REAL ESTATE SEMINAR
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This morning we will explore, with an esteemed panel of experts, where the real estate market is headed over the coming months and years. For most of you here today, the past few years have been busy and largely profitable as the result of low inflation, historically low interest rates and a steady flow of domestic and foreign monies available for investment.

As we have seen, real estate is not only a driving factor in many areas of our economy, but has become an important investment for corporations, institutions and individuals alike.

But if there is a dark side to the growth and importance of the real estate world it is the seeming vagaries of the way in which our nation constructs its schools, hospitals, office towers and condos. This is because the latest statistics disclose that 40 to 60% of all project dollars paid by an owner are wasted due to inefficiencies in the way the construction industry operates.

And make no mistake about it, by January 2006 construction was a $1.16 trillion a year industry in the US representing 5% of GDP. A one time improvement in construction productivity of 10% would boost America's GDP by $116 billion. According to the latest census information, by the year 2030 today's US population will increase by over 70 million. A Brookings Institution report recently revealed that an additional 58% of our nation's current total building stock, some 427 billion square feet, will need to be built after 2000. This population explosion will result in 100 billion square feet of new homes with an even greater additional increase in commercial and industrial square footage over the next 20 years. Other studies predict that America is poised to embark on a $25 trillion construction binge that will sweep every sector of our nation. Local school districts will expand, health and hospital needs will grow with an aging baby boomer population and new offices, retail and entertainment complexes will abound as never before.

Yet the construction industry defies explanation when compared with every other field of business. Unlike every other industry in the US, there are no nation-wide construction companies operating in all fifty states. Less than 1% of all construction firms exceed 100 employees. Only several hundred firms have over 1,000 employees. And almost all general contractors or construction managers sub out 80-90% of the actual work and materials to companies who are, themselves, "mom and pop" in nature. This means that few contractors, whatever their size, are willing to accept risk, have the profits or capital to invest in new technology or put money into new research and development to improve productivity.

As a result, one study shows that only about 32% of the total time spent at the typical construction site involves actual direct work. The other 68% is wasted on employment transportation delays, travel within the job site, late starts and early quits, personnel breaks and sundry other delays. Even if these statistics were exaggerated — and they are not — the stakes for the national economy as well as your own project budgets are simply too high to ignore.

My comments are not intended to cast aspersions upon the construction industry or the many talented hard working individuals in it. Everyone in the industry is simply responding to a set of parameters that have remained largely unchanged for over a hundred and fifty years.

By identifying the steps needed to bring the construction industry into the 21st century we will bring benefits not only to those who pay for construction – from corporate owners to taxpayers, from real estate developers to homeowners – but to the valuable members of an industry that time has left behind.

I look forward to speaking about these issues to all of you in the months ahead and to the benefits that will accrue to each sector of the real estate and construction world.