



CRAIN'S CLEVELAND BUSINESS

Construction costs' decline a sign of times

With builders hungry for sparse work, customers find favorable prices for the ticket projects

By **STAN BULLARD**

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Peter Mac Ewan and his Cuyahoga Community College colleagues are engaged in an unprecedented debate a building business: Should they include any factor for inflation when they seek bids totaling \$40 million this spring for a new campus in Westlake and a Health and Career Technology Building in Warrensville Heights?

"Usually we factor in 6% to 7% for inflation," said Mr. Mac Ewan, Tri-C vice president of facilities development.

But these aren't usual times in the construction business, where prices are stagnant and even coming down. Contractors and their suppliers scramble for work in a dismal market for new commercial and industrial buildings.

The current situation benefits customers such as Tri-C, which included no inflation allowance when it recently opened classrooms for its new Brunswick Higher Education Center. Likewise, the college in early January opened bids for telecommunications and data equipment for the new Center for Creative Arts rising at its Cleveland Metro campus. It found the cost of the lowest bid was \$226,000, a healthy 40% below its estimate.

A big part of the unexpected cost savings was the impact of five bidders gunning for the equipment job instead of the college's typical two.

"I would expect we will have a lot of competition on these jobs, but it's hard to tell in this environment," Mr. Mac Ewan said of the dearth of commercial construction amid the financial crisis and the longest recession since World War II. "This market is unprecedented."

Two factors are fomenting the downward price cycle.

Commodities prices have collapsed in the last few months as a global recession took hold and choked demand for materials such as steel and copper. Also, the credit crunch has dried up a lot of commercial work, leaving the hospitals, educational institutions and the few who build from their own cash. With projects few, many subcontractors are so desperate for work they're slashing prices.

Jeffrey Martin, president of Geis Construction Co. in Streetsboro, said makers of prefabricated steel buildings

prices 7% for 2009. Others see steel prices on girders and rods down 20% and more from the middle of last year. Reinforced steel rods used in foundations and concrete walls, for example, can be had for \$800 a ton compared to \$1,200 a ton last year, which was double its 2007 price.

Falling fuel prices also are reducing costs for petroleum-based building components such as shingles. Shingles are about \$15 a square foot, down about 30% from last year, but by the time construction wages — which are not factored in, roofing bids may realistically come in 15% lower than last fall, estimates David Stahl, preconstruction manager at Turner Construction Co.'s Cleveland regional office.

Those decreases are translating directly into lower construction prices.

Mac Donley, CEO of the Donley's Inc. design-build, concrete and construction management company, said that concrete prices have remained firm throughout the growing downturn, decreases in the cost of steel and other materials are producing a 5% decline in general construction prices.

From a national perspective, the building industry's bible, *Engineering News Record*, forecasts "a rare" 0.5% increase in its building cost index this year. Last year that index climbed 5%.

A key factor in pricing going forward is how hungry contractors and subcontractors can afford to be.

The number of bidders for the work available is staggering, as Tri-C has found out. With a total of \$200 million in potential building projects on Tri-C's drawing board, Mr. Mac Ewan said the school's board is preparing to hire construction managers.

"We got 16 proposals from construction managers," Mr. Mac Ewan said. "I didn't think there were that many (construction managers) in Cleveland." Likewise, 25 architecture firms competed for the college's design jobs. Typically, Tri-C sees fewer than 10 construction managers and five architecture firms vie for its work.

However, competition can only go so far, and every construction buyer worries that a contractor might cut prices too low to complete the job or might go bankrupt before finishing it.

Turner's Mr. Stahl said the paucity of work in the region compared to other comparable cities means contractors already settled for lower profit margins here than elsewhere.

"People can only give so much of their personal money to get a job," he said.

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