

Charting the Course of a Nonresidential Construction Recovery

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Hanley Wood Foundations 2011
September 21, 2011

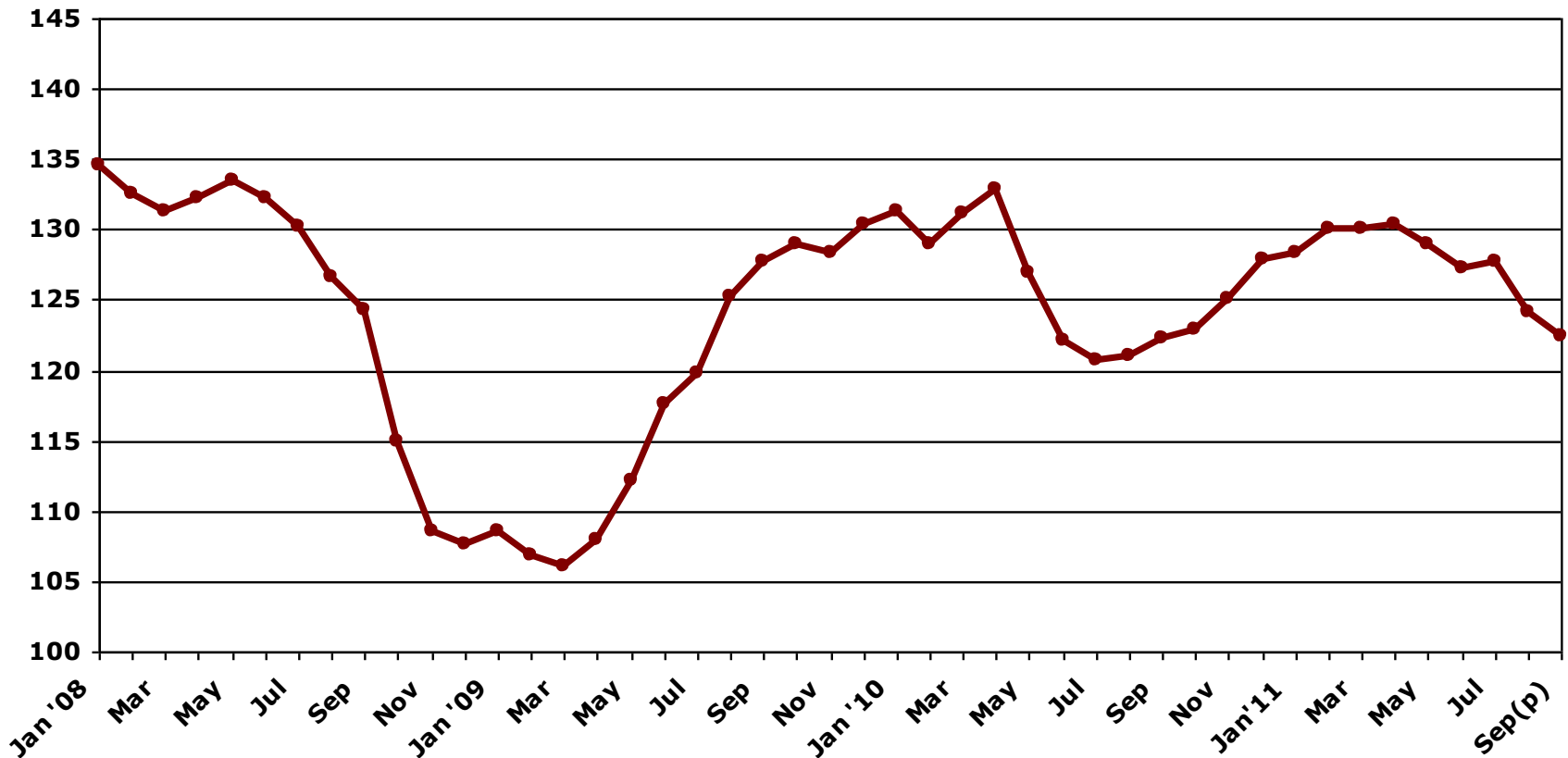


Economy Entering Yet Another Soft Spot

- Economic growth has stalled, with growing concerns that debt problems in Europe will create problems in the U.S.;
- Employment situation remains unusually weak, with continued high levels of unemployment;
- Housing market still not recovering: house prices probably yet to hit bottom in several markets; many mortgages remain “under water”; delinquencies and foreclosures remain high;
- Having undertaken \$900 billion stimulus program and lowering interest rates to near 0%, further fiscal and monetary policy options seem limited;

Economy Began Another Round of Softening This Past Spring

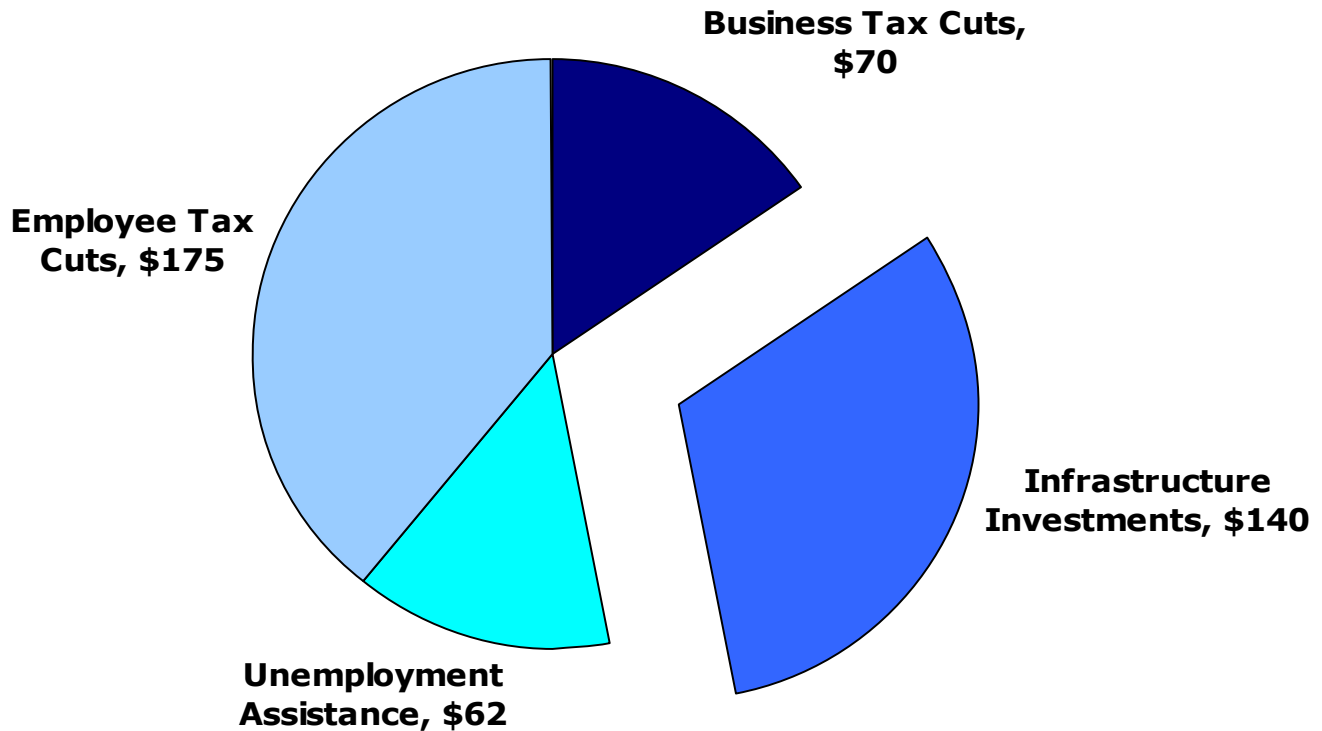
ECRI weekly leading index: 1992=100



Source: Economic Cycle Research Institute

Proposed 2011 American Jobs Act Has Funds Earmarked for Construction

Proposed spending; billions of \$

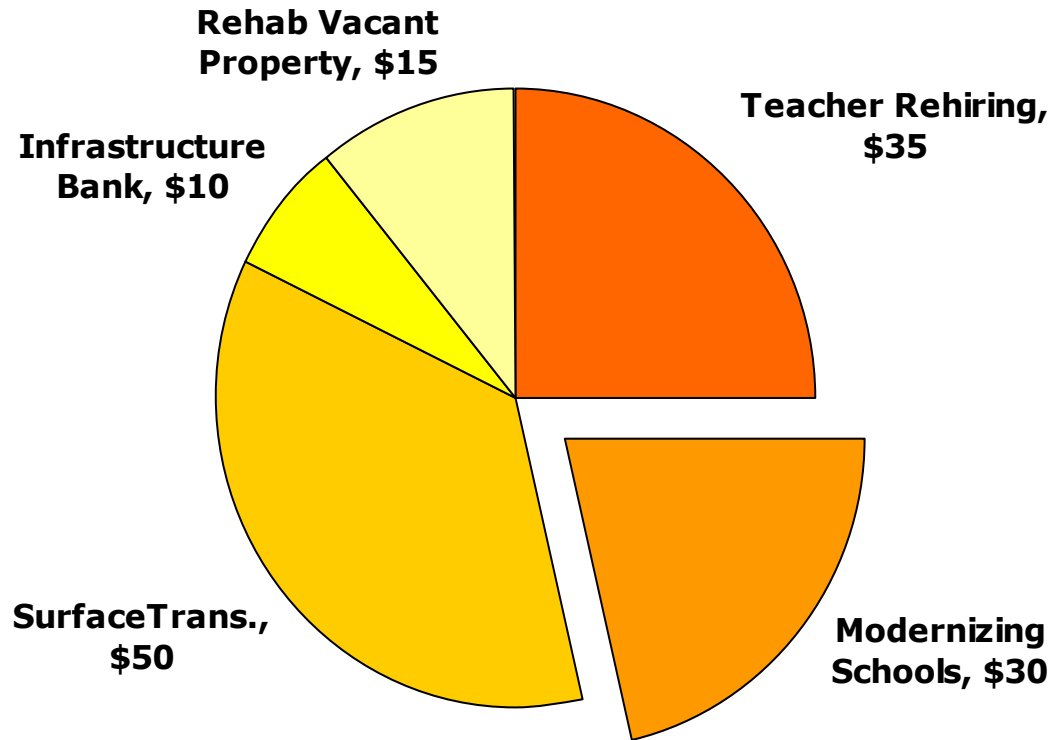


Total Estimated Cost - \$447 Billion

Source: White House press release.

Buildings Account for Relatively Small – But Significant – Share of the Infrastructure Portion of the Package

Proposed spending; billions of \$

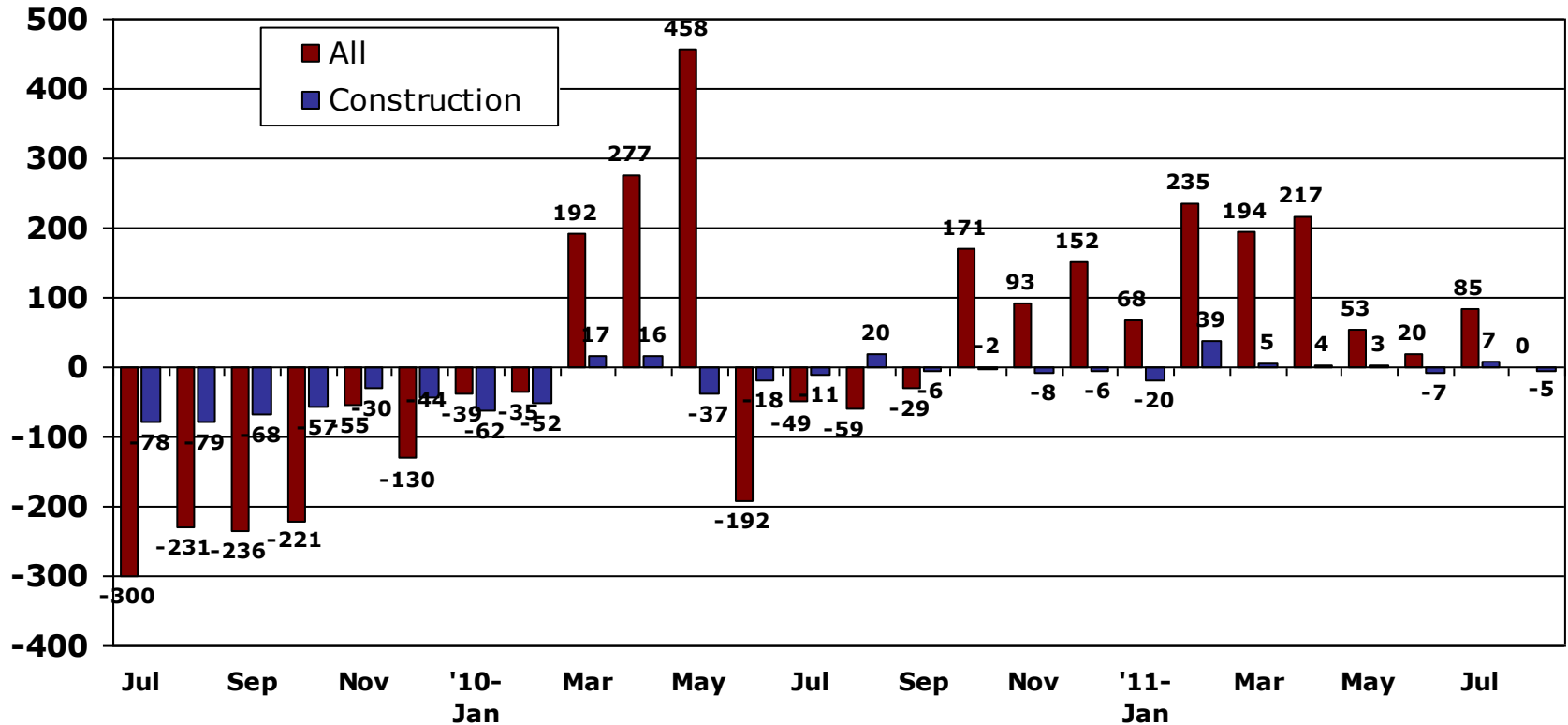


Total Infrastructure Spending = \$140 Billion

Source: White House press release.

Weakness in Overall Job Growth is Slowing Construction Recovery

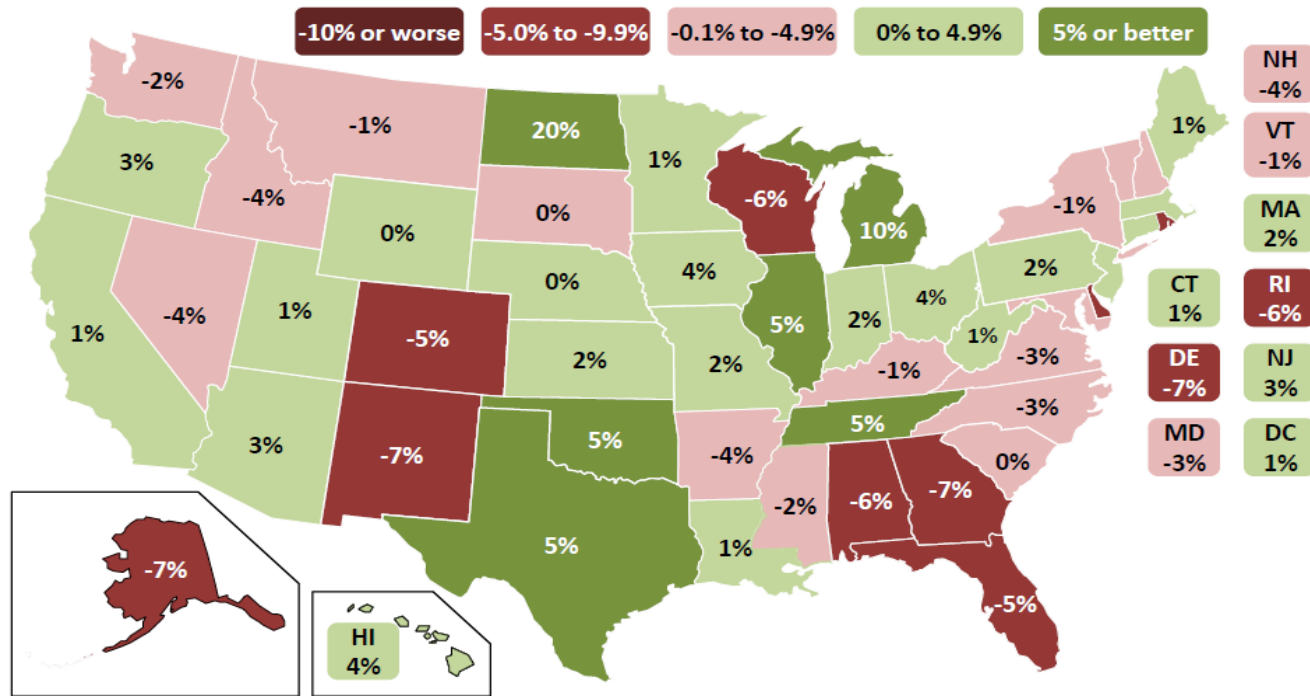
Monthly change in business payrolls (000s)



Source: US Department of Labor

National Gains in Construction Employment Have Been Modest; Stronger Gains in Central States

% change in state construction employment, 8/10 to 8/11

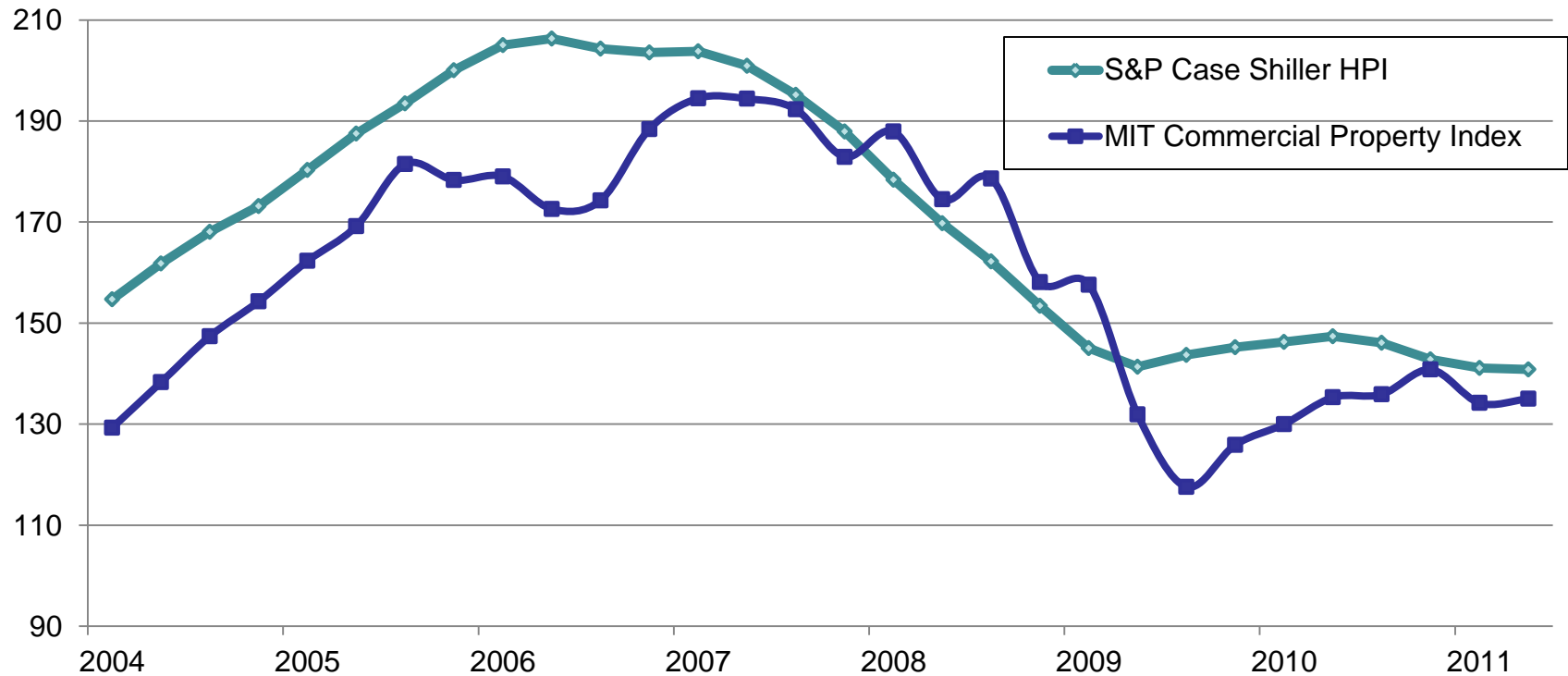


National construction employment gain = 0.1%

Source: BLS state and regional employment report as compiled by Ken Simonson, Chief Economist, AGC

Commercial Property Values Fell Further Than House Prices, But a Recovery Appears to be Underway

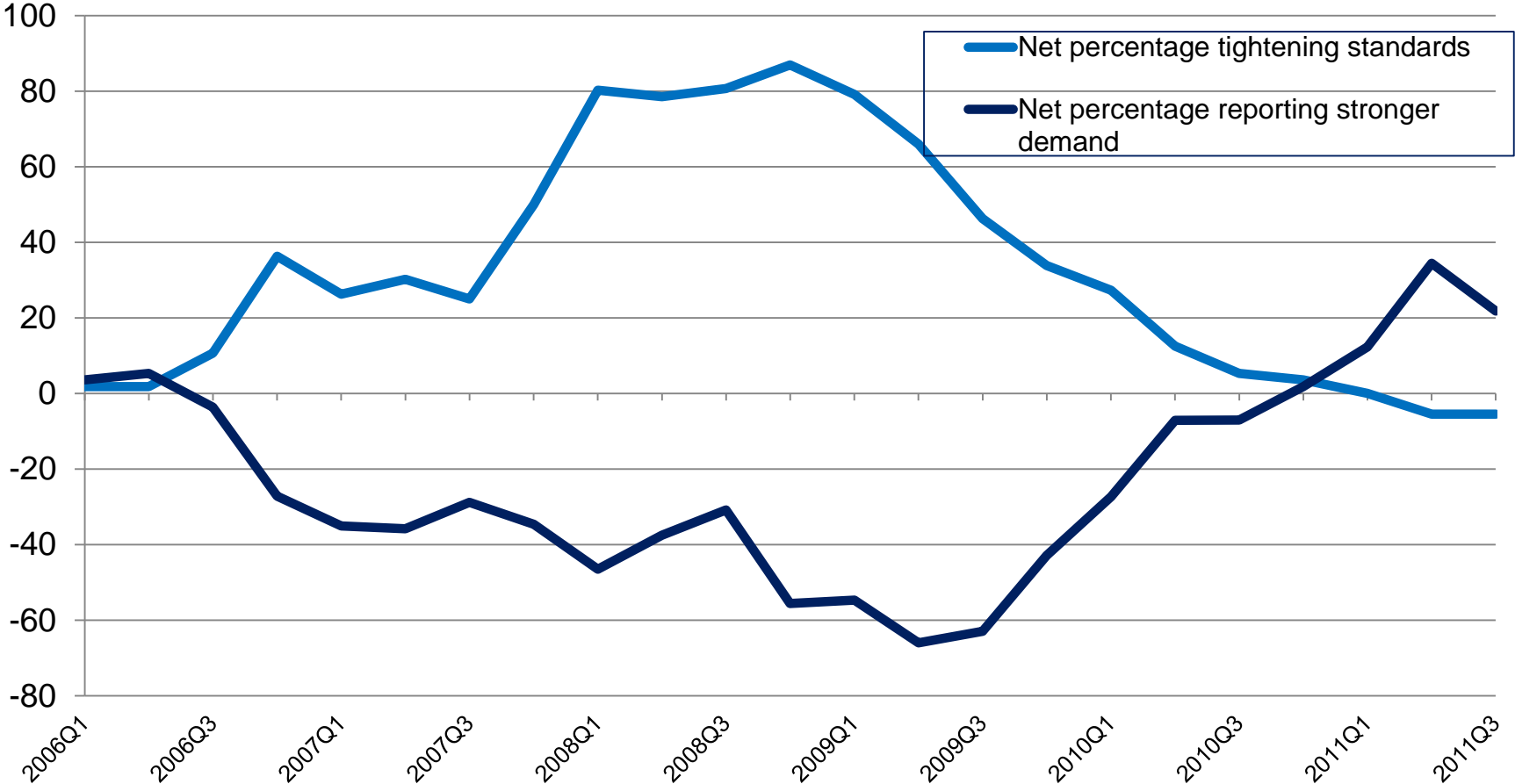
Index: January, 2000=100 for house prices; December 2000=100 for commercial property values



Source: S&P/Case-Shiller Home Price Index: Aggregate index - 20-metro composite; MIT - Moody's/REAL commercial property index.

Commercial Real Estate Lending Fell Off During the Downturn, and Now Seems to Be Lagging Demand

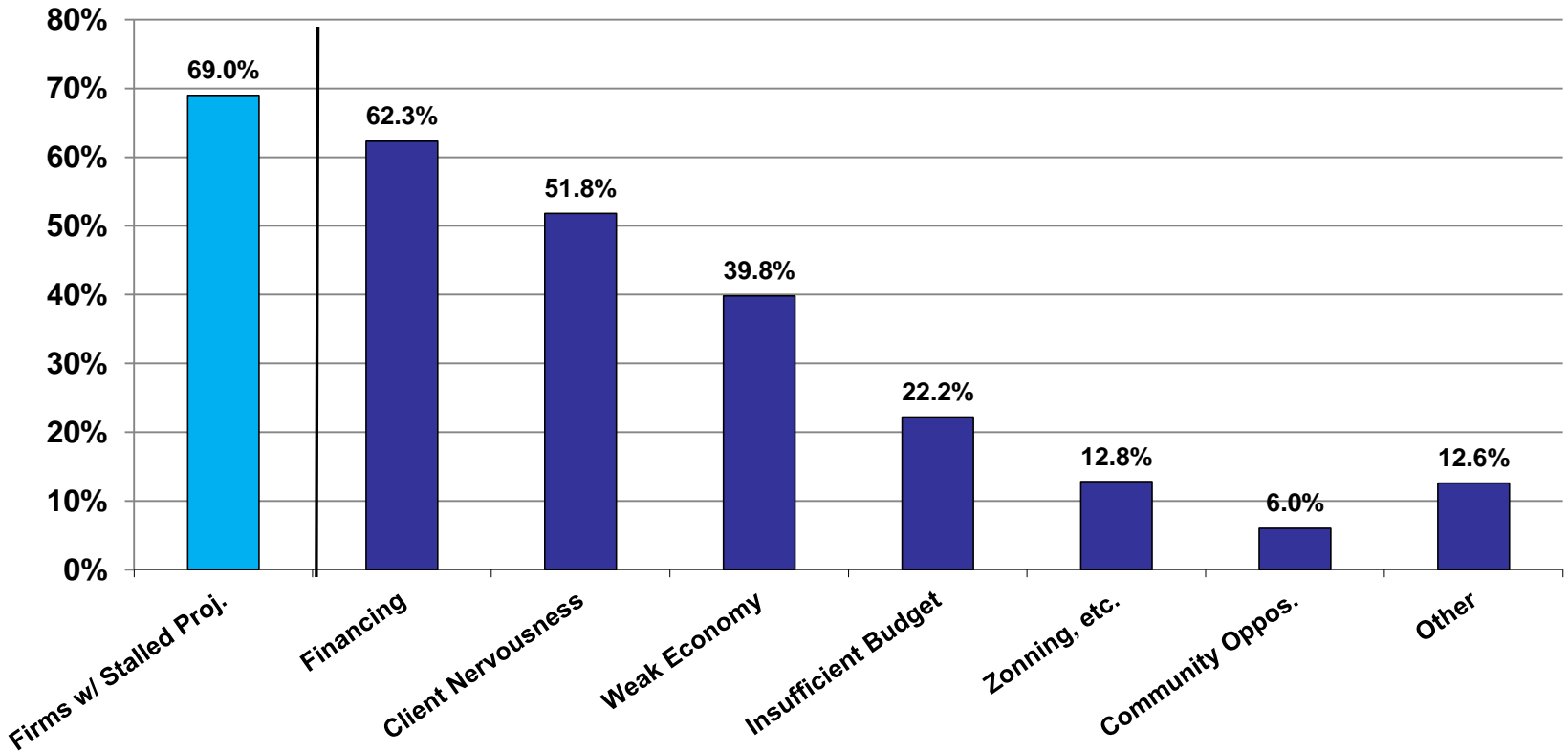
Net % of respondents



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey, July 2011

Most Architecture Firms Have Stalled Projects, and Financing is Most Common Reason for Delays

Reasons for projects being stalled (multiple answers accepted if multiple projects)



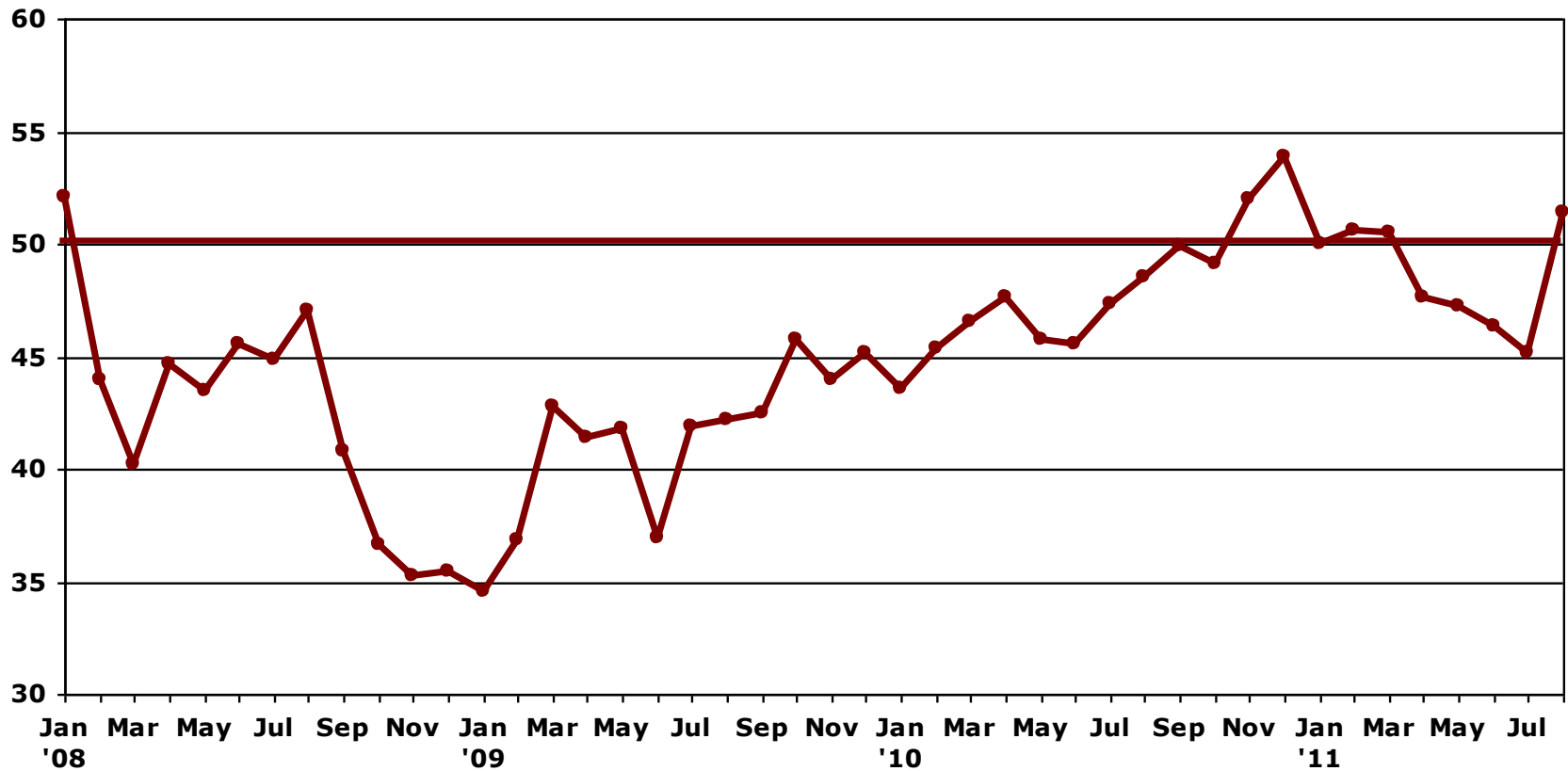
Source: AIA Work-on-the-Boards Survey, July, 2011.

Business Conditions at Architecture Firms: The Outlook for Construction



After four Straight Months of Declines, Architecture Billings Index Surprisingly Reversed in August

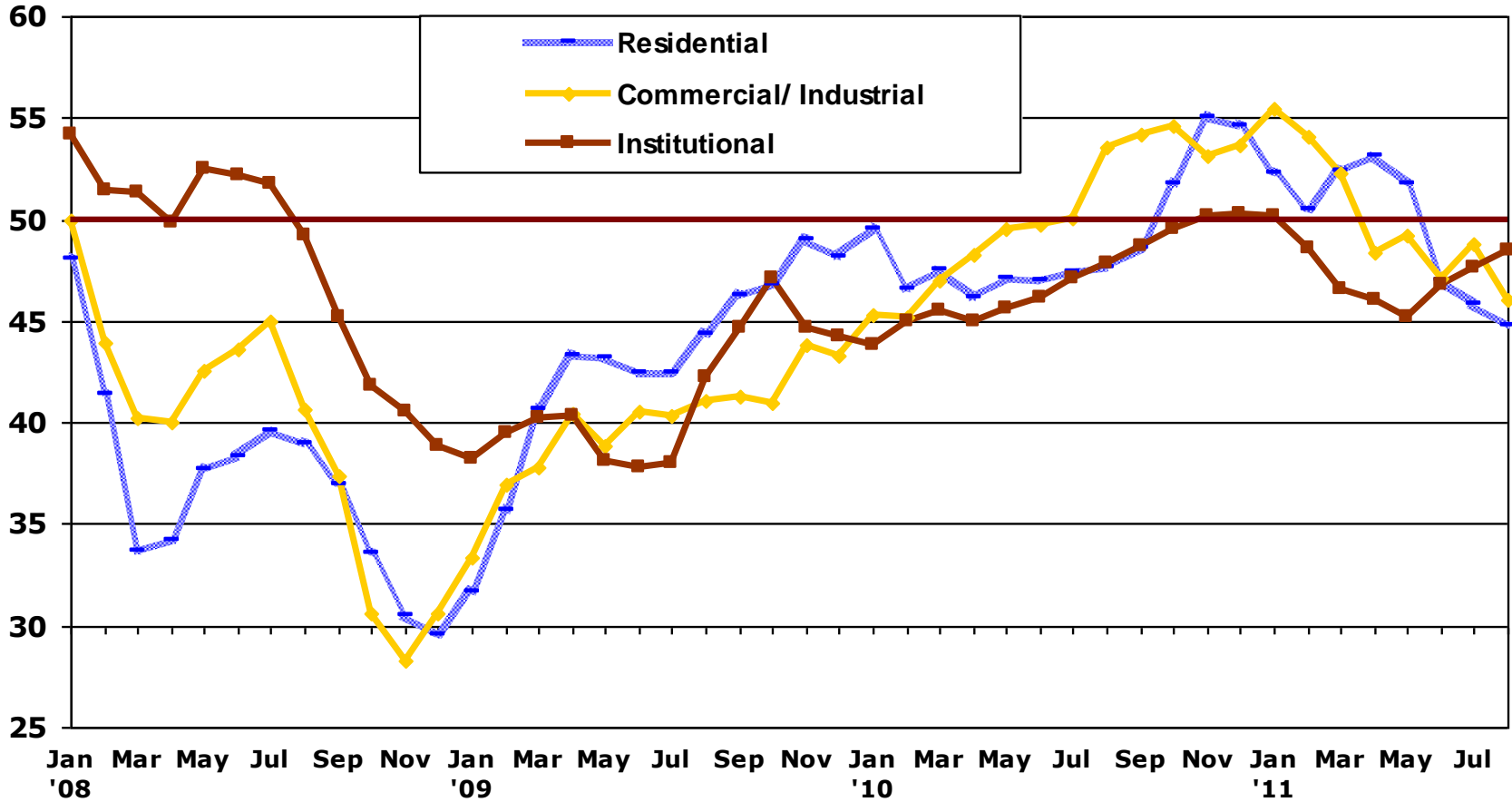
Billings scores since 2007; index: 50 = no change from previous month



Source: AIA Architecture Billings Index

All Major Building Sectors Have Stumbled With the Recent Weakness in the ABI

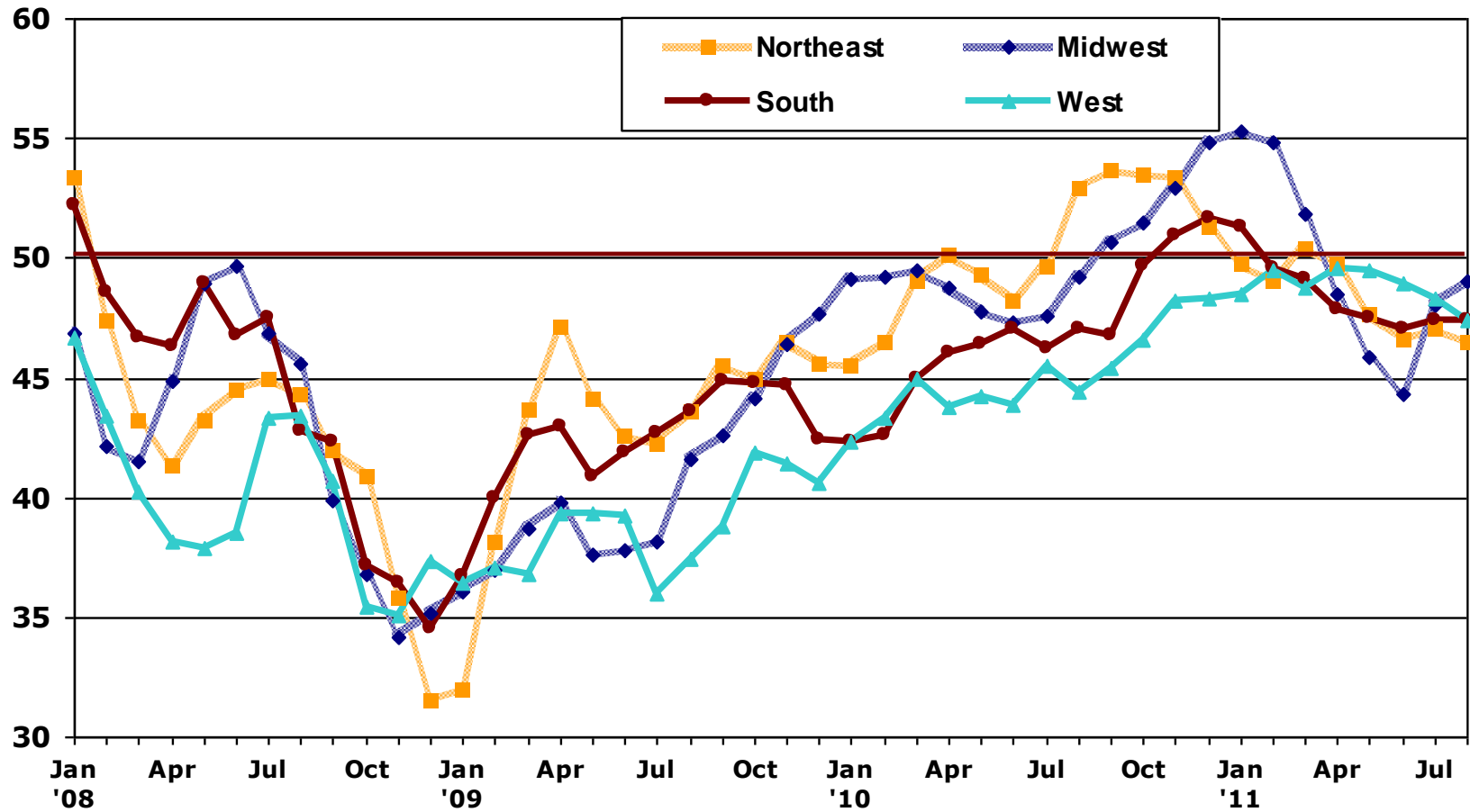
Billings scores since 2007; index: 50 = no change from previous month



Source: AIA Architecture Billings Index

Likewise, Firms in All Regions Have Seen a Recent Softening in Activity

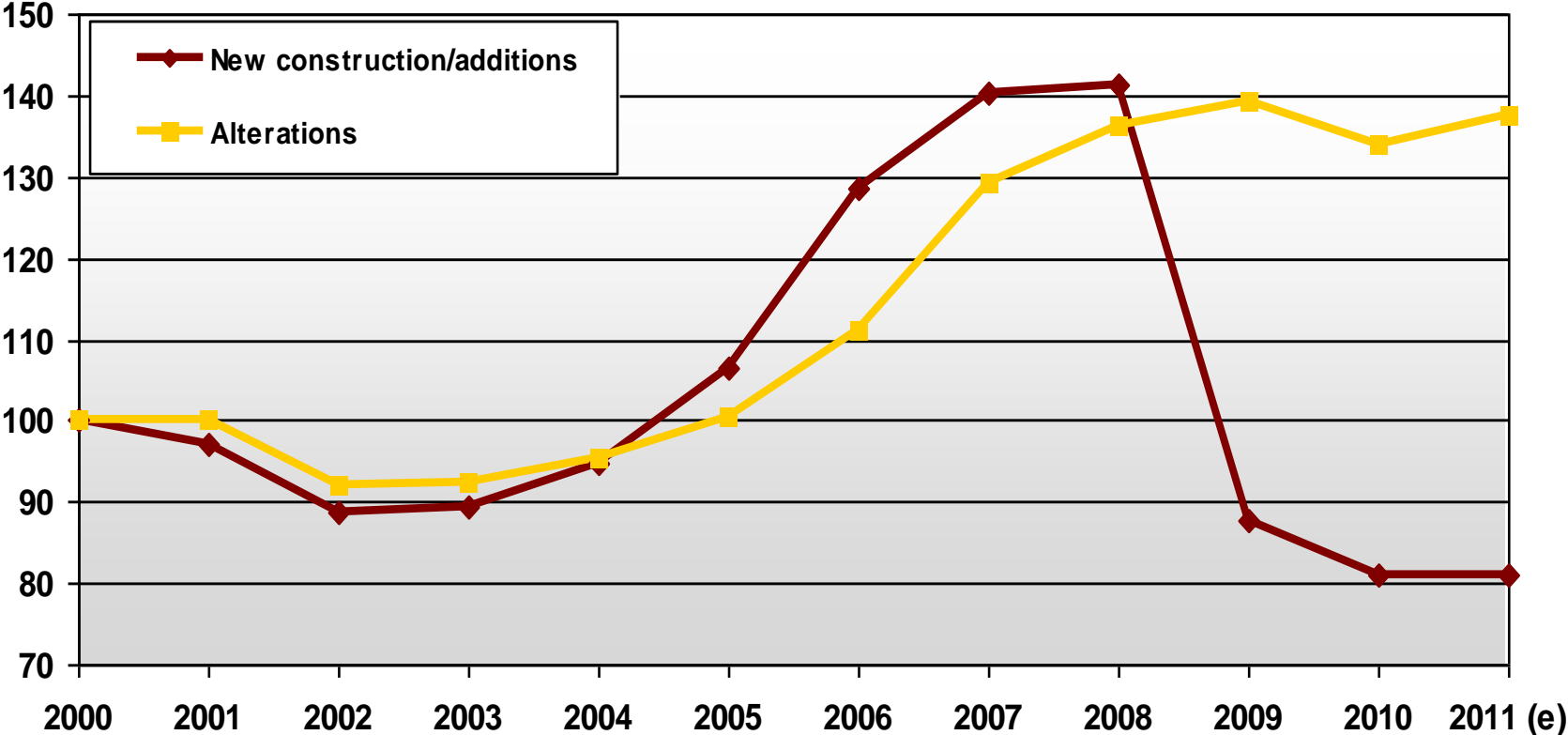
Billings scores since 2007; index: 50 = no change from previous month



Source: AIA Architecture Billings Index

Alterations to Existing Facilities Have Seen More Growth & Less Volatility Than New Construction Over Recent Cycles

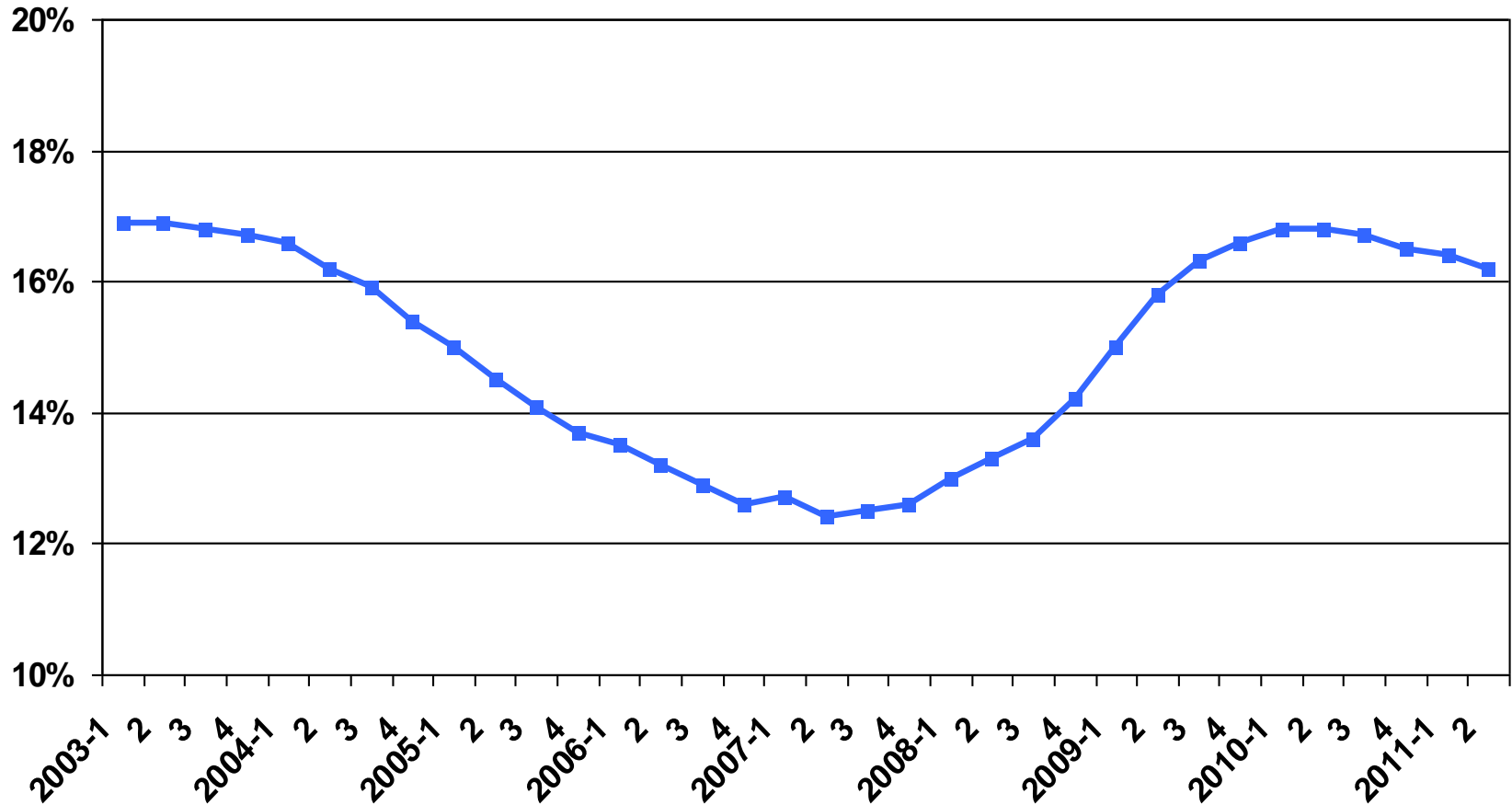
Index: 2000 = 100, commercial, industrial, and institutional construction projects



Source: McGraw-Hill Construction, construction starts in \$

Office Vacancy Rates Reached Level of Last Downturn, But Have Been Trending Down

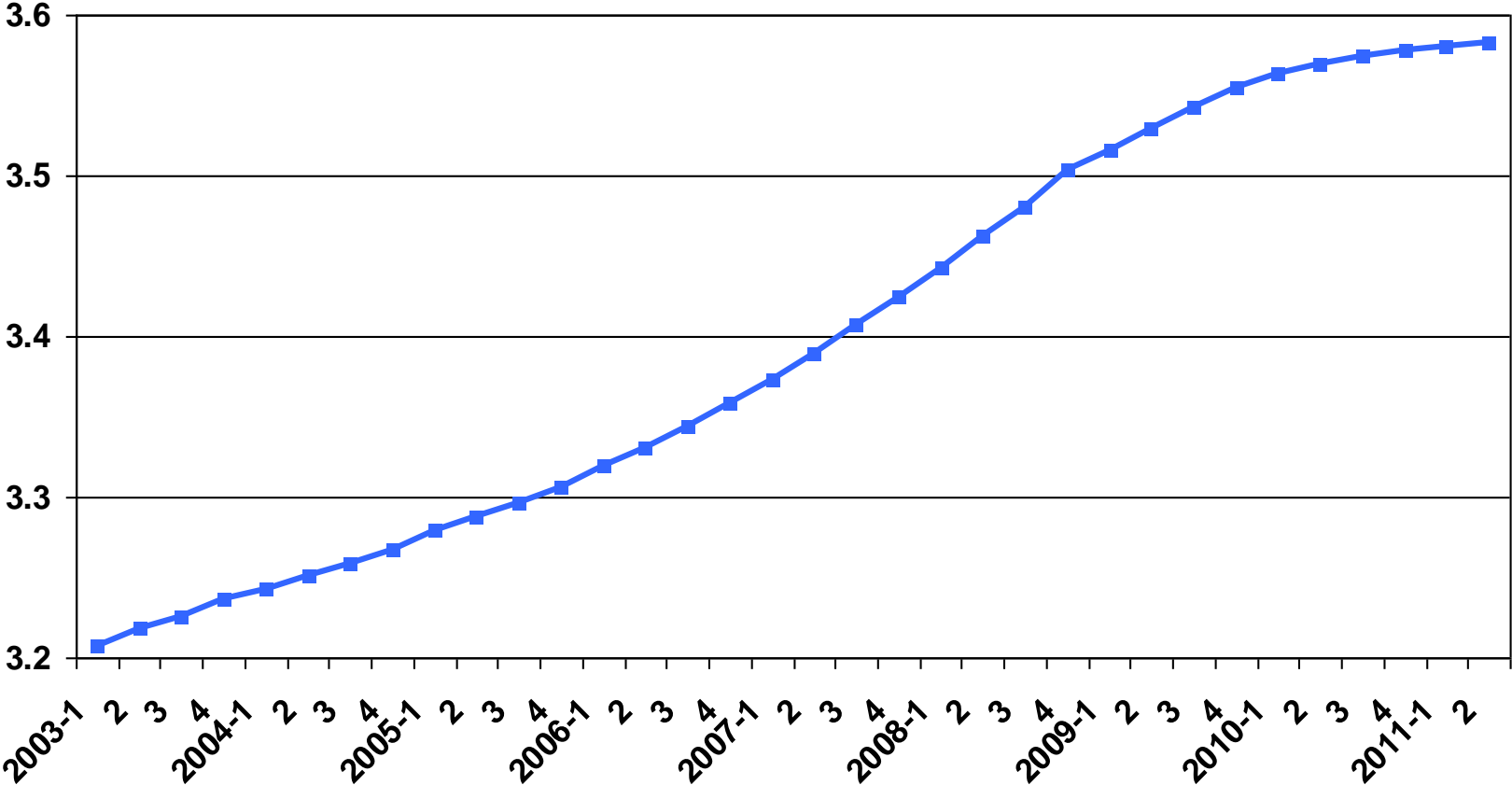
National office vacancy rates (%)



Source: CB Richard Ellis

Office Vacancy Rates Are Improving Because New Space Coming on Market Has Been Slowing

Net rentable area of office space; billions of square feet



Source: CB Richard Ellis

Office Vacancy Rates Lowest in Coastal Markets

Office vacancy rates, second quarter - 2011

Lowest Metropolitan Vacancy Rates

- Honolulu 7.9%
- New York 8.9%
- Pittsburgh 10.6%
- Long Island 11.9%
- San Francisco 12.0%

Highest Metropolitan Vacancy Rates

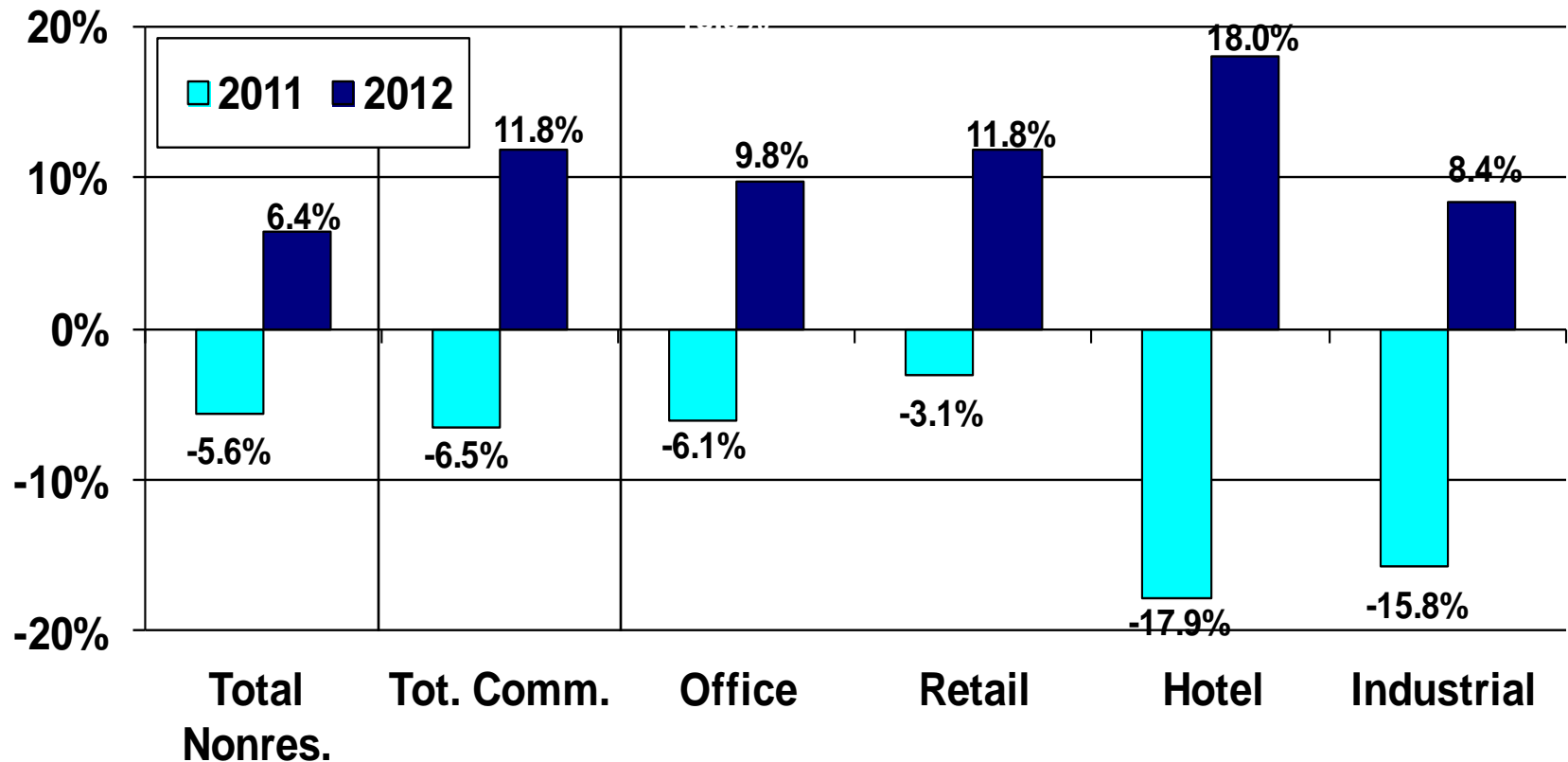
- Las Vegas 25.7%
- Phoenix 25.4%
- Detroit 25.4%
- Sacramento 23.0%
- Riverside 22.5%

National office vacancy rate = 16.2%

Source: CB Richard Ellis

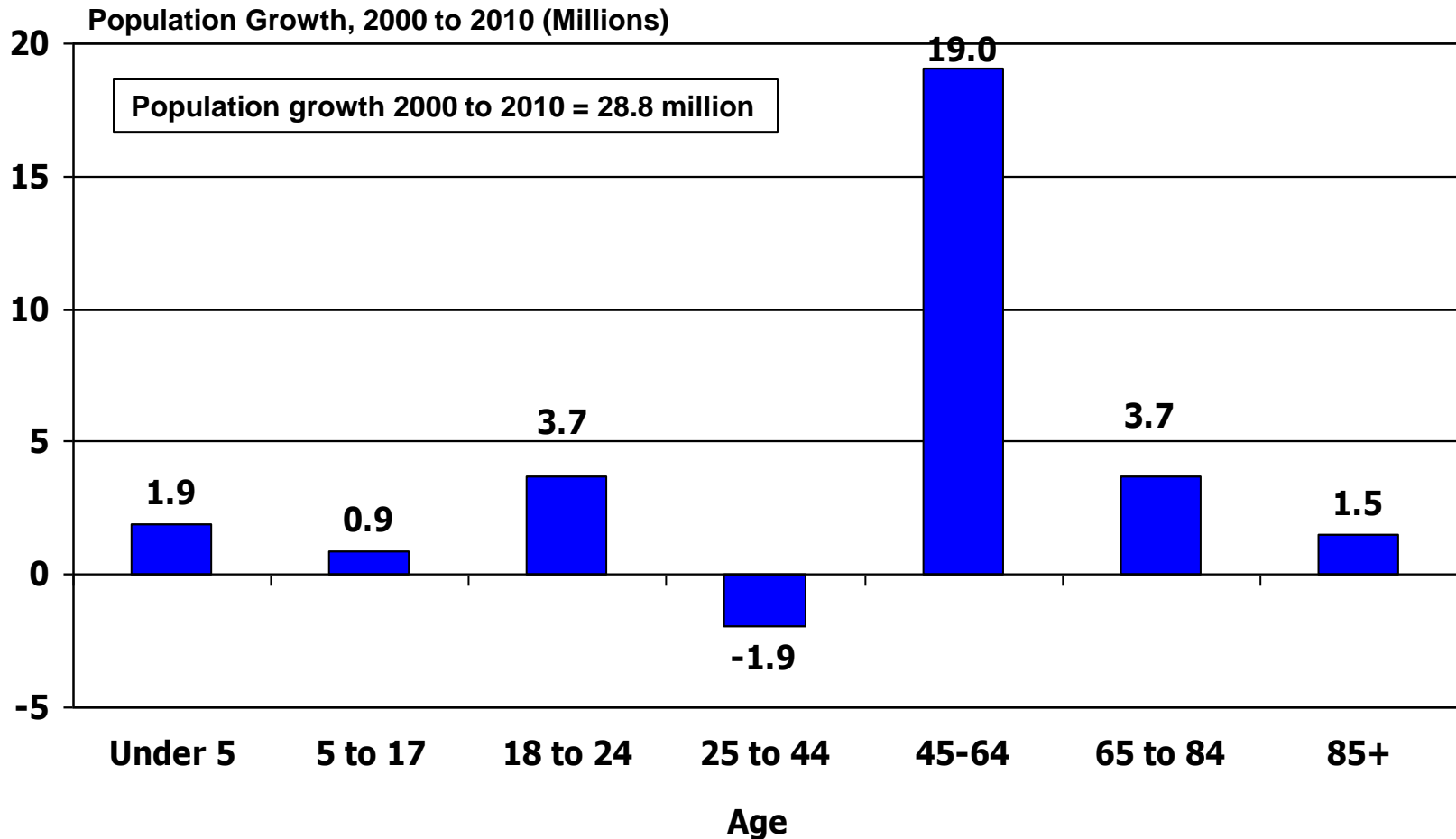
Commercial /Industrial Construction Downturn Expected to Continue Thru 2011; Recovery to Begin in 2012

annual % change, \$ of construction put-in-place



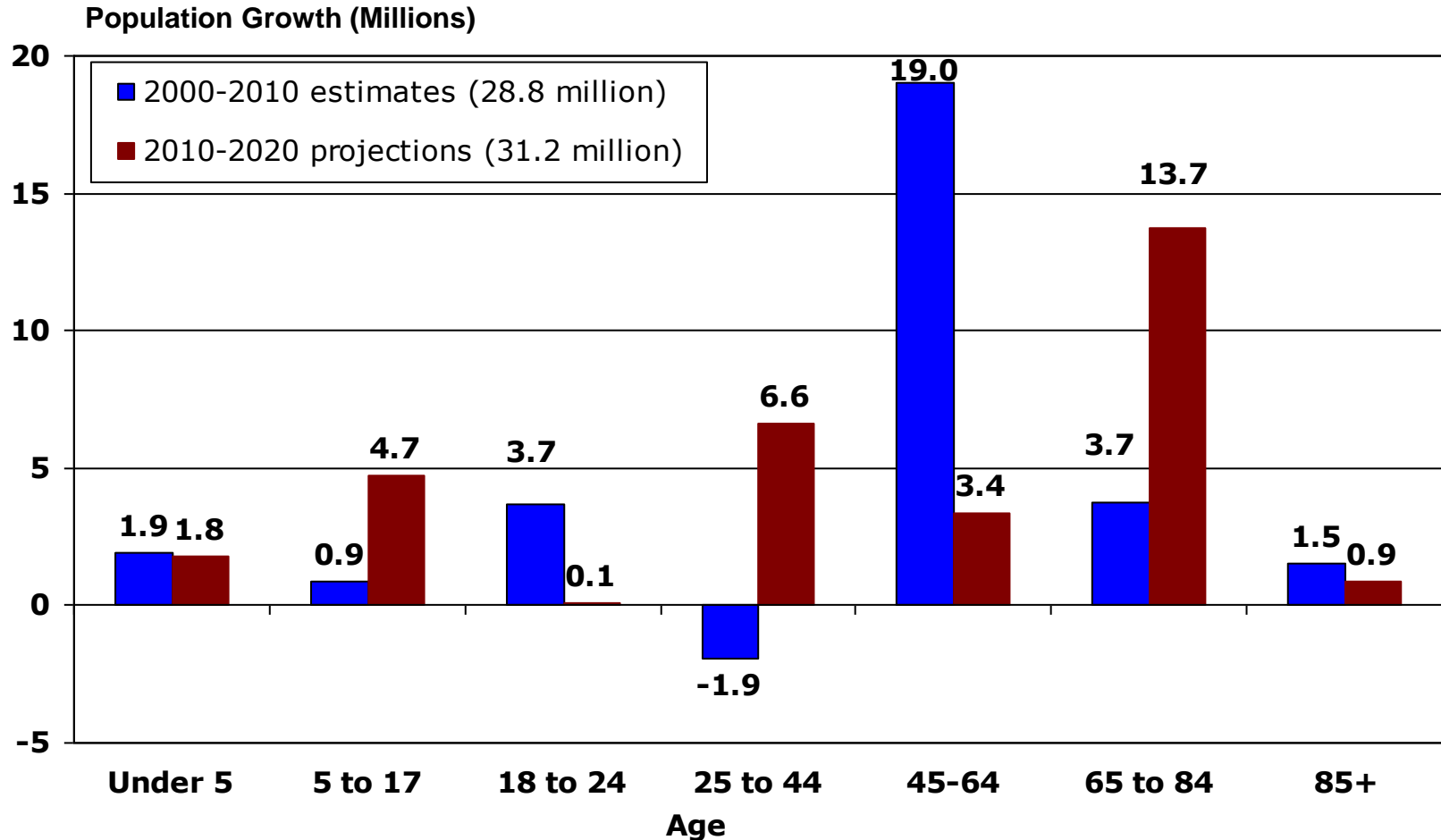
Source: AIA Consensus Construction Forecast Survey for 2011 and 2012 conducted in June, 2011

Population Growth Last Decade Was Dominated by College Age Population and Pre-Retirees



Source: Census 2000 Summary file, US Census Bureau.

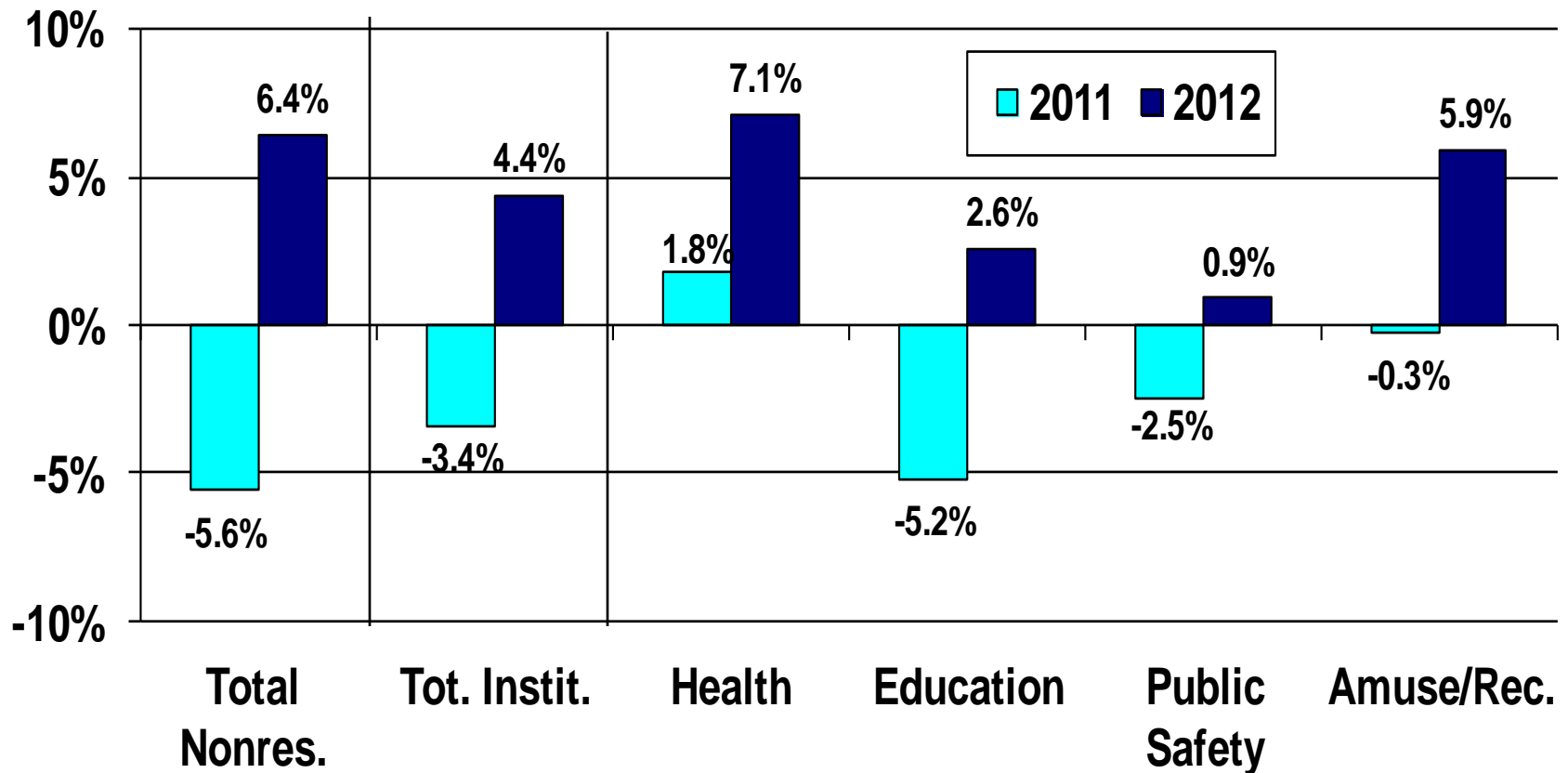
This Coming Decade, School Populations, Young Workers, and Active Retirees Dominate Growth



Source: Census 2000 Summary file, and Projections of the by Selected Age Groups and Sex for the US: 2010 to 2050, US Census Bureau, August, 2008

Institutional Construction Outlook Less Volatile on Downside and Upside

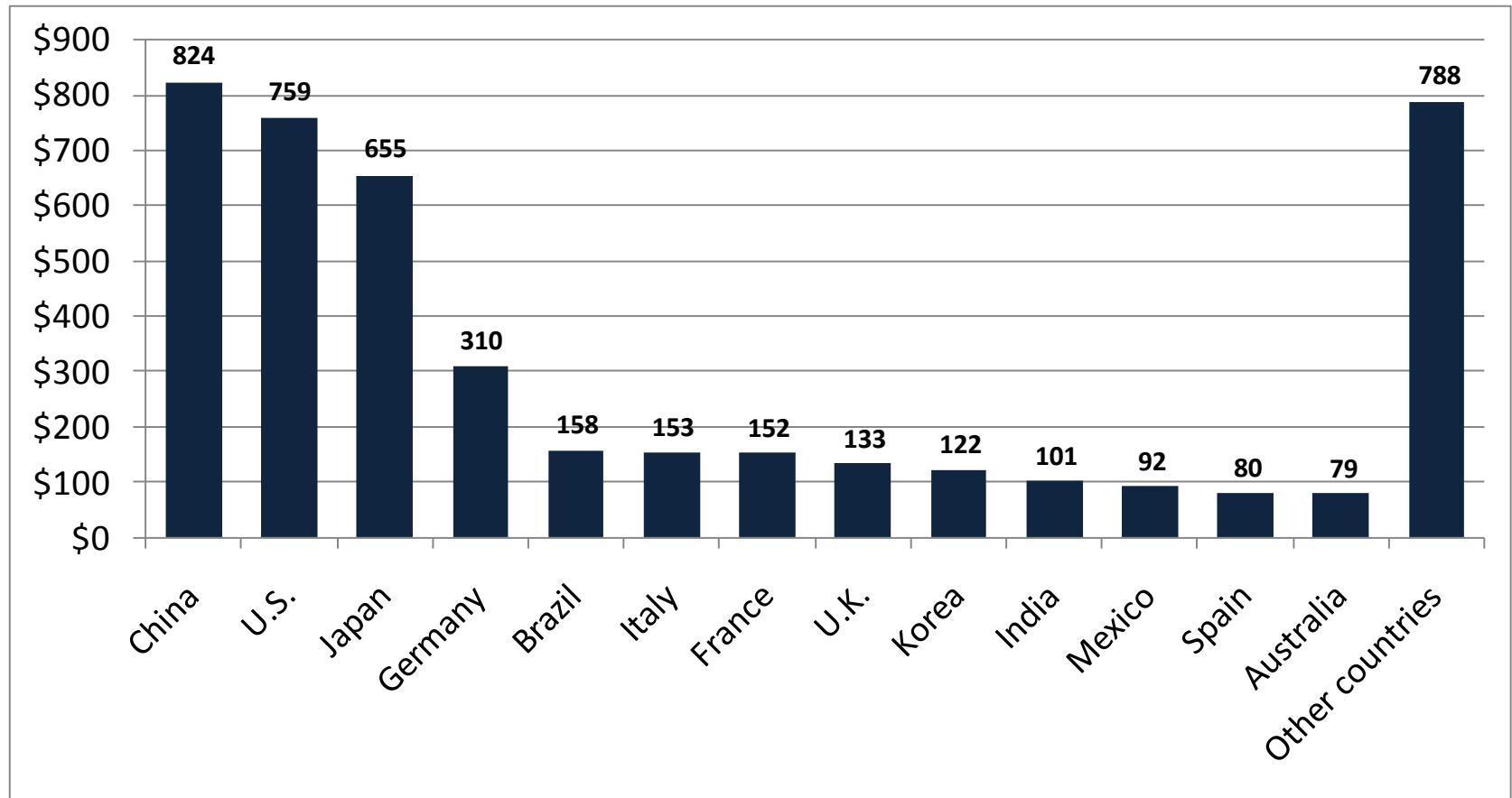
annual % change, \$ of construction put-in-place



Source: AIA Consensus Construction Forecast Survey for 2011 and 2012 conducted in June, 2011

International Construction Market Heavily Concentrated in a Few Key Regions...

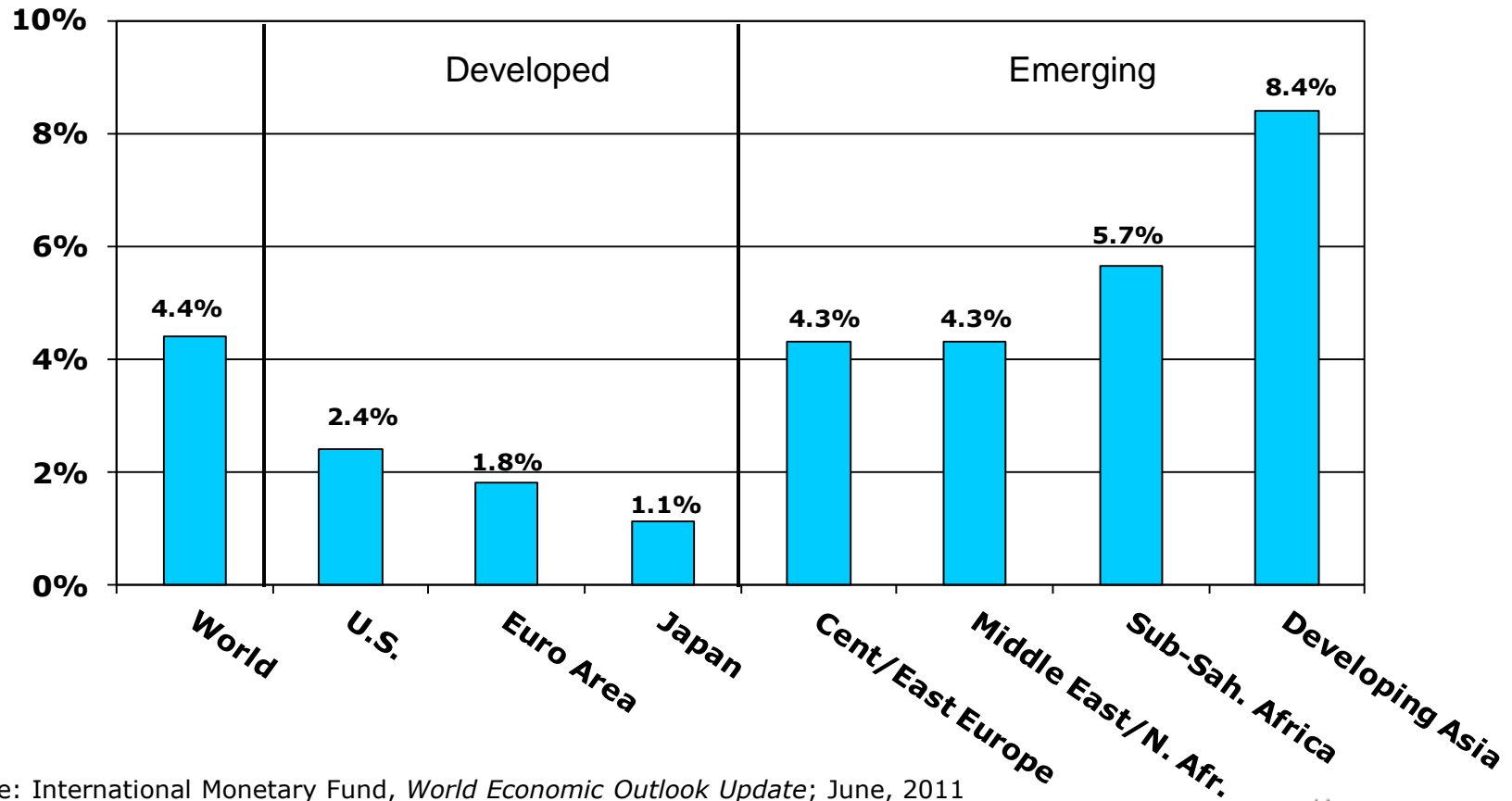
Global construction spending, 2010 (billions of US\$)



Source: Davis Langdon, an AECOM Company

...But Economic Growth Prospects Tilt Toward Emerging Economies

Average annual percent change, real gross domestic product, 2011-2012



Source: International Monetary Fund, *World Economic Outlook Update*; June, 2011

Summing Up: The Emerging (Modest) Construction Recovery

- Economic recovery to date has been modest; appears to be entering another weak period;
- Commercial property values fell further than house prices, but unlike housing, recovery in values seems underway;
- Areas with more stable housing markets generally are seeing stronger levels of nonresidential construction activity;
- Architecture Billings Index saw unexpected upturn in August after four months of decline; still, a nonresidential construction recovery is at least several quarters off;
- Consensus is for nonresidential construction decline this year before a modest recovery in 2012;