CHASING TALENT INSTEAD OF VOLUME

SKYLINE CONSTRUCTION SETS ITS SIGHTS ON NEW HORIZONS

"Because they have a real stake in the company, our employees are passionate and motivated to go above the industry's status quo, acting as true client partners and advocates."

David Hayes, CEO of Skyline Construction

As the market cycle matures, most real estate professionals are bracing for some degree of market correction. The Bay Area's Skyline Construction, however, is charging ahead with expansion, announcing the opening of two new subsidiaries in 2019. Skyline Construction has opened Skyline Capital Builders LLC in the Bay Area and ACCEND Construction LLC in Chicago, pegging its growth strategy on the success and drive of its employee base, according to David Hayes, CEO at Skyline Construction. In the year ahead, Skyline will move beyond commercial interiors into full-fledged construction throughout the Bay Area and beyond.

Skyline Construction has been part of the Bay Area real estate industry for some time now. In that time, what has changed and what has stayed the same?

While many things have changed internally in Skyline's 23 years, what stands out is women entering – and thriving in – this historically male-dominated industry. Skyline is almost 50 percent women now. Our board is 33 percent women, our leadership team is 45 percent women, and I believe the direct result is an increase in productivity. While I know productivity often is credited to technology, in construction technology is about communication, task management and estimating, which have little impact on office productivity. In my opinion, women have been game changers in construction, filling jobs and adding to productivity.

Externally, I have seen a similar impact in women at the end-user level with far more women entering real estate in all job areas.

Tech companies have completely changed how we service companies and think of space use and building infrastructure needs. Before 2000, offices and ratios of people-to-space were much lower than they are today. Now tech firms offer hoteling and pack people in to collaborate and get work done, which means electrical and HVAC needs of the building are much higher.

Labor shortages keep getting worse each year, as predicted. More tradesmen retire, less young people enter the trades, subcontracting and general contracting businesses. Therefore, supply demand dynamics increase the pricing of limited labor.

Also, government regulations have gotten worse each year, and now with AB1701, general contractors are financially responsible for the acts of companies they have no control over financially. Due to owner contract stipulations, there is little to no way for general contractors to protect themselves financially from this risk. Next recession, I predict this will blow up and someone will be left holding a massive issue under a GMP agreement and will bring the owner into the battle, so we will see what the courts decide and adjust accordingly.

2018 was an active year for the Bay Area development and construction industry. How did Skyline fare this year, and what are Skyline's expectations for 2019?

Our ESOP shareholders saw record stock appreciation in 2018, and we expect the same in 2019 with such a strong backlog. In 2018 sales were over $500 million. In 2019, we expect to see another year of steady growth. We recently opened two new subsidiaries, Skyline Capital Builders LLC in the Bay Area and ACCEND Construction LLC in Chicago, which will continue to drive growth.

Is there anything that concerns you about the year ahead? Conversely, do you think there will be opportunities to grow and evolve?

We know we are late in the cycle as sales are flattening worldwide. However, VC funding is still very strong, and while the last of the IPOs will be completed in 2019, our board is predicting a phase of correction recession, though not a credit recession like 2008 and 2009. With many baby boomers seeking to sell their GC business on the horizon and our robust cash position on the balance sheet, we believe this correction recession presents a great time to diversify our revenue into new markets at an attractive price point. I predict that there will be more sellers than buyers of small to medium size GC businesses between 2019-2023. We are actively seeking M&A opportunities now and believe our prospects will continue to get better as things slow. Our goal for the next boom is to be the dominant interiors general contractor in the Western United States, servicing Bay Area-based corporations in other markets via strong local brands and teams that roll up into our ESOP parent company. This will diversify our revenue base while we scale and further reward our ESOP shareholders.

What do you think the construction pipeline will look like over the course of the next two to three years? Why?

In the Bay Area, we expect the construction pipeline to be flat or lower, but not a total drop off. Our data shows a lot of housing demand still, and some Bay Area IPOs will drive growth. We know leases expire and tenants renew or move, so our 10-year business models demonstrate these realities with recession corrections added in. While sales may flatten or trend down, location diversity outside of the Bay Area will keep our overall performance strong and reward ESOP shareholders.

Construction costs around the Bay Area — and in many other gateway markets — are continuing to rise. How does Skyline approach this challenge and how do you work with clients to mitigate rising costs?

People, people, people — until robots can build space and buildings, this will not change. The Bay Area has a deep construction labor shortage issue and the only way to change that is to pay employees well so they can afford to live and work here. We also believe that making the commercial real estate industry appealing to students coming out of college is important, and we have partnered with BOMA to help fund a program through San Francisco State [University] to bring college graduates into the building managers and commercial real estate professions. That said, great changes are coming into the project management and office side of construction through AI and blockchain, which will drive down costs and take some pressure off office hiring in construction. On the jobsite, many innovations are being tested today, which are capital intensive. We will see what survives the next downturn.

Photo: Scott Blake

Photo: Matthew Henry

Aside from the cost of construction, what are some other challenges the industry faces today?

AB1701 is just bad law. It creates a risk that can't be predicted or insured and puts GC firms in the no-win position of being financially liable for the acts of other companies, who are not accountable.

The construction business is competitive in the Bay Area — how do you differentiate your work and product from others?

We have intellectual property that makes us run very efficiently by freeing up time for project managers to focus on the client and project, not the financial paperwork side, which is a massive time suck. We also focus on execution, reliability and trust. As one of the few major construction companies with a 100 percent ESOP model, including collective bargaining employees, we have a huge performance and commitment edge that clients experience when working with us. Every laborer, superintendent, project manager, accounting manager is incentivized through stock to perform, thus they are more proactive and accountable. They act like business owners – and clients feel it.

Skyline is currently looking to expand its business. What is Skyline's acquisition strategy? How will the acquisition of new businesses fit into its expansion plan?

I'm excited to share that we've expanded into both new markets and sectors of the industry. We recently opened Skyline Capital Builders LLC in the Bay Area and ACCEND Construction LLC in Chicago. We have specialized in corporate interiors for 23 years and after years of growth recognized a demand exists for other services and other locations – delivered with the same impeccable client service.

We believe it takes 12 to 18 months to integrate a new company correctly. This requires patience and refining the integration process as we go. It starts six months before the new office opens and continues for the next year, and by year two we are in rhythm with each other. We consider a variety of factors before we make a deal in a market, and we test partners in various cities via client engagements to see how they perform, knowing our end game is to have an office. We also have a cap on how much we can spend of our balance sheet cash to open a new location, so we protect the ESOP shareholders on downside risk. We are just getting started and have plans for future expansion into many major U.S. cities over the next 10 years, using strong local brands and management teams to execute on behalf of our ESOP.

Skyline is interested in several markets, including Portland and Seattle. What is appealing to Skyline about these markets?

We are very focused on finding the right companies with the right leaders in place to run the organizations. Expansion requires a lot of patience, meeting a lot of people and performance testing. Our new office in Chicago is a result of years of market testing and relationship building.

How has Skyline's experience in the San Francisco Bay Area prepared it for expansion into other markets?

We have never chased volume, instead we chase talent who in turn provides great customer service. The leadership of Skyline exists to work for our employees, not the other way around. When we take over a company that formerly existed to serve its leaders, not the collective group of employees, the behavioral shift in performance is profound. This structure energizes employees through financial transparency and accountable systems and ultimately rewards strong performance. ●