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Building up

By: [Bernadette Starzee](#) December 23, 2015 0

Heading into 2016, the construction market is going in the right direction: up.

“Long Island tends to lag New York City by six to 18 months, and New York City has ramped up,” said Carl Oliveri, partner and construction practice leader for [Grassi & Co. CPAs](#) in Jericho. “We’re definitely seeing the trickle-down effect to Long Island in new construction and spending.”

Joseph Natarelli noted that backlogs are increasing across the board, referring to contracts signed for construction jobs that have not yet started. Natarelli is the national and northeast construction industry leader for Manhattan-based accounting firm [Marcum](#).

For the next couple of years, “we’re going to see growth, with both construction jobs and spending increasing,” Oliveri said. “And more importantly, gross profits on projects are actually coming back into play.”

During the slow economic recovery, contractors were taking jobs merely to cover overhead and to keep their workers busy.

“They’re starting to take them to make money again, which is great for everyone,” Oliveri said. “While construction jobs won’t be as profitable as they were pre-recession, when profits were in the 25 to 30 percent range, they’re probably going to be in the 15 to 20 percent range.”

However, profits are “not coming back as quickly as we expected them to,” Natarelli said. “Contractors are filling up their buckets first before they become picky and bid jobs higher.”

Marcum’s Commercial Construction Index report for Q3 2015 was promising, finding the national nonresidential construction sector exhibited its largest year-over-year increase since April 2008. Nationally, construction has registered one of the best performances of any industry, with 205,000 positions added from August 2014 through September 2015 and the construction unemployment rate improving 1.5 percentage points in that span, according to the Marcum report. Construction spending rose 1 percent in October from the previous month to a seasonally adjusted annual rate of more than \$1.1 trillion. That’s the highest level since December 2007, according to the U.S. Department of Commerce.

“Industry employment growth would have been even more rapid, but for the fact that many contractors are experiencing greater difficulty filling available positions,” Marcum Chief

Construction Economist Anirban Basu said in the Marcum report. “Many contractors are now turning away work for the first time in years.”

“There still seems to be a shortage of folks in that market,” Natarelli agreed. “If you look at the most recent index, jobs are increasing directly in correlation with backlogs increasing. But contractors have a problem across the board getting skilled labor. It’s going to get more difficult going forward; fewer people are going into skilled construction.”

On Long Island, Oliveri said, unions have reemerged with the increase in capital spending and nonunion contractors have emerged as a valid subset of the marketplace, creating more jobs than there is qualified talent.

“We need more people to come into the industry, and for people to push it as one of the best industries for middle-income jobs, entrepreneurship and flexibility in terms of work hours,” Oliveri said.

Besides finding skilled labor, getting financing continues to be a challenge, whether from sureties, banks or other lenders.

“The construction business is a risky business,” Natarelli said of lenders’ hesitation, noting that as volume picks up, the lending market “is moving in the same direction – people who extend credit to contractors are cautiously optimistic” going into 2016.

As activity increases in the marketplace, contractors are introducing new offerings, Oliveri said.

“We’re seeing more general contractors introduce design-build services to their customer base,” he said.

General contractors are also doing more things in-house that they would have subcontracted out in the past.

“For example, where a general contractor would contract out, say, drywall or carpentry, more are doing it in-house, which gives them more control over the finished product while giving more comfort to the customer,” while adding a revenue stream, Oliveri said.

In addition, more contractors are increasing revenue by introducing new service and maintenance divisions, he said.

“A construction company that does an office building project might service it afterward,” said Oliveri, noting higher profits and lower risk involved on the servicing end.

The healthcare sector will continue to be a strong category for construction on Long Island going into next year. Multifamily and mixed-use projects are strong, too, as several mega-projects are getting off the ground after years in development.

Garden City-based [Albanese Organization](#) completed 91 apartments in the first phase of building in the \$500 million Wyandanch Village redevelopment and is close to finishing a second phase that will have 86 apartments over 20,000 square feet of retail.

In Glen Cove, construction on the first phase of Garvies Point is slated to begin in spring 2016. The \$1 billion mixed-use development, first proposed in 2002, will include 1,100 residential units and is being built by a partnership led by Uniondale-based [RXR Realty](#) and Farmingdale based [Posillico](#).

Also in the spring, Tritec anticipates breaking ground on the first phase of its \$650 million Ronkonkoma Hub development, which will eventually feature 1,450 residences, 360,000 square feet of commercial space and 195,000 square feet of retail space.