

By Marisa Palmieri / Editor

Margin pressure persists



There is some improvement, but contractors fear it will take years for the commercial market to dig out of its pricing hole.

Even with a slowly improving economy, Green Industry firms that serve commercial clients fear the “damage has been done” when it comes to price undercutting and property managers’ habits of annually bidding out contracts.

“The industry has changed a lot over the last few years for the long term,” says Steve Rak, president of Southwest Landscape Management in the Cleveland area, explaining that many property managers are going out to bid much more often than they did prerecession.

Southwest subcontracts for national maintenance firms like Brickman Facility Solutions and Associated Grounds Management Group.

“Those guys are bidding properties across the country, and they say it’s not just happening in Cleveland; it’s across the board,” he says.

Some changes to the commercial maintenance landscape could be seen as an opportunity, says Steven Fine, manager of marketing and business development for Reno, Nev.-based Signature Landscapes.

“Because everything is going out to bid almost annually, we’ve had conversations with so many more property managers who a few years ago were just happy with who they always had,” he says.

Rak agrees that more frequent bidding has opened some doors “because people are shopping a bit more.”

Digging out?

Thankfully, another trend of the downturn—flat

out asking for a price reduction—may be finally going away.

“I haven’t had one customer now for next year’s contracts ask for a reduction,” Rak says. “But I think the damage has been done. It’ll be a while before the market will get back to where it used to be, or maybe it never will.”

Fine agrees. “Our market has dug itself into such a horrible hole that it’ll take decades to get out of this undercutting,” he says. “It’s really hurt the industry as a whole.”

Dan Sohovecky agrees that margin pressure is at an all-time high.

“It’s more difficult to win new work that’s as profitable,” says the vice president of finance for New Way Landscape & Tree Services, San Diego. “We’re finding we have to focus on our longer-term clients, so retention is No. 1 in our book.”

The good news for Fine is that some clients who’d left for lower-priced competitors returned this year.

“They’ve seen how that low dollar bid worked out for them, and it’s very clear you get what you pay for,” he says. “We’ve seen a number of high-profile clients come back to us, and we take them back with open arms. That’s the catalyst for us thinking we may see some bright lights for maintenance in 2013.”

Such tough competition over the past few years has caused companies to run more efficiently and often remove services to meet a client’s price requests. “When a client said, ‘Everyone else is 20 percent or 30 percent lower,’ I said, ‘I can drop my price, but we

can't mulch beds in the back or trim shrubs,' and he was OK with that," Rak says. "So we've had to get creative."

Signature handles price reduction requests similarly, Fine says, adding it can be an opportunity to up-sell. "A lot of our clients switched to ET irrigation controllers," he says. "We were able to say, here's the initial cost, but you'll see savings the first year and you'll be blown away after five years."

Commercial construction outlook

Despite challenges, the volume and high dollar levels of both commercial maintenance and bid/build work are an attractive area of the business for many contractors.

Although Fine is budgeting flat in 2013 for commercial construction ("there's just no building going on here"), he says suppliers tell him other markets are doing well after so many years of stagnation.

Research shows there's modest good news for nonresidential construction spending, according to the American Institute of Architects semiannual Consensus Construction Forecast, a survey of the nation's leading construction forecasters.

A spike in demand for industrial facilities so far this year, along with sustained demand for hotels and retail projects, factors into what projects to be a 4.4 percent rise in spending this year for nonresidential construction projects. The forecast also projects a 6.2 percent increase of spending in 2013. *Additional reporting by Beth Geraci. LM*

At a glance: **COMMERCIAL MARKET**

GOOD

Multifamily development is expected to pick up in 2013.

BAD

Many property managers continue to bid maintenance contracts annually.

UGLY

Contractors say it will take years to overcome commercial maintenance price undercutting.

Multifamily growth ahead?

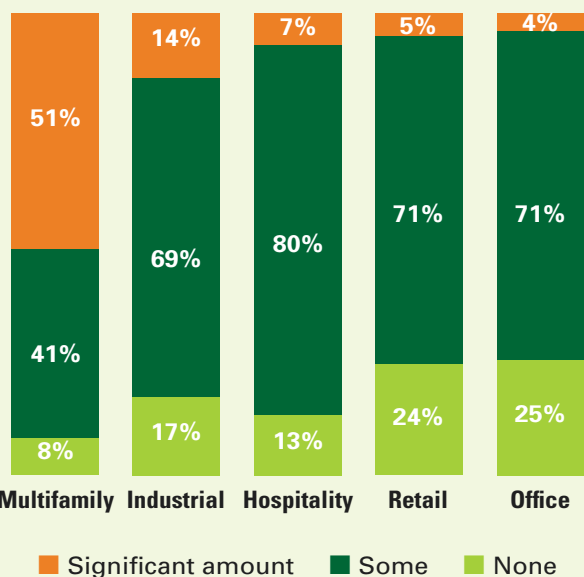
The commercial real estate market is seeing gains despite a sluggish economy, according to KPMG's Commercial Real Estate Survey 2012. "While progress is slow going, bright spots are emerging," the report says.

Executives expect to see continued development over the next year, especially in the multifamily sector, where more than 50 percent of executives say there will be significant development in 2013. (See chart below.)

More than two-thirds of commercial real estate executives say improving real estate fundamentals will be the biggest growth driver over the next one to three years, representing a 22-point increase in this category over last year's survey.

More than half (58 percent) of executives believe the economy will improve over next year, while only 22 percent expect conditions to stay the same. These predictions are nearly unchanged over last year.

Commercial real estate: Expected areas of development in 2013



Source: KPMG Commercial Real Estate Survey 2012