

BENEFITS OF BUILDING IN A BAD ECONOMY

By Michael Regina



There is no doubt these are extraordinary times. Highly volatile market conditions and ongoing uncertainty have made it duly challenging for the commercial construction industry and its trade partners. Amid the current economic downturn, now may not seem like a good time to build—especially in the commercial sector. However, while perspectives may differ, there are many benefits to building in a bad economy, which can present unique opportunities. The key is knowing what to look for and maintaining a forward-thinking “visionary” mentality.

“In any tumultuous period of change, the ‘doom and gloom’ set will always find reasons to postpone building projects, but those who actively seek the silver lining and closely assess timing-based opportunities can gain significant advantages,” notes Michael Regina, owner of BIG SKY Enterprises.

Here are four favorable reasons to pull the trigger on a commercial construction initiative during an economic downturn:

1

DEEPLY DISCOUNTED REAL ESTATE

The U.S. has seen property values for commercial real estate drop 20 to 45 percent across the board. In the western states, the decrease has been even deeper. A good example is a recent deal on a piece of land that was under contract in 2007 for \$1.5 million. Eventually, that deal fell apart in the development process for the previous buyer. Now, the current price being paid for that same parcel is \$800,000.

The same goes for new office buildings that sold for \$2.4 million in 2008 that are now selling for \$1.6 million in 2011. Even landlords are doing everything possible to protect their portfolios—from giving away free rent for a year to dropping rental rates to 2001 levels. Owners are looking to reduce their losses. Consequently, this puts more power and control in the hands of the buyer. Additionally, given the fact that real estate owners are cash poor and looking to convert their assets, there is a large supply of land and existing buildings on the market.

ABOUT THE AUTHOR

Michael Regina is the co-founder and owner of BIG SKY Enterprises (www.bigskyllc.com), an industry leading commercial real estate developer, design/builder, and finance firm that strategizes, executes, and oversees every aspect of a project development life cycle to provide clients with single professional contact-point control.

2

ROCK BOTTOM INTEREST RATES

It may be difficult to remember the last time commercial interest rates were this low. It was, in fact, approximately 20 years ago, dating back to the early 1990s. Comparative analysis on new commercial interests in certain markets shows that, today, it is cheaper to own a building than to rent, opting to forego paying someone else's mortgage when rates are so low. Like owning a house, commercial real estate should also be viewed as a long-term investment where it doesn't make sense to just throw money at a landlord each month. In today's market, it's a great time to buy and build.

3

STREAMLINED PROCESSES

Despite downturns, one thing that is full steam ahead is streamlined processes. Even 5 years ago, it seemed to take a lifetime to get any new project approved through various local, county, and state governing agencies. This is definitely not the case today. Now, it appears that these same agencies are starving for fees and are desperate for new projects, when one bears in mind that the fees new development brings support many of these agencies.

It's not uncommon for townships to call construction firms and inquire about new submissions. These agencies need to support the departmental staff that process project paperwork and are eager to know what's in the minimized pipeline. The combination of technological efficiencies and eager reporting agencies has swung the pendulum back in the favor of construction companies who used to be at the mercy of the paperwork bottleneck. In a slow economy, there is a greater ability to control more parts of the process in relation to agencies, which makes it a great time to build.

4

REDUCED COST OF LABOR, MATERIALS, AND SERVICES

The law of economics states that when there is an excess supply of any good or service, the cost of that good or service will drop. This is the case with the

cost of labor, goods, and professional services. Various trades are constantly seeking work from any projects that can be generated during this downturn. This was quite different in 2006 when these same companies were turning down work just as fast as they were growing business with the surplus work they already had. Today, companies

are willing to cut their prices in order to keep their employees, resulting in decreased labor and services costs. ■

Editor's Note: *BIG SKY can provide all the services needed in the project development process, making sure its clients understand the details in order to avoid delays and unnecessary cost overruns.*

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