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Q&A

The construction comeback

NYC hard hats are seeing the most work since the market peak, but developers are more cost conscious than ever

By SASHA VON OLDERSHAUSEN

New York may have been one of the last cities in the country to get hit by the recession and one of the first to recover from the real estate downturn, but that doesn't mean there wasn't suffering here. And among the hardest hit segments of real estate was the construction sector.

But things have changed. In this month's Q&A, New York City construction industry executives and observers told *The Real Deal* that the industry is seeing the most work since the 2007 peak.

"We're looking at a strong market over the next couple of years," said Louis Coletti, CEO of the Building Trades Employers' Association, which represents construction managers and contractors citywide. "My contractors are telling me that they're booking new business. They've got a backlog."

In addition, sources said the private sector, including residential and mixed-used

projects, is driving the industry's upswing. That's a major turnaround from shortly after the recession when public infrastructure projects were holding the industry up.

Still, the construction industry has significantly changed since the recession hit. While construction financing has loosened in the last few years, it still is not as free-flowing as it was during the boom. As a result, the developers who are building tend to be more experienced because they are the ones who have more equity to pour into deals. Sources say that developers are, however, selecting construction crews based largely on who charges the lowest rate. In addition, developers are more willing these days to tap non-union labor, which was long taboo, in order to save money.

For more on technological advances (or the lack of them) in the construction industry, on whether the pace of residential construction will soon meet demand, and the new bells and whistles that developers are including in their projects, we turn to our panel of experts.

Richard Anderson

president, New York Building Congress



How much money is being spent on construction by developers in NYC today and how does that compare to the last few years?

There is \$32 billion today in all construction — public, private, commercial, residential. The peak was \$32 billion in 2007, but if you factor in inflation, [today's activity is] closer to \$37 billion.

Do you think there's enough residential construction taking place now to ease the inventory crunch?

There's never enough residential construction in New York because demand is so high. We estimate that at least 20,000 units are needed each year. But even if you average 20,000, that's not enough to deal with the strong demand for affordable housing. It's not just the number of units; it's also the price. I don't see it easing for some time.

Construction financing has definitely eased since the downturn, but is still not as loose as it was during the boom. How is that impacting the NYC construction industry?

It's helping, but not helping enough. Financing is always an issue. On the one hand, you don't want loose money, because loose money got us into trouble in the first place. On the other hand, you'd like it to be more available so that worthy projects can move forward. We're somewhere between loose money and projects being able to go forward. ... We still have more than 600 stalled projects — projects for which there are approvals, but they've been stopped because financing has been withdrawn or there are other kinds of procedural difficulties.

What impact, if any, do you see Mayor Bill de Blasio having on construction in the city?

Well, if he's successful in his affordable-housing initiatives, it can lead to significant work and I think we will benefit. He's indicated he's going to support a strong capital budget, which means continued strength in public construction. Plus, as long as the city is well managed and is attractive to investment from around the world, [there will be a lot] of private sector construction.