

COVER STORY

CONSTRUCTION

THE MAKING OF A

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After a protracted recession left construction activity basically dormant, Philadelphia is experiencing a building boom in which billions of dollars are pouring into new developments.

Building activity – big and small – crisscrosses the city from the Navy Yard to Center City and from University City, where health-care and educational institutions have spent their own billions over the last decade expanding their campuses and facilities, to North Broad Street.

Philadelphia neighborhoods are also seeing more construction as smaller developers move dirt on residential and mixed-use projects.

While the activity points to a strengthening economy, it's not completely clear sailing. Work under way and in the pipeline have some in the industry questioning whether the region has enough skilled construction labor to support all of it and what effect it will have on pricing.

A McGraw Hill study found that near-term shortages of skilled, experienced workers is a "serious concern" with nearly a third of architectural and engineering firms worried about not having enough specialty-trade contractors this year. Nearly half of the general contractors surveyed are worried about the issue.

The Federal Reserve's most recent Beige Book of regional economic conditions showed some parts of the country facing labor shortages in construction and high-skilled trade workers. That has put "upward pressure on wages, and subcontractors are demanding and getting higher rates."

STEALING LABOR

The Philadelphia Federal Reserve reported contractors were hesitant to hire workers who required training and as a result "contractors are 'stealing' skilled labor from each other."

Despite the data and projections, area developers, contractors and industry experts believe Philadelphia is prepared to meet the demand for all of what is in progress.

Some of the projects developers have announced include a \$1.2 billion second skyscraper for Comcast Corp., a \$341 million tower for FMC Corp.'s new headquarters, Dranoff Properties \$200 mixed-use development on South Broad, a \$280



million W Hotel, among others.

There's also a long list of projects that have been talked about for years whose time may have finally come. They include the development of Girard Square, the Gallery, Penn's Landing, a new casino, the American Revolution museum and work at Philadelphia International Airport.

A deep bench of workers exists that could meet the increase in demand but it may test some specialized areas of labor, say the experts.

"We hear about all of these major projects, but they aren't ready to go and have to have a shovel in the ground tomorrow," said Ed Jorden, a co-founder of Canuso-Jorden Inc., a construction company that was formed four years ago.

"If things go as advertised, things are going to get very busy, but I think there's enough labor. I think there is still 15 percent unemployment and ample capacity to do the work," Jorden said.

Stephen P. Mullin, president at Econ-sult Solutions Inc., said Philadelphia has a "latent supply" of construction labor.

In other words, when construction activity was down during the recession, those in the field found other jobs to keep them busy but are available to return as work ramps back up – at least that's the hope.

Steven S. Lakin, president of the Gen-

eral Building Contractors Association Inc., is also confident there is enough union labor to support the anticipated increase in construction activity.

"Work was so slow between 2006 and 2013 that there are still a lot of building trades professionals who are unemployed or underemployed," Lakin said.

The biggest issue facing the industry is worker shortage, said Mary Tebeau, president of the Associated Builders and Contractors of Southeastern Pennsylvania, whose members operate open shops and mostly stick to suburban projects, though some do work in Philadelphia.

LOST WORKERS

Since January 2007, the construction industry nationally has lost 2 million workers who have either retired or gone into other professions and likely not coming back to the sector.

The Department of Labor has listed the construction industry as one of the top five occupations that will experience shortages over the next couple of years, Tebeau said.

"This is not a labor-affiliated issue," she said. "This is whether you're a signatory or not."

All of the work that is expected to eventually get under way could certainly test some skilled areas. That happened when the condominium market was on

fire in the mid-2000s and concrete was one of the main materials in building those high-rise structures. As a result, pricing was affected. That same concern has cropped up as those in the industry take stock of the number of planned projects.

That has also meant being cautious when it comes to estimating materials and labor costs. During the economic downturn, contractors saw modest 2 percent to 3 percent increases on average. That is expected to change.

Michael Armento, vice president at Torcon Inc., a construction firm, has started to see that subcontractors, which make up the lion's share of its business, are less inclined to reduce their numbers to win a job as business picks up.

"The discounting isn't as great as it used to be," Armento said.

That situation is expected to continue.

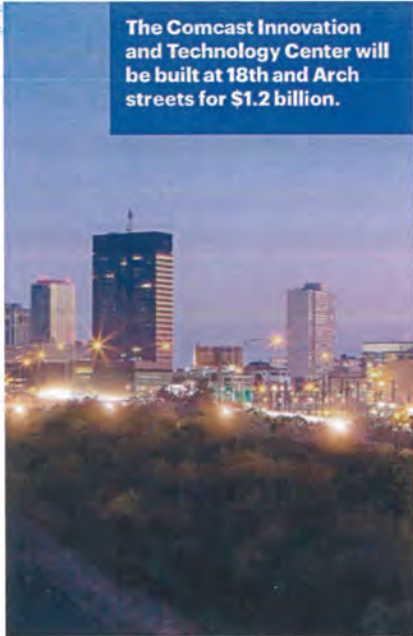
When projects were scarce during the recession, contractors, particularly subcontractors, ate into their mark ups to stay busy, said Jorden, whose company is teaming up with Hill International to construct Temple University's \$150 million library. They were charging just enough to cover costs.

"Eventually, they will look to make a fair return of 15 percent to cover overhead and profit," he said. "You will see materials and labor go up a reasonable amount,

COVER STORY

BUILDING BOOM

The Comcast Innovation and Technology Center will be built at 18th and Arch streets for \$1.2 billion.



LIBERTY PROPERTY TRUST

but you will see some spikes and sub-contractors being more profitable."

Lakin at the GBCA estimates the cost of construction will escalate between 3 percent and 5 percent this year.

"Pricing is driven by more than the volume of work," he said. "The global economy will continue to dictate the cost of construction, and factors such as interest rates, demand for materials ... and the cost of labor will be the principal drivers of construction costs."

This should eventually translate into wages going up not only for contractors but also for the softer part of the construction industry such as architecture, engineering, marketing and designers involved in other parts of the development process.

A construction boom underscores a bigger trend at work, Mullin of Econsult said. It's in response to a city embracing demographic shifts in people, including immigrants, wanting to live in urban areas. It's an adjustment in people's behavior on where they want to live, relax and shop, he said.

"There's strength in that," said Mullin. "Philadelphia is an attractive place to live and the vibe and vitality of the city is infectious and generating a ton of infrastructure and capital investment to the tune of billions of dollars. We are nowhere near the end of that."

WELCOME TO THE BOOMTOWN



Clockwise from top: 38 Chestnut, CHOP Buerger Center, Mormon Temple.



Clockwise from top left: Rodin Square, Penn Neural Behavior Sciences Building, FMC Tower at Cira Centre.

20 TO WATCH

There are dozens of projects big and small either in the works or in the pipeline. Here are some of the largest and their cost of construction.

10 BIG PROJECTS UNDER WAY

- ▶ **38 Chestnut**, 38th and Chestnut streets, \$110 million
- ▶ **New College House on Hill Field**, a site bounded by 33rd, 34th, Walnut, and Chestnut streets, \$127 million
- ▶ **Southstar Lofts**, 521-31 S. Broad St., \$32 million
- ▶ **3601 Market St.**, 36th and Market streets, \$110 million
- ▶ **Church of Jesus Christ of Latter-day Saints temple**, 1601 Vine St., \$70 million
- ▶ **Philadelphia Family Court**, 15th and Arch street, \$160 million
- ▶ **Children's Hospital of Philadelphia Buerger Center**, CHOP's main campus, \$425 million
- ▶ **EVO at Cira Centre South**, 2930 Chestnut St., \$160 million
- ▶ **Drexel University mixed-use project**, Lancaster Avenue at 34th St., \$160 million
- ▶ **Wistar Institute**, 3601 Spruce St., \$100 million

10 BIG FUTURE PROJECTS

- ▶ **Comcast Innovation and Technology Center**, 18th and Arch streets, \$1.2 billion
- ▶ **FMC Tower at Cira South**, 30th Street at Walnut Street, \$340 million
- ▶ **1919 Market St.**, mixed-use development, \$100 million+
- ▶ **W Hotel**, 1441 Chestnut St., \$280 million
- ▶ **SugarHouse Casino Expansion**, 1001 N. Delaware Ave., \$155 million
- ▶ **Lincoln Financial Field Expansion**, 1 Lincoln Financial Field Way, \$125 million
- ▶ **University of Pennsylvania Neural Behavior Sciences Building**, Located between the Leidy Labs at 3740 Hamilton Walk and the Carolyn Lynch Labs at 433 S. University Ave., \$78.5 million
- ▶ **Temple University Library**, N. 13th St., \$150 million
- ▶ **Rodin Square**, 21st and Hamilton streets, \$140 million

Follow the progress of the Comcast Innovation and Technology Center and the rest of these projects daily at pbj.com