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## **Scott Sansoucie, EnviroVantage**

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Construction economic growth for 2010:

Some sectors are bright, while others are lagging. The view, shared by many economists, is that the Nation's recession has ended and that we are entering a recovery period. Nonetheless, the recovery remains extremely fragile and, as recent events have shown, has been tempered by economic problems in Europe and the BP oil spill in the Gulf of Mexico. The nation's construction industry, however, remains mired in economic woes, and with the American Recovery and Reinvestment Act (ARRA) programs over half way through their two year run, there is little optimism that the construction industry will see any significant improvement over the next several years. 2010 will likely be another declining year, especially with non-residential construction's predicted decline of 20% or more.

There are some bright spots, however, in other sectors. The National Association of Home Builders (NAHB) expects sizeable growth of the construction of single family housing units. NAHB forecasts that there will be 610,000 single family housing starts in 2010. This compares with 443,000 starts in 2009. Engineering News Record is even more optimistic in its prediction of a 30% increase in residential construction. Much of this growth may be a short term phenomenon, however, as 200,000 housing starts will be linked to the homeowner tax credit which ended on June 30th. Similarly, multi-family housing starts are also expected to rise by 16% in dollars and 14% in number of units in 2010, according to McGraw Hill Construction.

There are also several non-residential construction sectors which have seen recent up-ticks in spending:

- \* Religious-related construction spending was up 4.2% in May, a trend which may continue into 2011;
- \* Healthcare construction spending jumped nationally 59% in June, boosted by several large projects, none of which are located in New England;
- \* Highway and street construction spending was up 2.7% in May;
- \* Conservation and development spending was up 23% in May;
- \* Transportation spending was up 13.8%; and,
- \* Amusement and recreation construction jumped 85% in June, due primarily to the \$500 million renovation of Madison Square Garden in New York.

According to Business Monitor International, overall infrastructure construction is predicted to grow by 2.4% in 2010 year-on-year, and 6.5% year-on-year in 2011. Thereafter, infrastructure growth is predicted to fall to somewhere between 3% and 4% through 2018. ARRA construction spending is expected to reach \$90 billion or more in 2010 for highway, street and bridge construction. But the absence of any additional economic stimulus funding programs will likely lead to a contraction in such spending in 2011.

The only real positive news in the non-residential building sector is that cost cutting has reduced operating expenses for many firms, making break-even points lower and construction material costs more affordable. Spending in this sector declined by over 20% in 2010, with declines running close to 30% in the commercial sector, 20% in the manufacturing sector and 12% in the institutional building sector.

Construction spending is currently relegated to state and federal governmental awarding authorities. The simple fact remains that commercial property values have fallen 40% from their mid-2007 highs and, until those values recover, the risk of commercial mortgage defaults remains a serious concern and will limit the demand of new commercial projects.

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