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## Related's new contractor shakes up construction industry

### Hiring an outsider to build up Hudson Yards increases competition, which drives down costs.

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Deeply dissatisfied with the two dozen agreements negotiated over the summer between unions and contractors, and desperate to bring down the costs of its massive Hudson Yards project, the Related Cos. has made a move certain to shake the foundation of the city's construction industry.

The powerhouse developer last week brought construction giant Tutor Perini Corp. in from California to be the contractor on its \$4 billion, 15-year Hudson Yards undertaking, *Crain's* has learned.

The key to Related's decision: Tutor Perini owns various subcontractors and can do a wide array of construction work—including excavation, concrete forming and placement, steel erection, electrical and mechanical services and plumbing—on its own. By bringing a new player into a notoriously closed-off market, Related increases competition, which should lower prices.

The main construction managers in the New York market—Lend Lease, Plaza, Tishman Construction and Turner—lack the ability to self-perform work, and the subcontractors they hire often operate without transparency and competition.

Developers have grown frustrated by what they contend is a tightly controlled insiders' game that limits their ability to control prices. The Tutor Perini hiring is an attempt to change the rules.

"I think it's an aggressive move," said Steven Spinola, president of the Real Estate Board of New York. "Bringing another significant company like this into the city is positive for competition."

Work on Hudson Yards is scheduled to start later this year, beginning with the 1.7 million-square-foot Coach tower that is expected to be completed by 2015. The entire project will transform the far West Side with three office buildings, nine residential towers with 5,000 units, a 750,000-square-foot glass-encased mall, a school, a cultural center and 12 acres of open space.

Tutor Perini will also be the contractor on Related's residential tower at West 30th Street and 10th Avenue, on the outskirts of Hudson Yards. Construction on that project, being developed with Abington Properties, is also expected to commence this year.

The deal brings in a construction company whose work in the city has mostly been on infrastructure, including the widening of one of the nation's busiest runways at John F. Kennedy International Airport and the construction of the AirTrain's Jamaica Station terminal. Tutor Perini also has experience building gambling venues and was tapped by Genting Malaysia Berhad to build Resorts World Casino, the new development at Aqueduct Racetrack.

"It's time-honored that the companies that work here are the companies that work here, and that's the end of it," said former New York City Buildings Commissioner Patricia Lancaster, a professor of construction management at the NYU Schack Institute of Real Estate. "For Related to change the paradigm is pretty striking."

Related declined to comment. Tutor Perini did not return a call seeking comment.

Louis Coletti, president of the Building Trades Employers' Association, which represents the city's unionized contractors, declined to comment. Calls to several contractors were not returned.

Related and Tutor Perini became acquainted in 2008 when Deutsche Bank hired the developer to finish the Cosmopolitan of Las Vegas, a \$3.9 billion hotel and casino whose owner had defaulted on a \$760 million loan. The move to reunite at Hudson Yards is a blow to the city's major construction players, who no doubt had their hearts set on Hudson Yards. Tishman will play a role in the development, though a lesser one than if Tutor Perini were not involved.

Related officials have been single-minded about finding a way to reduce costs for several years now, especially with Hudson Yards looming. Their efforts intensified when Sam Zell's Chicago-based Equity Residential swooped in two years ago to construct a building in the heart of Manhattan using nonunion labor. They worry that other developers will follow Mr. Zell's example, tilting the field against union-only builders.

Related was outspoken during the summer contract talks, which developers felt only nibbled around the edges of needed work-rule changes. Company executives worked tirelessly to reduce costs on their 1.2 million-square-foot mixed-use project on West 42nd Street when the economy tanked.

Related had poured the foundation when the recession put the project on hold. During the lull, executives looked for ways to realign costs with the new fiscal reality, talking extensively with general contractors, but also interviewing all the subcontractors on the job in an effort to understand their costs. Segments of the project were bid out to streamline costs.

The Tutor Perini hiring is a nod to an argument made last summer by labor leaders that paying union workers less isn't the only way to reduce the city's spiraling construction costs. But it's just a piece of Related's effort to lower costs on the West Side.

The developer is in talks with unions on project-labor agreements for Hudson Yards, hoping for changes to work rules and discounts on salaries and benefits to help propel the project forward.

"We're working to address labor cost issues, but we can't do this alone," said Paul Fernandes, chief of staff at the Building and Construction Trades Council. "Cost increases are not only on the labor side. In fact, if you look at the numbers, they're more heavily on the contractor side."

Related seeks savings on both fronts and is turning Hudson Yards into a testing ground that could reverberate throughout the industry.

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