

Fear and Grouting

In New York

Jarred by drop-off in work, unions and contractors huddle to cut labor costs

BY ELIOT BROWN

Each February, southern Florida traditionally gets a fresh injection of hearty New York accents, as the city's construction industry temporarily transports itself to the oceanfront city of Hollywood for an annual summit of unions and contractors, among others.

In recent years, when the building boom overwhelmed contractors and unions with more work than anyone knew how to handle, the mood at the beachside Westin Diplomat Resort and Spa was an uplifting one.

But with the economy in shambles and almost no new work on the horizon, labor and management leaders felt a need to devote much of the Construction Industry Partnership of New York conference to discussion on how to cut the price of building in the city.

In recent months, talk of reducing costs has dominated the efforts of union and contractor leaders, as both have been seeking a citywide agreement to cut the high labor costs through streamlining. The next few weeks will likely prove critical in this effort, as many involved in discussions say unions and contractors are aiming to reach an accord on cost-cutting measures for a handful of major projects in the city that risk delay.

The level of construction in New York is soon to drop off a cliff, a plunge that will leave many a contractor and union member desperate for work. While construction is still at relatively high levels as projects move toward completion, the economic collapse and accompanying credit freeze has dried up the once plentiful well of new work, as even those developers still willing to build apartment towers cannot find banks willing to lend.

"If you talk to the major general contractors and construction managers today," said Ray Quartararo, a director at Jones Lang LaSalle, "most of them are O.K. through the majority of 2009; 2010 is when they really have a problem because they don't have backlog."

All corners of the industry are eager to see work continue, so numerous groups have come together to hone in on one main factor that is within their control: the cost of labor.

Labor can comprise about 50 percent of the cost of a construction job, so developers have warned that without major drops in costs—25 percent is the target—those few current projects on the books may have to be scrapped.

Stephen Ross, the chairman of the Related Companies (and of the Real Estate Board of New York), is apparently adding pressure. In late January, he told executives at a REBNY event that if costs were not successfully cut, the economics of the project could force him to build his planned 58-story tower on 42nd Street with non-union labor, according to numerous people familiar with his remarks. While a complete non-union job would probably be difficult or impossible for the project, using even a handful of non-union subcontractors would be highly unusual for a tower of that size. Some in the industry wor-

ry the project could be stalled altogether given the changing financial climate.

Mr. Ross has spoken out previously on the perils of high construction costs in the city—most recently at a *Crain's* summit on the economic crisis earlier this month—and is strongly urging the cost cuts for both public and private projects.

Of course, developers have long wanted to slash construction costs, which are generally 30 percent to 60 percent higher than in other major American cities, in large part due to the labor costs (a Building Congress study last year found that New York high-rise construction can be more than twice as costly per square foot than Chicago). Non-union labor is substantially less expensive, but the largest general contractors only use union labor, and non-union contractors are generally viewed as too inexperienced to handle large high-rise projects.

When times were good, developers' efforts were all but ignored, as neither contractors nor unions had any immediate incentive to tighten their belts given a constant flood of work. But with a dearth of new jobs, interests are better aligned across the industry to try to make New York construction costs more manageable.

"I don't know if any one thing is going to make any difference," said Steven Spinola, president of REBNY. "But I do want to be prepared in case the world changes again and people have the ability to start investing and doing projects."

Specifically, developers and contractors are pushing to streamline onerous labor requirements in union contracts. The management side, represented by the contractors, views many work rules as archaic:

For electrical subcontractors, among others, labor contracts require whole sets of "standby" workers to be paid full time in case of equipment failure—a position that managers say is outdated and unnecessary.

"There are absolutely rules that are tantamount to featherbedding," said Jeffrey Levine, chairman of Douglaston Development and Levine Builders, adding that the unions have shown willingness to remove some of those rules. A citywide agreement to lower costs, Mr. Levine said, "is so much needed from the perspective of us as developers."

There is also a push to standardize working hours as each trade group—unions representing electrical workers or steamfitters, for example—has its own set of working hours that do not always match up. Changes to wages and benefits do not appear to be under discussion.

Both labor, represented by the Building and Construction Trades Council's new president, Gary LaBarbera, and contractors, represented by Lou Coletti of the Building Trades Employers Association

of New York, say they are united in their desire to see costs come down. But an accord on a citywide pact has proved elusive since discussions started in November, a testament to the tremendously complex nature of the rules and labor structure in New York. On the union side, there are the local trades unions such as the Carpenters, Roofers, Masons and Bricklayers—each of which have their own multiyear labor agreements with a corresponding contractors' association.

While some individual unions might agree to provisions that differ from their existing labor agreements—such as eight-hour workdays or double time on weekends—the agreement sought by labor and management leaders would require consensus across the board. Different unions and contractors have varied amounts of work right now, which would influence their willingness to give concessions.

Most of the cuts have been targeted on the labor side, though there seems to be a desire on that side to see greater concessions from contractors.

"They got lazy, fat and daisy, too," over the past few years, one labor official said of contractors. "They've got to really tighten up and look at their business practices as well."

For labor and contractor leaders, the Westin Diplomat in Florida was dominated by heated meetings on the issue, and now those involved in discussions say there is an effort to create a cost-cutting "project labor agreement" for a handful of commercial and residential projects that have been delayed by the economy.

The few individual projects, said Mr. Coletti of the contractors' group, ideally would create a template for a broader cost-cutting agreement on public and private projects citywide—the initial goal all along.

"We need to get started," he said Tuesday. "We're looking for this handful of projects that we could get start-

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ed so we could prove that these changes had an impact." Broad cost cutting, he added, "would start so many projects that have been delayed."

Those involved in discussions have said about \$5 billion in projects have been stalled or stopped amid the economic crisis, far more than the federal stimulus would bring to the construction industry locally, for instance.

As for timing, Mr. Coletti and others are striving for the end of February to reach an accord on the labor agreements for the individual projects.