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Building material prices hamper Nashville construction

Costs hit pre-recession levels

Premium content from Nashville Business Journal - by Eric Snyder , Staff Writer

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The days of historically low construction costs are numbered.

The costs for some building materials, such as steel and copper, are rapidly rebounding. Those rising costs will put more pressure on builders and contractors already existing on razor-thin margins and could further delay the start of new office-building construction in the Nashville area.

Most material prices have returned to their pre-recession levels, said **David Bockian**, senior vice president of Nashville-based **T.W. Frierson** Contractor Inc.

"Steel, literally, is back to where it was — the highs," Bockian said. He also cited the rising cost of copper, petroleum-based products like asphalt and PVC, and the impact higher fuel costs are having on any material that needs to be transported.

Nationally, February construction costs are expected to be 3.8 percent higher than one year ago, according to Engineering News-Record, a leading trade publication.

Feeling the pinch

David Flow, president of Nashville-based [Flow Construction Company](#) Inc., said more subcontractors are starting to pass on their price increases to general contractors. With demand for new construction still depressed, however, it's not a move every subcontractor is willing to make.

Steve Francis, a co-owner of Nashville-based Wellspring Builders Inc., said some subcontractors are absorbing the higher costs to remain competitive for what little work there is.

"They're beating themselves up to get pricing to us," Francis said.

Francis said he is concerned how subcontractors will handle the increases. He advised clients working on building projects to find out as much as they can about their builder's subcontractors, starting with who they are, can they bond their work and what's their total workload.

Ken Simonson, chief economist for the [Associated General Contractors](#) of America, noted that, nationwide, builders are not charging more for their services, even as their costs increase.

"The last thing contractors need after two years of depression-like conditions is to pay more to make less," Simonson said. "With margins continuing to shrink, few contractors are likely to benefit even if construction demand picks up this year."

If subcontractors have caught a break, it's that labor costs remain down, due to high unemployment in the construction industry.

Getting orders in

Though subcontractors are currently absorbing much of the sting of higher material costs, general contractors like **T.W. Frierson** and Wellspring are

protecting themselves by locking in prices for materials as soon as a contract is awarded, hedging against further increases.

T.W. Frierson has even gone one step further, ordering the structural steel for a contract it has not yet been formally rewarded. If the gambit doesn't pay off — meaning **T.W. Frierson** doesn't get the contract and the client doesn't indemnify them — the company could be out \$20,000 in engineering costs.

Flow pointed to "a window of opportunity" for owners who want a new building. As demand for new construction returns, builders and subcontractors will be more willing — and even eager, given the years of thin margins — to raise prices and widen their profits.

That could get some projects off the fence and out of the ground. But **Brian Reames**, senior vice president and regional manager of the Nashville office of [Highwoods Properties](#), said rising costs could delay construction of new office buildings.

Construction costs are ultimately passed on to a building's tenants, Reames said.

Higher construction costs, therefore, only widens the gap between rental rates in new and existing buildings. The wider that gap, the fewer incentives exist for a developer to start construction on a new building.

Rising costs

The [U.S. Department of Labor's](#) producer price index points to some factors behind the rising costs of construction. Data is from January, the most recent available.

- **Diesel fuel** — up 3.2 percent in January, and up 17.7 percent over 2010
- **Steel-mill products** — up 2 percent in January, and up 11.5 percent over 2010
- **Steel pipe and tube** — up 2.8 percent in January, and up 17.8 percent over 2010
- **Pre-fabricated metal buildings** — up 5.2 percent in January, and up 12 percent over 2010

Source: The Associated General Contractors of America

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