

Rio West Quarterly

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Varco Pruden Building Pricing and Future Steel Costs



For the past several years, VP has been able to manage their business with a very stable steel market. We established a benchmark list price and have been able to manage minor steel price fluctuations through discounting. Recent events indicate that this period of low volatility is coming to an end. Since the beginning of March, major steel suppliers have announced two price increases which are forecast to be between \$30 and \$60 per ton. There are multiple contributing factors to this rapid escalation.

They include:

- Iron Ore pricing that has risen over 20% in a very short timeframe
- Anti-dumping legislation recently implemented by the US government
- China's announced economic stimulus and reduction in steelmaking capacity.

We realize that the timing of this action by the steel suppliers is not welcome, particularly in light of the difficult non-residential construction market. Nevertheless, it's very evident that steel prices are escalating, so we are issuing this letter as a price increase warning. As we learn more we will certainly be updating our customers and clients to keep them informed.



Construction Material Prices Break 8-Month Slide With 0.9% Rise

Construction material prices rose 0.9% between February and March, but fell 3.4% year-over-year, according to an Associated Builders and Contractors (ABC) analysis of Bureau of Labor Statistics data released Wednesday. March marked the first time in nine months that construction industry inputs in the Producer Price Index increased. ABC Chief Economist Anirban Basu attributed last month's rise to the "rather profound percentage gain in oil prices," which grew 40.7% between February and March. However, he noted that "rapid material price inflation remains unlikely going forward," as the global

“The ABC emphasized the importance of including pass-through companies as well as corporations when discussing tax reform and has called on Congress to enact a meaningful tax reform.”

Construction Material Prices cont.

economy is still moving slowly. "There are no guarantees that meaningful production cut agreements will be reached and faithfully implemented by oil producers," he said in a release. "While global oil production growth is likely to slow, demand will continue to be weak, implying an uncertain price trajectory."

March's results affirm Basu's prediction last month of a slight rise in material prices, especially in oil. In past months with plunging prices, he said the declining energy sector was causing significant damage to the states that rely on it. Still, even with March's price gains, builders shouldn't be worried that major material price spikes will come anytime soon.

Construction Pays Highest Tax Rate of Any Industry

A new U.S. Department of the Treasury report found that from 2007 to 2010, on average, construction companies paid a higher effective federal tax rate than businesses in any other industry, the Associated Builders and Contractors (ABC) reported. According to the Treasury report, the construction industry paid effective federal corporate taxes at an average rate of 30.3%, while companies across all industries paid an average of 23.3%. Utilities paid the lowest average effect tax rate, at 14.5%. The ABC said that high tax rates are a burden on the continuing recovery of the construction industry. Former ABC chair Pamela Volm



echoed the organization's concerns over construction business tax rates. She pointed to the fact that the construction industry is largely comprised of small businesses and the common pass-through structure of contractors as the main reasons for its higher tax burden. The ABC emphasized the importance of including pass-through companies as well as corporations when discussing tax reform and has called on Congress to enact meaningful tax reform.

CA Residents Fleeing State amid Soaring Housing Costs

Nonprofit group Next 10 has released a report, authored by Beacon Economics, which found between 2007 and 2014, California lost a net 625,000 residents, largely due to the skyrocketing cost of housing. The Beacon report found that most "out-migrants" are lower-skilled workers earning less than \$30,000. So where do the out-migrants go when they leave California? Curbed Los Angeles, a Los Angeles based housing market publication, reported that most are headed to Texas, Oregon, Nevada, Arizona or Washington. One example: Toyota, which is moving its headquarters from Torrance, CA, to Plano, TX. According to the dean of the Cox School of Business at SMU, the move can be chalked up to employee complaints about the high price of housing in California and their desire to live

CA Residents Fleeing State cont.

"The American Dream." Toyota took heed and is planning a move into its new \$350 million Plano headquarters in 2017.

The Beacon report found the average U.S. apartment rental is \$1,227, versus \$1,602-\$2,557 in California, depending on location. Regarding homeownership, a home in the most expensive market in Texas, Austin, has a median price of \$261,000, versus California's \$395,000.

One way California is fighting the lack of affordability is through the implementation of inclusionary housing laws that require below-market set-asides in most new housing developments. The mayor of Los Angeles has also entertained the idea of developer fees to finance his goal of 100,000 additional units of affordable housing.



28 States Add Construction Jobs in March as Worker Shortage Persists

Construction employment grew month-to-month in 28 states between February and March, with 44 states and Washington, DC, adding jobs from March 2015 to March 2016, according to the Associated General Contractors of America (AGC). Pennsylvania had the biggest month-to-month increase, while West Virginia had the highest percentage gain. Year-over-year, California and Hawaii led job growth. Year-over-year, North Dakota once again lost the most construction jobs and had the highest percentage decrease.

Ken Simonson, chief economist for the AGC, said the industry saw employment growth in all regions of the U.S. in the last 12 months and that the trend should continue. In addition the Bureau of Labor Statistics Analysis reported this month that the industry added 37,000 jobs in March, up significantly from January's and February's gains. However, he added that a persistent softening in the energy sector is still driving job losses in the five biggest energy-producing states.

The AGC also warned that the continued rise in construction demand in much of the country will lead to more shortages of skilled labor. "These healthy job gains show that educators and policy makers in all states should provide more support to construction education and training programs," AGC CEO Stephen E. Sandherr said. "As a result, we are loading many students up with college debt instead of encouraging them to begin making higher-than-average wages as construction craft workers."

Canadian Engineers Developing Self-Healing Concrete Technology

Scientists in the civil engineering department at the University of Victoria in British Columbia announced they might be close to a formula for self-healing concrete, the Canadian Press reported.

Professor Gupta said his team is testing material combinations for their ability to both heal cracks and to create crack-free concrete that lasts longer than traditional concrete. Gupta's researchers are experimenting with different amounts and types of fibers — such as fly ash and wood cellulose — in an attempt to find the combination that will effectively seal concrete and cracks. Gupta said that if researchers can find a way to "heal" concrete, this discovery could also improve the material's sustainability, the Canadian Press reported.

British Columbia Technology Minister Amrik Virk said that a self-healing concrete product could be useful in making bridges and buildings safer. "The ability to look at aging infrastructure, not only in North America but around the world, where we could potentially apply a coating on concrete that's going to solve overpasses from falling down," Virk told the Canadian Press.

Concrete is one of the most used building materials in the world. Its cost to repair represents billions of dollars annually. Imagine the uses of those dollars if a solution could be found.

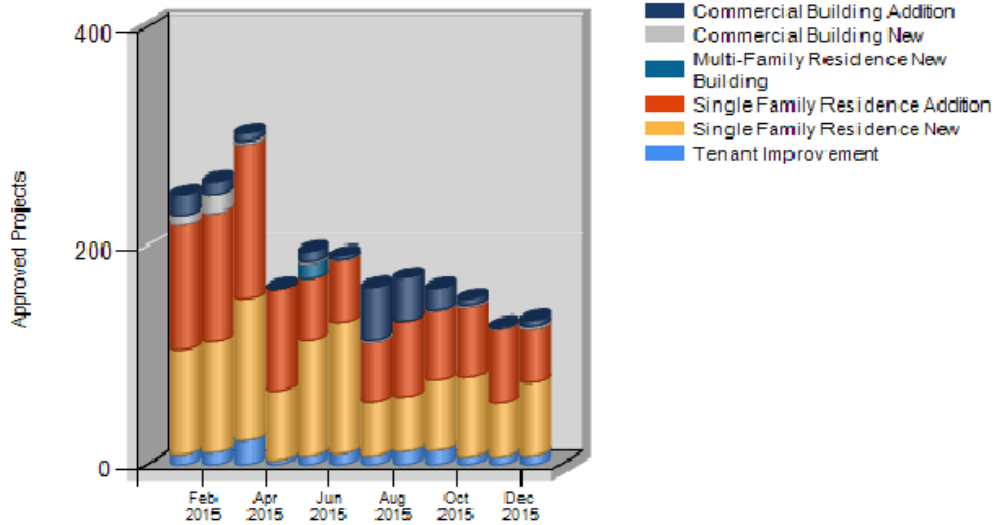
"If researchers can find a way to "heal" concrete, this discovery could also improve the material's sustainability."

Pima County Statistics:

“Experience the power of integrity.”



Building Permit Volume for Major Permit Types: last 12 months



Rio West Development & Construction was founded in August 1994 by brothers Brad & Walter Hoge. Over the course of the last 20 plus years, we have constructed or developed projects in all jurisdictions in Pima County that include; medical buildings, office buildings, retail centers, industrial buildings, schools, assisted living facilities and other specialty type buildings. Our work experience includes:

- Pre-Construction Services
- Design Build
- CM@ Risk
- Building Inspection Services
- Development
- Solar Installations

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