

Rising Material Prices Impact Construction Industry & Economic Progress

What do you think is the most common material used in commercial construction? Go ahead, take a wild guess!

Steel. That's right— *Steel* is one of the most common materials used to construct commercial buildings. In fact— according to CBRE, Steel accounts for roughly 16% of total building costs for a typical commercial project, and as of March, some steel suppliers had already boosting prices for wide-flange steel shapes by \$300 to \$400/ton, and boosting metal stud bid prices by 3% to 5%. [1] Construction materials have experienced significant rates of price increases, and these prices continue to soar causing a rise in development costs of commercial high rises, offices and other buildings that require a significant amount of building materials. These rampant prices are not only affecting the construction industry, but are also creating a significant impact on developers, distributors, and contractors.

The rise of material prices is causing developers to consider whether or not to initiate new projects that haven't already started for both residential and commercial construction. According to the Atlantic Council Director of Global Business and Economics Program, Bart Oosterveld, he advises that if the tariffs last, the increases will affect a range of industries and prices: cars, appliances, etc. He explains that the larger the developer, the easier it will be for them because of their negotiating position to secure a steady supply of steel at a reasonable price. He also mentions that smaller developers may not have the same type of negotiating position and could have a reduced ability to pass any cost increase on to their customer. He adds that he doesn't know where this issue ranks in comparison to other challenges developers face in the current economic environment, such as a shortage of skilled labor, so he mentions that it's hard for him to say whether scheduling challenges will increase significantly across the board. [2]

So—how are you, your business, and the building envelope affected by the rise in material prices? Association of Builders and Contractor's Chief Economist Anirban Basu helps explain. In general, this emerging state of affairs is unfavorable, as rapidly rising material prices interfere with economic progress in numerous ways. Rising material prices makes it less likely that a development will move forward and increases the cost of delivering government-financed infrastructure, raises costs for homeowners, renters and office tenants, and exacerbate overall inflationary pressures, which serves to push nominal borrowing costs higher. [3] With developers questioning whether to initiate new projects or to move forward with a job that is already in progress, contractors are at risk as fewer jobs may become available with a decline in developments. Basu adds, "With no end in sight regarding the ongoing tariff spat between the United States and a number of leading trading partners, and with the domestic economy continuing to expand briskly, construction input prices are positioned to increase further going forward, though the current rate of increase appears unsustainable." [4]

As material prices continue to increase steadily, additional tariffs will continue to impact manufacturers and an array of industries nation-wide. Not only are project delays and budget overruns top of mind, but there are millions who have their jobs at stake due to the rising of these material prices. Luckily, there are several solutions to help with material and labor costs within the building envelope as material prices keep surging. Designs can be modified and optimized to use less material, panelization can help conserve material and reduce wasted materials, and technology is constantly advancing and helping create new innovative solutions. Optimizing designs, manufacturing in a controlled environment, and advancing technology are only a few

innovative solutions to name that are helping revolutionize the construction industry helping mitigate the rise in material prices.

No need to fear though, there are in fact, ways to work around the implication of the tariffs. Negotiate your contract provisions so that unforeseen circumstances won't impact you financially. Most contracts are vague when addressing changes in law, changes of conditions and material escalation, so for your contract, assess how laws are defined within the document. Some provisions can provide more opportunities for you to recover costs from price escalations driven by these tariffs. Although tariffs are bringing higher building material prices to the table, there are indeed, many work-arounds. Don't tiptoe around the subject— make sure you're being proactive and staying prepared.

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[1] <https://www.bisnow.com/national/news/construction-development/steel-tariffs-official-89043>

[2] <https://www.bisnow.com/national/news/construction-development/steel-tariffs-official-89043>

[3] <https://www.bdcnetwork.com/construction-material-prices-increase-steadily>

[4] <https://www.bdcnetwork.com/construction-material-prices-increase-steadily>