



## **Capital projects: Why now is the time to move forward and execute a plan**

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Banks are failing! Unemployment is rising! Energy costs are going through the roof! My God, if it isn't 1974 all over again, then the sky must be falling!

Has there ever been a worse time to start a capital projects program? Absolutely! And we know there have certainly been better times. But now may well be the best time in the foreseeable future to embark on a new capital campaign. While economic uncertainty abounds, the confluence of many factors make today one of the finest opportunities to move forward and execute a capital plan.

The availability of low-cost financing, combined with declining construction costs, make improving and repositioning your property now a decision that should not be avoided. The future leaves too much in doubt.

### Low interest rates

Yes, they've been here for a while. But while the low interest rates we all have enjoyed for the last several years have been used as a tool to foster economic growth, anyone who remembers the '70s knows that higher rates as an inflationary control may be just around the corner. Throughout the 1990s and the first years of the 21st century, rates were kept low to support economic expansion. Profits increased for companies as wages rose less rapidly, in many ways due to the declining influence of unions. As long as the basic rules of supply and demand were met, this arrangement held together effectively - the system worked. Values (especially of real estate) rose, and companies prospered.

But we are now in an imbalance. Energy, that vital element linked to all activities - from materials and food processing to shipping to building operations - has become a twisted commodity, wreaking havoc with world markets. Today we see the result in soaring gasoline prices. The US economic conditions indicate we have been in a recession for months. Already the 2008 projected annual inflation rate is over 4%, and odds are things will only get worse.

Even if it means stifling economic recovery, fiscal stimulus and calming inflation will be the government's goal. The Fed is attempting to encourage a looser credit environment for financial institutions with lower rates and increased capital. In spite of the reticence of banks to move forward, they cannot exist without loan placements. A properly capitalized and funded property will still be able to secure adequate financing. Act now and get that low interest loan - this opportunity may soon be over.

### Declining construction costs

The economic changes that have occurred to date have had an effect on the construction industry, and the result could not be better for property owners and managers. After a solid run-up in construction costs through the mid to late 1990's, and a further steady increase from 2003 through last year, contractors are really feeling the pain of slowdowns locally, from the pounding of the

financial markets to the fall-off in developer initiatives. Accordingly, costs are once again becoming competitive. Estimates provided last year are at times being returned 10-15% lower today, and the trend will only improve.

A properly executed capital plan, with adequately prepared documents, will result in competitive pricing, with minimal change orders, the likes of which have not been seen for years.

#### Managing the plan

Of course, launching a capital plan in uncertain times can stress property holders. Although a properly managed building should have sufficient reserves built up over the last few years, assessments will remain unpopular, and the bleeding down of reserves will always be questioned. Whether a loan can be managed through assessments or a project started through reserve funding, or a mix of the two, is a question that boards will need to resolve internally. Mitigating the impact can be accomplished through phasing of the work, which will lessen the impact of the financial crunch imposed on owners.

#### Commercial owners lead the charge

The parallel message here is clear: the commercial property owners of New York, faced with increased competition for their leasing space and resulting lower net rents, are not reducing their capital campaigns - they are expanding them. For exactly the reasons cited above, commercial landlords are upgrading and improving lobbies, corridors, mechanical systems, elevators and the like within the current economic climate - before things change.

#### Act now

And the big question - when will it turn? Some say the remainder of this year and 2009 are a wash-out - nothing remotely resembling a recovery will emerge until 2010. But by then where will we be? 6% inflation? 8% interest rates? Rising construction prices among a few survivors? A capital plan commenced then will be that much higher in cost.

The answer is to act prudently but quickly, and take advantage of the opportunities offered from a golden time.

The economic challenges on the horizon will someday prove definitively that gender and race do not define ones ability to operate a business with skill and success. Competition will become based solely on integrity, and the antiquated "good old boys clubs" will fade away.

In the meantime, we are in the game together, even if we aren't playing by all the same rules yet.Â My friends and colleagues in this industry will have some challenging opportunities ahead. The future of NYC's economic health is in the hands of the competent. Onward!

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