



## It's Finally Getting Cheaper To Build

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Soaring construction prices have bedeviled developers and driven up the cost of everything from new towers to new suburban homes for years.

Now there are signs that the price of building may be poised to make its first significant retreat in more than two decades, local developers tell me.

Whether anybody will be left standing in this economy to take advantage of the trend is a big question, of course.

But that aside, falling prices could bring some long-awaited – and desperately needed – relief. Especially in our cramped little corner of the country, where barriers to building can at times seem insurmountable.

### Put The Brakes On Costs

There are major projects in Boston that have been stuck on the drawing boards for years after being slammed with one cost increase after another. And those developers who managed to make the jump from paper plans to actual concrete and steel projects certainly didn't eat those costs. Instead, they were heaped onto already hefty price tags for luxury condos or new office suites.

"We are seeing in the last six weeks to two months a real slowdown in construction prices," said John Fish, chief executive of Suffolk Construction.

How much of a break can we count on?

James Kirby, who runs Boston-based Commercial Construction Consulting, has run the numbers.

So far prices are down 5 percent over the last few months. By this time next year, Kirby predicts prices will have fallen even more, for a total decline of anywhere from 7 percent to as high as 10 percent.

Labor costs are leading the downward price charge. As projects already under construction wind down, developers are hesitating to start new ones. Downtown Boston and its environs are littered with grand projects that have been put on hold, from a proposal to put a tower over South Station to sweeping plans for transforming the waterfront.

Construction contractors have been forced to sharpen their pencils to find work. And they have no problem finding crew members now, with a growing line of unemployed or semi-employed hard hats waiting at the union half for their next job, Kirby said.

But the cost of building materials, which have skyrocketed in recent years as China and other emerging economies gobbled up everything from steel to wood, also show signs of leveling off.

"The downtown large scale commercial market is finally seeing some notable decreases," Kirby said.

The last time construction prices locally did anything but go up was during a brief 18-month period following the 2001 recession and 9/11 terror attacks. But that brief dip was followed by a hectic run-up that has lasted right up

until recent months.

Kirby suspects this time around, we are likely to see a significant cooling off in construction prices, much as what happened in the aftermath of the downturn of the late 1980s and early 1990s. Like the current recession, that one was a deeper retrenchment that came after an overheated real estate market blew, stranding projects and dramatically reducing new construction.

## **Cashing In**

At least one developer says he's poised to reap the benefits.

John Rosenthal, head of Newton-based Meredith Management, is pushing forwards with plans to deck over the Massachusetts Turnpike near Fenway Park with a \$450 million housing and retail complex. And he's predicting a 10 percent price drop that could push the cost of his huge air-rights project closer to \$400 million.

"We are seeing significant reductions in every category," Rosenthal said.

Colleges and health care institutions, once the financial markets settle down, are also likely to benefit from falling construction prices, having the deep-pockets and long-time horizons needed to roll out new dorms and research complexes when the economic chips are down.

But those who want to stay on the right side of the construction price curve can't be complacent, either. For what goes down will eventually come back up again.

Kirby sees a two year window for would-be builders, whether private developers or institutions, to take advantage of a softening construction market before prices start soaring again.

"Every down cycle results in an up cycle," Kirby said. "You probably have two years. If you could buy next year you would really be in terrific shape as far as construction prices go."

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