

New York City Construction Outlook: 2011 – 2012

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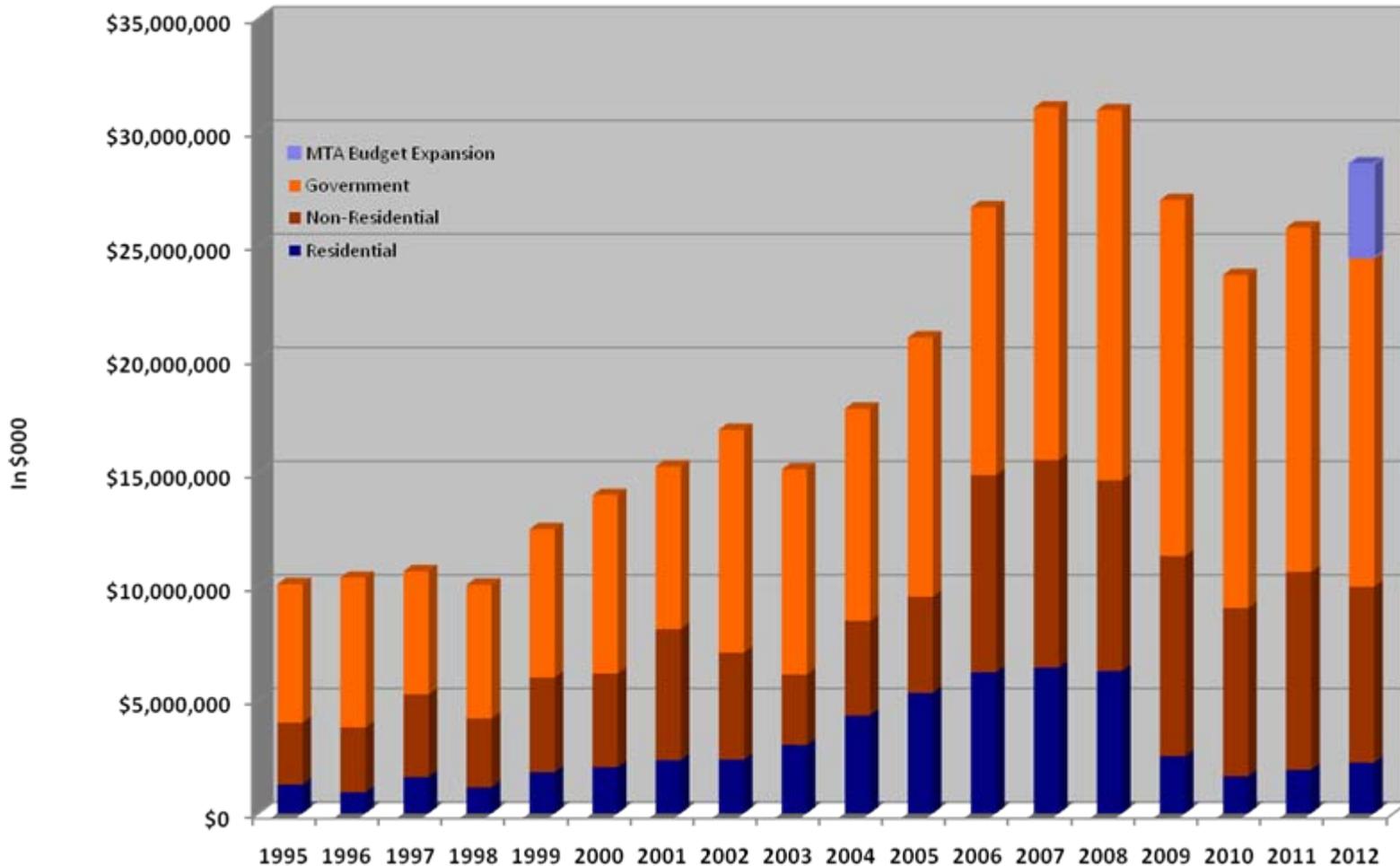
Construction Outlook Reports

- Begun in 2000 to quantify design and construction activity in New York City, *Construction Outlook* is a continuing series.
- Uses building permits and capital program data, among other sources, to estimate overall activity.
- Analyzes activity by sector (residential, non-residential, institutional, government).
- Takes a comprehensive, forward look by identifying issues behind the numbers, such as the impact on construction employment and public funding.

2010: New York City Construction

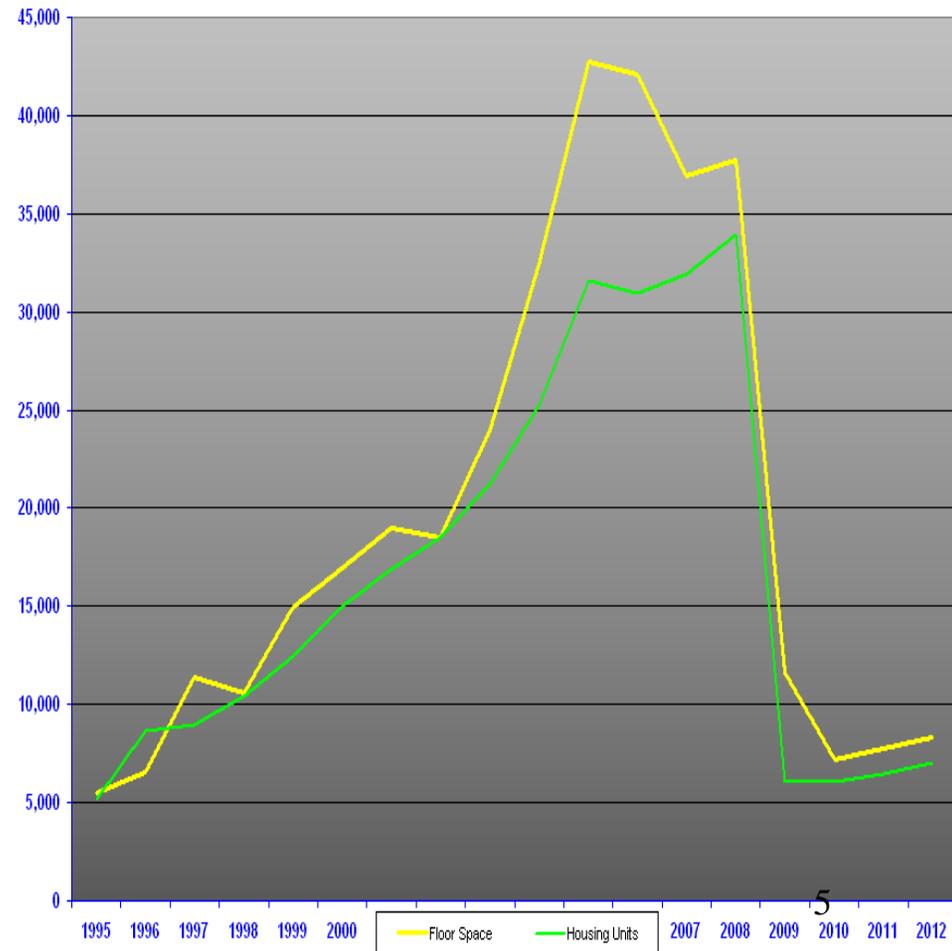
- Estimated to end 2010 at \$23.7 billion, New York City construction spending is forecasted to decline by 12% from 2009 and 24% from the \$31 billion peak of 2007 and 2008, down in every category including government spending:
 - Residential construction which built 33,900 units in 2008 dropped to 6,000 in 2009 and 2010, with spending on interiors also declining.
 - After 4 years in which non-residential construction averaged \$8.8 billion, 2010 will end with \$7.4 billion spent on fewer new and improved offices, institutions, entertainment and hospitality venues.
 - At \$14.7 billion, infrastructure outlays declined 6% from 2009 but account for an increasing share of total construction spending at 62%.

Construction Spending Outlook Through 2012



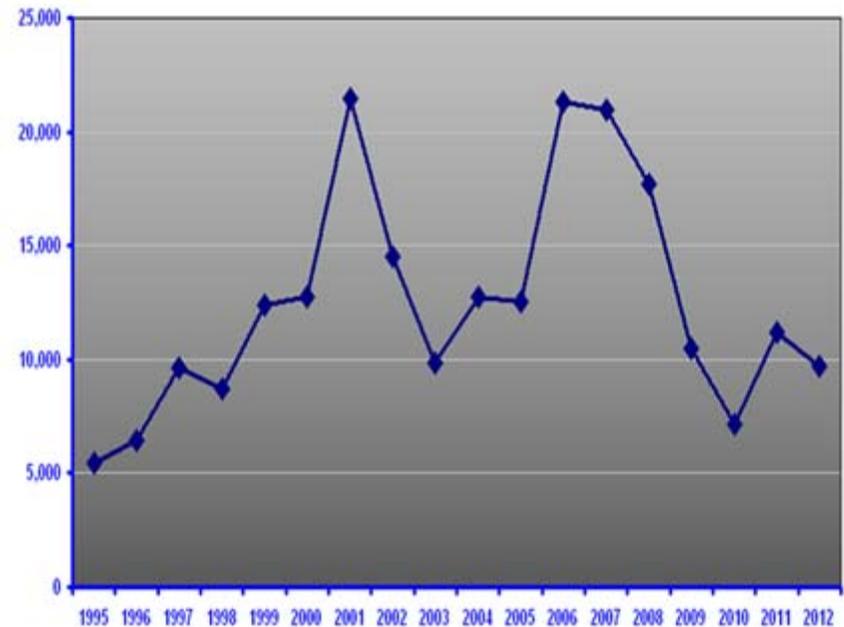
Residential Construction Forecast

- Falling to \$1.6 billion from \$2.5 billion in 2009, and \$6.3 billion in 2008, the residential market is in a deep slump.
- After 4 consecutive years of building more than 30,000 units, only 6,000 have been authorized for construction in 2009 and 2010.
- New units have increased in price but remain smaller in size, while spending on alterations and renovations has declined.
- For 2011 and 2012, a modest spending increase is forecast -- to \$1.9 and \$2.2B -- in anticipation that a small share of more than 650 stalled sites will restart.

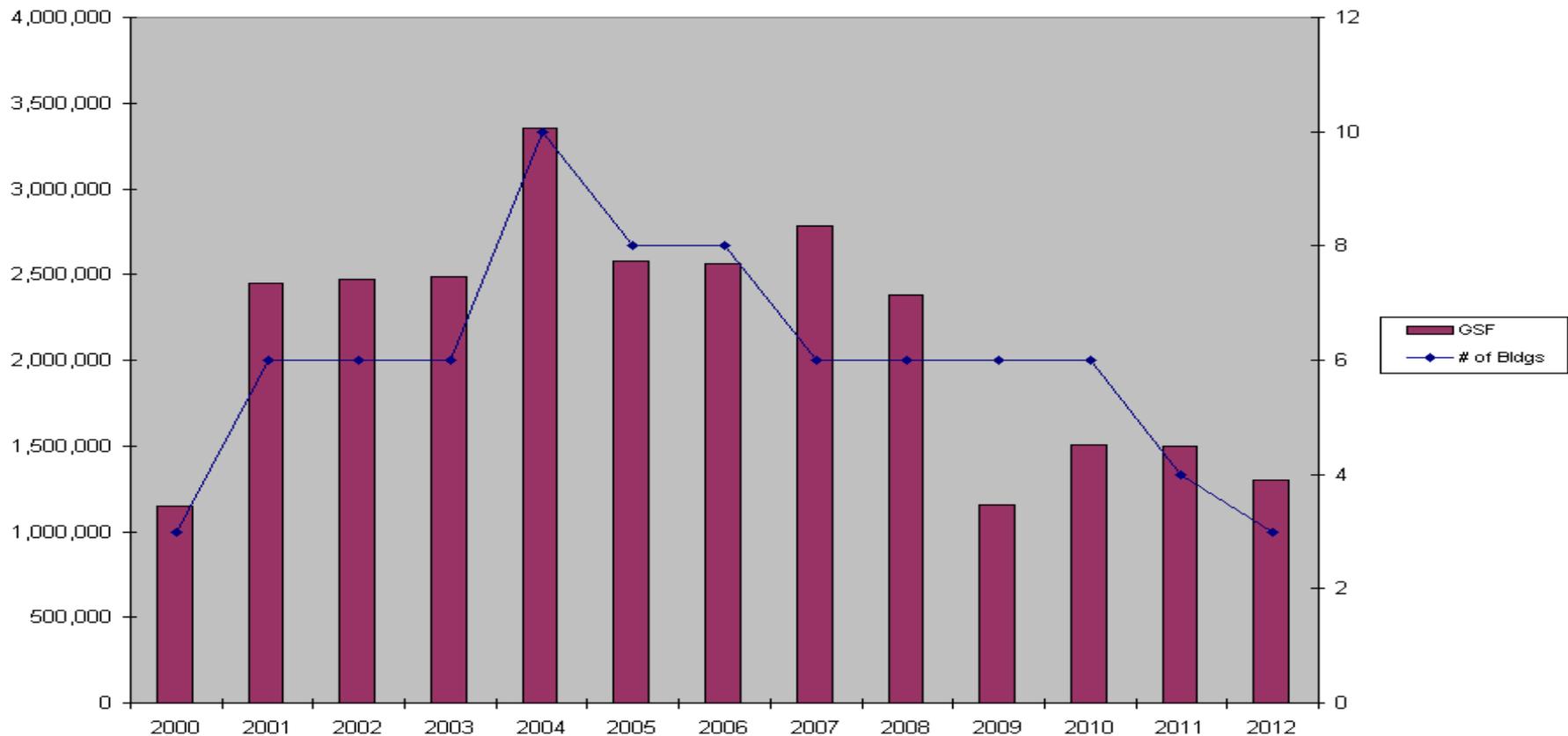


Non-Residential Construction Forecast

- Non-residential construction has experienced a similar downward spiral.
- Spending on offices, hotels, institutions, sports and entertainment and other uses is expected to reach \$7.4 B in 2010, down from \$8.8 B in 2009 – a decline of 16 percent.
- The non-residential sector is being kept afloat by rebuilding the WTC (25%), arena construction (Atlantic Yards, MSG), major renovations (Empire State Building, UN), and institutional projects (Weill Cornell Medical Research Building).
- Unless financing eases, spending in 2011 and 2012 will reflect the levels of 2009 and 2010 at \$8.7 and \$7.7 B.

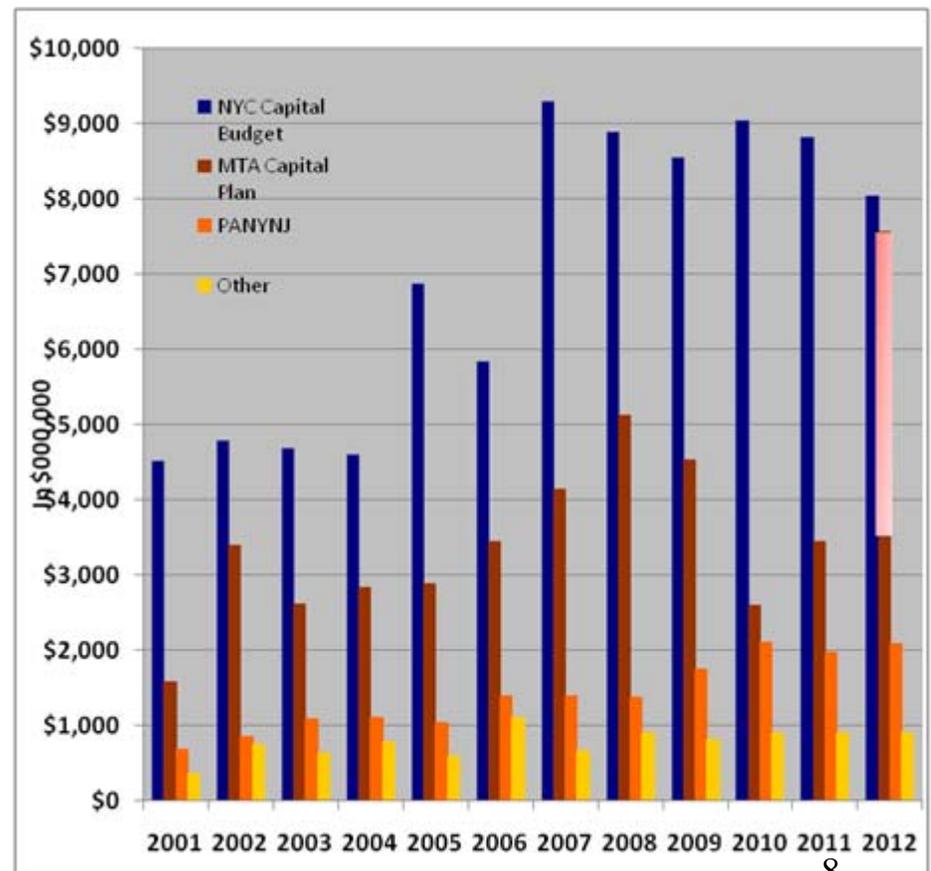


New York City Office Building Construction 2000-2012



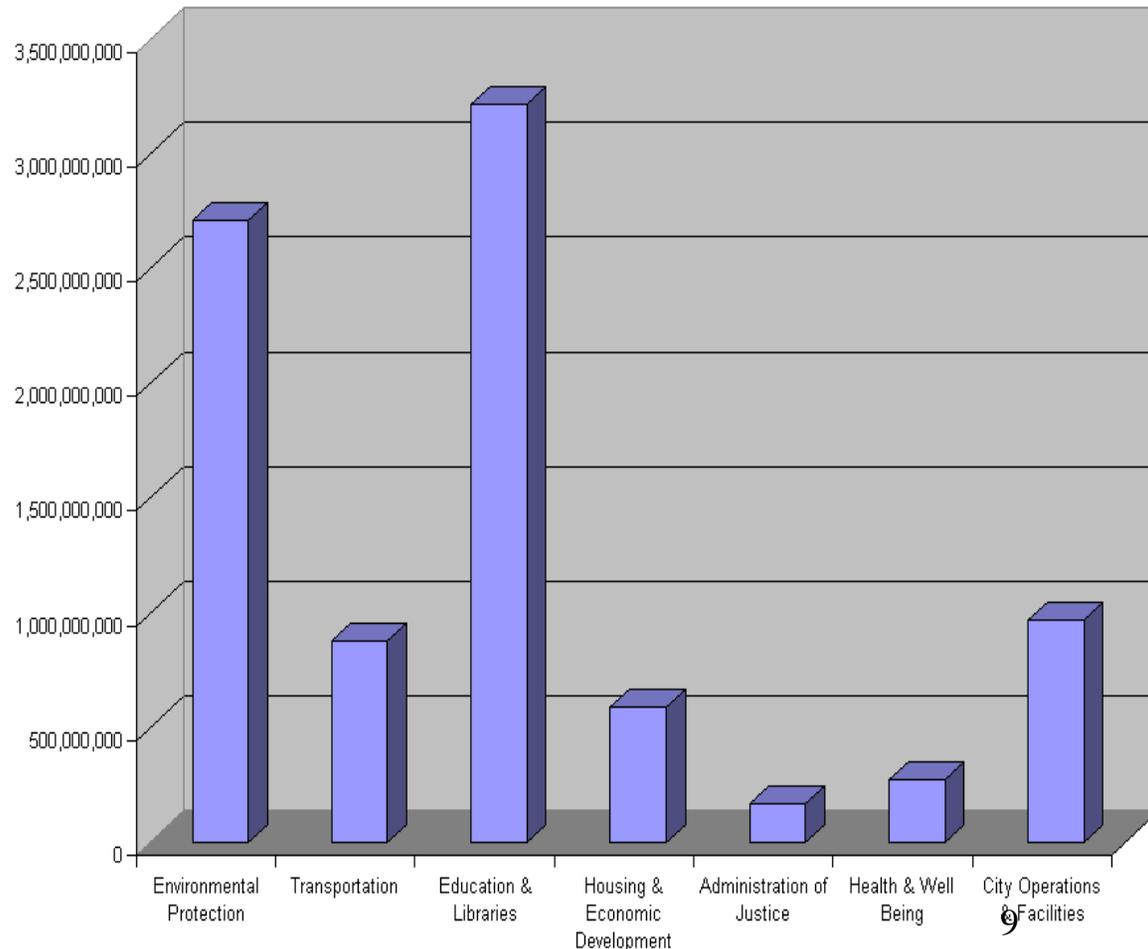
Public Construction Spending

- Government projects remain the largest source and primary driver of construction activity in New York City.
- At 62% of total outlays, public sector construction amounted to \$14.7 billion in 2010, down \$1 billion from \$15.7 billion in 2009.
- Lower MTA expenditures comprised the decline, but a sharp increase in the agency's spending is forecasted -- though unfunded -- by 2012.
- Review of all capital budgets and projected expenditures signals an overall rise to \$15.2 billion in 2011 and \$18.6 billion in 2012, depending on the MTA.



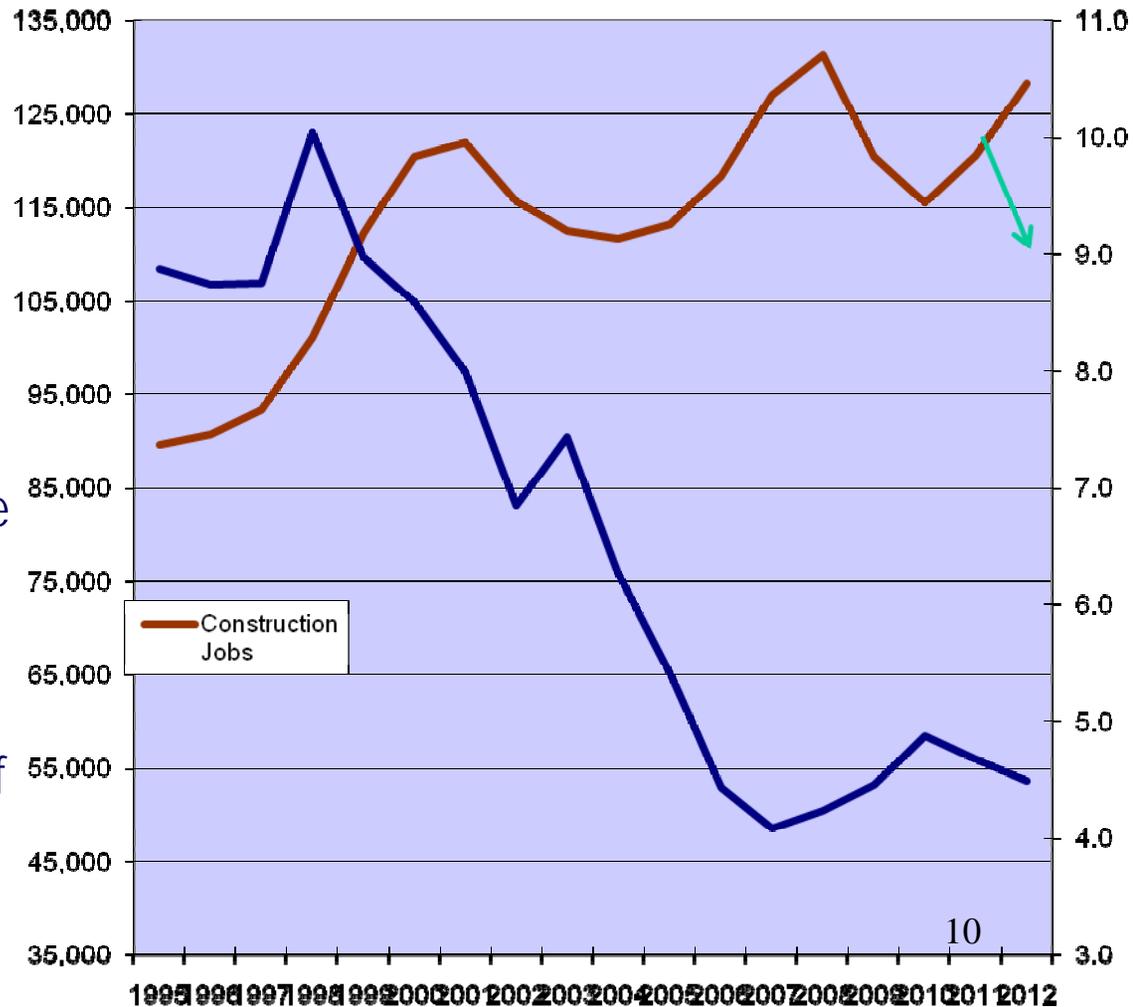
City of New York Construction Expenditures, 2010

- The City's Capital Plan focuses construction spending on education and environmental protection.
- Although the City has debt incurring capacity and maintains good public credit, its gross debt burden has risen significantly.
- Most environmental work is City-funded, while City and State capital for education has doubled the SCA's construction spending.



Construction Employment Forecast

- Despite a 12% reduction in spending, private construction employment may decline only 4% this year to 115,500 jobs.
- By 2011, employment will likely recover to 120,000 jobs, and grow to 128,000 by 2012 if all public sector construction is funded. If the MTA cannot fund its 2012 capital plans, 18,000 jobs could be lost.
- With the run-up in construction costs to 2008, jobs per \$1 million of spending declined precipitously. Since then, a leveling-off has occurred at 5 jobs per \$1 million.



Inside the Numbers

- Overall health of New York's construction industry remains highly dependent upon government work. Despite declining by \$1 billion, 2010's public sector spending of \$14.7 billion represents the highest share of total spending since 1996. By 2012, the share may rise to 65%.
- The City of New York is the biggest driver of public capital spending, followed by the MTA and the Port Authority. For 2011 and 2012, uncertainties pertain to all three levels of commitment, but the forecasted yet unfunded growth in MTA outlays is of chief concern.
- The MTA's current capital plan forecasts an increase of \$4.1 billion in construction spending on New York City systems and facilities between 2011 and 2012. Accounting for 14% of all spending in 2012, this expansion is the primary factor determining whether the forecast is achieved.
- Expenditures on the ARC project represent less than 1% of 2011 and 2012 outlays, if it is continued.
- Upside strength may come from the non-residential sector where several major office buildings have been approved for construction but not included in the forecast because each lacks tenant commitments necessary for financing.

Recommendations

Until economic conditions improve sufficiently to enable financing for more private sector building, it is important for the design, construction and real estate industry to advocate strategies that achieve sensible, long-term investment for public infrastructure and stimulate emerging private development:

- Secure additional funding for the MTA’s capital plan
- Maintain the City’s capital program at current funding levels
- Explore the potential of public-private partnerships
- Hasten completion of more than 650 stalled projects
- Support major education, healthcare, and cultural institutions in critical expansion plans
- Continue neighborhood re-zonings that allow sustainable future growth