

CONSTRUCTION REPORT



In 2020, renovations are on the rise in construction

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NATIONAL REPORT—It's good news for renovation projects in hospitality. Construction leaders across the industry are seeing a spike in renovations, with increased opportunities and promising trends ahead for the coming year.

With renovations come considerations, however, as hotels aim to stay open for guests throughout the update process. Minimizing disturbances throughout construction, staying on a timeline and budget all while juggling political and economic uncertainty are all top of mind in 2020.

"The hospitality sector is booming," said Matt Johnson, project executive/director of hospitality construction, Columbia Construction Company. "Travelers are becoming more accustomed to high-end design and amenities, even in budget-level hotels. This is putting pressure on mid-range and luxury hotel owners, who are upgrading finishes, adding features and rethinking the guest experience."

In addition, hotel owners have now, more than ever, a commitment to energy efficiency and sustainability.

"This has all been good news for the hotel construction and renovation sector. However, hotel owners and investors continue to struggle with

understanding the importance of setting a realistic timeline when planning their projects," Johnson added. "It's not uncommon to see projects moving into the bid phase and even starting construction with incomplete design documents and limited MEP engineering support."

Johnson recommends planning long before the hammer hits the nail, securing the right team, especially in new-build projects on strict timelines.

"The industry showed us that there were still plenty of opportunities to be made in both ground-up and renovation hospitality construction, with the exception of tighter financing guidelines that resulted in deals that could not move forward from being unable to get proper financing in place in time," said Bill Wilhelm, president, R.D. Olson Construction. "From a construction industry perspective, the industry will need to look for seasoned owners and developers who have a proven track record in the industry with resources readily available to move forward without increased time delays, which result in potential lost opportunities."

According to Nicole J. Fox, VP, business development, ParkWest General Contractors, the company expects construction and construction costs to rise slightly vs. the dramatic increase over the past five years. The national

construction unemployment rate was posted below 4%, the lowest on record with data back to 2000, she added.

"With a boom in construction projects over the past seven years, skilled labor is at a premium and many are backlogged with projects," Fox said. "Inflation, state-mandated living wage laws, and heightened immigration controls are a few other factors affecting an increase in construction and construction costs. Construction materials are the other factor we see will have a slight increase in 2020. The past few years material vendors have been able to simply increase their prices due to demand."

Johnson also expects an increase in construction costs of about 4%. "This is primarily due to the fact that construction is booming right now. Qualified subcontractors are very busy and have substantial backlogs. With increased demand comes slightly higher costs," he said.

The cost for new-builds in urban areas, specifically, is rising, making renovations that much more attractive.

"An owner can generate income while we renovate or convert the hotel and can see an increased ADR immediately after," Fox said. "ParkWest worked with an urban hotelier in fourth quarter 2019 where we all agreed to complete 256 keys within a 60-day period. An increased crew staff and cost made more sense for both their operation team and their ROI. Other positive factors helping to stabilize construction and construction costs are utilizing items such as prefabricated wall panels and modular construction."

Wilhelm agreed that urban areas will pose some difficulties, especially in Los Angeles and the greater L.A. areas with rising costs; the financial industry tightens up and banks become more reluctant to give out loans. He believes this will pave the way for adaptive-reuse projects as well.

"Having solid city policies readily in place and providing grants and tax credits will play a key role in moving these projects forward smoothly and efficiently," Wilhelm said. "We expect to see some challenges in sourcing quality materials in a timely manner with the increase in tariffs from China and gravitating to countries where quality is there, but the production process is slower as countries work to handle the infrastructure of increased demand and

the need for faster production times without compromising on quality."

Fox added that the industry will have to see how the COVID-19 coronavirus outbreak affects production, travel and shipping. However, some materials like lumber are showing signs of prices softening and stabilizing.

Another major concern with renovations is containing disturbances, especially as hotels aim to stay open throughout the process.

"It's so important that the hotel maintains positive and open communication with their guests and creates proper flow," Wilhelm said. "Effective steps include relocating guests away from the construction area, planning on shutdowns for utility connection, mapping out barricade plans and paths of travel, planning construction during low season, planning the renovation out in phases that minimize disrupting guest experiences and creating an engaging atmosphere to make construction exciting. If the hotel assures guests they're doing everything in their power to provide a positive experience and communicate regularly, guests will better embrace the construction, and the hotel will not miss out on vital revenue."

To ensure guests handle the effects of construction well, Johnson recommends working closely with hotel administrators and staff to understand their daily needs and service requirements, along with minimizing noise and debris as much as possible.

"Often, we encourage owners to allow buffer floors to create vacant space between heavy construction work and occupied guestroom floors, but the reality is a buffer floor means more displaced revenue for an owner, so it's not always a viable option," Johnson said. "We set our schedules up to avoid as much guest disruption as possible."

All leaders agreed that regardless of the project type, early planning and developing a contingency plan are critical in providing owners with accurate budget forecasts and locking down both the necessary materials and contractors.

"One of the factors considered for the 2020 forecast is due to rollover of 2019," Fox said. "2019 had many projects in the pipeline yet we also found 2019 had many projects delayed on start dates due to previous budgets not accounting correctly for increased construction and construction costs." **HB**