

# News Clips Report

## **Recession hurts growth \*\*\* New private construction down as financing is scarce Advocate, The**

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Commercial construction plummeted in the first half of 2009, as tight capital markets and businesses unwilling to spend money helped knock area commercial building down to a third of what it was in 2008.

Commercial permits in East Baton Rouge Parish totaled \$104.7 million in the first six months of the year, down from \$295.5 million in the first half of 2008. In Ascension Parish, it's very much the same picture: \$9.0 million for the first half of 2009, \$31.1 million for the same period the year before. Livingston provided no information.

The figures do not include industrial work or state and federal projects, but local contractors said the drop-off is indicative of scarce capital and national businesses taking a wait-and-see approach to the current recession.

"It's the falloff of access to financing for private work, that's what you're seeing," said Bill Firesheets, president of Buquet & LeBlanc. "And everybody's just kind of sitting on their hands right now."

"Our volume will be down appreciably down from last year and the year before," he said, noting the post-Katrina surge in permits fueled by the GoZone federal financing program.

"The private money has just kind of dried up right now," Chris Stuart of Stuart & Co. General Contractors said, noting business is down by about a third. "The only projects out there are going to be the public work and things of that nature."

The Coca-Cola bottling plant, at \$13.2 million, and a Holiday Inn, at \$9.3 million, were the biggest projects in the first half of 2008, compared this year to a Homewood Suites, at \$9 million, and McKinley High School at \$8.5 million.

But it was hardly the case that a couple big projects skewed the numbers.

There were 15 projects between \$1 million and \$5 million in the first half of this year, compared to 52 in the first six months of 2008. There were only two projects greater than \$5 million this year - one for \$8 million and one for \$9 million - compared to five during the same period in 2008.

The bad business climate has already claimed a couple of high-profile projects that almost got under way but were forced to be put on hold: Woman's Hospital's major construction project and Pinnacle Entertainment Inc.'s planned \$250 million casino and entertainment complex were both put on hiatus because of slumping bond financing markets.

Construction employment has held up - the Baton Rouge area was ranked No. 4 in the nation with 42,500 jobs, up 5 percent from the year before - though the metro area is much larger than just the parish and the work includes things like pipeline construction and highway projects, which don't factor in the permit figures.

Firesheets said for anyone who was around in the 1980s oil bust and recession, this isn't a big deal, but "anyone under 45 has known nothing but good times."

And the change in climate has had ripple effects in the industry.

Marcel Duchamp, project manager for J.W. Grand, said profit margins have gone from 15 percent to some jobs going as low as 6 percent.

Many companies, he said, are just trying "to cover their overhead and keep their people working."

Duchamp also said more and more players from out of state are competing for local work.

Stuart said he's definitely seen an increase in the number of bidders on projects; instances where a project that would normally have seven or eight bidders now has 20 or more.

He said his firm has had to broaden its footprint, moving into Covington/Mandeville and even Lafayette.

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"We're having to expand our range to look for it," he said.

Firesheets said firms just have to go where the market seems to be. In the last five years, for example, Buquet & LeBlanc has been doing more public work.

"You have to be able to adapt," he said. "That's been our approach to it."

Last year the company did Alex Box stadium and the new LSU student union, roughly \$100 million worth of work.

While not reflected in the permits, some said chemical industry work has been down for several years.

"It's really slowed down from what I'm used to seeing," said Ross Grand of J.W. Grand Construction.

**Dottie Tarleton, a retail broker with Stirling Properties,** said national retailers, even the ones in the best shape, are in a holding pattern and aren't going to be expanding even in a place like Baton Rouge, which has been sheltered from the recession in many ways. She said that while financing under \$5 million is available, larger projects would have trouble even if they were inclined to build.

"The big projects are very difficult to get money for," she said, "but even if you could get the money for them you couldn't assemble the retailers to put them together."

The only national retailers in expansion mode are dollar stores, autoparts retailers and cell phone stores, "retailers that sell goods and services that you really need for daily life."

One thing putting a damper on retail construction is that the stores that have shut down - Circuit City, Linens 'N Things, CompUSA, among the largest - have just put more space on the market, making new construction unnecessary.

Firesheets said what while everyone is optimistic about recent national economic indicators, his concern is for 2011 and 2012 and that Louisiana tends to lag behind national trends.

Stuart said he originally thought business would pick up in the third quarter. But one can see three to six months down the road by looking at what plans the architects have on their desks, and now he thinks we're looking at 2010.

**Tarleton said** she expects national retail to be in the doldrums for "several years. I'd say till 2012, maybe longer," noting that it remains to be seen what kind of problems Baton Rouge is going to see from shopping center owners with loans scheduled to balloon.

"It's gonna heal itself but that's going to take time," she said. "How long? I don't know, but it's not going to be overnight."

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