



Re-Building By Sharon Simonson

Commercial development and improvement volumes have plummeted in the last year as shriveling tenant demand has dragged down rents and punished property values. But Bill Groth, a principal at general contractor BCCI Construction Co., says the worst is behind the sector regionally. The 150-person firm is headquartered in San Francisco and has offices in Palo Alto. It is a full-service general contractor that does building renovation, historic restoration, commercial interiors and green building. It most recently completed the historic restoration of Pier 40 for the San Francisco Redevelopment Agency. The job's specifications included the ability to execute underwater. It also demanded such skills as tracking tides and ocean currents as well as the spawning schedule of local herring. In 2008, BCCI reported revenue of \$165 million. The company projects a 30 percent drop-off in that figure this year but expects some recovery in 2010. In the remaining months of this year, the company continues to work on large-scale tenant improvements for Salesforce.com and the headquarters for a multi-national, Fortune-500 financial consulting firm in downtown San Francisco.

You anticipate rising demand for construction next year. What's behind your optimism?

BG > Our preconstruction group is very busy right now. Clients are trying to decide how to take advantage of the market and whether to build or get a reduction in their rent. People are feeling for the bottom. We have been helping a lot of companies evaluate the cost of moving to a new location. It also seems a lot more people are busy right now in leasing, design and engineering. People also feel good when the stock market is going up, which increases spending and the demand for more products. We are tracking 390 estimates that we have worked on through the year to date. Last year at this same time we were tracking 232. The value of the estimates in 2008 was \$159 million. So far this year, they are worth \$353 million. Part of the increase is change in the type of projects we're doing. We are competing for more ground-up construction, including work in the academic and public sectors, which sometimes have bigger projects and projects such as libraries, which have a higher cost because they are special-purpose buildings

What kind of work is keeping BCCI busy today?

BG > We are seeing a number of buildings in the city where owners are building LEED-spec suites. These are spaces that are being built without a tenant to LEED-certified and in some cases, LEED-Silver standards. It isn't just green materials; it is changing lighting-control systems and water fixtures, faucets and toilets to reduce water use. The idea is to attract companies that are interested in a healthy environment. The spaces are between 7,000 square-feet and 10,000 square-feet. We are wrapping up two suites at One Montgomery Tower, which is owned by UBS and Prudential [Insurance Co. of America]. They are very interested in making their buildings sustainable. We also are doing some at 101 California [Street] and another in preconstruction that is not completely locked down right now, also in downtown San Francisco. Speculative suites aren't new, but building them to LEED standards is. There has been some press about tenants and owners not wanting to build to LEED because of the costs.

We are not seeing that. We currently have 21 projects that are in different phases of LEED certification, including our own San Francisco headquarters remodel, which is pending LEED Silver. Some are tenant improvements, some are core-and-shell construction, some are new construction and some are existing buildings.

Rising construction costs driven by increases in material costs such as steel and cement caused consternation during the expansion stage of this real-estate cycle. How are prices holding up now?

BG > As a percentage of total project costs, material costs have not come down that much. From what I'm seeing, they've fallen 3 [percent] to 4 percent. Some materials have had bigger price decreases than that, but others haven't decreased at all. Sheet metal, studs and gypsum have all gone down, but carpet actually went up. Carpet is petroleum-based and is shipped a lot of the time from the East Coast. With the increases in [gas and oil] prices, that has driven its cost up. Acoustical tiles have gone up slightly.

The biggest reduction is in subcontractor gross margins. In the third and fourth quarters of 2008, subs were getting 15 percent and 20 percent markups on their work. Now they are only getting 5 percent and 10 percent. Their work has really fallen off this year. For us, there is activity in estimating and leasing, but their work has thinned out quite a bit, so a lot more people are competing for a lot less work, so there are folks who are taking work at cost just to keep the cash flowing. That is not sustainable.

One of the things not going down and that will continue to rise are labor costs, especially union labor. A lot of the trades get regularly scheduled increases. The plumbers, painters, carpet layers and sprinkler contractors all got increases in July in the \$1 an hour to \$2 an hour range. The electrical unions have no change until May 2010. All of that is in long-term contracts and not all of it is for take-home pay. Some of it is for pensions and health care.

Any sectors where you are seeing more demand?

BG > We see an uptick in activity in the South Bay among information-technology companies and companies that support tech companies. We're talking the Ciscos, Intuits and Salesforce.com. There are some law firms that are looking at leasing space and potentially moving. We have not seen a lot of start-up firms, and we look for everything, every possible lead in the market place, and follow up on them. Most of it is bigger firms. Our Palo Alto office has a dedicated team that works for Stanford [University]. We started doing work for Stanford about two years ago and have competed for a number of projects. We did a student-housing project, Blackwelder & Quillen, and a renovation of Stanford University's School of Education's Cubberley Hall.

You've worked in construction, beginning as a carpenter doing estimating, for nearly 30 years. What's the same about this downturn compared to others and what is different?

BG > This market is a little different but there are similarities. When you look at the number of contractors bidding in the market place today, some of the larger ones are competing for projects in the \$2 million to \$6 million range. Two to three years ago, some of them would not have been looking at anything less than \$10 million. That's another reason I think we've hit bottom. I'm seeing contractors that I have not competed with since 2001. It's everyone at the watering hole and the size of the water hole keeps shrinking. When it's huge everyone fits and gets along, but when it shrinks, it gets to be a frenzy. On some of these public projects we look at, we are one of 18 contractors. Even in the private sector right now, we recently bid a project right in downtown San Francisco, and there were seven general contractors looking at it, and that is quite a few. To be competing with five or six general contractors right now is pretty common, but it wasn't two or three years ago. Will that trend continue? I think it is probably peaking right now. But it's a buyers' market and companies are in the marketplace right now testing the waters to see how low can they get their construction costs. ■