

U.S.

Labor Shortage Squeezes Builders

Why are property prices rising so quickly? Here's one reason.



The Hudson Yards development in New York is under construction. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

By *Peter Grant*

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A growing labor shortage in the commercial real-estate industry is driving up the costs of some projects and could complicate lawmakers' plans for a \$1 trillion infrastructure-spending program, contractors say.

"Ever since we came out of the great recession, many folks in our industry have been saying: it's coming, it's coming, it's coming," said George Nash Jr., director of preconstruction for Branch and Associates, a Roanoke, Va., contractor. "Today the problem is there."

Construction businesses, excluding those building single-family homes, employed close to 4.2 million workers in April, up 3,000 from March, according to an analysis by the Associated Builders and Contractors, a trade group. That was the highest employment level since November 2008, though still below the record 4.4 million workers employed in the nonresidential construction segment in February 2008, the analysis said.

Labor pressures are increasing in the construction industry as hiring overall accelerates across the U.S. economy. On Friday, the Labor Department reported that nonfarm payrolls rose by a seasonally adjusted 211,000 in April and the unemployment rate fell to 4.4%, the lowest level in almost a decade.

Among the hot pockets of construction activity are office development in New York and condominium and rental-housing projects in downtown Los Angeles, Boston and Miami. Big infrastructure projects include the modernization of Chicago's O'Hare International Airport and a tunnel in Seattle that will replace a viaduct vulnerable to earthquakes.

Contractors throughout the country said that as the workload grows, they are beginning to see shortages of electricians, carpenters and other subcontractor laborers.

When they bid out jobs two years ago, several contractors said, two or three subcontractors would typically respond for each part of the project. Today they are running into situations in which there is only one bid, making it harder to hold down costs, they said.

Subcontractors said they also are feeling the pinch. Gaylor Electric Inc. of Indianapolis has opted against bidding on some jobs "because we didn't have the people," said Chuck

Goodrich, the company's president.

Gaylor has added 70 employees in the last two months but still has about 200 empty positions, Mr. Goodrich said. "The economy is growing, and construction jobs need to be filled," he said.

Construction labor costs are rising an average of 4% to 5% annually, outpacing inflation, according to Anirban Basu, chief economist of the Associated Builders and Contractors. "The situation is going to get worse," he said.

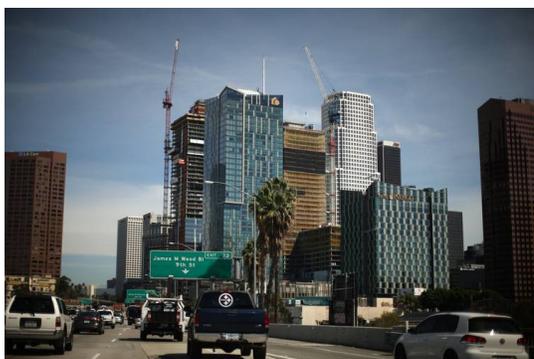
Over all, the association said the industry needs 500,000 more workers. The trade group estimates 600,000 additional workers would be needed for the \$1 trillion in infrastructure building and improvement for which President Donald Trump has said he would seek funding.

The Trump administration has been preparing a major "workforce development initiative" as part of its infrastructure program, a White House spokesman said. "We are committed to both rebuilding America and retraining American workers," the spokesman said.

Industry executives said the scarcity stems partly from many workers idled by the downturn finding other jobs and retiring. Also, fewer young people are choosing construction as a profession.

Some subcontractors are teaming up and creating joint ventures to cope with the labor scarcity. Marcum LLP, an accounting firm, has structured 40 such ventures this year, more than twice the number for all of 2016, according to Joe Natarelli, who heads the New York firm's construction practice.

"Typically a contractor wants to keep the whole contract for themselves," Mr. Natarelli said. "We'll [now] see them joint-venture pieces of that contract because they don't have enough labor."



Rental-housing projects in downtown Los Angeles are among the hot pockets of construction activity. PHOTO: LUCY NICHOLSON/REUTERS

Construction companies also are stepping up their recruitment efforts. Willmar Electric Service, a fourth-generation subcontractor in Lincoln, Neb., recently hired a full-time staff member to search for workers at high schools, trade schools, military bases and other places, according to David Chapin, the firm's president. The company has about 150 employees.

"We have a lot of people who came out of the [information technology] industry. They just found out they didn't like working inside and wanted to work with their hands day-to-day," said Mr. Chapin, who is a former chairman of the Associated Builders and Contractors.

Mr. Chapin said the firm has 18 months' worth of work in its pipeline, the biggest backlog it has experienced in its 97-year history.

"We've been unable to fill all our openings," he said. "We would like to hire more."

Corrections & Amplifications

David Chapin is president of Willmar Electric Service in Nebraska and a former chairman of the Associated Builders and Contractors. An earlier version of this article misspelled the name of his company and said he was the current chairman of the Associated Builders and Contractors. (May 6)

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