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Construction & Design

New York City construction costs on the rise

New York City construction costs increased by nearly five percent in 2013 and escalated an additional 5 percent in 2014, according to a New York Building Congress analysis of multiple cost indices as well as interviews with representatives of some of the City's largest construction firms.

By comparison, U.S. construction costs increased by approximately 2.5 percent in 2013 and topped three percent in 2014.

While the recent plunge in oil prices could lower the

cost of petroleum-based products and delivery costs, the construction company representatives expressed concern that costs could rise further given that certain essential trades, such as curtain wall and cast-in-place concrete, are reportedly running out of capacity.

The cost indices examined by the Building Congress are produced by ENR, Rider Levett Bucknall (RLB), RS Means, Turner, and BLS, and each measures the percentage change in construction costs from one year to the next.

As part of this analysis, the Building Congress used an average of all the indices.

Each index looks at the hard costs of construction while excluding the cost of land and soft costs, such as architectural, engineering, and legal fees. Though the indices generally move in the same direction, the exact amount of inflation reported by each varies based on the importance attributed to individual material inputs.

For example, the index that places the greatest emphasis on steel will rise faster than

others when steel costs accelerate faster than other material inputs

By and large, the pace of construction cost inflation has mirrored the turbulence experienced throughout the construction industry over the past eight years.

During the height of the building boom, in 2006 and 2007, construction cost increases exceeded 6 percent nationally and were nearly twice as high in New York City, with reports of construction cost increases reaching 12 percent in 2006, slightly

moderating to 11 percent in 2007.

That changed dramatically in the aftermath of the Great Recession as costs actually declined both nationally and in New York City in 2009 and registered a nominal gain in 2010. Costs in New York City gradually increased, by between 2 and 3.25 percent annually between 2010 and 2012 before jumping again in 2013.

Changes in construction costs are driven by a host of material and labor components that reflect differing

supply and demand conditions, global market pressures, and the overall health of property markets.

In recent years, the fastest growing material costs nationally have been fuel oil, gypsum products, lumber and plywood, insulation materials, pvc pipe products, and steel shapes.

"While a considerable portion of the recent increase in costs is the product of forces beyond New York City's control and a function of a healthy local construction market,

the fact that costs are rising at a 5 percent annual rate is cause for concern," said New York Building Congress President Richard T. Anderson.

Anderson added, "The design, construction, and real estate industry, in partnership with government, must look for ways to reduce the cost of construction through innovations in the way we build as well as by eliminating burdensome regulations and costly red tape. This is a key priority of the recently-formed Building Congress Task Force on Innovation and Best Practices."

According to the construction executives surveyed, the costs of construction are the greatest for hospitals at \$800-\$950 per square foot. The second most expensive, at \$700-\$800 per square foot, is 5-star hotels.

University buildings ranked third, at \$600-\$850 per square foot, followed by secondary schools at \$500-600 psf, and speculative office space at \$425-\$500 psf (and even higher for prime, built-to-suit office space).