



## Rising construction material prices add to contractor woes

By: Christian Moises, News Editor | June 15, 2011 | 2 Comments

It's a good time to invest in a construction project in Louisiana, but an industry leader says the savings for developers and taxpayers come at the cost of lower profit margins for contractors.

The latest Producer Price Index, released Wednesday, shows construction material costs are up 7.5 percent from a year ago. Ken Naquin, executive director of Louisiana Associated General Contractors, says many construction firms are forced to absorb that cost increase. That's especially true in the New Orleans area, he said, where contractors have to keep their bids low as more firms compete for fewer projects.

"It's very difficult for local contractors to get work on the bid market," he said. "With the PPI going up and the bid prices holding flat, you may have an existing contract and you're not compensated for that (material cost) inflation."

Naquin said he has been told that the normal markup on a public works project in Louisiana is 4 percent, meaning the contractor builds a 4 percent profit margin into their bid. In New Orleans, the markup may be as little as 1.2 percent, he said.

"What we're seeing is that New Orleans, with the (Recovery School District) work, what the sheriff is doing, with the VA hospital and hopefully the teaching hospital, is an influx of contractors coming in from around the country," Naquin said. "We don't think we should build a fence because that would keep us in. But it's tough when you see billions of dollars going to nonlocal firms."

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