

Moving through the financial fallout



Doug Alumbaugh, Managing Partner
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What do you see in the near future for the construction industry in 2009?

I predict the commercial construction market will experience turmoil similar to what the financial sector has on Wall Street.

There are strong possibilities companies will fail within the next 12-18 months because they are not prepared for the economic downturn.

Private projects will be canceled due to lack of financing; public projects will be put on hold due to loss of tax revenues for various reasons. It's going to get tougher than many have seen in six to seven years.

How does your company plan to deal with these challenges?

A. We plan to focus on projects that have been proven to have their financing in place.

B. Suspend hiring for growth possibilities.

C. Lower our expectations for revenue growth in 2009

D. Put most heavy equipment purchases on hold until improvement is seen.

E. Continue to cultivate and grow relationships with clients, subcontractors, vendors and key stakeholders.

F. Never get greedy or unreasonable with a client. Take good care of the client, for there is always someone wanting to replace the services you provide.

How about the cost of supply and materials? Do you see surpluses, shortages, rising or falling costs?

The cost and supply of materials will continue to experience volatility due to crude oil and natural gas prices. Until these products settle down it will continue to affect trucking, asphalt paving, roofing and any product produced from petroleum.

Metals have settled down to a new low, but that could change if demand from new large projects spike up as we saw during China's infrastructure re-build in 2002.

The causes of concrete's highs and lows vary from trucking to cement shortage to environmental issues. I would not dare to guess what's next with concrete.

How will residential construction in our area affect your company?

We will see the various trades from the residential construction making an entry into commercial and/or heavy highway sectors. Typically this causes extreme competition for subcontractors and personnel who lack the unique experience needed in that market, i.e., safety, building codes and inspection processes.

Will you change the way you do business because of the banking crisis?

No, but the banking industry may change the rules as we move through all the fallout. We have already been asked to provide more financial information than in the past 10 years. -mjm

Caution on the home front

Bob Shaw, Co-owner
Shaw Stites Homes and Imperial Homes
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What do you see in the near future for the construction industry in 2009?

We feel that long-term mortgage rates may bottom out somewhere around 4 1/2 percent and money will become more available.

But even with low interest rates and money available, I don't foresee new home sales beginning to turn around until 2010. I feel it will take that much time to reduce excess inventory that's currently on the market and for consumer confidence to be on the rise again.

Also, current stock market conditions have wiped out equities that could have been used for real estate purchases.

How does your company plan to deal with these challenges?

Dealing with current market conditions, our goal is to build a quality product, which includes keeping our overhead low and debt-to-value ratio below 70 percent.

Also spending as much time as needed to make our customers comfortable that they made a good decision in choosing Shaw Stites to build their home. Builders should keep in mind their best marketing is for their clients to come away with a pleasurable experience and to communicate that to their friends and business acquaintances.

Will you change the way you do business because of the banking crisis?

Dealing with the banking crisis, all businesses have cycles. Being prepared for the down cycle takes a cautious eye on current trends, which include interest rates, consumer confidence and stock market conditions. In preparing for financial crisis, companies should be prepared for down cycles to last much longer than you would anticipate at the first sign of trouble.

Probably the most important factor when reviewing your business plan is to stay within your comfort level financially. -mjm

