

Cost and Market Forces

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2005 Construction Market



- 2004 Market Described as “Perfect Storm” Cumming, LLC
- Is the Construction Market Calming?
- **Katrina/Rita!**

Market Factors

2004	2005
<ul style="list-style-type: none">▪ Weak US Dollar▪ Material Shortages▪ High Energy Cost▪ International Influences▪ Domestic Demand▪ Labor Cost/Shortage	<ul style="list-style-type: none">▪ Weak US Dollar▪ Material Shortages▪ High Energy Cost▪ International Influences▪ Domestic Demand▪ Labor Cost/Shortage▪ Transportation▪ Insufficient Bonding Capacity▪ Katrina/Rita

US Dollar

- **Weak US Dollar**

- Dollar continues to be weak
 - Down 22% vs Euro since 2002
 - Down 11% vs Yen since 2002

“Percentage decreases in dollar increases material costs by a like percentage”



Material Shortages

▪ Materials

– Total raw materials up 28% since 2003

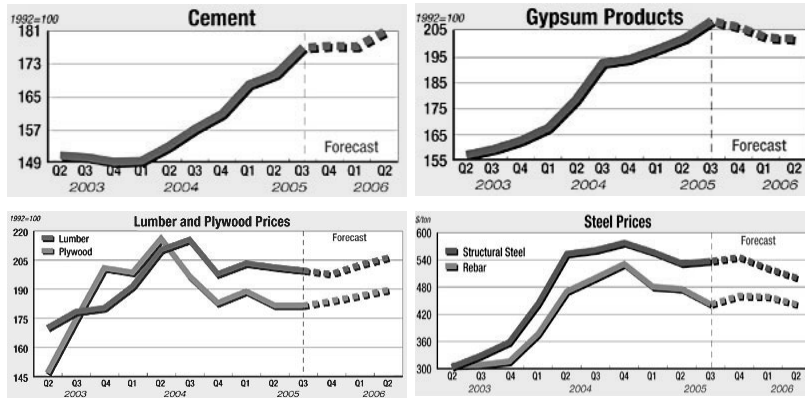
- Structural steel shapes, up 65%
- Lumber – up 45%
- Gypsum board – up 45%
- Copper piping & tubing – up 32%
- Crude oil – up 131%



Material Shortages

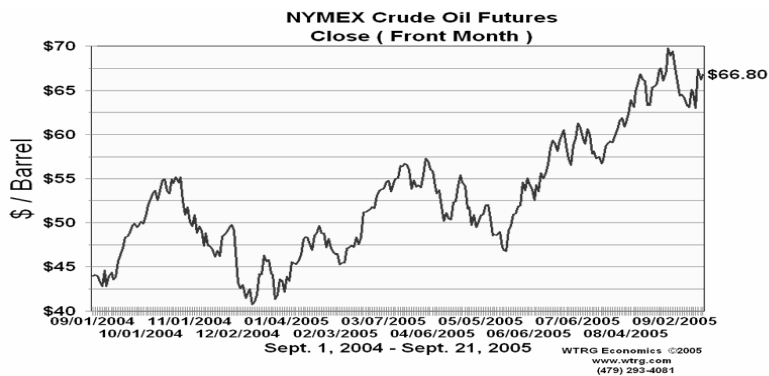
“There have been many indications of panic buying in many of the construction materials, including wood and steel. This leads to rapid increase in cost and shortage of supply which can become self feeding as the price increases and shortages draw in even more buyers seeking to hedge future risks. These panics have lead to increases in some materials by 20% to 30%”

Materials



High Energy Costs

- Cost of Crude Oil is up 131% from November 2003



Labor

- Skilled workers left the market due to recent recession
- Lack of training of skilled workers
 - (Takes 2 to 4 years to become a journeyman)
- Labor burden costs escalated at a rate of 3 times the rate of the Consumer price index (CPI)
- Construction workforce growth is not keeping up with construction volume growth

Transportation

- Prior to Katrina/Rita
 - Bulk cargo transportation was at capacity, causing delays and price spikes, Owners have been finding some foreign goods in short supply
- After Katrina/Rita
 - Areas impacted by the hurricanes are home to some of the largest ports in the world. The availability of Imported Iron, steel, forest products, aluminum, and natural rubber are expected to be impacted and shipping costs are expected to increase moderately for a short period of time.

California Construction Market

- Construction market is not calming
- Too few contractors and subcontractors
- Limited bonding capacities
- Volume of work enables contractors to maximize profits
- 2006 School Bonds
- Impending deadlines for SAB 1953 required medical projects



California Crystal Ball

- Cost Advisory:
 - Add 5 to 15% to 2004 estimates and budgets.
 - Add a sort term 2% to 3% for the short term impact of Katrina/Rita



California Crystal Ball

Katrina/Rita!

- Anticipate an overall cost impact of less than 5% nationally
- “It is expected that premiums of up to 20% may be offered to lure workers and management to the area”



California Crystal Ball

▪ **Bid Marketing**

- Effectively manage the bid phase
 - Know your market
 - Simplify the project
 - Communicate
- Low bid coverage can result in significantly increased construction pricing. Receiving only 1 to 2 bids can potentially result in 10% to 50% impact to the bid price.



Source Information

- Vanir Construction Management
Historical Data
- Leland Saylor Associates
- Engineering News - Record
- American Society of Professional
Estimators
- Other Sources