

Asbury Park
Asbury Park, New Jersey



Overcoming High Construction Costs

Alternative Strategies for Greater Value Creation

By Anselm Fusco

Construction costs are rising at unprecedented levels, forcing many developers to reexamine construction budgets and reassess both development and redevelopment strategies. Smart construction decisions, along with advances in green materials and design, can provide much needed savings — as well as the opportunity to rethink whether substantial structural changes are even needed to successfully reposition and modernize aging centers.

Rising Costs

Since 2004, construction material costs have increased dramatically. Asphalt is up 187%, copper and brass are up 207% and iron and steel are up 130%. While the consumer price index has jumped 18% during this period, the producer price index is up 40%.

Most observers blame high fuel costs, a weakening dollar and growing demand in Asia for the dramatic rise in construction prices. Some estimates suggest that as many as 25% of the world's 125,000 cranes are operating in Dubai. The higher fuel costs are impacting the price of

petroleum-based products such as asphalt as well as other materials in the form of higher transportation costs.

The weak U.S. economy, combined with growing demand around the world, will keep prices high and may push them even higher, according to most experts. This reality suggests that plans cannot simply be delayed, but must instead be altered to squeeze additional cost savings while not sacrificing value creation expectations.

Building Greener

Technological advancements, government subsidies and rising energy costs are transforming green building from a marketing story into a legitimate cost savings strategy.

Many state and local governments are now offering tax credits and other incentives to build green. And savvy townships are increasingly willing to tailor green incentives to particular projects because they recognize that construction costs could adversely impact development opportunities in their communities.

Even while rising energy costs are creating havoc for construction budgets, they also have the reverse effect of making energy efficient alternatives far more attractive. In 2004, a geothermal HVAC system's increased up-front cost may not have been recouped by energy savings until year eight. Today, because energy prices have risen over 200% since 2004, the break-even point may be just three or four years away.

Green building technologies continue to evolve and become less costly to implement. Waterless toilets and solar panels are two fast-growing technologies that are beginning to make real economic sense. These trends will continue and construction managers, architects and developers must be proactive in identifying these alternatives.

Building Smarter

Illinois-based Leonardo Construction recently analyzed their prior year projects to determine which elements cost the most. They found that half of the cost was devoted to design and aesthetics, a quarter went to electrical work and the remaining costs were split between HVAC, plumbing and communication/security. The result highlighted the need to carefully examine design decisions and strike a careful balance between contemporary style and longevity. It also found that electric bid swings were as high as 20% compared to other component bid swings that averaged approximately 5%. The findings are a great illustration of the need to carefully manage the bid process and cast a wide net when soliciting subcontractors.

The Leonardo findings are indicative of the greater need to carefully manage and administer the construction process. One way to help shorten the construction phase and save money is to pursue a design-build strategy that integrates the design and construction process through one vendor. As opposed to the more standard design-bid-build, this strategy helps streamline the process while focusing accountability on one vendor.

One drawback to the design-build strategy is its greatest strength — speed. The process can sometimes move too quickly and plans are not reviewed properly to ensure the most efficient materials are used or that revenue-generating space is maximized.

Developers should also explore alternative retail structures. In **Asbury Park**, a New Jersey boardwalk community, Madison Marquette created additional gross

leasable area (GLA) efficiently by converting industrial shipping containers into seasonal retail structures. The containers allow for plumbing and other utilities necessary to satisfy local building codes at a fraction of the cost of building traditional structures. They also add a modern aesthetic that fits into the overall design of the newly redeveloped beachfront area.

Rethinking Scope

Many redevelopment plans call for substantial structural changes aimed at reinventing a center in the eyes of consumers and tenants. However, construction costs have made many of these plans difficult to execute and still achieve good investment returns. In many instances though, the same repositioning objectives can be achieved through more aesthetic upgrades and fewer structural changes.

A great example of this is Madison Marquette's **Bell Tower Shops** — an open-air lifestyle center in the heart of Fort Myers, Florida. Bell Tower has enjoyed a long-standing reputation as the region's premiere retail destination because of its prime location, intimate atmosphere, lush landscaping, unique mix of local and national retailers and great restaurants. Recently however, over 3 million square feet of new retail has opened in the market and has prompted ownership to develop a comprehensive plan to re-invigorate the center and enhance the elements that make Bell Tower special.

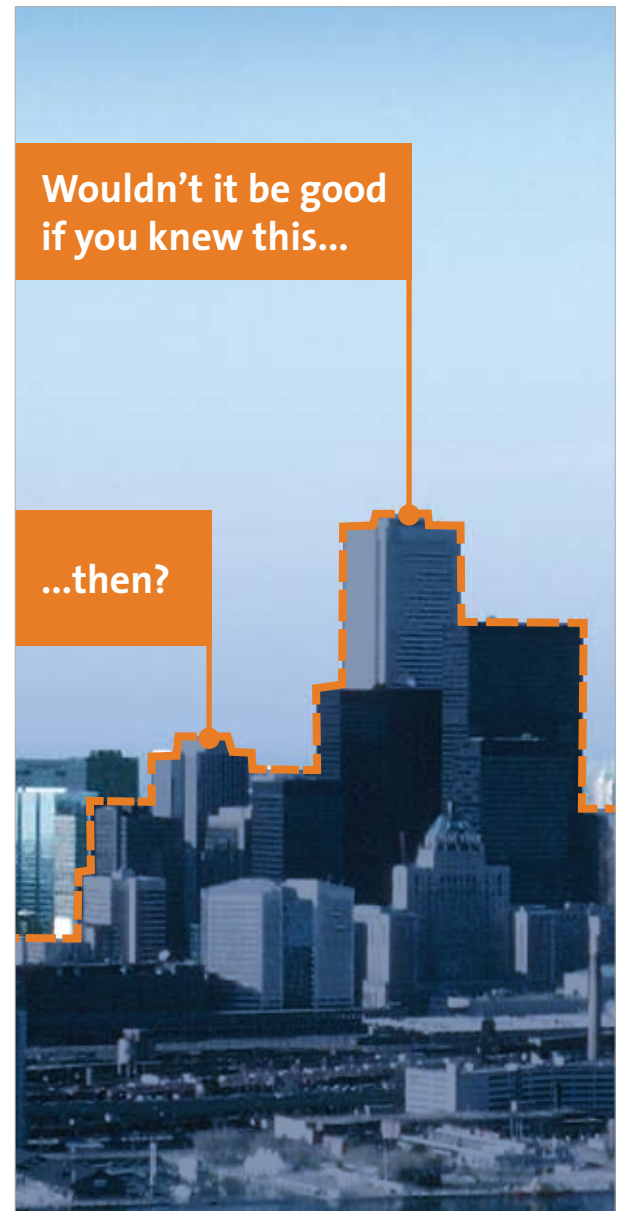
Rather than making costly structural changes to the open-air center's buildings and common areas, Phase 1 plans include a comprehensive series of aesthetic upgrades, new merchants/restaurants and a robust activation schedule designed to appeal to the center's target shopper — women 35–54. An environmental graphics package, new color schemes, landscaping elements, and updated audio and visual experiences will round out the plan. These improvement will have a dramatic effect for a fraction of the cost.

All developers are facing the same construction challenges. The winners will be those who can identify alternative building strategies while still achieving the same level of results and value creation. Construction costs will continue to rise and the stakes will only get higher.

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