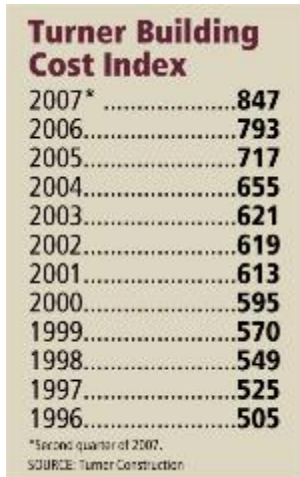


## Construction costs still on rise

By HUBBLE SMITH  
REVIEW-JOURNAL



A boom in construction activity and a shortage of skilled labor continue to drive up construction costs, though not as rapidly as the past two years, an executive for Turner Construction in New York said.

Turner's Building Cost Index registered 847 in the second quarter, a 1.9 percent increase from the first quarter and 7.6 percent increase from a year ago.

"Overall, it's always going to increase," Turner Vice President Karl Almstead said. "That's not absolute. It has backed off a bit, but it's a rising curve, and the issue is what's the gradient of that curve?"

The index is determined by labor rates and productivity, material prices and the competitive condition of the marketplace. It rose moderately from 1996 to 2004, then jumped 9.5 percent in 2005 and 10.6 percent in 2006.

Almstead said there are a number of issues confronting the construction industry.

As the baby boomer generation heads into retirement, a huge gap is being created in the labor pool. The Census Bureau reports that for every four workers retiring from the industry, only one is entering the construction field.

That was a topic of conversation at last month's Associated General Contractors convention in Chicago, Korte Co. division manager Greg Korte said.

"The phenomenon that's happening is when everyone was getting out of World War II, they worked to build back the country," Korte said. "Now the phenomenon is all the trades people that worked their butts off, those parents want something better for their kids. They send them off to college.

"The reality is construction is a great way to make a living. There are laborers making \$45,000 to \$50,000 a year in just straight time, not counting overtime. So there's nothing too shabby about being a construction laborer."

People just aren't interested in manual labor and it's getting harder to attract manual labor in a high-tech world, Almstead said.

"Kids come out of school playing with Gameboys and iPods. Here's a hammer. 'What do I do with it?' That's my simplistic view of what's happening," he said.

Global factors have influenced cost increases as well. Construction cranes clutter the skylines of Shanghai and Dubai for large-scale construction projects. Much of the construction material and equipment needed in the United States is being shipped abroad.

"For 12 years, it was a very benign inflation rate," Almstead said. "Then China bought up all the steel in 2003 and prices spiked. That created volatility in the market and kind of drove the 2004 spike."

Rising energy costs have also played a part, affecting everything from transportation to production of materials such as steel and copper. The industry is being stretched in every direction.

Material and energy costs continue to drive up construction costs in Las Vegas, but certainly not as aggressively as a year and a half ago, Korte said. A slowdown in residential construction has helped stabilize the labor market and brought relief in lumber prices, he said.

The Clark County Construction Index, compiled by the Center for Business and Economic Research at University of Nevada, Las Vegas, bounced up strongly in March to 178.20, compared with 147.85 in February. The five-month moving average dropped 1.08 percent to 155.57.

All series of the index increased, UNLV economist Keith Schwer said. Even residential building permits, down sharply since mid-2006, posted more than 2,000 units.

As housing is predicted to remain weak throughout this year, it is highly unlikely that the index will return to its previous peak in the near future, Schwer said.

Material prices kicked off the volatility in the Turner Building Cost Index and then Hurricane Katrina hit the Gulf Coast, sucking up labor in the reconstruction process, Almstead said.

Although drywall prices have turned down, structural steel, copper and petroleum-based products are on the upswing again, he said. Manufacturers and suppliers are also passing along increased transportation costs in their price structures.

"So as you go through these cycles, there are a number of factors driving it," Almstead said. "Materials, availability of skilled labor and global demand ... they all have a different effect at different times."

Turner Construction is general contractor for the \$170 million Juhl mixed-use project in downtown Las Vegas.

Several high-profile projects have been canceled in Las Vegas due to rising construction costs, including Icon towers by The Related Co.

"In the several months needed to resolve lawsuits and finally be in a position to break ground, construction prices had increased so drastically that after pursuing every possible way to move

forward, Related was unable to build Icon based on original pricing without seriously impacting the integrity of the development," the company said in a January 2006 statement.