

IS THE CONSTRUCTION BOOM OVER?

Links to Skilled Labor

By Lee O'Brien

The construction boom in Houston and surrounding communities is beginning to wane, and experts in the field say it's because skilled construction labor has become harder to find. In fact, finding a skilled labor and construction force—especially for ambitious projects like the ExxonMobil campus that was finally completed in March, the Noble Energy towers in Spring, and the Southwestern Energy Headquarters that broke ground in 2012—has become more and more difficult and caused projects like these to slow significantly.

Workforce Shortage

“We are experiencing a unique situation with a workforce shortage,” said John Barnes, vice president and general manager for Linbeck Group, LLC. “There is a shrinking supply of construction workers in the commercial construction industry.”

For much of the 20th Century, construction jobs were plenty, and, in many cases, allowed anyone to make a pretty good living. However, since the 1980s, the construction in-

dustry has suffered, attracting less and less young people to the trades and skilled labor professions. Part of this drop-off in talent is related to the expected and subsequent retirement of Baby Boomers. At the same time, the number of those aspiring to a construction career is dwindling.

Lack of Commitment From Owners

Another reason for this decline involves the owners themselves. Industry sources indicate that the lack of real commitment by ownership to their employees and the promotion of high industry standards and training is the missing link. As the driving force in every project, the owner is critical to workforce development. Without the



commitment of owners, workforce standards become optional.

The most significant reason for this decline is related to the deterioration of the necessary skills needed to complete those significant projects. "This is leading to lower productivity and quality, which is one of the drivers in construction costs continuing to rise in spite of a lower inflation rate and flat cost of living," Barnes added. To make matters more strenuous on builders, there is added pressure by owners to complete projects in a timely manner.

Reflection of Construction Slow Down: Links to Labor Pool

According to *Forbes Magazine*, the Houston area saw an estimated \$25.1 billion in new construction in 2014, compared to \$9.1 billion in 2013. A majority of the projects were plant construction projects in the oil and gas industry, which drains the pool of welders, pipefitters, and electricians.

Randy O'Donnell with O'Donnell/Snider Construction said the industry has definitely seen some swings in the available level of skilled labor. As a result, the construction boom has, in many areas, slowed significantly. "Things have trailed off quite a bit with the demands on labor or work force," O'Donnell said. "There aren't nearly as many buildings going up as there were six months ago."

While O'Donnell/Snider does mostly interior construction work, it has also been involved in a number of ground-up building projects and medical construction projects. "It's the skilled labor that is really difficult to find," O'Donnell said. "It has certainly affected the progress that is taking place out there. Every one of my colleagues and business associates has struggled with [finding] a qualified workforce."

O'Donnell said there are plenty of people who are willing to do the work, but not nearly enough who can perform the work professionally.

Unions

In other regions of the United States, construction companies deal with unions who often provide a quality



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trained work force, or did in the past. Texas, though, is not considered a unionized state.

"Unions provided something for quite a while that was very good, and that was that they taught trades. They taught people how to do this and they moved up the ranks," O'Donnell said. "They had different levels of finishers or carpenters... You don't have that anymore, and I think that part of the union [being absent]... it's a detriment."

School Districts Face Construction Challenges

While much of the focus is often on the construction of high-rise

office buildings and skyscrapers, local school districts have also encountered the same issue with major construction projects. In 2013 and 2014, a number of school districts had successful bond elections to fund billions in construction projects.

Among the largest was Klein ISD, where voters approved a \$500 million bond package earlier this year. As the district was formulating their plans and working with the bond steering committee in 2014, the concerns about the available pool of skilled labor to subcontractors were already being noted.

Robert Robertson, Klein ISD's assistant superintendent for facilities, noted that while the planning process was smooth, the increased costs of construction and the small pool of firms could ultimately affect some of the plans for new development. "The volatility of the construction market will impact the cost of new construction, which may limit the scope of other projects being considered," Robertson told the *Houston Chronicle*. "We are closely monitoring the construction market and collecting as much data as possible..."

Tomball ISD encountered much the same problem earlier this year while racing to complete three school campuses for the start of the school year in August. The district dealt with the issue of greater-than-average rainfall in the springtime but also fell behind schedule because of the lack of available skilled labor. As a result, the Tomball Independent School District faced a deficit of \$8.2 million.

Gary Hutton, the district's director of construction, said Tomball ISD used historic inflation rates from the Associated General Contractors of Houston when considering the estimated project costs for new construction and other renovation projects associated in the \$160 million bond package. The inflation rates varied between six to seven percent between the projections for the years 2013 through 2017, but according to other sources, inflation could go as high as 12 percent or more for construction costs next year.

Tomball ISD also studied an economic report from 2012 from Gilbane Building Company and found the national average for construction inflation had similar projections to the Associated General Contractors of Houston. However, the inflation numbers from the GC/CEFPI Economic outlook for Houston and Durotek showed an inflation rate fluctuation from six to seven percent in 2013 and a rate of nine to 12 percent in 2015.

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Shortage of Skilled Workers Brewing for Years

“There is a shortage of skilled workers and craft workers in the industry,” said Chuck Gremillion, executive director for the Construction Career Collaborative. “This is a problem that has been brewing now for about 30 years.”

Gremillion, who started his career in the construction business in the mid

1980s, remembers the construction boom in Houston as it was driven by the price of oil. “Houston was unbelievable back then with the growth that went on here, even more so than we see today,” he recalled. By the time the price for a single barrel of oil plummeted to just \$9, construction projects that were driven by that strong Houston economy had dried up.

Contractors began looking for ways to cut costs. “Most contractors, in that point in time, were union shops,” he said. Some of those contractors became “double-breasted” and opened merit shops, which provided less quality work in pursuit of reducing costs. These same contractors realized they could be just as successful using unskilled laborers, and many of those unionized contractors faded away.

“This doesn’t mean there aren’t any union contractors. There are—there just used to be many more,” Gremillion said. When that happened, those who went to the merit shops saw the skill-trained pool of employees dry up. Contractors and business owners had begun to look at craft-trained and skilled labor as an expense as opposed to an investment.

“A carpenter in 1980 made \$15 per hour,” he said. “A carpenter today makes about \$16 per hour, not adjusted for inflation.” The changes resulted in a loss of benefits for those in the labor force, and contractors began to misclassify their workforce and began to pay their workers by the piece as opposed to paying them by the hour.

“When they did that, they no longer had employees. They had 1,099 workers,” Gremillion said. “As a result, there were no employment taxes like Social Security, and all other benefits ceased.” Contractors could cut as much as 35 percent of their expenses from their bid to projects by doing this. By the early 1990s, that became the industry driver.

Other fundamental changes began to take shape later on in the education landscape. The No Child Left Behind Act of 2001 was enacted, which focused more on sending kids to college. As a result, many school districts ceased offering vocational classes in woodworking and metal working. The entire process was like a leaky faucet that occurred slowly over time and became a torrent before anyone understood that the industry was broken.



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While the economy and the price of oil eventually rebounded to reasonable levels, the construction industry never seemed to fully recover, except to a small extent, right here.

The problem, though, isn't a local phenomenon; it is something construction managers and construction superintendents all over the United States are experiencing. "The shortage," Gremillion says, "is being felt more in Texas and here in Houston because this is where the most development is happening."

"It seems like almost every sector has been very busy in recent years," he said. Gremillion added that a great deal of the development is happening in school districts, universities, and community college districts. In May, Dr. Brenda Hellyer, chancellor of San Jacinto College, which has four campus locations southeast of Loop 610, said, "When you consider what is happening in Houston with the workforce, specifically in oil and gas, we knew we needed to think about the future and how we serve the citizens on the north side of the San Jacinto College District."

In November 2014, voters in the Lone State College System in north Houston passed a \$485 million bond to fund construction projects at all six of the systems campuses. Some of those projects were launched in 2015, all of which will require the skilled labor force that has all but disappeared, and that is why Gremillion created Construction Career Collaborative.

What is C3?

The Construction Career Collaborative, known as C3 in the industry, is an alliance of socially responsible owners, contractors, and specialty contractors created to positively address the issues facing the craft worker. C3 was founded in late 2009, specifically to address the lack of skilled labor. Gremillion said that while retirements and attrition take their toll, the problem is being Band-Aided by a large undocumented work force. "We are an organization that does not take a stance on immigration. We believe in training the workforce that we have," he said.

The organization is also working to correct the perception of the construction industry as unsafe, as

an industry that doesn't adequately compensate their employees, and as an industry that doesn't help those workers develop the needed skill-set. As a result, C3's purpose is to address those issues and promote three organizational principles: 1) safety training for the craft worker, 2) promoting the financial health and well being of workers, and 3) and craft training.

"The undocumented workforce is key, because that (affects) wages," Gremillion said. "We have people who work in the shadows trying to earn a living for their family; they have no leverage; they work by the piece; and they don't want to pay taxes. All that means is that their employer can pay them less."

With that kind of track record, it can be difficult to attract young people into

the construction industry, especially when other industries are paying better and offering good employee benefits.

C3 is the driving force in changing the perception, craftsmanship, and pay scale of the construction profession. "We are making headway," Gremillion said.

Much of that change is being driven by the organization's board of directors, which is represented by construction industry leaders such as Balfour Beatty Construction, McCarthy Building Companies, and Marek Brothers Systems as well as local businesses such as MD Anderson and Texas Children's Hospital.

At the same time, construction projects that meet the C3 standard are in various stages of development and include Texas Children's Hospital Woodlands Campus, Texas Children's Hospital Pediatric Tower E in downtown, the Museum of Fine Arts expansion, and the Memorial Hermann Texas Medical Center expansion.

To be considered a C3 project, the construction companies must abide by a set of guidelines, which includes paying their workers by the hour and providing benefits and workers' compensation insurance for those employees. All employees are paid overtime when earned. Those builders who participate must also ensure their skilled workers have an OSHA-10 card and their field supervisors have an

OSHA -30 card. Most of all, those companies must also pledge to promote the need of skilled professionals in the construction industry.

"This is all an effort to teach the workforce the skills they need to be successful so we can build quality buildings where craftsmanship is noticed and attract people to a career in the trades in this industry once again," Gremillion said.

The effort is a ground-up approach that organizations like C3 are taking. Starting with what was right is the most significant ingredient to ensure the construction industry can rebound. Gremillion says it begins with recruiting young people out of high school and demonstrating to them that the industry can benefit them, as much as they can benefit the industry. "This is all owner-driven, and they recognize that we need to rebuild the craft force," he said. "We have the ability to control that and make that happen."

Industry Leader Emphasizes the Need for Craft Training

Gremillion explained that this level of training isn't something that is gleaned over a few hours of on the job training but over a period of months and years in the classroom along with hands-on training and instruction and real work experience.

"We have a lot of work to do there," he said. "It's the biggest hill we have

to climb." However, some areas of the industry, particularly as it relates to safety, have begun to shift, and safety has become the major focus for the workforce when they are on a project site. The other key components are coming along: addressing craftsmanship and filling those positions and providing that workforce with the necessary training to support their continued professional growth. Getting the right kind of training to the workforce will be significant to ensuring wages for these skilled labor jobs begin to increase.

The jobs are there, and C3 and area builders are helping to place those candidates in the right position and provide them the training they need to not only become successful but to learn and refine the skills that are needed to ensure the industry thrives once again. "There is a place in the construction industry for those people who want to learn and want to work," O'Donnell said. **N**

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