

Construction Industry Snapshot

Prepared by Reed Construction Data

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CONSTRUCTION STARTS DROP IN JULY

Reed Construction Data (RCD) announced today that the year-to-date value of construction starts through July 2008, excluding residential contracts, totaled \$163.3 billion, a 6.3% drop versus the same period last year. The individual month of July was 15.0% lower than June. Office starts declined \$2.0 billion from an unusually high June total; education and hospital project starts each fell about \$1.0 billion from the prior month; and highway and retail starts were each about \$0.5 billion lower. The only significant gains from June were \$0.5 billion for manufacturing and \$0.3 billion for hotels.

The value of construction starts each month is summarized from RCD's database of all active construction projects in the United States, excluding single-family homes. Missing project values are estimated using RSMean's building cost models.

Construction starts have resumed falling after a brief pickup in recent months, although the steep drop in July overestimates market weakness. The project pipeline remains relatively full, but some owners and developers are cautiously postponing starts to redesign projects to fit approved budgets. Construction materials costs jumped 9% to 10% in the last three months.

Commercial starts are off 10.7% year to date from the first seven months of 2007. While there is a lingering access-to-credit problem for developers, the decline in activity is largely due to a sharply poorer profitability outlook for new buildings. Vacancy rates are now edging higher and rental rates lower in the office, retail and hotel markets. The recession in the domestic economy appears to be continuing at least through the summer. Therefore, vacancy and rental conditions will worsen further.

Institutional starts are unchanged year to date from 2007, although project cost inflation over the last year means that square footage is off up to 5%. Most institutional projects are driven by funds on hand rather than prospective profits, so this sector continues to expand well into a recession. Excluding nursing homes and assisted-living construction, now largely profit driven, institutional construction is still expanding. But the impact of the recession on tax receipts and investment earnings will sour the institutional market in 2009. ♦

Jim Haughey

VALUE OF UNITED STATES CONSTRUCTION STARTS – JULY 2008 (REED CONSTRUCTION DATA)

	Jan-Jul 2008 (\$ millions)	% Change (Jan-Jul 08 vs Jan-Jul 07)
Hotel/Motel	\$7,436	-12.5%
Retail	\$14,659	-23.7%
Parking Garage	\$1,408	21.0%
Amusement	\$2,785	-13.2%
Private Office	\$12,499	-12.7%
Government Office	\$4,056	120.8%
Laboratory	\$2,128	-3.4%
Warehouse	\$1,346	-34.9%
Miscellaneous Commercial	\$2,853	10.1%
COMMERCIAL	\$49,170	-10.7%
INDUSTRIAL (Manufacturing)	\$3,431	-45.1%
Religious	\$1,654	-16.7%
Hospital/Clinic	\$12,408	4.9%
Nursing/Assisted Living	\$1,893	-33.1%
Library/Museum	\$2,145	42.5%
Police/Courthouse/Prison	\$3,710	-0.5%
Military	\$3,131	4.2%
School/College	\$33,317	0.1%
Miscellaneous Government	\$2,621	-4.5%
INSTITUTIONAL	\$60,879	0.0%
Miscellaneous Non-residential	\$1,131	-27.7%
NON-RESIDENTIAL BUILDING	\$114,611	-7.4%
Airport	\$1,120	17.7%
Road/Highway	\$19,690	-5.6%
Bridge	\$4,904	-27.3%
Dam/Marine	\$845	21.2%
Water/Sewage	\$13,615	2.5%
Miscellaneous Civil	\$8,515	6.2%
HEAVY ENGINEERING	\$48,689	-3.7%
TOTAL NON-RESIDENTIAL	\$163,300	-6.3%

Source: Reed Construction Data (RCD) and Property & Portfolio Research (PPR) (www.ppr.info).
Table: Reed Construction Data – CanaData.

James Haughey, PhD, is Director, Research and Analytics and Chief Economist for Reed Construction Data. With 30 years experience in corporate, government, academic and consulting roles, Dr. Haughey is one of North America's foremost experts on the construction industry. His reports appear regularly in print, Web and newsletter publications.