

Construction forecast for '09



by Randy Bright <http://www.tulsabeacon.com/?p=1664#more-1664>

Robert Murray, vice president of economic affairs for McGraw-Hills Construction, penned an article in the March 2009 issue of Architectural Record outlining 2008 construction statistics and his projections for construction in 2009 for various building types.

Overall, the amount of construction fell 15 percent in 2008, for a total of \$547 billion, over twice the decline in 2007 when construction fell 7 percent. He believes that construction will fall another 11 percent in 2009.

The article was written around the time that the stimulus package was passed, and though Murray indicated that he believed it would be helpful, he also indicated that the bailout in 2008 had not been that effective, due to the tightening of credit.

He said, “Despite the substantial efforts undertaken to thaw frozen credit markets, including the \$700 billion financial bailout last fall, there have been only faint signs that lending standards are beginning to ease. According to the Federal Reserve’s January 2009 survey of bank lending officers, a full 79 percent of the respondents indicated that they had tightened standards on commercial real estate loans during the fourth quarter of 2008, not much less than the 87 percent reading for the third quarter.”

The reduction in construction differs from one sector of the construction market to another. Here are Murray’s statistics from 2008 and his forecast for 2009.

Multi-family housing will drop 22 percent in dollars and units in 2009, in contrast to 2008 when it dropped 37 percent in dollars and 33 percent in the number of housing units.

One example is the 150-story Chicago Spire in downtown Chicago that has been put on hold because the developer has been unable to secure funding for the project.

Commercial building construction fell by 17 percent (\$) and 27 percent (sf) in 2008, but in 2009 it will fall by 21 percent and 26 percent respectively. Murray wrote, “The extent of the 2009 slide will depend on the effectiveness of new efforts to help the banking system regain its footing, including returning to the original premise of the bailout bill in which troubled mortgage-backed assets are removed from bank portfolios. It is not expected that the stimulus package will provide immediate benefit to the commercial sector, although gains in employment and a more moderate recession will be a plus in a year or so.”

In 2005-2007, major retailers pushed the store and shopping center sector to record levels, but there was a 34 percent decline in 2008, when several retailers filed for bankruptcy (Circuit City, for example). Murray anticipates an additional drop of 27 percent in 2009.

Office construction dropped 25 percent in 2008, and will drop an additional 24 percent in 2009. The drops in both years are attributed to the tightening of credit.

For example, the height of the World Trade Towers 2, 3 and 4 in Lower Manhattan would have been 79 and 71 stories high, but have now been reduced to 2 and 6 stories in height.

Institutional construction has not been hit quite as hard, but is expected to drop by about 6 percent in dollars and 10 percent in square footage in 2009.

Educational construction gained 1 percent in 2008, but is expected to drop by 8 percent in 2009.

Hospital construction also gained in 2008, 25 percent, but construction of other kinds of health care facilities fell by 7 percent. The prediction for health care facilities in general is a 13 percent decline in 2009.

The bad news is that construction will drop off in 2009, perhaps even more than Murray's predictions given the backlash to earmarks in the stimulus plan and the nation's declining confidence in the Obama administration. And in the same issue of Architectural Record, there are articles giving architects advice on how to survive a recession, given that 9,600 architects and engineers had lost their jobs by January of this year. That is a very significant indicator of the economy because when they aren't drawing projects now, there won't be construction six months from now.

If there is any good news in all of this, it is that declining construction activity is reducing the cost of construction now, and will probably reduce it even more. So for those with the cash to build, there will be some real bargains for the near term. However, inflation is likely to heat up, increasing costs again, so it is anybody's guess as to how large that envelope of opportunity will be.

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