

School's In

Designer Sees Education, Public Work As Emerging Sectors In Next 12 Months



Public work and education are two sectors that should remain relatively healthy even through the recession. Projects in these fields completed by Builders Association members in 2009 included (above) DePaul University's Monsignor Andrew J. McGowan Science Building, completed by Bulley & Andrews, LLC, and (right) Wheeling's Village Hall, completed by W.B. Olson, Inc.

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2009 saw significant declines in construction activity across almost all market sectors in the Chicago region. The majority of firms in the AEC community have been hit hard with decreased demand for new projects and much tighter competition for projects that are actually going out for bid. 2010 should see more of the same with a few potential bright spots.

Many firms in the AEC industry across the region encountered a squeeze in their project pipelines and have been forced to make some tough decisions, including layoffs, pay cuts or reduced work hours. The firms that seem to be weathering the storm the best are those who offer a broader scope of services spanning several market sectors. More and more firms are expanding their horizons, chasing work that historically has not been in their niche market. This means that many are finding themselves in larger pools of competition.

Architecture and Design firms, as well as Contractors and Engineers have to work harder to keep even their most secure repeat clients. Clients who typically do work with their preferred Architects, Contractors and Engineers are now seeing many more firms hungry to break into their otherwise niche markets. Clients realize their advantage and have been sending RFP's to more firms than usual. If a client has worked with the same Architect, Engineer or Contractor on a few consecutive projects in the past, they start to see an economy like this as a chance to meet some new faces. This trend has caused extremely stiff competition to get work which many firms historically never had much trouble securing, resulting in firms reducing their fees across the board and looking for new ways to stand out from the crowd.

Larger Architecture firms and Contractors have seen the advantages of working across several market sectors and regions. When one or two areas dry up for a period of time, you tend have more flexibility to

reallocate staff to projects in market sectors that are staying busy. Otherwise those people might be out of a job.

Start up construction projects are predicted to increase by approximately 18% in 2010. Public works and single family housing are two big sectors to keep an eye on. Public works projects, aided with federal stimulus money, are anticipated to be one of the stronger markets this year. Chicago has received nearly \$86 million in stimulus funds for transportation projects, with additional funds allocated for local bridge and highway construction, some of which is already underway.

Education construction is also expected to rise slightly. Several universities in the region currently have projects in the planning stages. With larger projects like these (as well as Healthcare) there are a lot of facets to the Design and Construction process, opening up opportunity (and competition) among firms both large and small. Health/Education Services and the Government sector show signs of job growth,

while Healthcare projects in general seem to be giving Architecture firms a boost in their workload, both locally and across the Midwest.

In the Hospitality sector, construction activity has steadily declined over the past three years. While several new hotels opened their doors in Chicago in 2008 and 2009, there is currently little demand and many hotels are reducing their rates just to keep rooms filled. In Chicago, convention bookings at McCormick Place are one good indicator to predict hotel demand. The convention center has recently lost two trade shows to other cities: The Healthcare Information & Management Systems Society is moving to Las Vegas and the Society of the Plastics Industry Inc. is moving to Orlando, both citing McCormick Place's high costs. The International Home and Housewares show is also considering leaving McCormick place in 2012. Mayor Daley has recently talked about an option to privatize certain functions of the convention center, essentially renting the space out and making trade shows responsible for bringing in their own contractors. Keep an eye on these developments, as a shift in the way the convention center is operated could affect its cost competitiveness and attract (or detract)

more shows to the Chicago market.

Retail and commercial interior office construction probably won't be as strong as other markets. While there were a few recent retail related projects completed in Chicago (Block 37, Metra Market, Barney's to name a few), the retail market still feels like it needs to get more traction to see any significant turnaround. In the commercial interiors market, overall vacancy rates in Metro Chicago are hovering around 16%. With few brand new relocation projects in the works, the majority of the work has been coming in the form of consolidations or renovations. But once companies start rehiring, there should be more work to do in these newly emptied or subleased spaces.

In the meantime, with high vacancy rates and more companies opting to stay put for the time being, building owners are looking for any way possible to fill their space. There are several buildings in the region that are performing both cosmetic and sustainable renovations, the hope being that the value of repositioning themselves will attract more tenants. Most notably, the Willis Tower will be getting a very thorough \$350 million renovation. Other buildings, such as Inland Steel (which is over 50%

vacant) are taking such steps as renovating mechanical systems, retrofitting lighting systems, installing new bathroom fixtures, replacing windows and adding sustainable roofs. On a smaller scale, some buildings are simply renovating their building lobbies and other common areas to refresh their appearance.

Architecture firms are helping to lead the efforts to push for more energy retrofits and overall sustainable construction practices and are counting on Contractors and Engineers to keep up with ever changing initiatives, including the AIA 2030 challenge and the International Green Construction Code (IGCC). Energy retrofits won't go away anytime soon, so the Contractors who can prove successful track records as well as their in-depth knowledge and staff on sustainable projects will have an edge for these projects in the future.

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