

Builders seek greener pastures

By Scott Smith

With the industry floundering in the midst of the worst recession in a lifetime, construction companies might be expected to strike their sails, batten down the hatches and ride out the storm. But many southern Nevada contractors are, either out of necessity or to take advantage of a perceived opportunity, implementing a strategy of horizontal integration.

This horizontal expansion – extending a company’s established services into new geographic market areas – mirrors a national trend, according to a recent KPMG International study.

“The economic conditions have not completely dampened ambition in the sector, with geographical growth very much on the agenda. [F]aced with the choice of retrenchment or expansion, it seems that a fair proportion of construction companies are choosing the latter. Almost four out of ten respondents say they’ve continued to develop regionally or globally, while only 12 percent have actually contracted their activity,” according to KPMG’s *Navigating the storm Charting a path to recovery? Global Construction Survey 2009*.

As one of the states hit hardest by the construction industry depression, Nevada is home to several commercial and institutional builders who are in positions to seek greener pastures in neighboring states.

The PENTA Building Group actively seeks work in Southern California and is now at work on an expansion of the Thunder Valley Casino for the Auburn Indian Community. The project, scheduled for completion this summer, is the latest in a series of jobs PENTA has undertaken in the Coachella Valley since 2002.

“PENTA is proud to have been a part of some of the most exciting and challenging projects in the Coachella Valley, including The Spa Resort Casino, Desert Water Authority, Agua Caliente Casino renovation, Tribal Administration Plaza, Agua Caliente Headliner Room and the Gaming Commission renovation,” according to the company’s website.

The company decided to open a Palm Desert office in 2008, targeting the area as a potential hub of continued growth and development, according to Joel Wallis, PENTA's area manager.

"We know that even in a slowdown, the Coachella Valley is still growing and has dynamic potential," he told a valley media outlet.

PENTA’s established market segments in Reno and Las Vegas, including hospitality, gaming, restaurant, retail and resorts are a strong fit for expansion into the tourist mecca of the Palm Springs area.

The federal stimulus package includes extensive funding for public works and military projects, spurring many companies to follow the money to states and regions with large military installations. Ecolite Integrated Building Systems West secured the wall panel contract for the Seabee Museum at Naval Base Ventura County in California. Erin Olson, the company’s director of operations and marketing, said since the firm’s founding Ecolite has focused on regional distribution and installation. Ecolite’s production plant has begun fabricating wall panels that will be used in the construction of the museum in Port Hueneme, which will celebrate the history of the U.S. Navy Seabees. The 31,013-square-foot facility is scheduled for completion this fall.

Likewise, the Korte Company is designing and constructing a 37,000-square-foot child development center for Beale Air Force Base near outside Marysville, California. The \$11 Million center, issued will accommodate more than 300 children.

“We have a rich history of working with various sectors of the military,” said Greg Korte, president of The Korte Company’s Las Vegas Division, “This is our first opportunity with the Sacramento District and we look forward to the same successful relationship with them as we have enjoyed with other districts.”

Straub-Martin, a joint venture of AGC members Straub Construction and Martin-Harris Construction, has been awarded a \$92-million firm-fixed-price contract by the Naval Facilities Engineering Command Southwest, for the design and construction of three U.S. Marine Corps barracks facilities at the Marine Corps Air-Ground Combat Center at Twentynine Palms, Calif. The barracks will house a total of more than 1,000 personnel and will contain standard facilities. The contract also covers the construction of a parking structure adjacent to the buildings. The contract contains three options which, if exercised by the Navy, would bring the total contract value to \$102 million. Work is expected to be completed by summer 2011.

Other companies looked outside southern Nevada and identified needs and niches they could fill. Larry Monkarsh of LM Construction hired a business development specialist to identify opportunities in Utah. The company, in late 2008, completed 70,000 square feet of flex space at Port Cedar in Cedar City. Monkarsh said his company determined the city needed light warehouse and office space suitable for small businesses. LM has specialized in this type of building in Las Vegas, and entering an open market only 160 miles to the northeast seemed a natural move. Monkarsh noted Cedar City’s accessibility to rail service and Interstate 15 and its construction of an airport are creating growth and opportunities there.

Danoski Clutts Building Group also is looking to adjacent states for fill its log, but according to CEO Shawn Danoski, the company is taking a measured approach. Over the next several months, DGBG will pursue licenses in three states outside Nevada. Part of that decision, Danoski’s partner Bryce Clutts said, is so the contractor can pursue public works projects, heretofore a minor component of the firm’s portfolio. With the dearth of private projects, many Danoski Clutts is one of many companies that in the future will look to capital improvement projects for a significant portion of its profit margin. That strategy was almost unthinkable for many construction firms in the go-go 1990s and early 2000s.

Horizontal integration is a double-edged sword, however. While Nevada builders look with interest at other jurisdictions, out-of-state contractors also cast covetous eyes at Nevada projects and markets. Applications for contractor licenses continue to rise in Nevada, despite 20-plus percent unemployment in the industry and plenty of other evidence that the state’s construction – both public and private – are some months from the beginning of a recovery.

“Such assertiveness may be due in part to encroaching competition in home markets by foreign rivals desperate for business,” according to the KPMG report. “Although contractors may be bold geographically, there’s more caution in terms of the breadth of services offered, with 71 percent either maintaining or reducing their range. Respondents from smaller companies are the most likely to favor horizontal integration into completely new market areas. The majority of larger companies are likely to offer a full range of services already, so should have less need to diversify.