

Constructive Critique

Development experts discuss the multifamily surge, labor shortages, and costly regulations.

The building trade, as a local economic barometer, is both constructive and instructive. The biggest development news of late is the approval of Beitler Real Estate Services' \$125 million development proposal for Judge Doyle Square, which includes a 252-room hotel and 210 apartment units, but that's not all. The City of Verona will realize quite a tax revenue windfall — \$21 million in all, to be split among local tax jurisdictions — from the closing of a TIF district on the Epic campus. Despite persistent obstacles, Madison College President Jack Daniels III still wants to build a south side campus, and Summit Credit Union is mulling a consolidation of its administrative offices into a multistory headquarters on the isthmus. All of this comes amid the continuance of multifamily housing, often accompanied by street-level retail and commercial space, as the dominant construction type. In this, our annual industry roundtable on construction and development, we look at whether existing trends will continue.

Moderated by **Joe Vanden Plas** • Photographed by **Shawn Harper**

Panelists, left to right:

George Cullen, project manager for the industrial division of JP Cullen

Travis Schreiber, account executive and director of surety practice, M3 Insurance

Matt Meier, vice president for real estate development for The Alexander Co.



VANDEN PLAS: There's a lot of building in general, but how is the construction business from your individual perspectives?

CULLEN: You hit the nail on the head. It's really busy. Two markets that are especially active for us right now are our health care and industrial markets. We're seeing that throughout Wisconsin. Just recently, listening to a presentation from Gary Brown, director of campus planning at UW-Madison, there seems to be a backlog of work for the university that should be coming up in the years to come. So not only is the private work very busy in industrial and health care, but there should be some public work trailing just behind, as well.

VANDEN PLAS: Matt, The Alexander Co. does a lot of adaptive reuse projects around the country, so how's business from your end?

MEIER: It's busy. There's been a trend toward moving back downtown, and we've been a part of that since the early '80s. There are a lot more people involved in that market now. There are a lot fewer empty historic buildings in most markets but the trend is definitely apartments in urban areas, and we're seeing that all over the country, not just here.

VANDEN PLAS: For the same reasons as here?

MEIER: There's a tendency in the millennial generation to want to be close to where they work and play, and there are people who want to rely less on driving a car and commuting small distances. There's also a tendency to rent versus own, and that's all combining to create a lot of demand in urban centers.

VANDEN PLAS: Travis, what are your construction clients telling you about this?

SCHREIBER: They're growing. We're seeing evidence of growth in sales, in payrolls, and in expanded risk as we help people manage their risk, buy insurance and bonds, and keep them safe. We see a lot of growth, and our people are handling the work that they have now with an eye toward the future and, hopefully, managing their growth. Otherwise, there's evidence where it can get out of control



— George Cullen, project manager for the industrial division of JP Cullen

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to the point where businesses can't keep up with the growth.

VANDEN PLAS: Aside from construction on the Epic campus, where you might see offices and other types of construction, the momentum that's been generated is primarily multifamily with a smidgen of street-level commercial and new hotels, and occasional headquarter relocations like Fiskars' new facility in Middleton. Does anybody here anticipate a change in multifamily's status as the dominant construction type, or as long as Epic keeps adding hundreds of new employees a year we're going to see multifamily dominate?

SCHREIBER: I probably would've said yes a year ago to seeing something swing back the other way on multifamily but it hasn't happened. There are a lot of fundamentals that I hear about that are pretty strong. Financing is available. Vacancy is pretty low. Developers are taking a risk in building projects. Construction companies are able to meet that demand. It's only natural that it's going to back off at some point and perhaps diversify. Mixed use certainly isn't going anywhere. That's a trend that's here to stay for a while. As that demand is there in the marketplace, and as people are willing to make investments, those other sectors will grow and I think everybody has a keen eye on when that's going to be.

VANDEN PLAS: George, is anyone planning multifamily going to be caught holding the bag anytime soon?

CULLEN: It doesn't seem like it. It still

seems like a very active market. We finished 306 West Main with The Alexander Co. Along with the multifamily, especially downtown, we're starting to see businesses expand. Zendesk is a great example of a client that we have in the US Bank building. They're expanding in their current office space because people want to live where they work.

It'll be interesting to see, now that all these apartment buildings are going up downtown, whether there will be an influx of more offices, as well. The ultimate dream is to be able to walk to work, right? In other markets, we're seeing that our clients are looking at how can they make strategic capital investments to better their facilities. It's not always these new ground-up buildings. It's always nice to be building, but we're seeing a lot of remodels of offices because people need to make sure that they've got nice spaces so that they can recruit talent into their companies.

MEIER: Multifamily definitely has been hot and we haven't really seen a slow-down, but at some point it's going to become a more balanced mix. There's a lot of new inventory that's hit the market and it's done well, but there's a lot more inventory that's being built now and that's in the planning stages. That's been driven, in most part, by people wanting to rent versus own. That pendulum has swung from ownership when we saw all the condominiums being built, and at some point it's going to start moving back toward equilibrium. A lot of the millennials eventually will want to own their own home as they become more

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Playing Catch-Up With New Regulations

Among regulated industries, the construction industry is no different in its frustration when it senses that government regulations are coming from every angle. More than a few industry interests have expressed concern about the feasibility of the federal government's new crystalline silica rule, which sets a lower permissible exposure limit of 50 micrograms per cubic meter of air.

The rule, established by the Labor Department's Occupational Safety and Health Administration (OSHA), already has been challenged in court. The main concern is the new limit, which is about half the current exposure limit established 45 years ago, is far beyond the capacity of existing dust filtration and removal technology. OSHA estimates the rule would save 600 lives each year and prevent another 900 new cases of silicosis, an incurable lung disease, but the business community has questioned both its technical and economic feasibility.

Members of our roundtable panel acknowledged the need to protect workers from high levels of crystalline silica, a potentially deadly dust found in rock, sand, and other materials, but would like to see more government and industry collaboration.

They also have the most to lose from unsafe practices and substandard safety equipment. "We don't want to wait until a law dictates what we're supposed to do on our job site," states George Cullen of JP Cullen. "We want to make sure everybody that comes to work is able to go home in the same condition they came in."

Travis Schreiber of M3 Insurance says the industry doesn't seem to know how to meet this mandate, and adds there's real nervousness and apprehension. He notes the industry has enough of a problem with an existing worker shortage to have prospective workers concerned about OSHA violations, but also knows that when technology is not keeping up with

regulations, it's a problem because "people working in construction are always wondering how they get something done."

The Alexander Co.'s Matt Meier notes that every time OSHA creates a new rule or anytime building codes are updated, there's a cost associated with it. The same is true with regulations imposed on other industries because they can have an impact on construction costs. For example, regulations associated with the Dodd-Frank financial reform law not only increase reporting requirements for big banks, but builders also spend a lot of time responding in order to help their bankers comply.

"All these areas coming together contributes to the cost, and that again leads back to another issue in providing affordable housing in the country," Meier notes. "It's a big problem. You've got housing costs increasing considerably faster than incomes. We need to weigh the cost as well as the benefit when new rules are passed."

established in their careers.

We haven't seen it yet but it will start to shift and we'll see more ownership units, more single-family homes being built. The ownership market right now is extremely tight. There's two to three months' worth of inventory in the marketplace right now, and eventually that is going to drive some ownership housing construction, as well.

CULLEN: As the millennial in the room, I think it's no secret that people want to rent, especially people my age. They see a lot of positives in that. They're not tied down. They've got the ability to move from place to place. I can't really speak for the whole generation, but as a person who just bought a home, I miss the days of being a renter and not having to worry about mowing the lawn and shoveling the snow. There are a lot more options downtown to rent than to own in a lot more affordable ways, so I think that's why you're seeing it.

SCHREIBER: The pendulum may start swinging — we're using pendulum a lot — as we start to see more people look at home ownership as a means to build some wealth, to establish roots. There are some challenges in the single-family market in that there's very little inventory and lots are not being brought on line. There are some issues with the number of lots that are available to build new construction, so that could keep it from growing as fast as it could. A lot of single-family, residential remodelers have been very busy as people move out. Maybe baby boomers are moving out and other people are leaving an apartment coming in and making that home what they want to be, so there's a lot of associated and spinoff construction that is tied to that generational movement.

MEIER: I would just follow up on the commercial market. Commercial tends to lag residential in an economic recovery, but we're seeing more of an economic recovery now taking hold. The market's been absorbing commercial space and it's becoming a little bit tighter. There's about 13% vacancy in the office market right now. Rents are still below what it takes to build new commercial buildings and we haven't seen a lot of speculative office development at this point,



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— Travis Schreiber, account executive, M3 Insurance

although there is some being done downtown in the planning stages. As we see that occupancy, that additional space being absorbed and the rents start to increase, we'll see some more commercial in the years ahead.

VANDEN PLAS: Is Madison's interest in creating an entrepreneurial hub likely to create more interest in commercial offices? For example, Gebhardt Development's Cosmos building is going to bring additional space for startups.

CULLEN: I would think it most definitely will create more interest, and we've seen that model already with two clients of ours — Epic on a huge scale and then we've also seen it with Zendesk, which I talked about earlier. There are startups out there that are looking at what Epic has done and that's something they'll try to emulate, which obviously isn't easy to do. That would be a lot of peoples' goal and not only in the technology hub. We're also seeing activity in health care and biotechnology. A great example of that is not necessarily in Madison but SHINE Medical just got approval to build in Janesville. There are a lot of exciting new companies that could definitely add to the growth of Madison and Wisconsin.

MEIER: In the long run, the support services and resources that are being discussed to help young companies expand more quickly will ultimately help some of them become larger, successful companies. Obviously that will drive some growth in the commercial market if they're successful at doing that. I say in the long run because as part of that [Cos-

particular type, like hotels or health care, or more of what Otto Gebhardt is doing at the Cosmos?

MEIER: We've seen a lot of hotel development happen already in the Madison market, and even more so in other markets. In Kansas City, there are a dozen hotels that are either under construction or under development in the downtown. I was just in Oklahoma City and there are 10 hotels announced in a six-block radius. It's unprecedented, the number of hotels that are being built, but we're going to see more in health care and senior housing because if you look at the bell curve with the baby boomers aging, there's just a huge population that's getting older. There's going to be a need for more space that can provide services for that age group.

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VANDEN PLAS: Let's look at the labor situation. Based on information from

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the Bureau of Labor Statistics and the optimistic report the state released about job growth in the state over the past year, construction is one of the top occupations for projected job growth. Yet the most recent recession caused some people to leave the industry. With the state economy gaining some traction, how is the industry doing in luring people back or attracting others?

MEIER: Not fast enough. I'm in the development field, so I can tell you the labor market is really tight and everyone in the skilled trades are extremely busy right now. The subs [subcontractors] are struggling to keep up with demand, and we're seeing the demand for construction services driving construction costs significantly higher, and there's no end in sight to that. With increased costs, it's really causing people who are building housing to build at the high-end rents because it's not even really possible to build anything remotely affordable right now. That's leading to a potential crisis for affordable housing nationwide because costs are just keep going up and up.

CULLEN: As far as the labor situation, it's definitely one of our hottest issues right now. How can we get good, qualified people who want to join the construction industry? We go about attracting people in three different ways. The first is we have career fairs. It's really a marketing effort for us to show young people that you can do great, meaningful work and at the same time make a good amount of money in the construction industry. The other thing is we provide scholarships to area schools to encourage students to go to college for the construction industry. We're at about \$25,000 in scholarships that we do, and we also partner with area high schools and technical colleges. That way, the people, especially the technical colleges, can go and get a two-year degree



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and many times start working and make more money than their four-year counterparts out of college.

VANDEN PLAS: You've had to be proactive as companies.

CULLEN: Most definitely. It's definitely a proactive approach, and we can't sit back and just hope people are going to come to the construction industry. It's just not going to happen.

SCHREIBER: I've seen an industry coalesce around this issue at the association level, the Association of General Contractors. A lot of the trade schools reach out and try to find young people and expose them to the construction industry. As demographics change, and we've talked about how that impacts housing needs, it impacts their choices and what their preference is for a career and what it will be. I'm involved with a program locally, which J.P. Cullen sponsors, called Kids Building Wisconsin, where we're look-

ing at taking that targeted effort in the high schools and even earlier in middle schools. We talk about what a fun industry it can be, how it's rewarding, and the sense of pride people have when they see something they've built.

Construction is not the only industry that's in a talent war. Everybody is. Everybody's trying to find the next hire to help move business forward, and it's very competitive. The industry is doing a good job at putting their best foot forward and saying, 'Look at us. We're the place to be.'

VANDEN PLAS: Are they surprised when you tell them it's a little bit more attractive than they perceive?

SCHREIBER: Sometimes they are surprised. I graduated from the University of Wisconsin-Platteville, and one of the professors talked about how their demographics of the student, what that student profile looks like, has changed so much from what it used to be. Platteville used to attract more of the rural farming

student who had experience working with their hands, had experience solving problems on their feet. They don't have that now. Kids aren't coming in understanding how to use a hammer or how to turn a screwdriver. That needs to be taught in hands-on training. It's surprising when people can realize the opportunity there — in particular, the opportunity and the future income potential of not going into debt with college, and coming out of school entering into an apprenticeship and working through that program to become part of the skilled trades. Their earning potential is pretty high and that surprises people.

TECHNO TALK

VANDEN PLAS: We often talk about how technology, especially disruptive information technology, affects various industries, but what technological advances, disruptive or otherwise, are transforming construction?

CULLEN: When we look at technology and using it on our projects, it's got to do three things. It's got to reduce cost, help us with schedule, and reduce the risk. That's really what prefabrication does for us. It allows us to take items that were traditionally built out on the face of the work and either put them back on the ground or put them into a warehouse where we have a lot more control over those conditions. With prefab, we're able to reduce schedules for our clients. Some of the projects we're doing right now, let's say the traditional schedule would take 15 months. By using prefab and finding every way we can to reduce our schedule, we're down to about 12 months. Not only does that save the owner money and construction cost, but it also gets them into their building quicker and allows them to start generating revenue with that brand new building.

SCHREIBER: We're seeing the construction industry invest in technology more than before, and it's because of those things George mentioned. It's increasing the speed in which a decision can be made through improving collaboration, improving visualization of what used to be just a two-dimension plan. Now you can see that in three dimensions, understand conflicts, and have a real-time meeting to solve them. It means, hopeful-

ly, fewer disruptions, fewer field design changes, and when there does need to be one, it can be made quickly and keep a project on schedule because time is money. Amid a labor shortage, the more you can use technology to help manage data and help reduce the burden on some of the people out in the field and in the office, they don't need to hire that extra person as quickly.

MEIER: One big disruptive technology that's coming is self-driving cars because it has the potential to change the transportation landscape, especially in urban areas. If you think about self-driving cars becoming cabs, and the Uber technology that goes with that, and then you think about the potential for self-driving buses and the decrease in cost in public transportation and in just personal trips, it could result in a lot less people wanting to own a car, especially in an urban environment. That's really going to change how we think of our downtown areas especially, and how we think of building in the

future. Parking is a huge aspect of any project, especially downtown where you have to build huge parking garages for everyone's personal car, and so that has the potential to be pretty disruptive technology going forward.

SCHREIBER: What we're talking about, primarily, is vertical construction, and there's still the need for a strong infrastructure, and there's a real issue where we're getting bad reports on the status of our infrastructure. The report card from the American Society of Civil Engineers has not been glowing. We need to look at sustainable funding mechanisms, making sure that when we build these great areas and when we have these great projects people can get there and we can still move goods around the country. With infrastructure, be it water, be it sewer, be it streets, roads, and expressways, there must be concerted effort at the legislative level to address some of these infrastructure problems and come up with a comprehensive funding solution. **IB**



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