

client alert

25% Tariffs

Author:

Barbara Werther



As with many executive orders coming out of the White House, there is a mixed message. One of the administration's priorities is to reduce housing costs and increase supply. In fact, the stated objective of the tariffs is to protect America's critical steel and aluminum industries, but the concern is that the 25% tariffs will have the opposite effect, as prices on steel, aluminum, copper, lumber, appliances and cement from Canada and Mexico will go up by summer. For projects that have already started, the effects may not be as drastic, assuming contractors have already purchased or even stockpiled the listed items. But, for projects out for bid, the effect of the tariffs, scheduled to take effect on March 12, 2025, may delay projects, increase prices, or put the brakes on completely.

Pundits project that the cost of imported construction materials will go up by \$3 to \$4 billion. Material costs for multi-family projects are expected to spike by 7.5%, which will increase construction budgets by 3% to 4%. There is also a ripple effect, as transportation prices are expected to rise, meaning the cost of delivering materials will also rise. If contractors have a local source for the listed items, their pricing may not be affected, but those contractors who rely on Canadian and/or Mexican supplies may be greatly affected.

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Financing remains the issue of greatest concern for construction starts. Interestingly, labor shortages seem to be easing slightly and labor costs seem to be level or only rising slightly. But, more than 80% of respondents in a recent housing poll expressed concerns about the tariffs. The projects that may be affected the least are low rise and garden style projects. High rises are supposed to be affected the most, because they use huge quantities of steel and cement. Data centers and manufacturing facilities are supposed to be affected the least because these are in great demand.

Of course, challenges breed innovation. Contractors are looking into alternative materials, such as cross-laminated timber for structural application, and composite materials, as long as they meet building codes. BIM and pre-fabrication may reduce waste, and hence cost.

Contracts containing force majeure clauses or price escalation clauses will likely be the subject of contractor claims, depending on the timing. And, going forward, contractors will likely insist on those clauses.

Risk mitigation is the most interesting question. Presumably, those contractors who purchased and stockpiled materials would be in the best position to mitigate risk. While there might be storage facility costs, that cost would likely be far less than paying 25% tariffs on imported products, which will be passed on to owners or the consumer. There are also companies that specialize in pre-fabrication of components for housing, where the components are shipped to the job site and assembled there. Finally, modular construction methods may allow cost (and time) savings.

It does not appear that the implementation of the 25% tariffs will be delayed a second time.