

THE PANEL



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President,
Bonacquisti Brothers
Construction



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CFO, Belmonte
Builders



DAVE DEMARCO
President and CEO,
Saratoga National
Bank



DOUG FORD
VP of sales and
purchasing, Curtis
Lumber



CALLIE GASPARY
Principal, Mosaic
Associates
Architects



ANDREW GUTMAN
President, Bennett
Contracting



EDWARD KOWALEWSKI
Partner, Hodgson
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RICHARD SLEASMAN
President, CBRE-
Albany

Industry ROUNDTABLE CONSTRUCTION

PRESENTED BY: **HodgsonRuss** ATTORNEYS 

How have supply chain issues impacted material availability and costs? Do you think the pandemic will lead to longterm changes in the industry? How are lenders preparing and will underwriting rules change? Law firm Hodgson Russ and the *Albany Business Review* hosted a remote panel discussion to answer these questions and more. Cindy Applebaum, market president and publisher of the *Albany Business Review*, moderated the discussion.

a job site. But that's first and foremost. For me personally, as the president of the company, it's keeping up with this changing environment, the rules and regulations that change literally on a daily, if not hourly basis. Whether it's the PPP loan forgiveness, New York State Forward program, the guidelines that are being put out there. There's a lot.

CALLIE GASPARY: What is of a little bit of concern is, we had some referendums that were scheduled to go along with the budget votes which were originally supposed to be in May. And now those have been pushed off until at least the fall. School districts are just worried about voter confidence. And some projects even would have zero tax impact, but just because of the position that people are in right now, people who don't have jobs, going out and asking people for money, it ultimately will have no tax impact.

We're unsure as to how our business will look a year from now. Just not knowing if there's going to be the second wave of the pandemic or if schools are going to start up in the Fall. There's just so much going on with that, so our forecast is a little up in the air right now.

 **What is your outlook for the construction industry?**

DAVID DEMARCO: I'll start with interest rates. They're as low as they've ever been and I don't see that changing probably, certainly for the rest of this year and I would say all of next year. It'll probably be 2022 before at least everything we're hearing from the economists. As far as the construction business, we've got probably six to 10 projects that we're financing that are underway.

We continue to lend and approve loans for both commercial and residential construction. So we're not really changing our appetite, if you will, for lending. But obviously on the residential side, the folks have to be employed and have a bright outlook. And on the commercial side, for many businesses this was just a shutdown and once it's reopened they'll be continuing to do business as usual.

MICHELE BROWN: We're actually very hopeful. I think if nothing else over the past two months, people have really had to take a look at their home and their floor plans and realize how important having


flexibility of space, having areas where you can work from home, where your kids can study, exercise rooms. Things that people didn't prioritize as highly before, I think have been brought to the forefront.

And in the short term, this really hasn't had a terrible impact on us. We have a longterm product. So six to nine months from now is when our cash flows will slow because of the inability to have starts over the past two months. But as long as we're able to fill those orders now and start to sell, I'm not overly concerned.

EDWARD KOWALEWSKI: I think we're going to have a huge influx of people from other parts of the state who are able to work remotely and see the Capital District as a prime location for relocation. So I foresee a boom in the residential market.

 **What worries you the most right now?**

ANDREW GUTMAN: The safety of our employees and our customers. We're working in people's homes. The one benefit we have is that it's a low density job that we do. We're usually one, two, three guys on

 **Are there issues with supply chains and how have any issues impacted the availability of materials and costs?**

DOUG FORD: Currently there's not a lot of problems. However, we are starting to see some things on the horizon. For example, some of the treated lumber and Southern yellow pine. A lot of the mills had shut

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HODGSON'S TAKE



“People need to be able to demonstrate that they can pay the mortgage and if they can, they’ll get the loan. What is the viability of the business going forward? Do you think three, five, seven years out is maintainable? If there’s any uncertainty then my advice is going to be, ‘Take a break so you can fully understand what you’re getting into.’”

EDWARD KOWALEWSKI, partner at Hodgson Russ LLP. Kowalewski focuses his practice on commercial and contract law, construction law and commercial litigation, litigation, appeals, alternative dispute resolution, commercial collections and commercial real estate development, leasing and financing. Kowalewski’s clients include heavy highway, building and mechanical trade contractors, subcontractors, suppliers, developers, and public and private owners.



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down or slowed down and the demand is coming faster than they can ramp back up. Other products manufacturing like cabinets. Depending on where they were and what was going on in their local communities, a lot of the cabinet manufacturers were either shut down or had to meet the CDC requirements for social distancing, which dramatically impacted their productivity.

MICHELE BROWN: Obviously any increase in material prices is going to increase the price of our homes. And it can be twofold. It’s not just the materials themselves but the delays that it can create in the production process for us. So we’re very cognizant of that. We work closely with Curtis Lumber. So they keep us informed as well. Our goal is to gain back some of the sales that we’ve lost over the past couple of months.

Your initial reaction to an increase in pricing is not always just to immediately increase your own. We understand that the economy needs to stabilize and we’re comfortable with the fact that we believe that it will at some point and that that’s going to help us continue and that our pricing will hopefully remain stable as well.

PAUL BONACQUISTI: I think it’s going to impact us with the existing contracts that we have probably more so than projects that we’re bidding on because everybody would be on a level playing field there dealing with increased prices. We have commitments on several jobs that we are very concerned with how that’s going to affect our margin and how that is also going to affect lead times with some of these materials and how that impacts scheduling.

And we really haven’t had enough time

to develop contract language to help deal with that, to deal with delays or to deal with extended timeframes for materials. So it’s very concerning. The duration of commercial projects, some of the ones that we have are a year and we’re already committed to those prices and the owners are not going to want to hear that we need extra money for whatever. So, yeah, it’s very concerning.

DOUG FORD: In addition to the lumber increases or the material price increases, I think the bigger issue for a lot of people is going to be the shortage of labor. And I think especially with everything starting up at the same time, the lack of skilled trades is going to create a demand on the framers and the electricians and all the different subs. And I think that’s going to have an impact as well.



Rich, what is your perspective from the commercial side?

RICHARD SLEASMAN: You have competing influences, again. You’re going to have what will likely be a softening office market that is against the second 2020 based upon the slowly opening of offices and discussions about maybe downsizing on a broader basis. And that’s going to force market rates to be competitive or compressed lower than where they’ve been for the last couple of years. So even though you may have a landlord dealing with increase cost of tenant improvements for labor and materials, you’re going to put that into an equation of a softer market and you’re going to probably have more of the landlords getting squeezed in that scenario than you will have tenants getting

squeezed. When those dynamics begin to shift to a tenant favorable market, there tends to be the landlord that will have to work with the leasing profit margins at that point in time.

Initially common sense would almost indicate the comfort level of working from home, will reduce the workforce in the actual office building. What’s a competing influence there is going to be the fact that spacing will now become a very prominent part of the conversation for office layout moving forward. So where the trend for three to five years was putting more people in less space, higher density, we’re looking at a concept now called the de-densification, which is going to be putting less people into more space.



Dave, how does a lender prepare for all of this?

DAVID DEMARCO: First of all heading into this pandemic, the banking industry was in the best shape it’s been in for a long, long time. And unlike the last recession that started in 2008, this was a health issue and not a financial issue. So banks have record levels of capital, record levels of liquidity. Now that being said, our big challenge looking forward is this recession we’re now in, what the impact is on our customers from that standpoint. And that’s yet to be determined. So what you’re seeing is banks are adding big numbers to their loan losses but, again, they’ve got the capital position to do that.

Our residential pipeline because of where interest rates are and maybe some pent up demand is at an all time high. Now, some of that’s refinancing. But we’ve got record number of purchase mortgages

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and construction mortgages lined up, ready to go.

We tend to focus more on owner occupied properties on the commercial side as opposed to office rental. A lot of our customers are solid businesses in the medical industry and manufacturing industries, healthcare, veterinary, dental. Those businesses although they were shut down are going to come back quickly and strongly although a little differently.



Edward, how do you take all of this information and then begin to advise your clients with so much unknown out there?

EDWARD KOWALEWSKI: People need to be able to demonstrate that they can pay the mortgage and if they can, they'll get the loan. What is the viability of the business going forward? Do you think three, five, seven years out is maintainable? If there's any uncertainty then my advice is going to be, "Take a break so you can fully understand what you're getting into."



Do you think the pandemic will lead to longterm changes in how you interact with your customers?

DOUG FORD: Absolutely. The construction

industry from the technology side has been lagging behind and I think if anything good came out of this was our ability to experiment with some technology and try some different things that it definitely will continue on the curbside pickup that we were forced into. We've been deemed essential from the beginning, but we did opt to shut down the stores to the public primarily for the safety of our employees and customers too.

We've added additional vehicles to our fleet, primarily pickups and small vans. So we can handle some of the smaller requests more efficiently. We don't want to try mixing small loads in with a residential builder that needs a full truck and needs it first thing in the morning. So we're really trying to look at ways logistically to service both our professional customers and still be able to handle the needs of the retail customer with the changes that have happened.

PAUL BONACQUISTI: In our business, face to face transactions have to occur not only on job sites but with clients. We're going to try to get as good as we can at the customer service end of that and try to deal with the concerns and fears that people have with dealing with this. It's difficult to look at a set of plans over a computer screen or on a Zoom meeting, it's just very difficult. So there's a lot of unknown that we're trying

to work through.

CALLIE GASPARY: We were afraid when this whole pause thing came about. How are we possibly going to do this? We didn't have a whole lot of remote working in our office to begin with. We weren't set up for that very well. All of our client interaction was face to face meetings. And we've been pleasantly surprised. We have had a number of Zoom meetings with clients where we put drawings up on the screen.

We have had some in person meetings with social distancing where maybe we put up drawings on a large screen or just on everyone's individual computer screen. But for the most part, we have been pleasantly surprised at how easy this transition has been for us. I haven't run into too many issues. And our clients that have been commenting to like, "Wow, it's pretty cool that there's business as usual. We're just all sitting in our homes doing it." So we've been pretty lucky.

MICHELE BROWN: One of the challenges that we're having is coming up with creative ideas that can allow people to see our fully furnished models that we're heavily invested in. Or our spec homes, even though we're not allowed to be in there with them. So we've utilized technology a lot.

We'll do FaceTime walkthroughs with

HODGSON'S TAKE

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EDWARD KOWALEWSKI,
partner at Hodgson
Russ LLP.

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Each attorney that makes up the Hodgson Russ dedicated Construction Practice has extensive experience with construction contracts, industry practices, and compliance issues.

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people where we'll allow the customers to go into the home model and walk around and we'll be on the phone with them explaining the different details. We've had to work through GoToMeetings and Zoom meetings and being able to show the customers the products on a computer screen rather than having them touch and feel and see them in person. So that was quite a big challenge to overcome. But people actually like it now. We've had a lot of customers saying that they were surprised at how smoothly it went and that they're very excited to see what the finished products look like.



What's going to be best practices going forward?

RICHARD SLEASMAN: I literally spent an hour on Friday afternoon last week with some folks at Janitronics just getting our arms around building protocol for both buildings manage as well as own and lease. And there are so many guidelines that you have to adhere to. And so as a building landlord or owner as you engage those guidelines in your properties and try to perform best practices, you're also dealing with tenants, especially corporate tenants that have their own internal protocols that they're working with.

At the same time you've got to recognize that there's economics involved in getting a building ready and getting that building ready there's going to be a fixed cost of doing that, that you incur from day one. And it may be just that one person or 10 people versus 100 down the road. So a lot of economic logistics in play, timing logistics, all

those things are going to be there.

EDWARD KOWALEWSKI: What I'm finding is that typically at least the larger commercial contractors and to some degree the smaller ones, there's always been rules and regulations and procedures that they have to follow. And this is just adding to the list of what they need to do. So the most important thing is to have the plans in place that are required by the rules and regulations and then making sure that they're following it.

And this is of extreme importance because what we always find is that, you can have the best rules and regulations in place but they are meaningless if they are not complied with and enforced. And in this situation, given the severity of the consequences if the rules and regulations aren't followed, they need to enforce the plans to ensure compliance. And where it gets more complicated though, is when you look at the regulations they're imposed upon the owner or the operator of the facility, and then that boils down to, all right, to get the owner then you have the contract and then you have subcontractors. So the biggest hurdle that I'm seeing is making sure that there's coordination between those different layers.

ANDREW GUTMAN: We're prepared for everything that lies ahead. We actually hired five people in the last week just to add to our volume to keep up with our volume. One thing I wanted to bring up was looking forward technology. Construction industry has always lagged behind all the other industries in technology. And I know we're going to be investing in different programs to make jobs more efficiently with our cus-

tomers. We're going to purchase a project management software.

We're utilizing our time entry software to do the health assessment for our employees. I think you're going to see a lot of it from all of us in this industry finally embracing technology a little bit more than we have in the past because our hands have been forced. But overall we're ready to go and we're excited.



How will all of this play out with lenders? How will the underwriting rules change?

DAVID DEMARCO: Every bank creates its own underwriting standards. There are rules where we're a heavily regulated industry but they don't tell us what rules to follow. They just tell us if we're doing it right or wrong. It's a little frustrating. I think community banks in particular, we've been through recessions before, and let's get past the pandemic issue here and just talk about the recession that we're in and will be in.

We don't really change our underwriting as a general rule. We make loans to borrowers that are able to demonstrate the ability to repay the loan and businesses and individuals can do that in good times and bad. It's certain types of lending where that gets challenging.

Speculative types of lending, in particular real estate, is the underwriting going to change today from a year ago on a new office building that doesn't have any tenants? Absolutely. I mean, with just what we've heard talked about, that's a whole different ball game than it was prior to this current situation. But again, there are businesses and industries that are strong. ■

ABOUT THE SERIES

Industry Roundtable is an ongoing series of discussions with business leaders sponsored by Hodgson Russ and hosted by the *Albany Business Review*. Each month the *Albany Business Review* and Hodgson Russ gather executives and leaders in a variety of industries to discuss issues relevant to their businesses.

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