

# Construction costs to rise, but not at prior-year levels

BY CHUCK GREEN  
SPECIAL TO THE JOURNAL

The cost of construction materials is expected to continue their rise, but not at quite the levels the industry has seen over the past three years.

Ken Simonson, chief economist of the Associated General Contractors of America, said he expects the cost for construction materials to increase between 4 percent and 6 percent this year.

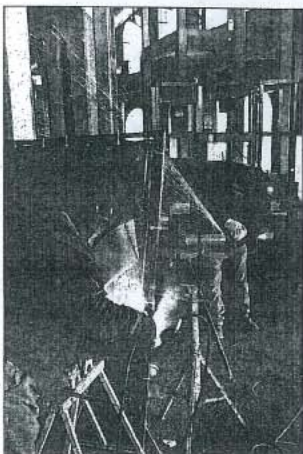
"Which is better than the 5 percent to 10 percent range we've seen the last three years," he said. As for the industry's outlook for 2007, Simonson said he expects an increase in nonresidential building activity of 8 percent to 10 percent over 2006. Last year, nonresidential construction projects amounted to roughly \$550 billion, and Simonson said he would expect another "\$50 billion on top, of which perhaps half will be real increases in activity and half will be higher material costs."

The momentum will be boosted by the cost of steel, he indicated, "which had been up by more than 10 percent in recent months from the same period a year ago. At this point, we might see some reduction in steel prices in 2007. It depends on how much the economy slows down."

At the same time, noted Simonson, a particular upside will be the cost of copper, currently trading for around \$2.40 a pound, a drop of about 40 percent from last May to January.

Simonson is "particularly optimistic" about the construction of hotels, hospitals, energy-related projects and selected other manufacturing construction. Each has its own sources of demand, he noted.

"For instance, the high cost of energy has been spurring additional investment in traditional energy sources like oil and natural gas and alternatives like ethanol and environmental retrofitting going on with power plants and refineries," he said. "And the hotel business is benefiting from higher occupancy and room rates, encouraging



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chains to modernize and expand where they have land and build on new properties."

Regardless of how the market performs from this point, Jeff Gouveia, vice president and general manager of Boston-based Suffolk Construction, said the spike in the cost of various materials in the recent past has prompted builders to shift into a different gear in terms of their approach to projects.

"I think the escalation we've seen in last couple of years has definitely impacted the way people do business as far as doing their homework on projects and trying to get things finalized much quicker so that materials are purchased pricing locked in," he said.

Overall, however, Gouveia is upbeat over the projects in Suffolk's pipeline in the next 12 months. "Our clients are bright and informed and make decisions right for them. Hopefully we'll see a stabilization in the cost of materials and not have the big spikes we've seen in last couple of years."

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