What’s is store for 2008

Construction 2008 may need to be Construction 101 for some this year.

Predicting the climate to work in this year was my goal for this writing. To advise my clients and then actually secure work in those areas they may need has been our challenge for years now. In doing so I realize the flaws with averages and percentages in predicting. So we decided this year let’s not just massage their ears with warm fuzzy thoughts that life will go on as is. In fact if I hear one more expert pontificate on the future with “cautious optimism” for our contractors, I may just pop.

Then the numbers guys have to deal strictly with the totals and averages. They for several years have only had to add a couple percentage points to yet another new record. To today, when they only need to reduce their ‘prediction’ by a cautious couple points in reverse. Now here is where the news of these good numbers may hurt the unprepared while these averages blindly smooth out or conceal the spikes.

Point is, just slightly less than record numbers, is still a pretty good overall economy. Great in fact, we can concede that. Most who are busy now will remain that way for several months, even several quarters to come, election year or not. Some who can handle literally unlimited capacity may see no end in sight for years to come. The reason for the current great backlog has been a mix of projects in almost every size available for those in these comfort zones. In fact at the time of this writing we had just closed bids on 70 projects from 6 states. However when ‘Mega’ projects enter the mix in Utah, look out. Remember when Little America and the Conference Center took over the construction economy and capacity. If not, you will.

As the mega multi billion dollar CityCreek projects balloon into full swing the averages will continue to look great. Why then, in this time of relative plenty will some contractors literally starve and fail. Plus some owners who read that inflation might average 3-5% will wonder why their project gets priced out of bounds with 25 - 35% over-runs. I believe the answer is found in gardening.

Yes, gardening, or rather the microclimates dealt with there. Ask a good gardener about microclimates and they can thoroughly describe several on their property alone. Just like certain types of construction too much water, fertilizer, sun or shade in some zones can kill production in that area. Too little of all those same good things above and the results can be the same. We have all witnessed it. That is where I believe the simile with construction this year comes from.

With thousands of businesses specializing in relatively few activities. They need to know what the climate for their ‘specialty’ looks like and where. Unfortunately for many construction and related firms in Utah, the apparent high to record averages and percentage of growth in the overall industry may cloud their vision of the future for their firm. They may not be preparing for the diversity and experience they may need to thrive or in some cases survive.

Microclimates in construction can include a myriad of issues. Ranging from traditional climatic cycles of weather and seasons, to capacity and logistics issues. The cost of an owner’s project can be affected by minute details as petty as the time of year they bid, to even the day of the week chosen to close a bid deadline. We will address those inflationary factors in a moment. Considering how we can weather protect almost any site these days, these factors may affect the cost of construction and inflation perhaps even more so than the actual construction period selected.

Don’t think geography and other related construction fields may not affect you. Just ask any owner or contractor trying to bid and build a commercial or institutional project in Vernal or other gas production field as example and my theory is very recognizable. With all the hotels, motels, RV parks and private residences at maximum capacity. Housing workers, labor capacity and shortages cost even more than certain peeks in material prices. The cost of the logistics to compete with an industrial boom makes it difficult to impossible to provide support for what? Ironically, the industrial boom itself.

While here, lets discuss this important aspect of our construction economy, and that is industrial building. In fact Utah will lead the Rocky Mountain States in Industrial Construction in 2008. Hard to think of “Industrial” a $36.8 billion regional line item a Microclimate, but with such strict quality and safety pre-qualifications these natural barriers or restrictions allow access to only a select few. So while pumping huge numbers into the annual average of construction is actually too prohibitive for the small to mid-sized commercial construction firm to participate in. Another over watered plot in the garden or in other words still too much work for too few tradesman.

Here’s the good news for those qualified. According to Industrial Info, Texas reports: “Utah is expected to surpass both Arizona and New Mexico to lead the Rocky Mountain region in both planned project spending and project activity for this year. Based on projects scheduled to begin construction in 2008, Utah leads all states in the region with 59 projects totaling $6.5 billion. Utah's rise can be attributed to an influx of energy-related projects including $3.7 billion for the Power Industry, mainly for coal-fired-related developments, a planned $500 million petroleum refinery project, and some large-scale oil and gas pipeline projects.

Non-energy related industries are experiencing an increase in activity, as well. There's even a paper mill planned to begin construction next year in Utah. For the Pharmaceutical-Biotech Industry, nine projects totaling $751 million are planned in the state for 2008. Arizona is a close second to Utah with $6.2 billion, followed by New Mexico with $6.1 billion, Nevada with $5.1 billion, Wyoming with $4.9 billion, Colorado with $4.1 billion and Montana with $2.7 billion.”

Unlike previous decades when Utah ran 5 years behind national averages, from 2000 on Utah has paralleled or exceeded national trends in almost all factors. Now housing is tapering off nationally, again those averages, affect even us now, but only to a degree. Regardless of this, housing is slightly brighter here always. Our family growth knows no national average, so as long as certain needs are considered some strong areas or microclimates should excel still. The problem again still will be too much for too few here as well.

Even as housing units level out we will see some developments and areas thrive. Perhaps through the strength of their ownership (Daybreak) or the market they cater to (rich in Park City’s Promontory) plus their ability to inventory units until sales catch up should keep that activity level. Yet, the cost of money and holding inventory may prove too steep for others.

Though the scale of capacity must adjust to some fraction, perhaps to even half that of several years ago for new construction. Here, that can only be held down for so long. Need for (especially affordable) housing and apartments will be filled, as our children demand the ability to remain in Utah. Also, these few big, and well-supported builders may be able to keep the majority of available labor and subcontractors they need. Others will have to seek capacity in the commercial arena. Currently our highest growth group in new members at the plan room comes from here. However, better plans, actual specs, rules for safe contracting and retention makes it a pleasant surprise for some.

Now before we address the bounty of commercial construction projects that are planned to overwhelm, oops I mean enter the Utah market, let us touch base on some inflation and timing factors that may help owners plan to address the competition for subs and supplies for their project. Competing with

mega projects can be daunting I'm sure. But knowledge of certain timing issues can improve their chances for a successful launch of their own project.
We have felt for years it foolish for some projects to bid at times of maximum capacity. See illustration below. What we have witnessed were owners imposing deadlines based on potential losses occurring from a certain deadline. Ironically, they may pay more for their building than they would have lost by adjusting the building completion. Strategic planning of bidding and the potential dynamics involved in that process is priceless. Recently we found confirmation of our theories in an excellent article by one of our associates from the northwest.

An article titled: **How to survive the great public bid crisis.** "Bidding projects during the winter will avoid a lot of bid escalation." By SANDRA MATSON Matson Carlson & Associates. She collaborates on some bid history from the DJC. The Daily Journal of Commerce in the Northwest to document the pattern in direct correlation to the months of the year. They tracked a certain number of public projects through out the year and found that while the average escalation for the year was documented at a 3.3 % increase. During the period of prime constructability May thru October some spikes in capacity and availability costs may soar to over 30%. We have provided similar documentation for several local Architectural and CM Construction Manager firms here too.

Visit ConstructUtah.net for her full article.

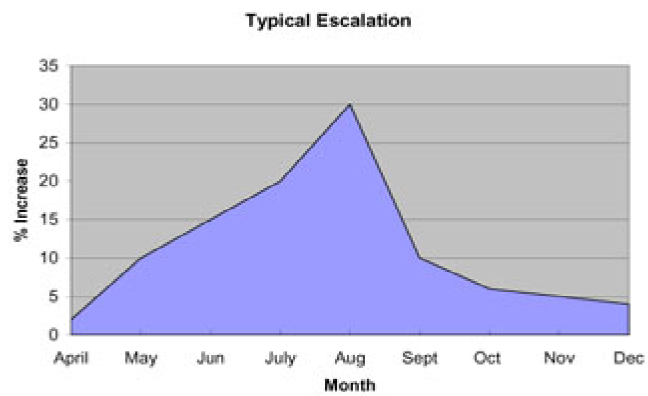

Image courtesy of Matson Carlson & Associates

Bids prices tend to escalate in the summer months.

As you can see from graph above the months of July and August become microclimates so flooded with previously contracted work it may prove detrimental for some owners to bid then. For the savvy contractor who as retained some capacity may usually be able to secure some work at premium pricing to cash in on this wealth during this period. But then again, who is not busy in the summer already?

Speaking of busy, we were just reminded of a phenomenon that occurs during almost any downturn in an economy. That is the abuse of certain unwitting subs. Subs that for the last 5-10 years have relied on work given to them already priced. Apparently their so-called good customers have kept them busy by telling them how much they will work for. Now those sources have to tighten down the screws, so these subs that do not or have not had to bid their work previously will need to now. Some in fact do not know how to do that.

Recently we have seen subs showing up periodically that "don't need us" here at the plan room...."their customers just give them work or we just needed to look at this one certain job" is the excuse given to us for the visit. What we hear next is the disturbing part. The time spent by most or you and I for taking off their materials was spent 'looking' for the bid value of their trade. Calls to suppliers, other generals or their customer trying to 'find' the number rather calculate it. Here is a sub that has been gifted work, probably with some good margins up to now. What this and many other subs who have been caught up in this tact don't realize is they usually have been given work that previously bid publicly. Some may have been working on jobs where they were lower than the already documented low bid.

Advice and warning to all. Do your own bidding. Generals, do not simply just rely on subs and take numbers. Subs, know your own costs and values. Take off your own quantities and write good proposals. Go back and recreate certain jobs if need be so you have a track record and history of production rates or costs. It is not too late. If you are lacking personally in bidding skills, hire someone or get additional training for yourself. Equip yourself with better estimating tools. We acquire measuring digitizers for our clients quite often. They are a great way to expand their own capacity and be both faster and more accurate. It does for bidding what pneumatics did for hammering. There are many on-line versions that allow 'digitizing' with simple mouse clicks too. Don't get left behind or rely on your friends and customers to price things for you. If someone has ever told you how much your bid should be, it is because someone else figured it. That price cannot reflect the consideration or be as advantageous for your business as if you would apply it yourself. In fact my personal experience tells you I have found it never does.

A similar instance is also reflected here. Those that do not utilize a service like ours, yet tell everyone they don't do 'bid work'. They would say that their work is unique to their eyes only. We laugh that number one, they are here telling us this story when standing in our offices looking for work and number two, when queried about some of their exclusive projects, we find it did actually bid here previously. They are the ones not privy to what is or is not in the public bid market. You cannot intelligently say you don't bid our types of work unless you see our types of work as a member would. Don't be isolated and caught up as slaves to a limited few customers (unless they are great), get informed, network, visit with other subs and find out when they bid their portion of jobs. Unfortunately many are surprised other subs have been contracted for months prior to their exclusive opportunity appearing. Pricing public work is also a great to keep up with market conditions.

At the Plan Room we not only chase the local and statewide projects, we bring work in from several other states as well. So I will go over a more regional review and submit to several others here that may provide news of the major Utah projects. Hoever, simply name all the big boxes, major retailers and any remaining chains should do the trick. Almost every mall in this and surrounding state plans or is under expansion. Our own Glen Beckstead of MHTN Architects and here in The Enterprise will report as they occur. Glen speaks with James Woods on Jan 17 at the ASPE’s Annual Construction Forecast meeting.

We must begin any discussion of regional opportunities for our local qualified contractors in Las Vegas. There “the construction industry is now responsible for nearly 150,000 jobs statewide — about 11 percent of the state’s total work force — contributing $5.1 billion annually in wage and salaries, while generating $14.7 billion worth of economic activity”. According to the equipment dealers there.

“The Vegas Strip is leading the charge with $35.46 billion worth of projects planned through 2010, reports the Las Vegas Convention & Visitors Authority. Construction plans will add 42,092 more hotel rooms, 2,562 timeshare units and 3.49 million square feet of convention space. Another $13 billion in tentative projects could also build 36,703 hotel rooms and 7,088 timeshare units”.

“Affordable housing concepts and others are staying busy downtown, which, like the Strip, is a hotbed of construction activity with projects like the $3-billion, 12-million-square-foot World Market Center at Grand Central Parkway and Bonneville Avenue”. At the time of this writing we just released news of the $3 Billion City Crossing retail, office and life style center in Henderson. Now the fastest growing segment or suburb of the Clark County (Las Vegas) metropollous.

“The luxury condo and condo-hotel high-rise market is helping keep local constructors busy with 69 projects, totaling 45,616 units, planned in the first quarter, reports Restrepo Consulting Group, a Las Vegas-based economic research firm. While there have been some well publicized cancellations, many other developments are still moving forward”.

Reno has some incredable opportunity and backlog of projected projects. Not to mention the over-priced Tahoe basin projects. With some work there contracting at $1,000 - 2,000 per square foot. To the North our friends in Idaho are seeing a ratio similar to ours here in Utah. Busy in commercial and slowing in residential. While to the south power house Phoenix and Arizona is stalling on many fronts. Yet may only decline to what most would consider booming compared to one of our usual years.

To prevent becoming victim of one of those spikes take some time in the near future to expand your access to the available work in your specialty. Acquire technical expertise to do all aspects especially estimating of your trade more efficiently. Get required state and county licenses, updated software and estimating tools. Expand your database of contacts and join an association or builders exchange. Have your subordinates join associations like SMPS, NAWIC & ASPE and get deeper into the owner-based groups like the ABC, HBA & AGC that you should belong to as well.

In summary, for those who have succeeded recently only because of the record levels available may not be prepared for more traditional times. Almost guaranteed they will have a hard time adjusting. Being stuck with excess equipment (and toys) or speculative inventory could prove harm-full for them. Oh yeah, and you owners bid your work in October to March.

As always, good luck with your bidding
Best Regards

Mike Luke

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