

Financial woes plague construction industry

Construction business was flat or fell during the first two quarters of the year, according to a survey conducted by the Construction Association of Michigan (CAM).

General contractors reported the greatest decline, with business volume dropping more than 20 percent, according to John A. DeMattia, CAM chairman and president of Lernerville Co., Novi. He contended that Michigan's construction industry is composed of small businesses struggling to stay afloat during harsh economic conditions.

"There is a great misconception that construction companies are big with big jobs and big revenues. It's simply not true. In fact, 64 percent of our members are making a living by doing jobs that are valued at less than \$250,000," DeMattia said.

"More than half (51 percent) are going after jobs that are worth \$50,000 or less. That's consistent with national statistics that show that 84 percent of all businesses within the construction industry report less than \$1 million in annual revenues; 71 percent report less than \$500,000 a year."

"THE SURVEY was undertaken in cooperation with the Construction Services Group of Deloitte & Touche. More than 17 percent of the association's 3,000 member firms responded to the survey. Deloitte & Touche tabulated the responses to protect member confidentiality and worked with CAM to analyze the results."

DeMattia said the survey responses reflect an industry that is clearly worried about increased competition, strangled cash flow and more trouble getting paid for work performed.

CAM members reported an increase in their competition for fewer available jobs. More than 43 percent of the members reported that they must compete with at least five other companies each time they bid a project; 12 percent reported competing with more than 10 other companies each time they bid a project; 12 percent reported competing with more than 10 other companies for each job.

DeMattia placed the bidding process in economic terms.

"It takes money to bid a project."

When there are fewer jobs to bid and more competition, contractors gamble more on each bid."

Nearly half (46 percent) of all businesses are in a worse cash flow position than they were a year ago, and 30 percent experienced their greatest financial losses during the second quarter of '91. Manufacturers were hardest hit with 37 percent reporting that they were in worse shape than three months previous to the survey. Sub-contractors ranked second with 32 percent listing their cash flow as worse than three months earlier.

"MORE THAN A quarter of the respondents reported that they expect it will take more than a year to collect as much as 10 percent of their total revenue. Twelve percent said that it could take longer than a year to collect up to 20 percent of their revenue. Subcontractors appear to be the hardest pressed with nearly half expecting to take more than 12 months to collect between 5 and 20 percent of their annual revenue. About 10 percent of the respondents believe they will be forced to write off between 5 and 10 percent of their outstanding revenue as uncollectible."

John Fovensel emphasized the significance of the figures in comparison to profit margins in recent years. He is a partner and director of the construction services group of Deloitte & Touche.

"Considering that industry profit margins continue to shrink, a year delay in getting 10 percent of 20 percent of a company's earnings can mean serious financial trouble for many businesses," Fovensel said. "A total loss of 5 or 10 percent can spell disaster."

"It's no secret that bankruptcy is a common part of working in such a high-risk industry, but the last few years have definitely seen an increase in business failures. Much of that can be attributed to lower profit margins, increased competition and a growing problem in collecting money once the job is done."

RESPONDENTS WERE asked to estimate the number of their competitors that would be forced out of business within the next year. Sixty-seven percent anticipate at least one of their competitors will close over

the next year. Twelve percent expect at least three to five competitors to lock the doors for good.

But DeMattia cautions against assuming that all of these figures reflect the recession.

"Construction is a risky business even in a good economic climate. There is probably a higher risk now because of the economy, but one of the advantages that smaller companies have is their ability to react to a downturn by cutting overhead and picking up their tools personally."

But 59 percent indicated that they have no plans to lay off employees. DeMattia suggests this may reflect that most companies have already made cuts to weather the economic storm, and they do not plan to cut further, although 18 percent reported that they do plan additional layoffs in the coming months.

While construction businesses contend with cash flow and collection problems, material prices continue to rise. Nearly 70 percent reported an increase in material costs during the first part of 1991. The largest number (34 percent) reported price increases of between 5 and 10 per-

cent. Survey respondents indicate that three types of projects currently account for most of the work: industrial and transportation jobs (26 percent), office buildings (19 percent) and educational facilities (11 percent). New construction is still providing the most work (57 percent), but renovation and maintenance accounted for more than a quarter of all projects.

About 15 percent of the respondents are considering expanding their business scope outside of the United States, the largest number coming from suppliers (29 percent) and manufacturers.

Thirty percent of respondents said they would not choose to make their living in the construction industry if they had to start a career today. Many charge that it is too easy for inexperienced people to enter the field. The respondents expressed worry that competitors who lack

knowledge and experience fail to serve their clients and tarnish the image of the industry by their inability to provide quality work at realistic prices.

According to DeMattia, the survey is the first step in a plan to develop construction statistics that might project changes in construction lev-

els and help CAM members better prepare their businesses to react. CAM plans to conduct the business survey twice each year and measure the results against prior surveys. The information will be made available to members and others involved in the construction industry.

We need you!

We need carriers for Observer & Eccentric routes.

Call 591-0500 to find out all about it.

Westminster Village

Starting at \$159,900

NOVI Schools
3 & 4 Bedrooms
Dramatic Cathedral Ceiling
Library - 2 1/2 Baths

Model hours
Daily 12-6
Closed Thursday

10 Mile
N
Haggerty

(313) 442-2626
A SINGH DEVELOPMENT

SHELL PACKAGES
BE YOUR OWN BUILDER

BASEMENT & WEATHER-TIGHT ROUGH-IN
Your Design Our Design
CONSTRUCTION LOANS AVAILABLE

NAWR T
CONSTRUCTION
P.O. Box 2263
Livonia, Michigan 48151
462-0944

Name _____
Address _____
City _____
St. _____ Zip _____
Ph. _____

BRADFORD
of Novi

Northville Schools
Premium 1/2 Acre Homesites
Quality Custom Built Homes
Will Build To Suit

from... **\$279,900**

Located South of 9 Mile -
West of Taft

Contact: Kathleen
(313) 433-1100
SINGH DEVELOPMENT CO., INC.

Bridgetown
CONDOMINIUMS

"LOCATED IN
THE QUAIN VILLAGE
OF CHELSEA"

1/4 to Chelsea exit, N. 1/4 mile to stop light, left 1 block

Models open 7 days 12 noon-5 p.m.

(313) 475-7810

Colonial & Ranch Models
2-3 bedrooms, 2 baths, 2 car garage, full basement, central air, GE built-in deluxe floor covering, patio deck & more.

From **\$119,900**

Association dues: \$65.00 per month
Building last phase. Units available for immediate occupancy.

NORTHVILLE TRAILS

A NEW HOME COMMUNITY
BY
LOPICCOLO HOMES, INC.
MULTI-BUILDING COMPANY
& M.G.C. HOMES

Pre-Construction
Pricing Starting At
\$219,900 - 84 Sites

We are building a quality home -
Come see for yourself.

Our standard features are others extras:
• Basement under family room
• 93% high efficiency furnace
• Masonry fireplaces with brick to ceiling
• Drywall entire garage
• Wood insulated windows
• Brick - four sides
• 50 gallon water heater
• Natural stained wood trim
• 240 pound shingles
• Case windows on front elevation
• Gutters & downspouts
• 7"10" basement walls
• 3'x6" master bath tubs

Your Plan or Ours
Square Footage Up to 3200 Sq. Ft.

CALL 380-5070
OPEN DAILY 1-6
(Closed Thurs.)
1/4 Mile W. of Haggerty - Enter N. of 6 Mile



IT'S
JUST
POSSIBLE
YOU'VE
READ
THIS
PAPER
BEFORE

Because this newspaper uses recycled newsprint whenever it can.

Recycled newsprint is just one of the many useful products made from old newspapers. Recycling keeps the newspaper you're reading from the landfill. And it helps us all to save money.

So, after you read, recycle.

And we'll do our part. We'll use it again.



Read.
Then Recycle.

OAKRIDGE PLACE
CONDOMINIUMS

EXCITING MULTI-LEVEL CONDO'S

Central Atrium
Sunken Living Room
Balcony Formal Dining
Penhouse Master Suite
Separate Level Bedrooms
2 1/2 Baths
Attached Garage
Basement

AFFORDABLY PRICED FROM
\$106,900

FINAL PHASE NOW OPEN
DON'T MISS OUT
ONLY A FEW LEFT RESERVE NOW!!!

FOR INFORMATION CALL
347-1122

OPEN DAILY FROM 12 NOON TO 5 PM
TIL 6 PM ON WEEKENDS
CLOSED MONDAY & THURSDAY

NOVI PLACE
CONDOMINIUMS

(COMING SOON)

AFFORDABLY PRICED FROM
\$94,900.00

EXCITING & DRAMATIC
2-BED-2 1/2 BATHS TOWNHOUSE
DETACHED GARAGE

ONLY 18 UNITS RESERVE NOW!!!

FOR INFORMATION CALL:
347-1122

OR STOP AT OUR
OAKRIDGE PLACE CONDOMINIUMS
HAGGERTY ROAD (JUST NORTH OF 9 MILE)
NOVI

OPEN DAILY FROM 12 NOON TO 5 PM
TILL 6 PM ON WEEKENDS
CLOSED MONDAY & THURSDAY

Laurel gardens
Luxury Condominiums

Consider The Advantages

The Location: Adjacent to the U of M Botanical Gardens, minutes from the center of town and freeway access - yet nestled in a peaceful country setting.

The Choices: Innovative ranch and two-story homes, large rooms, wooden decks and enthralling views. Elegant appointments include designer kitchens and bathrooms with whirlpool tubs, fireplaces, soaring ceilings, and more!

The Community: From the moment you enter this distinguished gatehouse community, Laurel Gardens will become more than your private home; it will be your private resort, offering tennis courts, swimming pool and lush landscaped grounds.

The Values: From just \$169,990, Laurel Gardens is Ann Arbor's finest condominium buy.

Grand close-out!
Phase I and II
30-day occupancy

Visit 1-6 daily. Closed Thursday
Located on Haggerty, between
Gables and Plymouth. Map 4
241-8877. Main office: 855-5400
Brokers welcome.

INITIAL OFFERING IN WEST BLOOMFIELD

WE'RE BUILDING YOUR NEIGHBORHOOD.

WEST BLOOMFIELD OAKS

From \$149,990!

West Bloomfield Oaks is one of those rare communities that offers the tranquility of a natural setting surrounded by peaceful lakes, a private community park, and recreation, minutes from business, schools and shopping.

Rarer still is finding a community of luxury homes at such a remarkable value. These new ranch and two-story homes with walk-out sites, available, designed by our award-winning architects, are thoughtfully placed on large sites on 20+ acres of gently rolling hills in the heart of the lake area.

(313) 363-0966
Holtzman & Silverman
Value First Since 1919 Experience Counts

Location
Entrance on Willow Road
between Miller and Keith Roads
Hours
Daily 12 to 6 p.m.
or by appointment