

No longer run-and-gun: Dealing with a normalizing commercial construction industry

By Dan Rafter, Editor



One of the bigger projects that Krusinski is involved in today is the consumer packaged goods (CPG) distribution center it is building for Kraft Heinz at the Chicago West Business Center in DeKalb, Illinois.

Hurdles? Commercial construction companies face plenty today. The cost of construction materials continues to rise. Labor is more expensive and difficult to find. Then there are the high interest rates that have slowed sales and development activity across the commercial real estate business.

It's combined to make navigating the business a true challenge today for commercial construction professionals.

But the good news? There is hope. The Federal Reserve Board has signaled that its interest-rate tweaks might be nearing their end. The price of materials isn't rising as quickly as it once was, at least for some components. And the wait times for construction materials are finally starting to ease.

The big hope is that economic stability

will return to the country and industry sometime next year, and that this will make life easier for commercial construction companies.

"Yes, these are challenging times," said David Julian, vice president of business development with Oak Brook, Illinois-based Krusinski Construction Company. "But the bigger and broader answer is that deals are still getting done. Buildings are still getting built. It's much more challenging today, especially from the capital investments side. But there is still construction activity."

Not all commercial properties are created equal, though. Julian said that certain property types are more difficult to build today.

He points to his experience at the I.Con Cold Storage 2023 conference recently held in Atlanta. Those participating in the conference said that it's espe-

cially difficult to build spec properties today. Getting the financing for these projects is a hurdle that is too difficult for many deals to overcome.

But it's far easier to qualify for financing and complete build-to-suit projects, Julian said.

"Those build-to-suit projects are still challenging because of rising interest rates and escalating costs for materials, but those deals are less cumbersome than the spec projects," he said. "It's one of those things: We were going 150 miles an hour when it came to construction activity. Now we are going 100 miles an hour. We are not going as fast, but we are still going 100 miles an hour."

That brings up the big question: Would commercial construction activity have slowed this year – or maybe next – even if interest rates didn't increase so dramatically?

Maybe, Julian said.

"I think normalizing is a good way to describe this market," Julian said. "You can only sustain the pace we were on for so long before you run out of gas."

Julian points to the actions of some of the larger distribution and logistics companies today. They are slowing their requests for new distribution centers and warehouses. But that doesn't mean that these big players don't need any new product.

"They went real fast, real fast, real fast for a long time. Now they have slowed down," Julian said. "But they haven't stopped completely. There are plans in place for them to approach that side of their businesses in a more strategic way. That's normal. It's no longer 'run-and-gun.'"

Julian said that Krusinski has seen an increase in opportunities in the manufac-

turing arena. That's largely because of how fast technology is changing. Many of Krusinski's manufacturing clients, those dealing in the food-and-beverage, products and services industries, need to reinvest in their technology.

These clients, then, need updated buildings and improved efficiencies with their power and waste systems.

This doesn't mean that some projects haven't been pushed from 2023 until next year. But there are many reasons for these changes. It's not just because of interest rates and higher construction costs.

A land deal might have fallen through. The client might not have been able to get the land it wanted. As Julian says, it's not always high interest rates and costs that scuttle a deal.

"There are a million-and-one reasons for a deal to die," Julian said. "So many times, when a deal goes sideways it's something that we haven't seen before. We can then check that reason off the list."



David Julian

Overall, though, business is good at Krusinski. Julian says that the company celebrated its fifth-best year last year.

One of the bigger projects that Krusinski is involved in today is the consumer packaged goods (CPG) distribution center it is building for Kraft Heinz at the Chicago West Business Center in DeKalb, Illinois.

The project is a partnership with Krusinski, the Kraft Heinz Company and Trammell Crow Company to build one of the largest CPG distribution centers in North America. The \$400 million center will cover 775,000 square feet when completed.

The new facility will feature national railway access served by Union Pacific Railroad and automation technology, including a 24/7 automated storage and retrieval system.

The project will bring 150 new jobs to the DeKalb region.

"Overall, the attitude out there is optimistic and positive," Julian said. "It's just a bit more challenging. When times get more challenging, you get closer to your own business, get closer to your client partners and take that ride together."

While rising construction costs remain a challenge, there is some positives here, too. Julian said that the costs of some materials have come down, including steel, wood and timber.

"Are these costs going to get as low as they were pre-pandemic? No," Julian said. "Again, the market is normalizing. Are these costs higher than they were? Yes. But the materials costs today are not preventing companies from building new buildings."

There's also some positive news surrounding interest rates. No one knows exactly what the Federal Reserve Board will do with its benchmark interest rate. But the hope is that the Fed is at least nearing the end of its rate hikes.

If it is, that will bring much-needed stability to the interest-rate environment. And that, Julian said, is what developers and commercial real estate professionals are looking for.

"The good news is that even though interest rates have climbed, deals are still getting done," Julian said. "These issues are getting worked through over time."

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