

On the competitive ledge

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Workers ready Stephenson Hall for installation of its windows. The new hall on the University of Tulsa campus will house the petroleum and mechanical engineering programs. (Rip Stell)

TULSA – After four years of economic struggles, recessionary pressures have finally caught up with many Oklahoma commercial construction contractors.

With construction contract values charting double-digit declines this year, many firms have lowered or abandoned their targeted project standards to keep their crews busy.

“It is as competitive as I’ve ever seen it in my 29 years of doing this,” said Tom Maxwell, CEO of multistate builder Flintco LLC.

Although the 2008 financial crunch cut a wide swath through most industries, the Sooner State’s robust economy had stocked many architectural, engineering

and construction cupboards with a healthy backlog of contracts to carry them through the first year or two. Several segments also received a multiyear boost from a record cycle of school system bond packages, while the Obama administration’s stimulus efforts kick-started a number of highway and bridge construction pacts.

But now many contractors admit they are nearing the end of their backlogs, with the primary culprit of this activity shortfall – the 2008 federal crackdown on commercial real estate lending limits and practices – still shadowing lending activity and with it, developer optimism and industry fee rates.

“Our economy still isn’t stable yet,” said Bradley Thurman, a partner in Wallace Engineering. “Until they feel it’s stable, they’re going to hold them back.”

For the first eight months of 2011, Oklahoma’s total construction contracts tumbled 29 percent from 2010 levels to \$3.37 billion, according to data from McGraw-Hill Construction. Nonresidential contracts stood 27 percent below year-ago levels through August, while nonbuilding construction plunged 53 percent.

Tulsa paralleled those trends, its total building contracts down 24 percent, nonresidential pacts off 33 percent. Oklahoma City proved a tad better but remained heavily in the red, its total building down 16 percent, its nonresidential contracts down 33 percent.

That has forced many contractors to start bidding on smaller efforts they would have ignored in the past, all to keep their crews active. Some residential contractors crossed over to seek commercial contracts, while giants like Manhattan Construction started eyeing projects usually taken by midsize and small firms. And all found themselves challenged by a new influx of hungry out-of-state firms.

“We’re more driven by what’s on the market rather than trying to pick out our particular market sectors,” said Bob Jack, senior vice president of Manhattan’s Tulsa division. “Now we have to look at what’s out there. And our competitors are doing the same thing.”

Some competitors draw sustenance through special niches.

With its focus on health care and education projects, Nabholz Construction’s Tulsa division just finished a record fiscal year ended Sept. 30, according to Business Development Officer John Roach. Their Oklahoma City office also did well.

"Right now we've backlogged K-12 a couple of years," Roach said.

Flintco Vice President of Business Development Dana Birkes said her company's multistate platform gives it stability to ride out shifting recessionary pressures. Manhattan also drew support from widespread resources, which Jack said also helps it compete for new contracts.

"If you can get a quality company at the same fee as the small guy, why not get a quality company?" he said.

But such strengths are not complete defenses.

"We're not having as much backlog as we'd feel comfortable with," said Rachel Zebrowski, director of design for the Oklahoma City architectural firm Miles Associates. "Right now we're probably going through the first quarter of next year."

With today's tight lending environment little influenced by economic trends, some executives expect this depressed activity to linger quite a while. Others fear it could hinge on further tumult at Wall Street or with governmental debt concerns.

"I think we're at the bottom of this economy," said Maxwell, discounting a potential double-dip recession. "But to do anything today you've got to have a large amount of equity. You know what they say, when you don't need a loan, the banks are there. When you need a loan, they're not."

Some signs point to improvement. After four months reflecting dampened activity, Thurman said the American Institute of Architects' national Architectural Buildings Index rose above the 50 level in August, signaling increased building activity on the horizon. He said that matches what his firm has seen.

Oklahoma City's McGraw-Hill data showed 2-percent increases in residential, nonresidential and total construction contract values for August. Its residential construction contracts rose 9 percent year-to-date, countering Tulsa's 12-percent decline.

"We are starting to see some backlog of projects coming online, where in the past it was more month to month," Thurman said. "I'm cautiously optimistic that we're turning around."

With lending procedures continuing to grind slowly ahead, Thurman and Jack pinned those positive signs on increasingly available private developer funds.

"We've seen some developers coming back into the market if they can get the money," said Jack. "If it's an attractive project, then the money's there. It just takes a lot longer to come out of the ground."

Zebrowski shared in those concerns, having watched several design projects wither on the drawing board for years. She blames not the lenders, where she sees some heightened availability, but a lack of confidence.

"At this time I'm almost concerned we're seeing a paralysis of vision," she said. "I think we've been in this doldrums for such an extended period, it has quelled people's courage to go forward."

But Zebrowski also shared in some of that optimism, her firm just completing a number of design contracts advancing to the construction stage.

"That is an encouraging sign," she said. "That's a turning point."