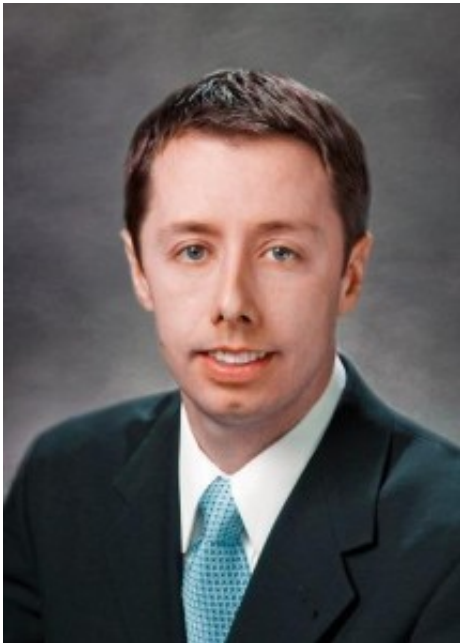


Chicago slowly, but steadily, increasing construction activity

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Mathew Dougherty

Although not as strong as the robust economic recoveries experienced in Texas and along the West Coast, Mathew R. Dougherty, P.E., executive vice president and regional manager –Midwest at McShane Construction Company, says Chicago and the Midwest Region has experienced a slow, but steady increase in construction activity over the past 12 months.

"Most notably, two large market sectors, industrial and multi-family, comprise the majority of new construction activity," he said. "Within the industrial market, there has been a shift over the past 18 months in supply and demand. At the worst of the recession, late 2008 through early 2011, new construction in that sector was practically non-existent with the exception of the occasional build-to-suit."

He added, "The absence of new speculative development over the past six years has provided the steady absorption of a large amount of existing contemporary space, higher clear height and well-docked properties. This absorption has caused the market fundamentals to shift positively in favor of new real estate investment, development, and construction."

Today, McShane Construction's business originates from two primary products, the multi-family market and the industrial segment.

"From 2008 to 2012, public sector projects were the primary source of construction activity. There was a significant allotment of federal funding set aside for affordable housing, public works, roadways and transportation, and government offices and healthcare buildings. Since 2012, those temporary spending measures have been exhausted and no longer form the largest source of new construction."

Dougherty continued, "Private industry and real estate developers have stepped back into the market buoyed by cash rich investors, REITS, and a more relaxed banking and lending environment. This uptick in private sector activity has resulted in record new construction activity within the multi-family market, and increases within the industrial, retail and grocery, hospitality and downtown office sectors."

Companies that have held off expanding or relocating, Dougherty said, are now more likely to seek new build-to-suit opportunities, examine expansion options or reconfigure to maximize today's technology.

"A large number of companies have taken the opportunity to transition within the growing competitive climate by improving location

choices, supply chain economics or simply repositioning into more modern, yet affordable, facilities. As the supply of available buildings have been purchased or leased, the inventory of modern product has been dwindling, thus causing more activity in the new construction arena."

As the second largest warehouse and distribution market in the United States, Dougherty says, Chicago submarkets continue to reap the benefits of a premier location at the crossroads of the country.

"Specific to the industrial market, the I-55 and I-80 corridors continue to draw the most activity for both new speculative and build-to-suit projects," he said. "In fact, just recently McShane Construction completed the 347,400 square foot build-to-suit for Orbus Exhibit & Display Group at I-55 and I-355 in Woodridge, a 77,000 square foot build-to-suit in Minooka, and the 165,230 square foot LEED-Gold build-to-suit for Golden State Foods in McCook."



On behalf of Golden State Foods, McShane Construction completed the design/build construction of a new 165,230 square foot Regional Headquarters and Logistics Center in McCook, Illinois representing the first LEED-Gold operation within the McDonald's system.

The O'Hare market also represents an active industrial submarket, Dougherty added, as the airline and logistics industries continue to drive new tenants to the area.

"McShane Construction is currently completing a sophisticated retrofit for Do & Co Chicago Catering, Inc. in Des Plaines that will transform a vacant industrial building into a 102,065 square foot food preparation facility for Emirates airline. Multi-family construction activity along I-294 has been particularly strong including the second phase of a large senior living property in Northbrook and a new luxury rental complex in Deerfield."

"We're also participating in a number of multi-family projects that are being constructed on in-fill or redeveloped sites," he said. "Notably, in Glenview, we are constructing 428 apartment units in two separate developments. One luxury apartment complex is situated on an urban in-fill site adjacent to public transportation, while another luxury apartment development is being constructed within a redeveloped, mixed-use environment with a high-profile location."



Tapestry Glenview, a 290-unit, 341,571 square foot luxury apartment residence, is underway by McShane Construction Company on a 5.5-acre site at I-294 and Willow Road in Glenview, Illinois on behalf of developer, Lennar Multifamily Communities.

According to Dougherty, the industrial spec market throughout Chicago's submarkets has come back strongly over this past year.

"The popular I-55 and I-80 corridors, where spec activity is highly favored, is active as large single- and multi-tenant construction is underway on a number of projects," he said. "McShane Construction recently completed a new 342,620 square foot speculative facility for Conor Commercial along the I-90 corridor in Elgin and leasing interest and activity has been strong."

According to recent statistics compiled by Colliers International, there are 27 projects totaling 6.3 million square feet currently under construction throughout the Chicago metropolitan area.

Dougherty said the I-55 corridor will continue to draw speculative and build-to-

suit industrial construction due to the strong fundamentals that underpin that market.

"Transportation and logistics will continue to be one of the most important challenges for manufacturers and distributors," he said. "E-commerce is providing a significant boost of activity along popular transportation networks. The Chicago market will continue to enjoy increasing interest and activity within the I-55 corridor to compensate for the shallow activity over the past five years."

On a national basis, Dougherty says, the investment markets are favoring new construction in areas that reflect the best opportunities for growth in the short-term. "These growth areas are being driven by the technology and energy markets and are concentrated in San Francisco, San Jose, New York and Houston areas, among others.

However, the lending situation has changed noticeably within the apartment sector following the past four years of unprecedented growth in this market." Dougherty added that for some time, the key issue on the forefront of the lending community is the growth in the available supply.

"Although today's strong fundamentals are prompting new construction activity, it is predicted that demand will not keep pace with new supply. As a result, vacancies are anticipated to slowly rise in many markets and rent growth will slow, causing a significant change from the last four years that showcased falling vacancy rates and escalating rent growth."