

## New challenges for construction CFOs

### Higher demand for green building and rising materials costs are driving construction industry CFOs to find creative solutions

This year, construction CFOs are simultaneously dealing with two key industry trends: more demand for green building and higher costs for materials. Here are the challenges they're facing and the steps they're taking to address them.

#### The higher cost of going green

Demand for green building projects has moved steadily higher in recent years. As of 2017, certified green offices represented 38% of the commercial office space across 30 markets, up from less than 5% in 2005, according to real estate firm CBRE. And by at least one measure the trend is expected to continue: The global market for green building materials is projected to increase by 12.5% annually through 2019, according to a report by Transparency Market Research.

While green building can be great for the environment, it presents some challenges for the firms undertaking these projects. For CFOs, a key concern is its complicated financial calculus. As builders increasingly opt to use renewable and alternative materials, firms must contend with the premium prices attached to many of these products—and to the labor involved in using them.

"The increased cost to install the green products often exceeds the payback from the customer," said Jeremy Teicher, chief executive officer of Build Within Reach, a residential builder in Englewood, N.J.

Teicher added that features such as solar panels, charging stations for electric vehicles and spray foam insulation all have a significant benefit to both the end user and the environment, but clients are often unwilling to foot the bill for the upfront costs. As a result, Teicher often ends up cutting such items from his proposals.

Meanwhile, finding and securing materials can take some time. Lee Lasberg, president and CEO of Lasberg Construction Associates in Armonk, N.Y., said his firm has been seeking contractors that are familiar with engineered wood products such as Microllam and glulam, which increasingly are used in green construction projects.

"Demand for less common materials is becoming more common," said Lasberg, noting that project timelines—and costs—can slip as a result.

Finding the right team for the job is also a concern. Lasberg said there is a "small pool" of subcontractors with expertise in green building materials, and the explosion in these types of projects means these tradespeople are in high demand.

### **Bigger price tags for materials**

Material costs are projected to increase by 2% to 3% across the board this year, according to the 2018 North American Construction Forecast Report. Prices for Portland cement and lumber are expected to rise 3% to 4%, and gypsum products such as drywall are expected to jump by an average of 6% to 7%.

The rising cost of materials has yet to strain construction firms' bottom lines, as the materials used in most existing projects have already been purchased. For many of Lasberg's projects, for example, steel is the first item ordered when the project has been signed off on. However, that may change in the future depending on how the prices of materials continue to fluctuate. Indeed, increased pricing has led many to consider alternative design solutions and even a shift to more effective materials.

Teicher said he has been receiving letters from his suppliers about pricing increases for some time now. The solution for Teicher's firm may be bulk purchasing and warehousing, though he notes that such a strategy would put new pressure on the company's cash flow. For Lasberg's firm, the answer may lie with construction engineers and design teams working to offset hard costs such as materials and labor. They can choose alternatives that move away from more traditional materials like steel and aluminum and toward substitutes like concrete and timber. Whatever the solutions may be, there appears to be a constant need to review and readjust as prices and demand continue to change.

### **Tariff trouble**

Trade tensions and increased tariffs on materials such as steel and aluminum may still be downstream problems for construction companies. Some builders may not see the impacts of the tariffs this calendar year, though higher demand for U.S. steel may impact builders that purchase their materials domestically.

As of August, tariffs on imports from Mexico, the European Union, Japan and Canada increased to 25% on steel and 10% on aluminum. These costs may soon be passed onto firms across the United States but for now, more than 20,000 requests for exemptions have been filed with the U.S. Commerce Department.

Until then, firms are hustling to book business before price hikes. "We're completing as many of our projects as we can as fast as possible," said Teicher. "We're racing against the increases."