

No boom, but steady activity: Construction market humming along in Chicago area by Dan Rafter, Editor

John Reilly, president of Des Plaines-based Peak Construction Corp., sees plenty of positives when it comes to construction activity in the Chicago area.

He predicts that even more construction cranes will dot the sky around the city as developers make plans for new industrial facilities, multifamily buildings, office towers and hotels.

The reason for Reilly's optimism? Developers took a bit of a break during the last days of the 2016 presidential election. But this break is long over, and developers are more than happy to get back to building, good news for construction companies such as Peak.

"Right now, we are still on the very back end of a post-election hangover," Reilly said. "There has been a little bit of a pause in the very high construction activity we had in 2016. With the change in administration, we saw a bit of a wait-and-see attitude at the turn of the year. It usually takes a little while to rev back up in terms of activity."

But that pause is now ending, Reilly said, and construction companies are being put back to work.

Reilly isn't the only one who believes this. Industry statistics point to a construction market, in Chicago and across the country, that is on the rise, with a growing number of construction crews at work today.

It all bodes well for Chicago construction companies as 2017 moves through its second half.

A HEALTHY CONSTRUCTION MARKET

Paul Chuma, president of Meridian Design Build in Deerfield, said that all the signs point to continued strength in the construction industry, especially when it comes to the industrial sector.

"There are reports that have recently come out that the industrial vacancy rate is as low as it has been since before the recession," Chuma said. "That is evidence that this sector is especially strong today."

Chuma said that Meridian is seeing an increase in spec industrial projects. But developers aren't rushing into these projects, he said.

Instead, they are planning them carefully, making sure that they are not adding more spec supply than the market can bear.

"The main players are all very active when it comes to spec construction," Chuma said. "But it seems there is a lot more calculated risk-taking today. It seems the developers are paying more attention to what each other is doing. They are taking



Meridian Design Build completed a 226,102-square-foot build out for Molto Properties and LASCO Fittings, Inc. in Romeoville, Illinois.



Atoza Catering Equipment has moved its operations to a larger space in Lockport, Ill.

the steps so that there isn't too much product in the marketplace."

The build-to-suit side of the industrial construction business is strong, too, Chuma said. Meridian Design Build is taking on several food-processing and cold-storage projects in that end of the business, he said. The company is also busy with more traditional manufacturing facilities, Chuma said.

"Everybody is growing, but everybody is moving cautiously, too," he said. "It takes a long time for deals to come together today."

Chuma, too, said that he is seeing plenty of spec proposals in the Chicago-area industrial market. But, like Reilly, he said that there is no sign yet of overbuilding.

"There is a measured and more determined pace that developers are taking," Chuma said. "I sense that people are still looking over their shoulders to the last recession. No one wants to be the person standing with the last big white elephant out there. I think everyone is proceeding wisely and cautiously. But everyone wants

to have something in play, too. There is that tradeoff."

Commercial developers have been through recessions before, of course. But the most recent recession seems to have had a longer impact, and is causing more of a cautious approach among developers.

Chuma said that this shouldn't be surprising. The last recession was different than many others, he said.

"Everyone has rebounded more slowly," Chuma said. "It has been a more gradual pick-up. We are busy. But you still read that the overall economy isn't doing that well as far as GDP goes. The industrial market in the greater Chicago area is very robust. But there is still that caution on the part of developers."

Reilly said that industrial projects especially are keeping Peak Construction busy today, too. Peak has long been an industrial-construction expert in Chicago and its suburbs.

"Ecommerce has definitely been one of the main drivers in how healthy the industrial sector has been," Reilly said. "The bricks-and-sticks part of retail has been taking a hit, and a lot of that is due to ecommerce. But ecommerce is providing a key source of demand for industrial construction."

THERE ARE ALWAYS CHALLENGES

While construction activity should be strong throughout 2017 and into next year, this doesn't mean that there aren't challenges in the construction industry.

But while the industrial market has been steady as usual, Peak is also taking on several hospitality projects in the Chicago market. Developers are adding a growing number of new hotels in the city and its suburbs, and these hospitality jobs are keeping Peak's construction crews busy, too.

Reilly said that the hospitality industry trends are basically mimicking what he's seen with the industrial market. He compared construction activity in these sectors to a double-hump camel. The end of last year and the first quarter of this year were like the valley between the two humps of a camel, Reilly said.

Today, though, activity in both industrial and hospitality is on the upswing, entering that second-hump phase. Reilly said he expects construction activity to remain on this high throughout the rest of 2017.

"We weren't expecting the hospitality industry to be quite as strong as it is becoming for us," Reilly said. "So that's good for us. It's a bit of a positive surprise right now. We are seeing a nice little jump in new development and redevelopment in the hospitality sector."

Reilly said that the hospitality industry was stuck in a valley for several years after the Great Recession. That has changed as consumers have grown more confident in the economy and in the safety of their jobs. They are now traveling again.

At the same time, businesses are springing for more work trips for their employees, too. That is also providing an economic boost to the hospitality industry.

FOR INDUSTRIAL, AMENITIES MATTER

For the industrial sector, the recent rise in construction activity has coincided with a rising demand for modern amenities. Ecommerce is playing a role here, too, as online companies are demanding space that meets their specific needs.

Reilly said that clear heights have been rising in industrial spaces for the last several years. End users also want industrial spaces that are more energy efficient.

"Ceiling heights that are increasing is probably the single biggest amenity that has been growing over the years," Reilly said. "It's all about how much users can fit into these buildings. As far as energy efficiency goes, you are seeing more insulation and code requirements that make these industrial buildings more efficient than they've ever been."

CONSTRUCTION (continued on page 6)

CONSTRUCTION (continued from page 4)

Chuma added that end users want to make sure that their industrial facilities' amenities are strong enough that the buildings will appeal to a wide range of end users should these owners have to one day sell their spaces.

"The resale value of the buildings is important," Chuma said. "If an owner wants to expand and needs to move to a new space, that owner wants to be able to sell their existing space quickly. Of if that owner is getting out of the business, the owner wants to make a sale quickly."

Like other construction veterans, Reilly has seen the outsized impact that ecommerce has had on the construction industry. The growth in online sales has, of course, hurt the traditional brick-and-mortar retail business.

At the same time, though, it's been a boon to the industrial market. Companies need warehouses and distribution centers in the Midwest so that they can deliver their products more quickly to their customers.

This has resulted in a steady rise in new industrial facilities in Chicago and the rest of the Midwest.

Reilly said that developers in the Chicago area are fortunate in that they have access to a large number of veteran, quality contractors and construction companies.

But because there are so many top-level construction companies in the area, it can be a challenge for these builders to find enough high-quality labor, Reilly said. And as the labor market continues to heat up, this is making it ever more expensive for construction companies to hire good workers, Reilly said.

"There will continue to be upward pressure on overall costs," Reilly said. "There is risk in growing your workforce."