



The Jade Group, Inc.'s completed renovation projects list includes the Georgian Terrace Hotel in Atlanta (left); and the La Quinta in Cary, NC (below).



General contractors adapt to enhanced value engineering

BY CHRISTOPHER OSTROWSKI

Like brothers in arms, hotel general contractors along with architects and designers are feeling the sting of the recession, with a lack of capital putting a halt to new construction projects and even renovations, as the franchise companies have become more lenient on the latter and outright unexpecting of the former.

It's no surprise, therefore, that the term value engineering has come into play more than ever for those projects that are able to rise up off the ground. The only problem now is, many hotel owners are increasingly attempting to value engineer the very things that create property value out of their projects in an attempt to cut costs.

"In the first half of this year, the projects that were released were released with a greatly diminished scope, with value engineering a big part of the business," said Jacob Johnson, who heads up Jade Group, Inc., which specializes in full- and limited-service renovation projects. "Now, we're just starting the end-of-the-year business process and I'm sure the scope, while it may be more strategic and a little larger, has been value engineered all summer long at the corporate level. And it's not so much the corporate clients with their own design and construction departments, but the smaller owners looking to save money. Their response has been 'I know my rooms need to get painted, but [my franchisor] is not spelling that out in the [property improvement plan] and the carpet replacement is, so we'll do that instead.' Such value engineering in the long run might really affect their property's life cycle. Those upgrades they're ignoring will have to be made eventually and will be more expensive than now. We're also seeing a lot of owners replacing their drop ceilings, for instance, but at the same time not touching the wall vinyl."

At the same time, some owners are not only

demanding project corners be cut, but they're also cutting corners in their selection of architects, designers and general contractors, driving costs down further, but throwing quality into question. "Being able to value engineer properly comes from experience," said Al Hill, the owner of general contractor and hotel investment firm Hillcrest Development Inc. "So you've got to have an architect and contractor involved in the process that has done this all before. This is no time to have a contractor educating themselves on hotels. Working in a specialty area like [hotels], you need to get an



experienced architect and contractor."

Johnson echoed Hill's comments, noting that with the housing construction market quiet, all manner of general contractors have decided to also compete on hospitality projects. "For the hotel owner this could present a problem because hotel renovations are not something everyone can do," he said. "A contractor has to understand things like displaced revenue, guest satisfaction, etc. Those things are hard to maintain on a renovation project and can make all the difference in the way it goes and how much time is spent on the project. But for smaller hotel owners, it's difficult for them to assess what they could be

losing by doing that versus their initial savings. If your ADR is \$100 and you have 40 guestrooms out of service on a floor and the project is even a day late, that's a lot of revenue."

Rob Flanders, the director of business development at IDC Construction, went even further, adding, "It's almost now like a commodities business. Owners are taking the lowest bidder even if their qualifications don't even compare to other general contractors. That can be shortsighted."

For those owners that are being practical, yet not shortsighted, in their value engineering approach, general contractors noted that the finishes selected, while satisfactory in quality, are definitely of the more basic varieties now. "Everyone is sticking more to the prototype and we're not getting nearly the pressure to dress up the skin or the lobby," noted Jeff Jernigan, the president and CEO of general contractor Pinkerton & Laws. "The owners just want the projects to happen, so the exterior, for example, could be all [exterior insulation and finish system] and not brick."

Gary Sams, chief estimator at IDC Construction, is noticing the same thing with interior elements and pointed out owners, by way of architects, designers and purchasing agents, are opting for practical products from vendors versus, say, more expensive European-style fixtures. "They're cutting more so on the detail stuff. But at the same time owners and designers are still recognizing what the guest sees is important."

Of course, what the guest doesn't know from a finishing and construction perspective also won't hurt them—if it's done right, according to Johnson. He noted a recent conversion of a Clarion to a Wyndham Garden, a full replacement, cost about \$12,000 per room. "Unfortunately, even at that rate, which is very fair, we're still meeting resistance from owners who want a better price. So while we're being frugal, ownership is still running after it faster than we are," he added.