play buildings, and/or entire neighborhoods, with inviting and collaborative settings. This not only attracts the best and the brightest minds, but can generate premium lease rates for property owners. The construction, commercial real estate, and design communities of Arizona would benefit from combining their efforts to secure current and future opportunities together. This economic growth would promote stability throughout the region for years to come.

Often times, aging buildings require a great amount of design and due diligence just to bring the structure up to code, especially when changing the official use of the building from retail to office space. Sometimes, an entirely different set of rules apply. There is a significant cost increase associated with the investigation and design stage on the front end, but the construction cost savings in the long run make this a acceptable trade off. Pre-construction design coordination efforts are imperative for successful construction execution. Delays caused by not having an approved development package available can be shockingly expensive, and assuming general contractors and subcontractors are able to adjust their schedules at a moment's notice is not realistic. Typically, they have other obligations scheduled months in advance that would be impacted by unnecessary schedule delays. The most cost-effective activity an owner, or an owners representative, can perform is pre-construction due diligence to avoid these issues.

Integrating new design elements with the original design intent in mind has the power to unite the older and younger generations in a community. The nostalgia will inspire conversations from one generation to the next, ignite young minds, and build lifetime bonds and connections. As Arizonians, we can adapt to changing trends in a graceful way that acknowledges and respects the hard work of the generations that came before us, all while increasing our bottom lines in a progressive but ethical manner.

Another challenge is the shortage of a skilled and qualified labor work force. This does not mean that the current labor force lacks the skill required to complete complex projects, they are just spread too thin to support the projected growth in construction due to commercial real estate repurposing over the next two years. With the baby boomer generation retiring, and modern education hyper-focused on academics, as opposed to trades, there is a dire need for a hands-on skilled labor pool. There also happens to be an at-risk generation of young men and women whom would benefit from this type of mentoring and community development in Arizona. The bulk of the construction cost increase may have to be allocated to the training, development and retention of the next generation of tradesmen. If we do not invest in this approach, the commercial real estate sector will not have the proper construction support that it needs to pour new life into our economy. At a local level, we should encourage this progressive growth, but in a fashion that maintains Arizona's old west charm and values. We must provide

incentive for the older generation of tradesmen to pass down their knowledge of the unique challenges we face here in Southern Arizona, and more importantly, how to adapt to any new code requirements. The potential for economic and social growth over the next two years can create stability, on many different levels, for generations to come.

The trend of increasing material costs is yet another challenge for the construction industry; approximately in the 10–15% range for Southern Arizona. Turner Construction Company’s 2018 Fourth Quarter Building Cost Index measures costs in the non-residential building construction market in the United States and has increased to a value of 1120. This represents a 1.36% quarterly increase from the Third Quarter 2018 and a 5.86% yearly increase from the Fourth Quarter 2017. Turner Construction has prepared construction cost forecast for more than 80 years. Although they may not reflect regional conditions in any given quarter, it is widely relied upon by Federal and State governments for forecasting. “The fear of tariffs continues to be the primary cause of uncertainty for contractors nationwide, along side depleting supplies of skilled labor.” (Turner’s *2018 Fourth Quarter Building Cost Index: Construction Costs Increase as Markets Remain Active*, Turner, 2019)

Throughout 2018, Tucson has seen a 12% increase for drywall and an 18% increase on metal studs. 2019 drywall is projected to increase another 15% March 1st. Concrete has gone up twice in the past six to eight months. It is now \$12/yd. more expensive than six months ago, and it is projected to increase again \$4–6/yd. on April 1st. Other materials such as acoustical ceiling tile and grid, which is commonly used in many office and retail environments, also saw a leap in cost this year. 6.5% for the grid and an 8% hike for the tiles. Both are projected to see another increase mid-summer of up to 5%. Steel has risen 10% over the last nine months and is expected to continue throughout 2019. Subcontractors and vendors typically notify their customers 30 days prior to increase with no other information available as to how much it will be. They are standing firm with a 30-day price guaranty from the date of their proposals. Because of these increases, it makes sense to repurpose materials as often as possible.

Although we face many challenges adapting, yet again, to our ever-evolving economy, we can navigate and overcome these obstacles together. We urge property owners, or owners representatives, to team up with design build teams early in the process to properly mitigate potential cost overruns.

Sally Bach is the Owner of G2 Contracting, one of the only exclusively woman owned and operated General Contractor companies in Arizona, specializing in Retail and Office tenant improvements. She is certified by the SBA as “Woman Owned Small Business” and “Economically Disadvantaged Woman Owned Small Business.” Sally can be reached at Sally@G2Contractingllc.com.

TREND
report

Tucson Real Estate + New Development

Subscribe online at
www.trendreportaz.com

For Quotes on Corporate Subscriptions and Advertising Programs,
Contact **Lucinda Smedley**
at 520-603-2175 or lucinda@trendreportaz.com