

HEARTLAND REAL ESTATE BUSINESS®

The Midwest's Real Estate Source

GENERAL CONTRACTORS ADAPT TO A CHANGING MARKET

Project volume and revenues are on the rise, but labor shortages and intense competition pose challenges.

By Danielle Everson

General contractors are encouraged by a gradual uptick in commercial construction activity across the Midwest, ranging from the development of new facilities in the healthcare and higher education sectors to the construction of office and industrial buildings. But the combination of a small pool of skilled workers, stiff competition and unsteady pricing for materials continues to present challenges.

Many skilled workers who were laid off during the Great Recession went into other industries to make a living. "Our national data shows that the commercial construction industry has only recovered about 30 percent of the 2 million jobs it lost in the Great Recession," says Dave Bangasser, president and CEO of Minneapolis-based Opus Design Build LLC. "Activity is continuing to pick up, but it's not uniform across all markets or product sectors."

Scott Wittkop, president of the central division of St. Louis-based McCarthy Building Cos., says the current shortage of skilled labor is one of the biggest challenges confronting the industry. "The cause is twofold. Those tradespeople who left the construction ranks during the recent recession are not coming back. Secondly, there are not enough new individuals deciding to enter the trades to replace those that are retiring," says Wittkop.

The average age of a tradesman continues to rise, Wittkop notes, based on data from human resource consulting firm ManpowerGroup. In 1985, the average age of a tradesman was 36. By 2008, the average age had risen to 40, and today it is approaching 44. (The

Virginia Manufacturers Association's definition of a skilled tradesman — the definition used by ManPower to arrive at those figures — encompasses 21 particular occupations.)

ManPower projects that by 2020, about 25 percent of the construction workforce will be over the age of 55, up from approximately 20 percent today.

Wittkop says one solution is to build alliances between local chapters of the Associated General Contractors of America and high schools or vocational schools. Another solution is to launch high schools that specifically focus on building trades, such as the Construction Careers Center in St.

see **CONTRACTORS** page 20



Last summer, Opus Design Build LLC completed construction on this 208,000-square-foot headquarters for Freightquote, a freight shipping company based in Kansas City, Mo. The four-story facility is made of a steel frame and features architectural precast concrete with a glass curtain wall.

A STELLAR RUN FOR THE SANSONE GROUP

Since 1957, Anthony Sansone Sr. has grown his commercial real estate firm into a full-service powerhouse with the help of his four sons.

By Danielle Everson

In 1957, Anthony Sansone Sr. launched his St. Louis-based commercial real estate company with two employees — one to answer the phone and the other to help him generate business. He's come a long way over those 57 years. Through hard work and perseverance, Sansone and his four sons have built the company into a full-service firm recognized nationally.

Today, the Sansone Group has offices in Missouri, Kansas, Arkansas, Tennessee and Florida and manages more than 20 million square feet of retail, office and industrial property in 14 states and more than 5,000 residential units

see **SANSONE** page 22



Anthony Sansone Sr.

INSIDE THIS ISSUE



Nationwide Plans New Campus at Grandview Yard in Columbus
page 12

Millennials Spark Rebirth of KC's Downtown Multifamily, Office Markets
page 18

Speculative Building Is Back In Some Ohio Industrial Markets
page 19

GENERAL CONTRACTORS ADAPT TO A CHANGING MARKET

CONTRACTORS from page 1

Louis. The charter school provides students in grades 9-12 with broad exposure to the construction industry and relevant career and technical education.

Compounding matters for general contractors today is the somewhat volatile nature of prices for building materials. For example, the cost of precast concrete per square foot has risen 10 percent during the past year, says Bangasser. "Precast concrete pricing is highly variable based on a number of factors — finish, number of openings, how big the pieces are, and how far they must be transported."

Despite the challenges, general contractors and design-builders are involved in a wide range of construction projects. What follows are some highlights of their work.

Higher Ed, Healthcare Wave

McCarthy is building several healthcare projects, particularly in the rural areas of Missouri. It has also undertaken two higher education projects and added a new business unit, which will help to meet the growing infrastructure needs of the country.

Among the healthcare projects the company is currently involved with is the expansion of a clinic and cancer center for Phelps County Regional Medical Center in Rolla, Mo., and an outpatient services hospital expansion at Capital Region Medical Center in Jefferson City, Mo.

The \$37 million expansion project at Capital Region Medical Center will include a new medical office building, new main entry and hospital connector, renovation to the existing outpatient entry and a new covered parking structure. The 120,000-square-foot project is slated for completion in spring 2015.

The new 60,000-square-foot, four-story facility for Phelps County Regional Medical Center includes a walk-in clinic, a full imaging suite, cardiac testing services, breast center clinic and other labs and offices. A physicians' clinic will offer 23 exam rooms and space for various services. The \$18 million project will serve patients in Waynesville, Mo., St. Robert, Mo., Fort Leonard Wood, Mo., and surrounding communities.

Despite concerns surrounding the impact of cuts in Medicare reimbursement to hospitals as a result of the Affordable Care Act, there are many rural healthcare systems that have been performing quite well and have strong balance sheets, says Wittkop. These systems can invest in new facilities and feel confident that the resulting return on investment will achieve the level envisioned in the project's business plan, he notes.

McCarthy is also working on some



MC Industrial Inc., a sister company of McCarthy Building Cos., will manage the design and construction of Ameren Missouri's multi-million dollar project to build the state's largest investor-owned solar energy center. The Ameren Missouri Solar Energy Center will be located in O'Fallon, Mo. Ameren Missouri is an electric and gas provider.

developments in higher education. The company is renovating existing spaces for Washington University and Saint Louis University, both private schools. Wittkop says both projects are tied to science, technology, engineering and math, so-called STEM industries.

"A common theme we are seeing among all of our higher education clients is the desire to maximize the usage of existing spaces. In many cases, we are adapting underutilized spaces to accommodate modern teaching and research needs," says Wittkop.

As a result of a decrease in state funding for academic programs, clients are looking at renovating existing facilities as opposed to ground-up development in order to reduce costs, Wittkop explains.

The company is also constructing Missouri's largest investor-owned utility solar facility, the O'Fallon Renewable Energy Center. MC Industrial Inc., a sister company of McCarthy, is managing the design and construction of this multi-million dollar project for Ameren Missouri, a provider of electric and gas service for central and eastern Missouri. The plan calls for approximately 19,000 solar panels spanning an area approximately the size of 19 football fields.

The solar facility is scheduled to begin delivering electricity to customers by the end of 2014. In an internal company joint venture, MC Industrial and the Southwest Division of McCarthy Building Cos., a solar group out of Phoenix, will complete the project.

Most recently, McCarthy announced that it was in the process of acquiring Castle Contracting LLC as well as CastleGPS LLC, which will help to meet the growing infrastructure needs of the country.

Castle provides civil services, which include projects that use civil engineering — basically design, construction, and maintenance of roads, bridges, canals, dams and buildings.

One of those infrastructure projects is the Gateway Arch South Grounds assignment. The National Park Service announced Aug. 15 that McCarthy Castle JV I of St. Louis, Mo., was awarded a \$13.4 million contract to complete the Gateway Arch South Grounds project, the first CityArchRiver 2015 project on Jefferson National Expansion Memorial grounds.

The project will connect the Arch to the St. Louis and Mississippi River. The construction project, encompassing the southern 26 acres of the Gateway Arch grounds, is funded by Proposition P. Voters approved the project in 2013.

"Civil and infrastructure needs in our communities continue to grow. Our clients are asking for effective ways to approach these challenges," says Wittkop.

The health of the commercial construction industry, measured by the number and quality of opportunities, varies dramatically by geographic region, says Wittkop.

Company-wide, McCarthy's annual revenues remained flat throughout the recession at \$3 billion, according to Wittkop. In the central division, annual revenues dropped from \$650 million in 2008 to a little more than \$300 million in 2010 and 2011. The central division rebounded to nearly \$600 million in revenues in 2013, and the expectation is that revenues will finish at approximately \$500 million this year.

"Our other business units are seeing varying degrees of success as markets fluctuate, but this diversity of markets allows us to navigate these fluctuations with less adverse impact," explains Wittkop.

Aggressive Deadlines

Approximately 50 percent of Opus Design Build's work involves third-party business. Bangasser says his company is seeing the majority of activity in the apartment, industrial and

office sectors.

The company completed the construction of Nic on Fifth, a 26-story high-rise, luxury apartment development in downtown Minneapolis this August, as well as the construction of a 208,000-square-foot headquarters for Freightquote in Kansas City, Mo. last year. This summer, Opus broke ground on a 1.6 million-square-foot distribution center for ConAgra Foods, a long-time client.

Freightquote, an online shipping broker, had an extremely aggressive design and construction schedule, but Opus Design Build's integrated delivery system enabled the company to meet Freightquote's schedule, says Bangasser.

The project timeline was compressed by about 25 percent, enabling the project to be completed in 290 days. Freightquote was even able to make some changes along the way.

"A project like Freightquote, we would not have won that business had it not been for our ability to provide that integrated service of design and construction on a fast-tracked schedule," he says.

Opus Design Build is responsible for managing the design on more than 90 percent of its projects, which Bangasser says makes a difference in successfully completing assignments. "We really understand the design process when we are held accountable for managing the results of both the design and construction."

ConAgra's new dry foods distribution center will be located in Frankfort, Ind. The project includes a 34-foot clear height ceiling, 125 dock doors, 10 rail doors and more than 850 trailer parking spaces. The industrial warehouse is scheduled for completion July 2015.

"It's a very significant project, but I think in particular what is encouraging to see is that ConAgra is a long-term customer of Opus. Opus traditionally has about 75 percent of its new work each year come from a past customer, which we think is validation that we're delivering what we promise," says Bangasser.

Although Bangasser didn't provide any figures, he says that the company's revenues continue to grow each year. "Our overall profit percentage has not changed much, but with the increased revenue comes increased profit. We are seeing signs of limited capacity in some sectors that are allowing certain trades to increase their profit percentage," says Bangasser. "Our projected construction revenue for 2015 is up approximately 40 percent."

'Do The Right Thing'

Peak Construction Corp., a Chicago-based design-builder, is completing a new 302,000-square-foot headquarters and manufacturing facility for SUN-

Owners are becoming more comfortable with investing in new construction projects again.

— Chuck Binkowski, Barton Malow Co.
Senior Vice President of Central Region Operations

STAR Americas Inc., which provides oral health care products, in Schaumburg, Ill. John Reilly, president of Peak Construction, says the project is slated for completion in late spring 2015.

The development includes 80 acres fronting I-90. The three-story corporate facility will include a research and development center, specialized manufacturing, clean rooms and an automated packaging/distribution operation.

Reilly says the company has also worked on an approximately 800,000-square-foot manufacturing and distribution center for Easton-Bell Sports Inc. in Rantoul, Ill. Easton-Bell Sports, now BRG Sports, is a designer, developer and marketer of branded sports equipment, protective products and related accessories.

"We were involved from the very beginning in terms of site selection and providing services as a construction manager/design-builder to carry that ball from the beginning all the way to the end," says Reilly.

As a design-builder, Reilly says Peak Construction differs from general contractors in that the main component in Peak's philosophy is "do the right thing," whether it's helping clients determine that a smaller project is best for them, or finding clients some savings during construction.

"It's got to be client-focused, client-based and truly founded on what's best for your client and what's best for its business model," explains Reilly. "Sometimes that's counter-intuitive to the traditional design-bid-build approach for general contracting, which is really more about what's the best or lowest price for what may or may not be the best solution."

Touchdown for Barton Malow

Chuck Binkowski, senior vice president of central region operations for Barton Malow Co., says the firm is busy completing projects in its niche markets, one of those being higher education.

The Southfield, Mich.-based general contractor has completed an expansion at the north end zone at Michigan State University, and has also completed some repairs on the stadium at Ohio State University.

In addition, Barton Malow is currently working on the Campus Crossroads Project at the University of Notre Dame. The \$400 million project will integrate academics, student life and athletics with the construction of

more than 750,000 square feet in three new buildings attached to the west, east and south sides of the University's iconic football stadium.

Barton Malow has also completed expansions for St. Joseph Mercy Oakland in Pontiac, Mich. and Crittenton Hospital in Rochester, Mich. Barton Malow is also partnering with Indianapolis-based Hunt Construction and Detroit-based White Construction to build the new Detroit Events Center, which will serve as the future home of the Detroit Red Wings. The new arena is set to open in 2017.

"We do have a lot of opportunities at this time, and [businesses] are becoming more comfortable with investing in new construction projects again," explains Binkowski.

"We are seeing a lot of activity in the higher education market as owners are investing in order to maintain their competitive position to recruit new students and are looking to improve the student experience on their campuses," adds Binkowski.

A number of firms, including Barton Malow, are getting back to the basics and staying within their niche markets when it comes to construction work, according to Binkowski. For instance, if a general contractor has developed an expertise in building sports health-care, higher education or industrial facilities, then that company will be more successful in sticking with its specialty instead of trying to compete in commercial sectors in which it doesn't have a strong portfolio.

"The firms that are involved are coming off a tough time. They are leaner than they were, and they are more competitive. I think that's what's driving a lot of the competition in where the market is seeing multiple bidders," says Binkowski.

Binkowski has observed an uptick in commercial construction activity and says the health of the market is good overall, but business is still below what it was before the downturn.

Because Corporate America is beginning to invest in new projects once again, there are more opportunities for Barton Malow to pursue these days.

"Barton Malow has been able to remain profitable due to our diverse niche markets," concludes Binkowski. "By specializing in just a handful of niche markets, we can adapt our business model to capitalize on where there is the most opportunity." ■



The Studio Photography
Peak Construction worked on this more than 800,000-square-foot light manufacturing and distribution center for Easton-Bell Sports Inc. in Rantoul, Ill. Easton-Bell Sports is a designer, developer and marketer of branded sports equipment.

We've got the capital connections to deliver the right results.

RECENT NORTHMARQ TRANSACTIONS



\$60,000,000

Arboretum Lakes

SIZE: 734,000 SF

CITY: LISLE, IL

LENDER: LIFE COMPANY



\$15,000,000

Radisson Hotel

SIZE: 255 ROOMS

CITY: ROSEVILLE, MN

LENDER: NATIONAL BANK



\$15,000,000

Broadmoor at Aksarben Village II

SIZE: 150 UNITS

CITY: OMAHA, NE

LENDER: FREDDIE MAC

**34 Offices
Coast-to-Coast**

**NORTHMARQ
CAPITAL**

MIDWEST REGIONAL OFFICES

northmarq.com

CHICAGO
312.201.8000

OMAHA
402.343.0466

MILWAUKEE
262.923.1991

MINNEAPOLIS
952.356.0100

ST. LOUIS
314.301.1800

KANSAS CITY
913.469.5840