



The Economy and Construction

A look ahead for contractors written by Morton J. Marcus, an Economist formerly with the Kelley School of Business at Indiana University, for the Lake County Contractors Association.

The Impact of Katrina and Rita

Katrina and Rita have ravaged the Gulf Coast and raised serious questions for Americans. Those who build our communities are at the center of these issues.

In the short run, the demand for building materials, construction equipment and experienced labor will raise prices dramatically. The costs of all types of construction from sewers to condos will rise and stay high for at least two years.

In addition, the huge amount of private and federal spending directed to the reconstruction effort will raise interest rates. Insurance rates throughout the nation will rise as companies attempt to recoup their losses. Home buyers will back off from their aggressive buying and the rate of increase in home building will cease to rise. This will push up rents and the prices of existing housing.

In the longer term, there are other types of issues. Most property owners from Mobile to New Orleans to Galveston will want their buildings repaired or replaced. They will seek to recreate the past instead of looking to the future.

A more comprehensive approach is appropriate. Let's consider the Gulf Coast as a region, centered on New Orleans, that stretches from Florida to Texas. This area is highly attractive for an extraordinary variety of commercial and recreational purposes. It also is hurricane prone.

Given what we know today about urban design, would we develop Biloxi, Gulfport, New Orleans, Port Arthur, or Galveston as we did in the past? Would Pensacola or Galveston be configured differently? But existing land titles specify ownership of property that defines the street patterns of those cities. Existing zoning ordinances specify land uses. Most of all, deep-rooted, multi-generational memories, sentiments, and expectations may over-ride opportunities that developers present to re-imagine these coastal cities individually and as an integrated region.

Should the coastal region be planned by the government or left to the free market to develop? Don't fool yourself considering this question. The federal, state, and local governments have already condemned the region to a future that replicates the past. With levees and seawalls being rebuilt and strengthened, the government is making the key decisions about future land use in the region. The private sector is being left out of the process no matter what expertise it can bring to the problem.

We could redevelop the coastal region along new lines with a larger role for the private sector. The old communities were built with small lots, each individually owned. We still do that even in our newest sub-divisions here in Lake County. However, these small lots prevent us from rebuilding our cities when the opportunities arise.

The temptation always exists to rebuild what we had in the past. Other than the French Quarter and the Garden District of New Orleans, is there reason to recreate the past? Shouldn't we use the destruction wrought by Katrina and Rita as opportunities to upgrade the housing stock and public infrastructure of the coastal communities?

Unfortunately, the nation will allocate billions of public dollars to rebuilding New Orleans and other devastated places. Private insurance payments will put more billions in the hands of individuals who have no opportunity to relate to a broader vision. Together those funds would be used best by building new cities that demonstrate how public and private investment in the 21st century can improve urban living when the slate is wiped clean of our inherited liabilities.

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