

BOARD TALK

Eyeing the rest of the year

As the commercial construction industry continues to work itself through these trying economic times, we will ask our Editorial Advisory Board to lend their insight into the various trends, issues and challenges impacting all of us. Each issue, we will get their input on what's happening in the marketplace. Following is an edited version of their responses to our industry question.

As we head into the middle of 2010, what are your thoughts on how business will shake out the rest of the year? How is your planning going?

While we are beginning to see some small signs of recovery in the general economy, we expect the hospitality environment to remain challenging for the balance of this year. There are still no new development opportunities. We expect some potential for acquisition and re-branding in the upper upscale and luxury markets to develop later in the year. We are continuing to execute our long-term capital plan with only minor modifications. We view 2010 as a year to prepare for the recovery and the improved levels of business that it will bring in 2011 and 2012.

— **Richard Senechal, AIA, senior VP, facilities, Loews Hotels**



Our development plans for 2010 have not changed. We continue to develop new banking centers that are already in our pipeline of projects. We constantly monitor the progress of commercial developments throughout the country that we have identified as areas for our growth. As the economy strengthens and developers proceed forward, we will be ready to react accordingly.

— **John J. Carde, senior VP, retail director, corporate workplace, Bank of America**



The biggest issue is the oversupply of architecture and engineering services, and a complete “reset” of pricing. In many cases, to stay in business, firms have drastically cut their fees to near or below cost. Where a typical project may have had a \$15K fee, in today's market, the project would be worth \$9-12K. People are actually buying it for \$6-7K. People naturally think “survival of the fittest,” but that isn't always what I see.

It's not just the firms that don't have quality or value in their offer that are going under. I frequently hear the phrase, “what clients value,” and I hate it because I think that we, in this profession, have set our value below what our clients would have. I wonder if we'll ever be able to go back to where we once were. (Much like retailers that have trained consumers to never buy unless it's discounted) it may take five years or more to get back to the \$9-12K fee range.

— **John Miologos, AIA, NCARB, CSI, executive VP, architecture & engineering, WD Partners**



The hospitality construction sector is in a very challenging environment at this stage of 2010. The current cycle and timing of the sector has effectively paused any new ground-up construction. New loans for hotel development essentially ended in mid-2008, so construction loans on hotels that were approved prior to then permitted hotels to be built and finished by the end of 2009 and early-2010. Now that this timeframe has passed and construction on these hotels is completed, we're not seeing any new products coming out of the ground; the focus has shifted to repositioning of existing product through renovations and rebranding.

We believe there will continue to be limited, if any, development of new hotel projects through the end of 2010. General contractors will be positioned well to pursue renovation projects on a large-scale basis for full-service hotels and refresh/rehabilitation basis for select and limited-service hotels. Virtually all funding for these projects is private equity, so owners and asset managers of hospitality assets will be very keen on keeping renovation budgets to an absolute minimum.

Our internal focus has shifted from new development of hotel product to acquisition and renovation of existing products in selective markets. The year 2010 will be a unique year that will afford opportunities to those best positioned to take advantage of the current market, but also a challenging year for those who are unwilling to recognize and adapt to the market conditions in our industry.

— **Punit R. Shab, president, Liberty Group of Companies**



The balance of 2010 will show signs of recovery and exploration. Optimism will energize our industry. Many clients will seek opportunities and help craft good solutions that will be ready to move forward in the next 16 to 24 months into full design. We see that the majority of the domestic work is very conceptual in nature preparing for the next window of expansion and development.

Internationally, there are a few markets that seem to be stable and viable. We see this in emerging markets that did not experience the extraordinary development and speculation that the other parts of the world participated in. Also, areas such as China and India have a massive population and second- and third-tier cities that are experiencing serious growth. There lies great opportunity. We see good opportunity in China, India, northern and southern Africa, South America and a few other spots.

International clients are seeking the American design. The large majority of this work will include planning, concepts, schematics and design development by U.S. firms. The delivery of documents in most cases will be delivered locally.

All said, HKS is focused on extending its design reach and building studios that can react locally and quickly. HKS has established offices in the UK, India, UAE, China and Brazil.

— **Nunzio DeSantis, executive VP & director of hospitality, HKS**

