

The Sky Is Falling

by Steven J. Thorburn



From my point of view, the construction industry is out of control. Project costs are escalating faster than anticipated, skilled labor is in short supply, contractor-bonding capabilities are maxed out. In this boom for construction in the post-9/11 recession, I fear that the sky may be truly falling.

In our San Francisco office, we have seen two major design projects put on the shelf half way through the design. This caused both architectural firms to lay off part of their staff and reorganize others. The trickle down effect may have affected others on the design team. It will definitely affect the construction industry. Together the projects were almost \$1 billion in 2006 construction dollars. The problem was that by the time the projects would break ground, they would have topped \$1.2 billion, and given they are long-term projects (taking 36 to 42 months to complete) who knows what the final cost would have really been in 2011.

These project shut-downs are due to the unpredictable cost escalations we are seeing in construction materials... and if you do not believe it, what were you paying a year ago for a gallon of gas and what did you pay this week? For ex-

ample, it has been reported that the price of copper has jumped almost 200 percent in two years. At the end of 2003 it was 81 cents per pound, in 2004 it was \$1.68 and in 2005 it was \$2.30 per pound.

From ENR, Karl Almstead, VP at Turner Construction, which is responsible for the Turner Building Cost Index, believes that average construction costs will escalate between 8 and 10 percent for 2006, based on the final 2005 value of 9.7 percent. They have also found that the costs in California and Florida are the highest, with a 15 percent escalation factor for California. He would not even speculate on what the final number will be in Florida this year.

Much of the escalation is based on the demand for steel and concrete. The raw resources that have traditionally stayed in North America are now in demand in the Middle East and Asia. Our global economy is struggling like a toddler to walk, let alone run. Until the emerging markets have the ability to transform their raw materials into construction materials, the burden will be placed on others. Oh, to own the land that contains a gypsum quarry...it must be like printing money.

Another report shows that the cost of hospital construction has tripled in the last 10 years. While hospitals and other institutions may be "required" to complete the project

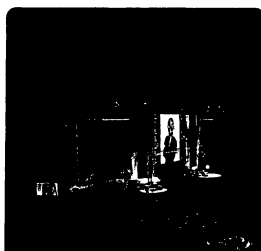
due to growing student population demands or changes in health care regulations, the private sector does not have the same requirements.

Recently we were dealt a similar blow of a project being put on hold in our North Carolina office. The project was a briefing and training facility for a technology firm. The AV budget for the installed system was starting to push \$2.5 million. Every time the project went out for pricing, it would go up 5 to 10 percent. It got to the point when the entire design team was completing our 50 percent construction document review, that the owner's project managers and the leads from the architect's office were called across the street for a meeting. When they returned, they told the design team that the project was put on hold, this is the second time the project was shelved and will likely come back at some point, and if it comes back they would start from scratch. Now, from a professional liability point of view, these projects are great—you can never get sued over a construction issue when the project isn't built. But more to the point, while the AV budget grew due to owner-driven scope creep, the overall project was cancelled for reasons out of our control and a lot of work for one or more AV contractors is now gone.

We have another project, a 14-story building, that has to be built, but the general contractor is at their bonding maximum given the construction costs of all of their projects. It would make sense for them to complete the tenant improvements, but the only way this will work is if there is a lot of wheeling and dealing that is way above our pay grade.

While our industry may not be at fault for the cost escalations, we will feel the impact of these projects shutting down. I do not know if I am Chicken Little, Foxy Loxy or the King's dogs, but something needs to change or we will all be in another world of hurt, real soon.

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LONDON, U.K.—The 21st British Hairdressing Awards tapped Vista Systems' Spyder for a widescreen high-definition set in the Great Room of London's Grosvenor House hotel. The annual ceremony, attended by 2,000 hairdressers, had a show concept based on floor-to-ceiling projection that spanned the entire width of the 68 x 18-foot stage. The screen and set were treated as single large area, slit by two walkways, displaying HD imagery, video clips, and live camera feeds. Capitol House Productions, which did the staging and presentation, worked with Joy's Production Services to employ a Spyder 344 system to deliver moving backgrounds for each award category, plus still-photo picture-in-picture windows and other windows featuring live video inserts.

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Atlas Launches New Website

PHOENIX, AZ—Atlas Sound has launched a new and improved website featuring a user-friendly interface and easy navigation. The site went live during NSCA 2006.

Some of the site's new features include search functions, using licensed Google technology, with familiar Google-like results; homepage with flash interaction; graphical interface with product photos to help users find their products by browsing; more than 100 new CAD drawings were added and all existing CAD drawings were updated to ensure accuracy.

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Tri-Ed Distributes TOA

SOUTH SAN FRANCISCO, CA—Tri-Ed Distribution has selected TOA Electronics as an approved vendor. Serving over 20,000 customers, Tri-Ed has 35 branch offices across the U.S., Canada, and Puerto Rico. Tri-Ed's product categories, which include burglary, fire, CCTV, access control, sound and communications, and structured cabling, now include TOA audio and security intercom products.

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