

Overcoming uncertainty: Texas' construction industry still strong

BY BRANDI SMITH



James Sullivan via unsplash

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Just about anywhere you look in Texas' largest cities, there are signs of new construction. But that doesn't mean everything is hunky dory. In fact, builders are jumping through ever-changing hoops to bring new product to the market due to a number of factors.

“We have fought through COVID, oil prices tanking and the over-built industrial sector, which we have referred to as the ‘triple whammy’ in Houston,” says Radie Stroud, Vice President and General Manager for Alston Construction Company's Houston office. However, we have strong tenant demand that seems to be driving growth with no end in sight.”

Jerry Yan, Project Manager for Grandview Construction, says the expansion of Greater Houston brought an increase in employment and in wages for those with experience.

“The Houston area alone has seen a spike in commercial real estate construction over the last decade,” he says.

In Dallas, Alston's Vice President and General Manager Scott Matthews calls the construction market odd.

“Some developers are running to the sidelines, shedding land and shuttering projects while other developers are running full steam ahead, seizing the opportunity provided by competition standing by,” he adds. “There seems to be no consensus in the direction of the market other than it's changing.”

That's something Chad Schieber, Chief Marketing Officer at The Beck Group, is seeing too.



Scott Matthews



Chad Schieber



Brittany Schneider



Radie Stroud



Jerry Yan

“Our challenge today is deciding which deals move forward versus the ones that might pause due to the current economic headwinds,” he says.

Schieber adds that most sectors are still experiencing substantial expansion, especially healthcare.

“Significant ground-up projects and longer-term renovations have kept our design and construction teams busy,” he shares.

The Beck Group was chosen to provide construction for the expansion and modernization of the Ascension Seton Medical Center’s Women’s Pavilion in Austin. It’s also working on the TCU East Campus Student Housing & Dining in Fort Worth, as well as designing and building a new parking garage for JPS Health Network.

Alston’s Dallas team says industrial construction is still hot, but cooling a bit. Brittany Schneider, the company’s Director of Business Development in Dallas, points out her team has seen a shift from speculative pursuits to more build-to-suit opportunities.

Alston is starting a new project in Forney for a repeat customer. It will consist of three buildings, totalling 1,137,492 square feet.

Down I-45, Stroud says light industrial commercial warehouses are going up due to exceptional demand. Alston is about to break ground on a 1.2-million square-foot spec warehouse for repeat client Lovett Industrial. It’s the company’s first project in Conroe.

Continued on Page 30>

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< **Construction** Continued from Page 29

“It seems we are seeing many new players/contractors getting into the commercial warehouse space these days making things more competitive,” he adds.

A key reason for that demand could be the sheer number of people moving to the area, which is also contributing to a strong housing sector, according to Yan.

An advertisement for the Real Estate Council of Greater Fort Worth. The background is a low-angle shot of several modern skyscrapers reaching towards a blue sky with light clouds. The text is overlaid on the image. At the top, it says "BECOME A MEMBER JOIN THE VOICE OF COMMERCIAL REAL ESTATE". In the center, there is a logo for the "REAL ESTATE COUNCIL of Greater Fort Worth" with the tagline "the voice for commercial real estate". At the bottom, it says "WE EXPAND RELATIONSHIPS, DEVELOP LEADERS AND ADDRESS DEVELOPMENT AND COMMUNITY CHALLENGES." and "LEARN MORE AT RECOUNCILGFW.COM".

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Still, challenges loom. Which challenges depends on whom you ask.

Yan suggests the issue of labor and material shortages, as well as the increased cost of goods, is being exacerbated by technological advances in the industry.

“With new building techniques, buildings are built faster than before which has led to a shortage of skilled workers. On the other hand, the construction industry will have to increase its output as demand for housing and other buildings increases,” says Yan. “This can only be achieved if there is a drastic increase in supply of skilled workers and materials so that they can meet this demand.”

To combat labor issues, Alston is partnering with local organizations who promote workforce development and the hiring and retaining of a new generation of personnel into the workforce, according to Schneider, who adds she’s seeing a leveling out on the pricing and delivery time of steel.

“However, there are other material escalations we’re dealing with as it relates to concrete, roofing and fuel surge charges,” says Schneider.

Matthews echoes that, saying he doesn’t anticipate seeing any relief from these challenges until Q2 2023 “at best.”

“Nothing in the market is predictable,” he says. “While the market is showing signs of cooling, demand for labor and materials still remain strong due to the high volume of work currently contracted and under construction.”

That uncertainty might be the toughest thing to deal with.

“We can’t tell developers with certainty what the final cost of or the final completion of their project,” Matthews says. “Rental rates are elevated, but not keeping up with the pace of construction cost increases. As such, pro formas that were initially tight at commencement might not work at completion. That uncertainty is pushing some of the developers, specifically investors, to the sidelines.”

Schneider points out that’s having an effect on project start times too.

“Due to the market’s volatility, shortage of supplies, lack of funding etc., we’ve seen many projects push from their original start dates, which has been tricky managing field staff/projects ending and the timing of new projects to begin so field operations are back onsite,” she says.

That doesn’t even take into account what the uncertainty is doing to funding, already strained by market fluctuations.

“In my opinion,” says Yan, the economic environment is the biggest challenge.”

Stroud’s taken note of that too, adding that many of Alston’s great trade partners have suffered financial hard times over the past few years.

“Some of our go-to guys are now getting questioned as to whether or not they can handle a small project given the hard times they’ve endured weakening their financial strength,” he says. “More now than ever before, we are finding ourselves having to be extra careful about who we are partnering with and relying on to perform critical trade work.”