

Construction Industry Prevails Despite Increased Costs and Competition

by Steve van Stempvoort

Facing an economy in which the prices of construction materials are rising, time delays for pre-construction approvals are increasing, and competition remains fierce, local area construction companies are being forced to reevaluate their present modes of work, even while maintaining a positive out-look on the future of the industry.

"Right now it seems like we are all trying to take lemons and make lemonade," notes Chris Veneklasen of A.J. Veneklasen, Inc. "The process is much more difficult than it has been in the past. Owners need projects, but are less motivated to 'pull the trigger'. Meanwhile, the approval process seems to have become more elongated."

John Wheeler, CEO of Rockford Construction Company, Inc. adds, "There are so many pre-approvals necessary for construction projects that it has changed the way pre-construction services are being priced and construction services are being managed."

One of the major disadvantages of the lengthy pre-approval process is the increasing time delay between the bidding process and the actual construction of the project. Estimated expenses are becoming more difficult to project as the date of actual construction is growing more distant from the bidding process.

The recent increase of material costs, therefore, has suddenly become an extremely pertinent issue in the construction industry. "The 'big thing' in the construction industry today is what I refer to as the material cost increase 'trifecta'," says Tim Schowalter of Pioneer Construction. "The big three are steel, concrete, and lumber - all affected by increased oil and fuel prices."

Bob Shoemaker of Marjo Construction adds, "The fuel costs right now are a big burden [for heavy-equipment operators]. . . Right now that seems to be the big question in the construction industry: 'What are we going to do about these rising fuel costs that are out of our control?'"

Factors as varied as China's soaring consumption of resources, the war in Iraq, and the Florida hurricanes are cited as reasons for

the recent hike in materials prices, but whatever the cause, it is the local contractors who are being forced to cover the cost of the shortages. Various local construction companies agree with this sentiment, noting that the escalation of materials costs is one of the major factors currently impacting the business. "The depth and duration of price increases. . . have made this year one of allowances instead of hard numbers," comments D & K Engineered Construction's Gary Whiteman.

Adds Dan Hickey of Fence Consultants, "Some projects [in the past year] have been canceled or re-bid because of higher than budgeted costs."

Not only has the increase in material costs made construction more expensive for contractors, but it has also led to a decline in the current job market. As a result of the increasing construction prices stemming out of escalating material costs, fewer owners are willing to build new projects. The result is a market in which construction projects are becoming more expensive for contractors even as bids are driven down in the face of increasing competition. As Veneklasen puts it, "Margins are tighter because the same amount of contractors are chasing less work."

Debbie Anderson of StructureTec adds, "Things are price-driven and extremely competitive. . . Owners are getting two, three, four and even five prices on little things, whereas prior to the current market situation, most things were cart blanche or single-sourced and it wasn't an issue."

The risk of increased building costs in a highly competitive market, of course, is the introduction of improper cost-cutting measures resulting in deficient products. As Anderson notes, "We are seeing rising material costs on one hand, but on the other hand we are in a market that is price-driven. . . Probably what will suffer is quality of the projects."

Recent stabilizations of the economy have re-inspired confidence in the well-being of the industry, however. "In spite of the [cost] increases," notes Schowalter, "the state of the construction economy appears to be holding its own."

Michael Houseman of Houseman Construction agrees, citing the return of retail construction as a factor in the recent upswing: "We are currently seeing a lot more private investor projects in the market now in lieu of a lot of municipal or government funded jobs."

The tight economic conditions in which several construction companies have recently found themselves, however, have forced them to start considering alternative methods to maintain their market presence. "Be on the leading edge vs. the bleeding edge," maintains Anderson. "Enforce the attention to detail [which] is given away in the current market."

Wheeler adds, "Most general

contractors in the industry today [who want continued growth] are going to have to reach farther out from the current services of being a 'mud and boots' general contractor. . . to become a full-service general contractor."

For the most part, however, notes Wheeler, economic conditions are improving on a wide scale across the industry: "The construction industry as a whole is in fine shape, the subcontractors are doing well. . . [and] overall, because the interest rates are down, and the confidence in the economy seems to be rebounding, I think the construction market is in good order."

"If the loan rates were kept down and the interest rates were kept down," agrees Shoemaker, "I think it'll keep the construction going."

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