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COMMERCIAL REAL ESTATE

After falling with end of the boom, construction supply costs creep up

By MARILYN BOWDEN

Construction costs, while still much lower than at the height of South Florida's building boom, are beginning to creep upward, but contractors say other challenges facing the industry are more likely to affect the bottom line.

"In general, most costs are going up," said Al Milo, president-elect of the Builders Association of South Florida and president of Urban Development Group, which specializes in affordable housing.

"When we were at the height of the boom, some prices went up more than 100%. So now, when people say that construction costs are down 30%, that's not as much as it seems. It's still a net effect of plus 70%.

"And now some supplies are inching upwards because of inflationary pressures."

While he hasn't seen the cost of lumber and concrete rise significantly, said Walid Wahab, principal of Wahab Construction, steel has been going up for four to six months. But these increases, he said, have not made a major difference for his company, which specializes in smaller projects such as luxury homes and build-outs.

"There has been no major impact," he said, "because of the scale at which we purchase. Our experience is that the upscale construction market did not see a huge drop in construction materials as we moved forward."

Nazih Hardan, principal of Lahoud & Hardan Enterprises, General Contractors, said that while demand has fallen, costs of lumber, steel and oil-based products such as roofing materials are on the rise.

Concrete is down 30% to 35% from 2½ years ago, said Luis

Garcia, principal of Adonel Concrete, one of South Florida's largest privately-owned concrete companies, but he expects prices to rise about 10% in the second quarter.

"If we don't do that," he said, "small, independent companies are going to disappear."

Mr. Garcia said to some extent concrete prices have been kept artificially low by large national companies looking to command a greater share of the market.

"We've been in business for 25 years," he said, "and we are one of the last remaining large concrete companies in South Florida. Several companies in Naples, Ft Myers and Orlando have either closed or been sold in the past 12 months.

"If we don't raise our prices a little bit now, the business will be controlled by these big companies, and by 2011-'12 prices will skyrocket."

For the moment, though, other factors are having a greater impact on the construction industry.

"There are a lot of cost indicators, including our own cost index, that indicate we are beginning to see a creeping increase in the cost of a lot of commodities that are a part of the construction industry," said Jay Fraser, vice president & general manager of Turner Construction Co., "but in my opinion that is offset by the hunger in the market for companies to win work.

"A business owner who has money to build or renovate is in a good position, because labor and materials are there and it's fairly and aggressively priced."

In bidding for projects, Turner, which is known for large public and private projects such as the recently completed Rental Car Center at Miami Intermodal Center, is seeing unprecedented levels of competition, he said, some of it from out of town.

"In our opinion it's a very dangerous time," Mr. Fraser said, "because the temptation to drive the price lower will ultimately impact the delivery. Unwise business decisions could leave a lot of people in a bad spot if the builders are unable to finish, including the contractor who hired them, the owner who hired the contractor and the design team involved."

Mr. Hardan said many smaller companies are getting hit with rising insurance costs, though Mr. Fraser said that because of its size Turner's insurance costs have remained stable.

For many, lack of credit is a major issue.

"Contractors used to have line of credits where they could buy at good prices," Mr. Hardan said. "Even those who have accounts are unable to do so now."

"Credit is still very tight for new construction," Mr. Milo said. "Because of what is going on in the market, we are focusing on acquisition and development and rehabs rather than construction deals."



Photo by Maxine Usdan

"Our experience is that the upscale construction market did not see a huge drop in construction materials," says firm head Walid Wahab.