# Where Have All the Workers Gone?

Builders and subcontractors are still trying to rebuild the pipeline of tradesmen and other laborers that was decimated by the recession of 2008, but they have caught a bit of a break. The modest growth that has occurred since the economy stopped contracting means they have not been overwhelmed, but in losing long-term employees and struggling to attract younger ones, the industry isn't out of the woods.

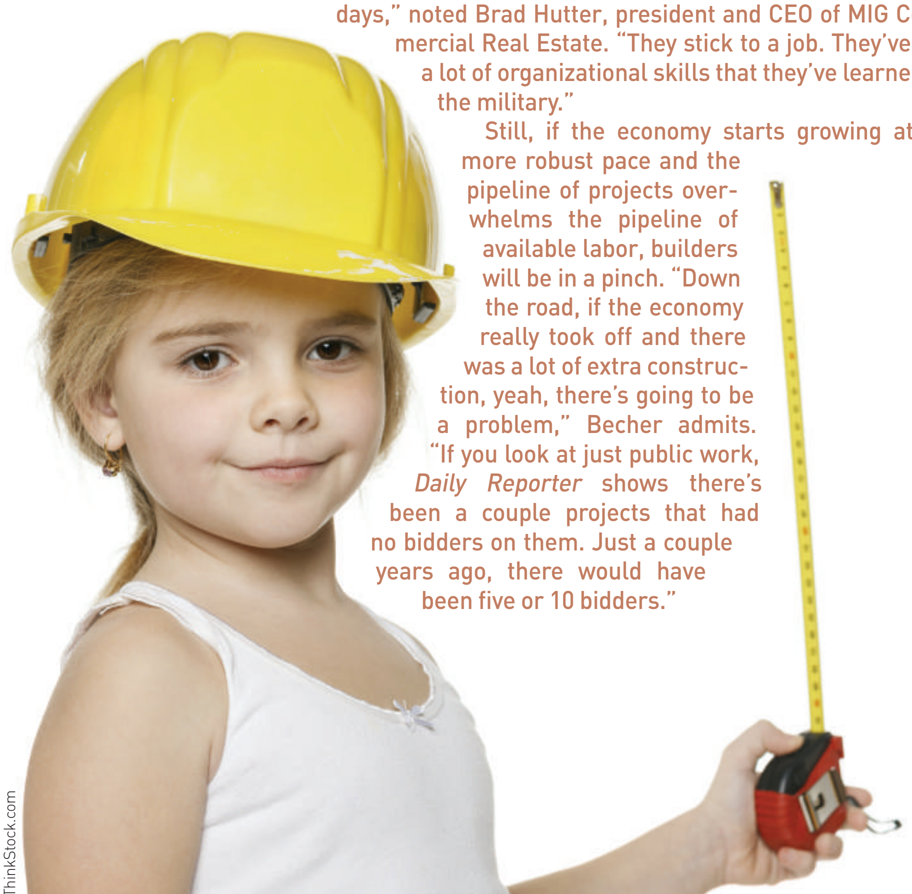
"It's a problem that's been simmering for a while, and the way our society is, it's a problem that's going to continue on for a long time," acknowledged Vern Jesse, an attorney with Murphy Desmond. "I don't know how we educate, and I don't mean classroom educate, but educate younger people about the opportunities that are available for them in the trades, the good-paying jobs with benefits."

Even with plentiful apprenticeship opportunities that expose young people to the trades, the same "dumb, dirty, and dangerous" perception that bedevils manufacturers also impacts builders. This perception exists despite an average wage of $53,400 for construction workers, which is 25% more than their private-sector counterparts.

As a result, builders and contractors are choosing their projects more carefully and trying to make do with the people they have. "There are areas where you'll put on a subcontractor and you can try to encourage them to be on the job and get the work done, but they don't have the resources, they can't find them, and they're not going to be able to get them," says Ron Becher, president of JP Cullen.

Returning veterans are a potential source of quality labor, but they are sometimes overlooked. "They're used to getting up early in the morning; they're used to working long days," noted Brad Hutter, president and CEO of MIG Commercial Real Estate. "They stick to a job. They've got a lot of organizational skills that they've learned in the military."

Still, if the economy starts growing at a more robust pace and the pipeline of projects overwhelms the pipeline of available labor, builders will be in a pinch. "Down the road, if the economy really took off and there was a lot of extra construction, yeah, there's going to be a problem," Becher admits. "If you look at just public work, *Daily Reporter* shows there's been a couple projects that had no bidders on them. Just a couple years ago, there would have been five or 10 bidders."



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**HUTTER:** People often think that in real estate, developers and owners only want to build or renovate where they own land. In fact, very often we are targeting an area that has advantages for business, whether it's industrial, retail, or office. One of those key aspects is whether it's easier for these businesses to hire people in that spot. As there's been a renaissance in downtown Madison, as people have come back to downtown Madison for all sorts of reasons, it's easier to hire downtown because it's got a cachet to it now — restaurants and all those different types of things. It all works together to assist a business in hiring. If a business has an easier time hiring in the central areas, that's an advantage in being selected for a project.

**BECHER:** With some of the other markets, the local K-12 school district is looking to go to a referendum for $24 million, which isn't very significant, but in the past five years Madison has done almost nothing. And health care is a place where there's going to be a pent-up demand, only because there's a lot of consolidation going on and just the uneasiness of what's happening with health care. There's a lot of waiting to see what's going to go on, but that's an area that's going to have some good growth, not necessarily this next year but in future years.

**SCHWARTZ:** I'm on a bank board, so I see it from two sides. If you want to know what worries me, it's that the liquidity is flowing too quickly back to us, so we can get liquidity fairly easily and at terms that are concerning. In other words, they're too favorable if you're short of equity on a project. Because of QE2 and QE3, the interest rates were pushed down. You have the investor sprinting toward yield and just not really looking at risk. So there's more money in the system than ever, so we can get liquidity.

What I worry about is the shampoo economy — lather, rinse, repeat. We get all this money coming in and we're not thoughtful or disciplined about it, and we just aren't using it. Recently, I had a lender offer an extra five points to me in liquidity that I didn't need. But you're thinking, 'Well, their money's cheaper than mine' and all those things are running through your mind. What worries me is that we're just kind of heading down that same road.

**VANDEN PLAS:** A repeat of 2008?

**SCHWARTZ:** Well, all of a sudden you have this kind of, especially in the apartment side, and I'm not really skilled at the apartment side, but when you drive in downtown Madison, you can tell the landscape is different. It looks like nothing [we remember], and we all grew up here, we've all been here for 30 years. I'm like, 'Oh, my goodness. Are you kidding me?'

**JESSE:** Can it happen that quickly, though, the shampoo economy?

**SCHWARTZ:** I don't know. Not quickly, but will it happen? If rates rise a little bit, that might actually be kind of a nice way to kind of tap the brakes. That might be okay. I don't know.

**JESSE:** That goes back to the psychological component we were talking about before. That tends to weigh against, to use your analogy, the shampoo economy.

**SCHWARTZ:** I hope so. You're talking about these businesses that are holding money.

**JESSE:** Right, the idea of holding money, the perception that the recovery is fragile, and people are a little more cautious on many levels, tends against that. But I do see that money is more available for projects, no question.

**ALEXANDER:** It's like anything else. There's going to be imprudent developers, imprudent business operators, and certainly imprudent lenders. There's some of that — people who've gotten a little more excited than they should be, but the recession did cull the herd of a lot of those imprudent business actors. So one would hope that people operating today are a little more responsible than the overall industry of eight years ago. We are seeing new investment vehicles come into Wisconsin and the Madison market, which is a great thing. We had some larger national banks receive Wisconsin. Bank of America is a good example, but our own new downtown housing project is being financed by FirstMerit Bank …

**SCHWARTZ:** Out of Ohio.

**ALEXANDER:** Out of Ohio. So that's exciting. They moved from Illinois into Wisconsin, and they are a very successful institution because they were conservative and made the right bets over the last

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decade. So there's opportunity there. As long as you don't have one stupid partner making another stupid partner, you're going to end up with a successful project.

**VANDEN PLAS:** Based on your experience in board meetings, are bankers aware of this?

**SCHWARTZ:** Yes, well-run banks are.

**HUTTER:** The culling that Joe talked about didn't just occur in the real estate development market. Obviously, it occurred in the financial market and the banking department and in the banking area. And, presumably, more experienced players remain both in development and in lending who have some recollection of what just happened over the last six or seven years. There are always going to be outliers, people that are going to be too aggressive, but that's part of the market cycle, right? Those people either make it or they wash out. The slow-and-steady approach is typically the one that works the best.

We've seen the best packages for financing and rates that we've seen in seven years. The one thing, interestingly, that we have not seen change a whole lot is the equity requirements. They have loosened a bit, from as much as 65% to 70% loan-to-value to closer to 80% now. But that's on a really, really incredible project. We're not seeing 85% or 90%. That gives me some comfort knowing that banks may not be moving too quickly to overleverage projects that may not, with proper underwriting, sustain those types of loan packages. As far as the availability of funds for good projects under good terms over longer periods of time, for more predictability, we're very happy.

## PUBLIC VERSUS PRIVATE

**VANDEN PLAS:** Ron mentioned UW-Madison projects. What do you see in terms of the mix of public and private projects over the next couple years?

**ALEXANDER:** Public carried us for a while, and that's going to change. Government budgets are tight, and in Madison we're lucky that our downtown is really enjoying a renaissance. We've got some great tech companies, new and growing. Those folks want to live downtown. I think the apartment market, as it stands right now, is supported. I would expect it to taper off a little bit, but a good project in the right location is always going to be a good project. I would expect commercial office to have, not a huge resurgence downtown, but something of one. As we mentioned, our tenants have grown back to the size they were at pre-recession, and as they need to grow some more, I expect the deck chairs to be shuffled a little bit.

**HUTTER:** People like to work near where they live. That's an adage. As the concentration of working folks moves around the Madison area, residential and mixed use is going to follow that. Even as the apartment boom in downtown Madison might taper off, there's still, based on some of the growth companies that are on the perimeter of Madison, going to be great opportunities for housing. In some areas around Greater Madison, there's still an incredible dearth of affordable housing and apartments. We have to remember that we're not just building for the CEO and upper management-level folks with high-rise condos on the Square. We have to think about where our working families with three kids will live. If they are not in the housing market, they must have an alternative.

Public has certainly carried us over the last four to five years, but I see the public spending in the next couple of years not necessarily going down, but private finding very new and unique ways to work with public. There are different communities around the United States that have public-private partnerships that are being created on roads and community developments that haven't necessarily existed before. It's going to be interesting to see how the public and private joint ventures might arise over the next 10 years.

**BECHER:** The public-private partnerships have mainly been transportation and horizontal construction. There are a couple examples in the country on vertical construction. Canada is big into public-private partnerships — same with Europe — and there's going to be something happening stateside, but I just don't know what it's going to look like.

The amount of public work is going to necessarily go down. There's going to be more private work. Talking to the architects and engineers, they would say they've gotten more private work on their books right now than they've had for a long time. That's one of the signs I look for, because that's telling me six to 12 months [out] what I am going to be building. Going forward, private is probably going to play a bigger role in growth.

## OFFICE REBOUND

**VANDEN PLAS:** I want to go around the table one final time, and just for this question: Are we likely to see more approaches with regard to office development like the Constellation, where they have mostly residential and a modest amount of retail and commercial in order to add more commercial office space that way, or do you think we'll go back to a period of more intense new office construction like we've seen in the past?

**ALEXANDER:** You're going to see modest office construction. We continue to see multifamily, certainly. Very frequently multifamily is mixed use where you'll have apartments above and a floor or two of retail and commercial below. I don't think any one project there is an anomaly, but yeah, you'll see office come back a little bit. In downtown Madison, you're going to see some more [privately owned] hotels. The strange thing is, it used to be a really bad word, it's still sort of a bad word, but for the right project on a small scale, you could start to see select condominium projects going forward because there's no inventory. There needs to be some supply there.

**HUTTER:** Projects that mix residential and retail and commercial are typically very location-driven. If you're looking at more urban, downtown Madison, the answer is yes. We've moved away from the idea that you live far away, hop in your car, drive 45 minutes to work, and drive back. That type of commute is still obviously done a lot, but there's a new generation that likes to have access to immediate information, lives on their cell phones, and loves to live downtown. They love to live in the areas where they can get up in the morning and go to work.

In less urban areas, there's still the concept of the village, where there's an area where the market is, and there's an area where people go to do different things, and housing is in a separate area and businesses might be more concentrated. It really depends on where you own land and where you're developing as to whether that's going to be a trend. As far as downtown Madison, I would have to agree that idea is a good one, and it's probably going to continue.

**JESSE:** With so many things, Madison tends to lead, and where you have the downtown, the larger downtown area, that mixed use will continue to be the model, the primary model going forward, and it'll become more traditional in the outlying areas. IB