

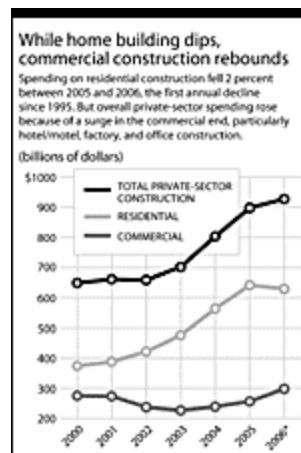
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# Building slump? Not on the commercial side.

**A US construction boom in office towers, retail space, and warehouses contrasts the dormant housing market.**

By [Ron Scherer](#) | Staff writer of *The Christian Science Monitor*

**NEW YORK** - The residential housing market may be hibernating this winter, but hard hats around the country are increasingly busy setting I-beams and rivets on new towers, warehouses, industrial parks, and retail space.



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SOURCE: US COMMERCE DEPARTMENT/SCOTT WALLACE – STAFF

- For the first time in 20 years, developers are building two new office towers in downtown Denver – even prior to tenants signing leases.
- In Cambridge, Mass., a developer has already resold a combination of laboratory and retail space before the doors open.

- And in Woodstock, Ga., as is happening elsewhere, a group of carpenters, brick masons, and electricians are working on a "mixed use" project – in this case, a \$50 million revitalization of the historic district.

Residential construction fell 2 percent last year, but private commercial construction rose 16 percent, and public construction was up 10 percent, according to the US Census Bureau. The last time the business was this strong was seven years ago, says Kenneth Simonson, chief economist for the Associated General Contractors.

Behind the commercial-construction push is a combination of powerful economic forces: For one, gigantic investment pools – some from overseas – are looking for places to invest. Also, an enormous growth of imports into the United States is spurring a rush to build new warehouse space. Moreover, developers are building new communities that offer environmentally friendly spaces to work and require less commuting time. These complexes also offer nightlife and restaurant options.

In some areas, commercial rents are rising, reflecting the growing demand for first-class office space. "There is a shortage of space in various markets around the country," says Alan Beaudette, chairman of the National Association of Industrial and Office Properties in Herndon, Va. "A growing economy justifies new industrial and retail projects."

Indeed, some construction specialties were soaring last year. Construction for new hotels was up 52 percent compared with 2005, according to preliminary figures by the US Commerce Department. Likewise, factory building rose 20 percent, and office building 18 percent.

The pickup is so strong that it has absorbed many workers who had been involved in residential construction. Last month, for example, while 80,000 jobs were lost in residential construction, commercial contractors hired 180,000 workers.

That's no surprise to Brian O'Neill, chairman of O'Neill Properties Group in King of Prussia, Pa. "We're targeting workers who have been building houses. We're happy to have them," he says.

Mr. O'Neill expects to do \$1.6 billion in business this year – double his best year ever. Some of his projects are typical of the vibrant construction economy: He's building offices for technology companies, healthcare

providers, and consultants. In Malvern, Pa., which used to have a steel mill, his company is erecting a mixed-use community that will total 1.6 million square feet.

The business is now so good that some construction executives are worried. "We are always concerned when there is so much money out there, it entices people to build what should not have been built in the first place," says Mr. Beaudette, who is also senior vice president of Lowe Enterprises Real Estate Group in Irvine, Calif. "[Five to 10 years ago], it was easier to find high teen returns on your investment, and that is now more difficult."

In fact, the commercial construction market is driving up the price of essential building materials such as cement, steel, and gypsum. And it goes beyond commodities: There may even be shortages of contractors who can handle complex projects, says Bill Scott, executive vice president at Linbeck Construction in Houston.

"Clients want more individual control, more capability, and flexibility, which adds complexity to how buildings are planned," he says. "There is going to be a shortage of good contractors for highly complex projects."

For example, his company, which normally does not build warehouses, is erecting a large warehouse in the Port of Houston for a long-term client. "It's being planned so the client has great flexibility to rent to a wide variety of people – and that means complex lighting and fire protection," he says.

The Houston project is just part of a huge explosion of warehouse construction. In the Port of Houston alone, some 3 million square feet of new space is being added, Mr. Scott says. "It's all part of the drive to get goods unloaded from ships and moved across the country."

Even some parts of the country where construction has lagged in the past are experiencing a boom. That's the case in Denver, says Michael Brendle, a design principal at the architectural firm RNL. A 22-story tower and five-story building – both being built to "green" standards – are going up in the downtown area. The developer is building them on "spec" – that is, without major tenants signed up in advance. "It shows a lot of confidence in the market," says Mr. Brendle.

One of the hottest building concepts is mixed-use development. Cheri Morris, CEO of Hedgewood Commercial Properties, is involved in a \$50 million restoration of Woodstock, Ga., outside of Atlanta.

Like many new projects today, Woodstock is trying to use "sustainable" principles. For example, Ms. Morris says, "We feel every resident should be able to get into the village in a five-minute walk." In addition, homes are placed on smaller lots, leaving more room for common space. The completely remodeled village is scheduled to open by December of this year.