

Rising construction costs may hinder boom

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As Central Texas developers propose a slew of new projects in response to the recovery of the commercial real estate market, a national expert is warning that rising construction costs could hamper progress.

Ken Simonson, chief economist with the Associated General Contractors of America, says he anticipates an inflation rate on construction materials on the order of 6 to 8 percent, with some periods of 10 percent increases possible. Simonson will be in Austin on Jan. 11 to talk about how those national trends could impact Central Texas at a half-day seminar. Also speaking at the event at the Norris Conference Center will be McGraw-Hill economist Cliff Brewis and panels of local property owners, designers and builders.

Simonson says in the first days of the New Year, crude oil and copper prices plunged. The price of crude oil can affect the bottom line for contractors who pay fuel surcharges or operate their own dump trucks and concrete mixers. And the drop in copper prices should help contractors who saw the cost of materials such as wires and pipes skyrocket in the first half of 2006. He adds there's also been some leveling off of prices on other materials such as asphalt, plastic and gypsum.

"But I'm still concerned that a year from now expanding demand for non-residential construction materials in this country and in Asia will push up the cost of those materials more than the rate of general inflation," he says. "It really makes it very difficult for contractors to provide a firm price for owners, and it also makes it hard for them to line up subcontractors," he says.

Simonson says the impact is most direct when it comes to government agencies and public universities like the University of Texas that generally insist on getting a firm price from a contractor.

"With materials costs being so volatile contractors tend to shy away from fixed-price contracts or put in a larger margin to protect themselves from price shocks," he says.

Still, the outlook for Texas markets is better than most others around the country. For that, Simonson credits the success of the oil patch, which Austin gets some benefits from through additional tax revenues and government activity. But he warns that even in Austin, which is still in the throes of a condo project boom, some of the for-sale units being built will eventually end up being offered as rental units.

"I do expect some increase in rental construction and conversion," he says.

Nationwide, Simonson says there has been a falloff in investor interest in single-family homes and condo units.

"Those buyers have all but disappeared to a great extent and a lot of projects are hanging out there unsold," he says.

Meanwhile, Simonson says much of Texas -- including Austin -- is benefiting from an influx of immigrants that are helping to support the demand for both rental housing and, in time, owner-occupied housing. He says Texas' 2.5 percent increase in population between July 2005 and July 2006 -- more than double the national rate of growth -- is attributable to several factors including cross-border immigration, the success of the oil patch and a one-time influx of people from Louisiana following Hurricane Katrina.

On a related note, Simonson does not expect post-Katrina reconstruction activity to have much bearing on national construction prices or the labor pool. He says projects in New Orleans and along the Gulf Coast may have a minor impact, but he points out that the number of building permits being issued in the region remains well below the activity that was occurring before the hurricane.

Courtesy of JB Goodwin