

All Eyes On The Overhead

How Stock Market Troubles Change Day-To-Day Business, And What Your Company Should Be Looking At To Stay Financially Stable

BY CARYN GIZNIK

As the current economic conditions have those looking for financing worried, local bankers who work with contractors say it's far from time to panic...but it never hurts to be prepared.

"It is not all doom and gloom," said Steve Trepiccione of The Private Bank about the current financial landscape in the industry.

Supplier Showcase

The products and services offered by Builders Association Supplier members are among the best in their fields. With their association membership, these companies support the Chicagoland construction industry.

The Builder will highlight suppliers in the Supplier Showcase, which will feature comments or information on a construction issue from those members.

This issue's contributor commented on recent financial unrest and how it changes things for the construction industry.

Matt Doucet- Fifth Third Bank

In light of recent financial issues, banks may be careful about who they lend to and when, and construction companies would do well to look at their own capital reserves in the same careful manner.

"Banks have less money to lend, so they're going to be more selective, in addition to revisiting interest rates and the fees they charge," Doucet said. "If you're a very well run business and have strong finances, you aren't going to be hit with those rates, but banks will definitely be taking a harder look at which businesses they loan to."

Getting business loans now isn't the only thing for construction companies to think about, as companies are now being asked to look closer at how an economic stall would effect their business in the future.

"We're asking our guys to look ahead a little bit," Doucet said. "We want them to know what they have to be ready for in 2009 and 2010. There's going to be less capital to go around, and we don't want them scrambling to try to find work."

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"Construction activity is relatively robust. Banks are not lending as much as they used to, but while it may be more difficult to get financing there are still bright spots ahead."

The stock market's recent free fall and the resulting government activity was enough to cause trepidation for anyone in the business community, and AGC of America Chief Economist Ken Simonson told members at the Builders Association's Fall Meeting that construction activity was showing signs of stalling.

At the same time, it could be two years before the full effect of this economic downturn is felt. Jeff Steigelman of Fifth-Third Bank said the construction industry usually lags behind general economic trends 18-to-24 months. While he pointed out that most of the contractors Fifth-Third represents are continuing to work and credit is still available, the industry might not continue to follow this trend.

"We are starting to see signs of things slowing down," Steigelman said. "Historically, you have to look at what percentage of your overhead has been covered by that backlog."

"If the backlog has covered 80 percent of those upcoming projects in the past and now you're seeing that it covers 50 or 60 percent, it's time to identify where you can cut some of your overhead in case things really do slow down. Now is the time to do that, while the work is still there."

The challenges that continuously depleting capital levels cause for banks could eventually be passed on to contractors. Trepiccione cautions contractors to stay attentive when working with banks to finance future projects, and to be sure a company puts some time and effort into choosing the right bank.

"As the country nears a recession, banks will take a closer look at construction companies looking for lending opportunities," He said. "As funding seems to still be available for public projects there will be more competition which reduces the margin of expectations."

"Contractors must have a well articulated plan, good financial flexibility and fewer surprises."

Both Trepiccione and Steigelman stressed the need for construction companies to communicate with bankers, and work together during the current economic conditions to ensure the construction industry can stay active.

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