

Contractors plan for correction in material pricing

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With most material prices at an all-time low, now is the perfect time to build. Just ask the state Department of Transportation where the recent round of bids for highway stimulus projects came in at 10% below expectations - this after the first round of bids came in 21% less than estimates.

Since October 2008, material prices have been on a steady decline.

"Most things are in full retreat - copper, steel, lumber are at numbers that we saw five or six years ago," said Phil Spangler, vice president of preconstruction services at Trehel Corp. "Wood framing lumber are at prices of almost 20 years ago."

The Associated General Contractors of America predict the producer price index for construction in 2009 will remain the same or drop by up to 4%. According to Reed Construction Data, total construction spending was down 5.1% from 2007 to 2008 and is predicted to decrease an additional 3.7% in 2009.

A year ago copper was "almost as valuable as gold," said Ron Smith. There were dozens of reports of copper theft in the U.S. Now copper prices are down 40%.

"Traders on Wall Street say commodities are a great place to invest right now," said Smith, principal with McMillan Smith & Partners Architects PLLC in Spartanburg. "(Copper) is one of the commodities that will return full speed."

A \$6.2 million library project in Western North Carolina that was designed by McMillan Smith & Partners received 16 bids from contractors. Brantley Construction of Canton, N.C., recently broke ground on the library, with a completion date of spring 2011.

"Three years ago, we'd be ecstatic to have four contractors bid it," Smith said of the competitive bidding environment.

Neal Workman is concerned about the potential shutdown of material suppliers. Already dealers are cutting supply, which could lengthen construction time.

"We went to see a specialized plant in Georgia that makes blue laminate beams," said the president of Trehel. "The only reason why the plant was running was because they cranked it up for us. They had no orders to fill."

The \$44 million Woodlands at Furman, a mixed-use project by Upstate Senior Living, recently opened at Furman University. The nonprofit entered into an affiliation with the Furman Foundation to own and operate the continuing care retirement community, which consists of 132 independent living units, 32 assisted living apartments, 30 skilled nursing rooms and 16 assisted memory support apartments.

The Woodlands project pricing was finalized in the summer of 2007 and agreed to a fixed cost.

"The project enjoyed sizeable buyout savings that has allowed more added luxury features to be included in the project," said Lana Medina, senior manager of development for Greystone Communities Inc.

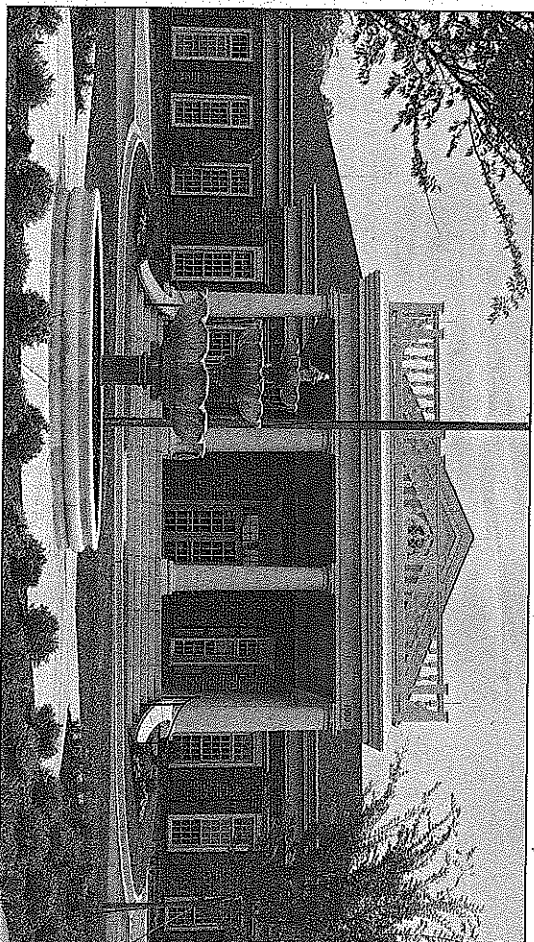
Last summer, Greystone Communities had a project that was priced \$8 million more than its planned budget. While the company did modify its plans somewhat, the latest bids came in \$2 million less than Greystone's construction goal.

"Carpet was a huge one, for instance," Medina said. "We were able to find a different carpet manufacturer with the same quality of fibers to get us a better price. Petroleum based products, such as carpet, vinyl and roofing materials, are impacted greatly as a result of higher fuel costs."

The fear for some in the construction industry is that contractors are recklessly placing bids.

"There might be some pricing at cost or below cost going on," said Frank DeVita, president of DeVita & Associates Inc. in Greenville. "You can't do that for very long."

If material costs rise in a tight lending market it could bankrupt some fiscally irresponsible general contractors, whereby the pain trickles down to subcontractors.



The \$44 million Woodlands at Furman, a mixed-use project by Upstate Senior Living, recently opened on the Furman University campus. (Photo/Provided)

"We had a run up in 2006 and 2007 where pricing was probably as high as it has been," Smith said. "It's come way down. We expect some moderation of pricing going forward, and we won't see quite the same run up we did in '04, '05 and '06."

Another potential pitfall for new construction is existing inventory. For example, a relatively new shopping center that was repossessed may be a more attractive buy for a tenant who was in the marketplace for a new project.

"It's a stressful situation," DeVita said. "There's a lot of learning going on and trust being built. We are learning how to manage more efficiently."

Smith said McMillan Smith & Partners is chasing more federal government work and smaller projects. Trehel is doing more general repairs and maintenance work for existing clients.

Workman said the current recession reminds him of the business climate in the late 1980s, but adds, "The lending was not locked down like this." ☞

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