

Worker shortage threatens construction industry, real estate, and home building market

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(Photo: Frank San Nicolas/PDN)

An ongoing dispute with the federal government over the use of foreign labor is making it more expensive and difficult to build homes here, according to several Guam construction companies, some of which face the prospect of declaring bankruptcy.

Many companies are now refusing to build single-family homes because they don't have the workers, they said. And, even if they are willing to take on home-building projects, the cost of construction has skyrocketed, they said, from \$100 per square foot to \$200 per square foot.

"Right now there are lots of calls to do residential, and we just say no. We are already in trouble," said Bernie

Maranan, owner of BME and Sons Inc.

The combination of limited home construction and increased housing demand will result in higher housing prices, according to real estate industry professionals.

Maranan said he will lose 60 percent of his workforce at the end of the month, when temporary workers with expired visas return home, leaving the company — which already was struggling to complete projects on time — with only 40 construction workers.

The rejection of residential construction jobs is a side effect of the labor shortage caused by the recent U.S. Citizenship and Immigration Services crackdown on Guam's use of foreign H-2 labor, in which they have denied nearly all applications.

Federal officials argue that Guam businesses have long misused the program, intended to provide temporary foreign labor only.

According to Joseph Bradley, chief economist and business continuity officer at the Bank of Guam, this argument is not new — Guam companies faced similar challenges in 1985 and 1986. At that time, a minority of companies abusing the visa system led the U.S. Immigration and Naturalization Service "to paint the H-2 program in Guam with the same broad brush," leading to broad visa denials and economic tensions.

In October 2016, 12 Guam companies that heavily rely on foreign labor filed a federal lawsuit against USCIS, demanding immediate relief from the near 100-percent denial of temporary worker visas. The possibility of a settlement was floated in January, but no decision was reached. A motion to dismiss, motion for immediate injunction and class-action motion currently are pending.

Until the visa problem is resolved, companies like 5M Construction, which is a plaintiff in the lawsuit, will be forced to turn down bids for projects in all price ranges, according to owner Larry Manalo.

"It's manpower. Nobody can do it," Manalo said. "This island is so small, and there's a lot on the island that wants to build, but we're tied up on the manpower."

Starved for labor, local construction companies are re-evaluating existing jobs and their ability to take on new ones. Companies said they have also have declined accepting work for the military.

Some mid-size companies reported losing their remaining local skilled workers to larger firms with military contracts, leaving the companies unable to bid on new work.

Some companies are rejecting requests for new home builds and residential projects altogether, choosing instead to refer customers to smaller subcontractors who they hope can absorb the demand.

Many construction companies also are raising prices to compensate for having fewer skilled workers, which leads to more overtime and project delays. All of this means "civilian construction costs will escalate because of more aggressive competition for labor resources," Bradley said.

The labor shortages paint a troubled picture for the residential housing market, according to realtor Kishin Advani.

Advani was one of three realtors from The Real Estate Professionals who, in January, predicted a dramatic rise in housing prices on Guam due to a lack of inventory and a labor-starved construction industry.

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Today, he said, that prediction has not changed substantially. Lower-cost houses are in high demand, particularly those in the \$200,000 to \$300,000 range, and spend barely any time on the market before they're snapped up.

Meanwhile, new home construction projects — even in the higher \$400,000 price range — "are coming in really slowly," Advani said. "Contractors are having to work with the labor they have. Before, they had more workers to spread out over more projects. Now they can only work on so many projects."

BME owner Maranan said his company is no longer quoting prices for home construction, but added that he expects contractors to effectively double home construction costs, from approximately \$100 per square foot to approximately \$200 per square foot.

Additionally, as the military buildup approaches, fewer mid- to high-end rental properties are coming on the market, as service members take over friends' rental contracts rather than risk losing a property to the hungry market, according to an industry expert. Military personnel on Guam who live off-base receive an overseas housing allowance.

Currently, the monthly allowance for an Air Force master sergeant or Navy chief petty officer with dependents is \$2,450 per month, and an additional \$919 for utilities. The lowest-ranked service members on Guam, without dependents, receive \$2,047.50 in housing allowance per month, with \$919 for utilities.

"In the rental market, good properties get rented out almost immediately. There's no vacancies, and if there is one it gets snapped up. You can almost rent a good property before you list it," said Christopher Murphy, owner and principal broker with The Real Estate Professionals. "I had one tenant who called me and said she's deploying out in April after being here for four years, and she's got three friends interested in replacing her."

It's important to note, Murphy added, that the current phenomenon in the local rental market is happening even before additional military personnel have been relocated to Guam in connection with the buildup.

If the buildup arrives and new construction workers have not, an already stressed housing market will likely test its limits, he said.

Maranan said he is uncertain what will happen to his company during the next several months. "We will be just lucky if we will complete one project," he said.

Maranan has not ruled out filing for bankruptcy. If the lawsuit is not resolved and temporary workers do not return to Guam, Maranan said he does not believe the damage will be limited to his company.

"My personal opinion is that the construction industry will collapse," Maranan said. "Even if we escalate our costs, how can you get a project without any workers?"

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