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A photograph of a modern multi-story hotel building at dusk. The building has a grey and blue facade with large windows. A prominent feature is a curved, cantilevered entrance canopy with a textured ceiling and recessed lighting. The roofline is accented with a series of parallel blue slats. The hotel's name, "Fairfield BY MARRIOTT INN & SUITES", is displayed in large, illuminated letters on the upper part of the building. The sky is a mix of purple and blue, suggesting twilight.

Fairfield
BY MARRIOTT
INN & SUITES

HOW COMMERCIAL
REAL ESTATE CONTRACTORS CAN
STAY IN THE BUSINESS
EVEN WHEN THE ECONOMY IS DOWN

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Some experts were predicting an economic recession for 2020, and with the COVID-19 pandemic in full force right now, things are looking difficult for many businesses. For commercial real estate contractors, things look very dire, particularly for those who haven't taken the proper steps to prepare for an economic downturn. Often times, economic changes can be foreseen, but this latest event caught almost everyone off-guard financially. Commercial contractors who do manage their finances will have an excellent chance to recover from this and if positioned correctly, can take on new projects and expand their operations. The first question is what is the current landscape in commercial construction looking like, and what does the other side of the pandemic look like?

FUTURE OUTLOOK FOR COMMERCIAL REAL ESTATE

Right now, most major commercial projects are being put on hold across the nation as many state governors had issued stay-at-home orders and ordered "non-essential" businesses to close. Thankfully, construction was considered an essential business, so general contractors were still able to complete existing projects. The future looks quite bleak for some restaurant and retail store owners, though various online companies like Amazon and those with similar business models have been steadily growing through this crisis.

The other impact that the COVID-19 pandemic has had is an increase in remote working and home based offices. The question is whether or not this will become the new norm going forward. Make no mistake, many business owners and executives have discovered that working remotely can be done with just as much, if not more efficiency than working from the corporate office. But that doesn't mean office space itself is going away. What could be on the horizon is more commercial real estate tailored for coworking spaces, the kind of office space that does away with cubicles and has often been promoted by millennial workers as a great kind of workspace where networking and ideas can be shared. These may become the standard for office designs in future as people still will want the social benefits of working around their peers, but no doubt they will be looking for less densely populated space.

Restaurant designs are expected to change as well as a result of the crisis. The diminished need for large, open spaces will give way to counter service and drive through food service with limited seating. This shift won't happen right away, but restaurant owners will make the shift over time.

Recognizing the future outlook and shifting design demands can help commercial contractors become prepared for anticipated industry needs.

CONTRACTORS AND DEVELOPERS NEED TO BUILD UP CASH RESERVES MORE THAN EVER

It goes without saying that those who haven't been building up cash reserves probably don't have much of a chance now with scarcity already an issue. However, reserves are something that should be done during periods when construction demand is high. World-renowned developer Hussain Sajwani, an architect of many major projects in Dubai, once illustrated how this could be done. Before the financial crisis, Sajwani had started seeing signs that the market was headed for trouble in late 2007. He decided to scale back operation of cranes, taking on new projects, and even began making layoffs. He also made the decision to set aside funds in an escrow account which allowed him to continue with several projects and make cash settlements with clients when necessary. After 6 months of dealing with the turmoil of the time, Sajwani and his company managed to get back on track.

For commercial contractors who may not have millions of dollars of cash reserves in escrow, there are still other ways to increase liquidity. One way they can do this is by making sure their accounts receivable are up to date and that payments due get collected. The last thing they want is to discover clients who are behind in payments during tough times when the clients' cash reserves are also likely low. Taking time to focus on accounts receivable may seem like it is taking time away from your daily operations, but in times of economic decline it is an important task that needs to be done. If necessary, hiring or designating someone to perform A/R should be a priority.

Before taking on new projects and signing contracts, commercial contractors should verify the ability of the client to pay. That means they should ask for documentation about whether the client has secured a loan or has the upfront cash to make the payments agreed upon. While these types of inquiries can be a bit awkward, they are necessary when the economy is on rocky ground. You should also check the fine print of various clauses in the contract to see when or if they can cease work should the client fail to make a payment by the specified deadline.



COMMERCIAL CONTRACTORS NEED TO BE CAREFUL ABOUT PURCHASING OR LEASING NEW EQUIPMENT

Instead of leasing or making purchases on brand new equipment, you should be focused on making sure any existing equipment or other hard assets will be paid off. If you have purchased equipment and are still in the middle of making payments, you may want to see if your lender can defer payments or offer lower interest rates due to hardship. If you're leasing equipment, you may want to see if there are any early termination fees or loopholes in the contract that can waive them for hardship. When signs start pointing to a slowdown in the economy, the last thing you should be doing is taking on new debt to acquire equipment and other assets.

COMMERCIAL CONTRACTORS SHOULD ENSURE THEIR OVERHEAD COSTS ARE BEING MET

Since it's better to save cash and avoid making unnecessary investments leading up to a downturn, commercial real estate contractors should be focusing on fixed expenses and overhead. This can include making sure your suppliers have been paid and that you have plenty of inventory stocked for projects that can begin after the recession. But you also should be making sure your administrators and accountants have been paid because tax filing, insurance payments, and employee salaries still have to be accounted for even during this time. Scrutinize your expenses and look for ways to reduce costs. Now is not the time to take out expensive marketing ads or sponsor a conference. You may have to take on more responsibilities and wear more than one hat in order to minimize these costs, and you should make sure your business office stays ahead of its rent and utilities.



COMMERCIAL CONTRACTORS MAY WANT TO CONSIDER SELLING OFF EXCESS INVENTORY

This has to be done carefully because economic downturn could mean significant disruptions in the supply chain for commercial contractors, and that could mean issues procuring materials when it's time to do so. But if you do have a surplus of inventory that can be sold off, that's a good way to bring in more revenue when you aren't making profits from regular work. If you don't have inventory or assets that can be sold, you might be able to use your existing assets to secure a loan to keep the company afloat.

COMMERCIAL REAL ESTATE PROJECTS SHOULD REMAIN IN THE CONTRACTOR'S FIELD OF EXPERTISE

When work is slow, you'd probably assume that you should be willing to broaden your boundaries and take on new projects that you've not spent as much time taking on in the past. In some respects, this is true because certain projects will take higher precedence for public and private sector clients during this time. But the differences between public and private sector construction jobs can be quite numerous and lead to unwanted burdens if you aren't prepared. Before venturing out of your comfort zone with new projects, make sure you aren't going to encounter unnecessary delays or costs. An excellent approach is to take on smaller projects, such as renovations or additions that you may have been too busy to accommodate in the past. These types of projects allow you to continue working within your scope of expertise, while continuing to operate and potentially even thrive in this environment.





CONCLUSION

Basically, preparing for downturn entails making financial decisions that can keep your company in business for the long-term, especially if the hardship were to last up to a year. While not every company will get through it, lessons from 2008 still provide a blueprint for today that will help the most resilient commercial contractors make it. You may also want to look into federal or private loans that are meant for business continuity or debt relief for construction companies. By thinking about the future outlook, building cash reserves, being thoughtful about new purchases, reducing expenses and taking on smaller projects, commercial contractors can survive an economic downturn and become stronger when operations return to normal.

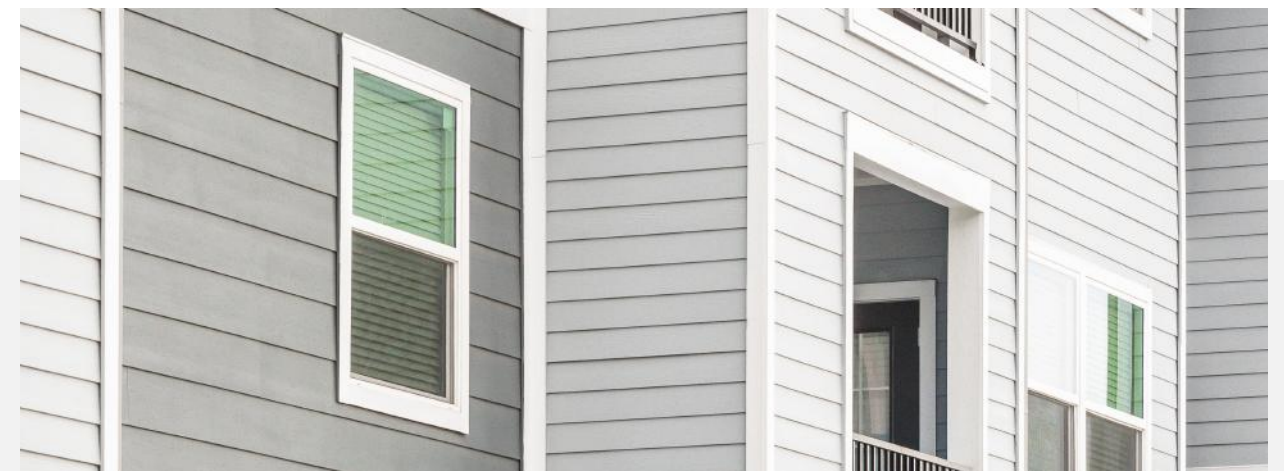


ABOUT CIVE

CIVE is an upscale Design-Build firm, specializing in top-down build process driven by value engineering – from state-of-the-art design, leading-edge engineering, high-quality construction, and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on us to anticipate industry changes and plan for the future, while providing most practical and cost-effective solutions. CIVE devotes customized, individual service to all its clients, whether large or small.

Specialties: Residential, commercial & industrial design, civil engineering, structural engineering, mechanical engineering, electrical engineering, construction management & project management.



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