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For contracting firms, the recovery is still a ways off



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When Tommy Burt and Shane Watts launched their commercial general contracting firm in 2002, the Austin economy was being hammered by the dot-com bust.

Now, having grown Burt-Watts Industries Inc. to 27 employees and \$30 million in annual revenue, the 36-year-old founders are enduring their second downturn, one marked by a lending squeeze that has sharply curtailed financing for commercial construction projects and in turn construction activity.

With no way to get financing, developers have put big retail, hotel and office projects on hold. Construction will wrap up by the end of the year on the three major condominium projects downtown, with no new ones ready to start. Many companies are relying on government and health care projects to stay busy.

Burt-Watts' revenue held steady last year, with interior construction work for clients such as the Seton Family of Hospitals, software firm BazaarVoice and Vigil Games, a local gaming company.

But competition has become intense, as more companies make bids for a smaller number of projects. Five years ago, Burt and Watts said they might have been up against three rivals on a given project.

"Now it's double and sometimes triple the amount of people competing for work," said Burt, the firm's president. Many of those rivals are coming from elsewhere to seek work in Texas and Austin, which have fared better than most other places around the country during the downturn.

Bill Farnum, vice president of White Construction Co. in Austin, said that three years ago, White would have been one of four to six general contractors bidding on a job. Now there are closer to 18 to 30 bidders, with large and small firms alike in the mix.

"It just tells you there's not that much work out there, and everybody's grabbing on to the projects that are out there," Farnum said.

Sharing the pain

Commercial construction is one of the largest sectors of the national and local economies. It has been hard hit in the recession. Since the downturn began in December 2007, Central Texas has lost 6,400 jobs, 13 percent of the region's total, in the category that includes construction. Only the manufacturing sector has had steeper losses.

With each construction job lost, the effects ripple through related industries, and though other parts of the economy are starting to rebound, the pain could be just beginning for contracting firms as the pipeline of new projects runs dry.

Developers, architects and engineers were the first to feel the downturn in commercial real estate in mid-2008, said Patrick Flynn, president and CEO of Flynn Construction Inc., which he founded in 1986.

Many local commercial contractors had a backlog of work to keep them busy through the end of 2009, Flynn said. But with the ongoing financing crunch, many contractors are "just now feeling the economic effects of the recession," he said.

'Having to take it on the chin'

Contractors are responding by cutting staff, reducing overhead and facing smaller profit margins, Flynn said.

Flynn said contracting fees are down 40 percent from a year ago, although he expects revenue of about \$42 million this year, about the same as in 2009.

At SpawMaxwell, a Balfour Beatty-owned contractor, business at the corporate level is down one-third from 2008, said CEO David Spaw.

SpawMaxwell is the largest provider of interior construction services in Texas, with offices in Dallas and Houston and Austin, where its clients include HomeAway Inc., the Lance Armstrong Foundation, Applied Materials Inc., St. David's HealthCare and Seton.

Spaw projects combined revenue this year of \$200 million to \$250 million.

"We are pleased with the market activity we are now seeing in Austin," Spaw said. "However, 2010 will remain challenging, as many of the active projects are taking longer to close and have significant competition."

With general contractors dropping prices, subcontractors have had to follow suit, said Ross Rathgeber, vice president of Southwest Destructors, an Austin-based demolition contractor.

This month, Rathgeber said his company lost a job in East Austin, at the Canterbury lift station that is being decommissioned, to a Dallas subcontractor that beat his price by 25 percent.

"You're just having to take it on the chin to get some work," Rathgeber said.

"People are cutting to the bare bone to get the job sometimes. They're bidding real cheap to keep people busy. It's very, very competitive," said David Ford, president and CEO of the Central Texas chapter of the Associated Builders and Contractors, a trade association.

With large private sector projects virtually at a standstill, an array of government, military and health care projects are helping keep some contractors busy.

Going public in search for work

Austin-based Endeavor Real Estate Group, which developed large retail centers in the Austin area during the past decade, recently announced it will partner with the Army and Air Force Exchange Service to develop a 500,000-square-foot retail center at Fort Sam Houston in San Antonio. Endeavor also will lease and manage the \$80 million-plus project, scheduled to open in spring 2013.

White Construction will be the contractor. White also is building a 460,000-square-foot retail center for the Army and Air Force Exchange at Fort Bliss in El Paso.

In Austin, White is building the new federal courthouse downtown, a \$102 million project that is being entirely funded with federal stimulus money, Farnum said.

The company said it has maintained its revenue levels over the past few years, though it doesn't disclose its financial information.

For DPR Construction, health care is a mainstay. The Redwood City, Calif., commercial building contractor has 125 salaried and craft workers in its Austin office, said Gary Nauert, DPR's regional manager.

"Probably 40 percent of what we do is in the health care arena, and it continues to be a good market for us," Nauert said. Projects include work for Scott & White Healthcare in Round Rock and Temple and an emergency department expansion at the Metroplex Hospital in Killeen.

Last year, DPR submitted "a tremendous amount of proposals," with many of those awarded in late 2009 and beginning construction now, Nauert said.

"We're starting this year with a pretty good backlog," Nauert said.

At Flynn Construction, about half of the revenue comes from public projects, including work for the University of Texas and the Austin school district.

Another 30 percent comes from medical offices, surgery centers and other projects for clients including Seton and St. David's, Flynn said.

This month, Flynn won a \$12 million contract to build the Travis County Healthcare Clinic in North Austin. Flynn competed against Turner Construction, an international company based in New York that typically handles much larger projects.

Meanwhile, Flintco Inc. is preparing to break ground on \$83 million worth of local projects in the next four months, said John Martin, president of the Oklahoma company's Texas division.

Although all are public projects, Martin said Flintco is "seeing an uptick in private opportunities."

The public projects include the \$38.5 million UT Belo Center for New Media set to break ground March 25, and the Texas State University Undergraduate Academic Center, a \$33.7 million project due to start in June.

The UT project will add a 120,000-square-foot building with classroom, research and seminar space, along with multimedia production teaching labs, teleconferencing facilities, digital archive and exhibit space and a new home for KUT radio.

Martin said his firm has won three local projects totaling about \$125 million that their owners are holding off on starting because of a lack of funding.

Flintco has 780 employees in eight offices nationwide, including 72 in Austin. The company had \$1.5 billion in revenue for its fiscal year ended May 2009, including about \$85 million generated by its Texas division.

Martin expects to see about a 20 percent reduction in revenue companywide this year.

Waiting for a break in the gloom

Flynn said that although local commercial brokers and developers are starting to see conditions improve, he thinks it will be mid-2011 before general contractors "see any significant improvement in commercial construction activity."

Several local contractors said they think it could be longer, with Watts predicting it could be as much as two years before lenders return to pre-recession levels of lending.

But Burt, of Burt-Watts, said the firm's outlook for this year is "very optimistic."

"We had a burst of business in January," Burt said. "We tracked numerous opportunities in 2009, and many came to fruition at the first of the year."

But Flynn said the current downturn is "a really significant" slump.

"It's not over yet, not by a long shot," he said. "It's going to be a slow crawl out, no doubt about it."