

Does High Construction Cost Fever Make You Feel Sick? While Not a Cure, Here Are Several Prescriptions That Can Aid in Your Recovery

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has been defined by a commitment to transforming visionary concepts into successful, concrete developments, having overseen the creation and renovation of over 10,000 hotel rooms across the globe.

At CREDE, his focus is on delivering exceptional value for their clients by leveraging his extensive experience and industry connections. Whether it's a new development, a renovation, or a repositioning project, Ted is dedicated to ensuring that each project meets the highest standards of excellence.

High construction costs in both new build hotel commercial real estate and hotel renovations can be a major hurdle, but there are eight strategies that can help mitigate these expenses. Here are some approaches:

1. **Optimize design and planning:** This is valid for both new build and renovations or brand mandated property improvement plan revitalizations.
 - **Value engineering:** Evaluate and adjust the design to find cost-effective alternatives without sacrificing quality. Every single category is open for discussion in this process. It is imperative to engage architecture, interior design, and engineers to discover and evaluate all means and methods to reduce cost without sacrificing areas of the hotel that negatively impact the guest experience.
 - **Design assist:** Using a general contractor that is skilled at new hotel construction or hotel renovations should be utilized for design assist purposes. Utilizing the GC enables both real-time assessment of cost implications for the current design and real-time cost saving recommendations.
 - **Simplicity:** Simplify architectural interior design and structural designs to avoid complex and expensive construction techniques. While this may sound like simple common sense, developers must be cautious with design teams that over-design without focusing on budgetary implications. What may look beautiful in a rendering could easily blow the budget by two times or more.
2. **Improve project management by engaging and hiring a professional owner's representative construction management firm**
 - In the dynamic world of hotel development, ensuring a successful construction project

requires more than just skilled contractors and architects. It demands an effective, experienced, and professional owner's representative who acts as the liaison between the property owner and the construction team. This role is crucial in navigating the complexities of hotel construction, ensuring that the project stays on schedule, within budget, and through adherence to the project scope meets the owner's vision.

3. Adopt advanced technologies

- **Building information modeling (BIM):** Use BIM for better planning, design, and coordination to minimize errors and rework. Conflict elimination in the planning process is paramount to minimizing negative encounters in the actual field work that could lead to significant cost implications and budgetary busts.
- **Construction automation and simplification:** Where practical and applicable, incorporate automation and robotics to streamline repetitive tasks and improve efficiency. Examples include off-site assembly of materials and/or FF&E that reduce the need for on-site labor, such as single-piece toilets and pre-installed vanity tops on vanity bases.

4. Assess and clearly understand the hold period goals of project ownership

- It is imperative to discuss and clearly understand the goals of project ownership. The hold period and anticipated exit by the owner significantly impact the cost of the project, whether it is a new build or renovation.
 1. **Short-term hold** – Build and flip or fix and flip. Cheaper and lesser quality materials can be used for this process, enabling significant cost savings.

2. **Medium-term hold** – More commonly known as project exit at asset stabilization. This utilizes very traditional means and methods to accomplish the goal of keeping the property fresh up until the next seven-year brand PIP.
3. **Long-term hold** – More commonly known as a legacy asset hold period. This requires a significant amount of planning and analysis as there needs to be a balance between longer life assets in the hotel and cost factors associated with that.

5. Leverage economies of scale

- **Bulk purchasing:** Procure materials in bulk to leverage volume discounts, thereby reducing overall costs and improving project efficiency. This approach allows for greater cost control while ensuring a steady supply of necessary materials, minimizing potential delays in the construction process.
- **Utilize direct supplier relationships:** Significant savings can occur on purchase and installation of new FF&E by utilizing direct supplier relationship as opposed to using the services of an FF&E procurement firm. Not only do procurement firms charge for their services, but on a comparison basis the product costs are inflated.

6. Streamline permitting and approvals

- **Pre-approval:** Work with local authorities early in the process to streamline permitting and approval processes, avoiding delays and additional costs.
- **Permit expeditor:** Where applicable and practical, engaging the services of a permit expeditor can be invaluable, as these individuals typically possess existing relationships with building department officials. This enables a shorter time period to

the necessary building department and permit approvals for the project.

7. Improve energy efficiency

- **Energy-efficient systems:** Invest in energy-efficient systems and technologies that can reduce operating costs and potentially qualify for incentives.
- **Energy Star:** Speaking of incentives, applying for Energy Star certification can lead to tremendous rebates from local utility suppliers and significant tax credits.
- **C-PACE financing:** There are currently 38 states, as well as the District of Columbia, that offer C-PACE financing. Commercial Property Assessed Clean Energy (C-PACE) is a state policy-enabled financing mechanism that allows building owners and developers to access the capital they need to make energy related deferred maintenance upgrades in their existing buildings, support new construction costs, and make renewable energy accessible and cost-effective. This is applicable for both new construction and gut rehabs.

8. Review and negotiate contracts:

- **Contract terms:** Carefully review and negotiate contract terms with all parties to ensure clarity and fairness, and to avoid potential disputes that could lead to cost overruns.
- **Minimize material deposits:** Some suppliers require anywhere from 50 percent or more deposits for materials. Carefully reviewing the types of materials and contracts and negotiating a more favorable deposit structure for the owner is advisable.

Conclusion

In the competitive hospitality industry, the success of a new hotel construction, renovation, or conversion project hinges on effective management and oversight. An owner's representative plays a pivotal role in guiding the project from conception to completion, ensuring that the owner's vision is realized while maintaining budgetary and quality constraints. For property owners embarking on a hotel construction journey, engaging a skilled and experienced owner's representative is a crucial step towards achieving a successful outcome. By employing a combination of these strategies, you can better manage and potentially reduce construction costs while still achieving your commercial real estate goals.