



Mixed signals for the construction industry in 2010, yet hopeful

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While many in the construction industry barely survived the economic downturn in 2009, predictions for the upcoming year are tinged with optimism. However, those rose-colored glasses do not apply across the board, as some sectors are uniformly predicted to continue to lose ground. Forecasters are hopeful that 2010 will usher in the beginning of a climb out of what has been seen as the abyss, with moderate gains in 2010 only signaling the beginning of a turnaround not predicted to take shape fully until 2012.

Whether you take stock in McGraw-Hill Construction's 2010 Construction Outlook optimistic prediction that the construction market will increase by 11% overall in 2010 or FMI Corporation's 2009 Third Quarter prediction that 2010 will still see a more modest decline of 5%, there are certain clear patterns predicted by virtually all industry analysts. Anticipated increases in residential construction, including advances in single-family housing and more modest gains in multi-family housing, are credited with buoying the overall picture. Analysts are also factoring in a healthy increase in public works construction, including highway and public building construction. Environmental projects and public building modernization are also heightening expectations, fueled in part by the realization of stimulus funding under the American Recovery and Reinvestment Act (ARRA). However, even those sectors where gains are expected will not begin to approach the levels reached just a few years ago.

Analysts consistently believe that commercial and manufacturing construction will continue to be hard hit in 2010, repeating or possibly exceeding the declines seen in 2009. The recession has severely impacted these sectors, with increased vacancy rates and widespread unemployment having a chilling effect on new office starts. Hotel construction, which saw three years of significant growth from 2006 to 2008, is being impacted by reduced consumer spending and corporate cutbacks in travel expenses. In addition, manufacturing and warehousing are expected to continue to decline, having grown ahead of demand in previous years. Reduced consumer spending has also hit the retail market, resulting in increased vacancies and little prospect for new development. Tight credit has not only resulted in project cancellations and delays, it has all but dried up private investment in commercial buildings and eliminated new private sector development. Heather Jones, a construction economist for FMI, predicts that the New York market will be hit even harder than the national average when it comes to declines in office, lodging and retail. According to FMI, given that commercial construction will follow projected housing increases by 12 to 18 months, "even a turnaround in housing in 2010 probably won't be enough to drive new commercial construction until 2012."

The industry is looking toward the ARRA stimulus money as a possible beacon of hope for 2010. While stimulus funds did not jump-start public construction at the levels anticipated in 2009, analysts

are optimistic that additional monies will come through as a result of contracts awarded in the last quarter of 2009 and funding earmarked to be disbursed in the first quarter of 2010. The December 4, 2009 Report issued by the New York State Economic Recovery and Reinvestment Cabinet (<http://recovery.ny.gov/assets/documents/StimCabReport120409.pdf>), provides that \$3 billion of New York's \$31 billion in stimulus funds is earmarked for infrastructure projects, including \$1.2 billion for mass transit and \$1.1 billion for highways and bridges. While nearly all of the monies allocated for highways and bridges has been approved and put out to bid, only 64% of the projects have started, representing 60% of the allocated funds. Some of this work will be delayed until the second quarter of 2010 due to weather concerns. The Metropolitan Transportation Authority (MTA) has received \$915 million in stimulus funds and has signed contracts for 89% of that amount.

Despite this anticipated boost in public works projects from the stimulus funds, increasing levels of unemployment in the construction industry, including substantial layoffs in architectural firms, continue to raise concerns about just how quickly the turnaround will be felt. There is real concern that declines in the private sector will far exceed any gains from institutional and public sector projects. Also fueling concerns is whether significant reductions in tax revenues will cause state and municipal governments to scale back their capital improvement budgets or delay the start of projects.

While the stock market appears to have rebounded, and there are signs of life in the economy overall, not so in the construction market, which tends to lag the fluctuations in the overall economy. Therefore, while there are glimmers of hope that the construction turnaround has started, most analysts are cautiously optimistic at best.

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