



## Get in line for Spring Industrial Starts

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With the 3rd quarter almost over and the recent memory of a how cold a Midwest winter can be, many industrial developers are pushing off ground breakings until next spring. This coupled with the new construction of over 12 million square feet of new industrial product is creating a unique queue at the precast and steel joist fabricators plants and pushing up construction costs.

Past lead times for precast concrete panels were approximately eight weeks after approved submittals. However, due to the number of new construction starts in an active 2014 industrial market, precast fabricators have not been able to keep up with the demand. As a result, lead times have increased to over twenty weeks. This expanded lead time has started to decrease since new construction starts are being delayed until next

spring for fear of another polar vortex this winter. If a project is not pushing dirt at this time many teams are choosing to wait till 2015 to avoid winter conditions costs.

Furthermore the supply of raw iron ore, the main ingredient in structural steel, slowed this past spring due to freezing of the Great Lakes. The lead time for joist, steel and deck were similar to pre-recession time frames. As the Great Lakes thawed so did the lead time for such material just in time for the anxiety of the fourth quarter to push off starts until 2015.

The combination of these market factors and significantly more investments into industrial real estate are causing construction costs to increase. Developers need to take into account on their proforma that construction costs are outperforming inflation. Almost all construction labor, material, and raw goods have seen significant increases in costs. Per Engineering News Record, the annual construction cost index for the past year is 3.2%. This is considerably higher than the national inflation rate of 1.9% per the U.S. Department of Labor. Much of the increase in construction costs appears to be due to the substantial amounts of work subcontractors have been able to put into backlog. This allows them to be more selective in which job they pursue and the amount of profit they can charge.

In speaking with many Steel and Precast suppliers, the number of spring starts is increasing rapidly and they are expecting 2015 to be another year like 2014.

What does this all mean? Spring construction starts are probably going to exceed market capacity of critical construction components. If developers want to be market ready by mid-2015, and avoid fall starts, then they need to be awarding to their construction team now and lock in their delivery dates with critical path subcontractors or they could be left out of this wave of industrial building boom.

*Steve Golumbeck joined Peak in 2014 as Senior Project Manager. Steve's primary responsibilities include the acquisition and management of new projects and promoting and reinforcing Peak's core markets. Additionally, Steve facilitates project management collaboration and provides knowledgeable support to the entire Project Management Team.*

*With over 19 years of project management experience, Steve's seasoned perspective, specifically in the industrial, retail and hospitality markets, complements Peak's robust expertise. He has the ability to quickly adapt to changes while understanding and communicating a variety of solutions for the clients, ultimately keeping the project on time and on budget.*

