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New York City Construction Costs Rose to Nearly Twice the National Rate in 2015

New York City construction costs increased by twice the national rate in 2015 but construction cost increases remain below the rates experienced during the previous building boom, according to a New York Building Congress analysis of multiple cost indices and interviews with representatives of some of the City's largest construction firms.

For the third consecutive year, the Building Congress estimates that construction costs rose by roughly 5 percent in the five boroughs. By comparison, U.S. construction costs increased between 2.5 percent and 3 percent annually between 2013 and 2015.

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. For 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.

During the height of the last building boom, in 2006 and 2007, construction cost increases exceeded 6 percent nationally but were nearly twice as high in New York City, with reports of construction cost increases reaching 12 percent in 2006 and 11 percent in 2007. In 2009, in the aftermath of the Great Recession, costs declined both nationally and in New York City 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.

“As we noted last year, the fact that hard construction costs are rising at a 5 percent annual rate is a cause for concern, especially when you also consider the rising cost of land in the five boroughs,” said Building Congress President **Richard T. Anderson**. “But it is also worth noting that while the construction market is as strong as it was during the previous building boom, we have not seen a return of cost increases in the double-digits, like we saw from 2006 through 2008. This may be due in part to the growth of non-union construction work.”

The overall cost of construction materials, such as fuel oil, steel, gypsum products, and lumber, was relatively flat in 2015 due to declines in global demand. It thus appears that the primary driver of local cost inflation was the high volume of work in New York City, which the Building Congress estimates at \$40 billion in spending in 2015. Such high demand for construction services likely exerted upward pressure on wages and bid prices.

Comparing NYC to Other Cities

The Building Congress analysis found that New York City hard construction costs, on a per square foot basis, are nearly twice as high as most European, Asian, and Middle Eastern cities. In fact, London is the only international city that consistently registers higher construction costs than New York City.

New York City hard construction costs are also higher than most other major cities within the United States. While roughly the same as San Francisco, the hard costs of construction per square foot in New York City are significantly higher than Chicago, Boston, Los Angeles, and Washington, DC.

Mr. Anderson added, "While the cost of construction in New York City, as well as other major cities, is based in some part on global demand for services, labor, and materials, we must continue to look for innovative ways to reduce costs locally. This can be done through innovations in construction methods, improvements to procurement policies and procedures, and by eliminating burdensome regulations and costly red tape. Finding ways to promote more cost-efficient construction must continue to be a key priority for our industry and government."

Costs by New York City Property Type

According to the construction executives surveyed, construction costs on projects using union labor are the greatest for hospitals at \$800-\$1,000 per square foot. The second most expensive, at \$600-\$900 per square foot, are university buildings.

On par with university buildings are five-star hotels, at \$700-\$800 per square foot, followed by secondary schools at \$500-\$800 per square foot, and speculative office space at \$425-\$500 per square foot (and even higher for prime, built-to-suit office space).