

# Construction is critically important to the U.S. economy

by Randy Bright <http://www.tulsabeacon.com/?p=5250>

America's economic recovery is going to be highly dependent upon how much construction will be done once a recovery takes place. I believe that there is tremendous pent-up demand for commercial and residential construction, and that given the right conditions, we could see a boom like we have never seen before.

Construction is incredibly important to local economies and to the aggregate economy of the nation. As an example, according to an article in the Denver Post, out of the 130,000 jobs that the state of Colorado has lost over the past three years, 60,000 of them were construction jobs. Prior to 2007, one out of every five jobs was construction related.

We have a long way to go to rebuild the construction industry to what it was before the crash. Job losses and business closures have been massive and across the board, including mortgage brokers, architects, engineers, contractors and subcontractors. In Colorado alone, 466 homebuilders closed their doors between 2007 and 2009.

We cannot underestimate the importance of confidence in the economy to the recovery. American incomes and net worth has been hit hard, and that will make it psychologically difficult for many to re-enter the construction market. Investors will be wary to put money into projects if they don't see a bottom to the decline of property values. Construction companies will be unwilling to grow their businesses if they think it is all simply going to be swept away again. People need confidence in the economy and the rules in order to be willing to risk their capital again.

Some of the hardest hit states in the country are those with the most regulations, and the ones that are doing best are those with the least regulations. California is a prime example of the former, where unemployment is thirty percent higher than the national average, and over 3.6 million people have left the state since 1990. On the other hand, Texas has welcomed 1.4 million domestic transplants to their state during the same period. Governor Perry says that it is because they have so few regulations.

Though Oklahoma hasn't taken in as many Californians as Texas, there are tens of thousands of them who have relocated here. In a USA Today article, one former Hollywood producer said that he had moved to Oklahoma City, where people genuinely wanted to help you succeed and where "the selling price of a house here would not be the down payment on a house in L.A." So why are states like California and Colorado suffering more than other states? Very simple. It's land, labor and regulations.

Land in highly regulated states is, in many respects, a rare commodity. When regulations are placed on land that restrict what can be built on it, or more importantly, if anything will be allowed to be built on it at all, it necessarily excludes land from inventories of buildable land.

Since land is not immune to the natural laws of supply and demand, the price of land goes up. So when we hear about one-bedroom bungalows that cost over a million dollars in California, it's not too difficult to understand that the bulk of its value is the land that the house is on, not the house itself.

The cost of standard building materials are not that much different from one state to another. However, labor costs will be higher in states where there is a higher cost of living (because of higher housing costs) or the presence of unions

Finally, regulations add tremendous costs to projects. Compliance with regulations seriously impacts the overall cost of planning and building a project. Environmental studies, impact fees, and extraordinary construction requirements cost a lot of money, and they add more risk. While many states continue to adopt more regulations, at least one has figured it out. New Mexico recently repealed the stringent energy-efficient building codes that were implemented during the tenure of former Governor Bill Richardson. The State Commission who repealed the codes and current Governor Susana Martinez pushed the repeal in order to make New Mexico more business-friendly.

America has a chance to recover from its economic woes, even as serious as they are today. A glimpse of the Republican candidates for president is creating some optimism that we could get a pro-business, anti-regulation administration in place in less than two years. The construction boom that would quickly follow means that the indomitable spirit of the American people can finally be unleashed to solve the biggest economic crisis in American history. It's time for Americans to get back to work.

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