

Anchin, Block & Anchin LLP
Accountants & Advisors
1375 Broadway New York, NY 10018
212 840-3456
www.anchin.com

Construction Industry Glass is Half-Empty, Half-Full

New building projects were down 40% in the first half of 2011 compared to last year and construction employment in New York City has lost 30,000 jobs, down from 130,000 three years ago. However, building permits are up 12% this year and some data show that office buildings are positioned for a mid-decade revival. Private sector activity continues to be anemic while public work, such as recently unveiled multi-billion dollar contracts and capital plans from the MTA and Port Authority, shows signs of recovery.

This portrait of an industry poised between renewal and decline was painted by Richard Anderson, president of the New York Building Congress, at the sixth annual State of the Construction Industry event sponsored by Anchin, Block & Anchin LLP.

Anderson described the current New York City construction market as the “proverbial glass half-empty, half-full situation,” highlighting the robust activity in the educational and institutional sector compared to a weaker private sector that faces a diminished project pipeline, considerable unemployment in many building trades, and a tough environment for residential construction.



Phillip Ross, Partner and co-chair of Anchin's Construction Services Group and chair of the firm's Architecture and Engineering Services Group, echoed Anderson's sentiments, noting that the current state of the industry is “a bad news/good news story.” Paul Gevertzman, Partner and chair of Anchin's Economic Development Services Group, highlighted often overlooked tax credits and programs that could help construction, architecture, and engineering firms navigate the tough times. ([Click here](#) for a more detailed summary of the Anchin partners' remarks).

These remarks were delivered to members of the construction, architecture, and engineering community, who gathered to hear commentary from a panel of industry experts. The September 20th event, held annually by Anchin in cooperation with the New York Building Congress, attracted nearly 200 CEOs, CFOs, and other executives at New York's Club 101.

This year's panel of industry experts included:

- Lorraine Grillo, CEO and President, the NYC School Construction Authority;
- Joseph Ienuso, Executive Vice President of University Facilities, Columbia University;
- Joseph Mizzi, President, Sciame Construction Co.; and
- Anthony Schirippa, Chairman, Mancini-Duffy.



Anderson moderated the panel and posed questions about the current state of the industry and the road ahead. Here is a look at some of Anderson's questions and responses from the panelists:

What are the most encouraging signs you see in the industry? And what concerns you?



“What is most encouraging to me is what we’re finding in terms of demographics. Our schools continue to be overcrowded. For the SCA, that’s a good thing: it forces government to put additional funding into the area of capital construction. The increase in students is not driven by housing, but because people are staying in schools longer. Credit is due to (Mayor Michael) Bloomberg who has placed an emphasis on education.”

“A big concern is Local Law 240. The insurance costs in the industry are astronomical. If we had the same program in New Jersey, our insurance costs would be one-third of what they are in New York. Also, the environmental regulations that continue to emerge are a challenge. A lot of money is directed towards that rather than to projects.”

■ Lorraine Grillo, SCA

“I worry about the duration of the current recession we’re in. Columbia University advances capital projects by generating philanthropy. This recession’s duration slows philanthropy and will ultimately have a negative effect and slow down our capital expenditure.”

■ Joseph Ienuso, Columbia University

“The educational sector is strong. Out of just over \$1 billion in contracts, we have \$600 million in the education sector, including a 100,000 square foot building for Columbia Medical Center and a 125,000 square foot engineering building at Princeton. Universities that froze during the recession are now starting to show some activity.”

■ Joseph Mizzi, Sciam Construction

How have your organizations changed in the wake of the recession?

“We have always looked to alter our business model to get into new market segments. We accomplished this through two acquisitions in 2009, helping to propel us into different sectors, such as architecture, master planning, airports, and public transportation work. In New York, we recently acquired a firm to solidify ourselves in corporate interiors and the retail sector. We’ve tried to alter our work mix and gauge where the work is coming from in order to better position ourselves to get it. We have weathered the storm, but would like to see more growth in the private sector.”

■ Anthony Schirippa, Mancini-Duffy

“We’ve moved into public work and expanded the perimeter of our operations and are now doing work at Princeton. We’re doing a \$300 million, 400,000 square foot building for CUNY and also some work on Grand Central Terminal.”

■ Joseph Mizzi, Sciam Construction

New York City is the highest cost market in the country. Have you found that costs have moderated due to the recession to your benefit?



“Over the course of the last two years, costs have moderated. That’s helpful to everyone. Building is better than not building. There is clearly some advantage to those who can access capital funds and build today and it’s encouraging that’s happening, even on the residential side. If you can access capital, it’s a very good time to build. One of my worries is that with recovery, the price escalation will probably be more rapid than we would prefer. The rapid escalation will constrain development in the long run.”

■ Joseph Ienuso, Columbia University

Have contract settlements and labor relations had an impact on programs?

“Most of the SCA’s work takes place in occupied buildings after school hours, so Project Labor Agreements are helpful because they moderate costs of after-hours work.”

■ Lorraine Grillo, SCA

“The settlements were favorable, but I don’t think they had a huge impact on construction costs. For those who are building, we’re seeing significant savings from market conditions. Contractors who are most successful have increased productivity and shed less productive workmen. Savings on union projects is attributable to leaner operations and belt tightening. In our 51 Astor Place project, we reduced the budget significantly through careful and aggressive controlled trade buys.”

■ Joseph Mizzi, Sciame Construction

How has technology played a part in improving productivity?

“We’ve made an effort to use technology. We have an online vendor access system, online prequalification online, and we’re implementing a new method of permitting using technology that will speed up the process. The ability to do change orders, get permits and inspections will be faster than in the past. Also, in a different way, we’re using technology to design the first net-zero energy school in New York State and we asked our designers to use this as a laboratory for different kinds of technology to explore how we could replicate it throughout the city.”

■ Lorraine Grillo, SCA

“BIM (Building Information Modeling) has the most potential to have a significant impact on the design process by allowing teams to coordinate in real time. It also helps to speed up the process of shop drawings and submittals on the construction side.

■ Anthony Schirippa, Mancini-Duffy



“BIM is becoming a tool that many contractors use. We’re doing several projects with full BIM models and the design-to-fabrication delivery method works towards eliminating a step in the process of shop drawings. We’re looking at integrated project delivery approaches to really reduce the up-front pre-construction phase and to reduce the construction administration phase. We also have 3D surveying and 3D mapping tools and virtual plan blueprints. Construction administration time should not be a fee-burner.”

■ Joseph Mizzi, Sciame Construction

What would stimulate the New York City construction market?

“I would like to see the government propose policies that would enable firms to feel comfortable investing in their capital, physical plants, and office spaces in order to grow. On the tax issues that are out there, without the underlying need to hire somebody, getting a credit on employer taxes doesn’t really help us. If the work isn’t there to hire the person, the tax credit is wasted for us because we can’t take advantage of it. We need a cohesive pro-growth policy on the federal level, much as Bloomberg has done on the city level. Our national government needs to take a page from this (the New York City) playbook.”

■ Anthony Schirippa, Mancini-Duffy

How much is the high cost environment in New York City holding back development activity?



“New York is a global city. When you compare our costs to other international cities, we’re very competitive. When you compare us to the rest of the US, perhaps less so. New York City has so much to offer and we’re an engine for development and people are willing to invest in the city. At the end of the day, New York is New York. If you want to be here, you’re going to pay a small premium, but it’s worth it. If you want to dance, you have to pay the band.”

■ Anthony Schirippa, Mancini-Duffy

“Everyone knows how to cut scope out of a job to save money. We’re trying to effectuate saving by good, smart, efficient building and design. That’s the future.”

■ Joseph Mizzi, Sciam Construction

“Costs are holding back projects in the city ... but the universities will build here in New York. We are committed to improving our facilities, that is our commitment to our students and faculty. But if there is no real value in costing, it will definitely slow what we do to keep our institutions strong and to keep New York City as the pre-eminent global higher education city.”

■ Joseph Ienuso, Columbia University