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2012 Construction Market Forecast Reveals Slight Uptick From 2011



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The slow and arduous battle to move beyond the nation's recessionary economic state is expected to continue through 2012. However, with recent improvement in the country's unemployment rate to 8.5%, a healthier than anticipated holiday sales season, and increases in private sector

spending and investments, the nation should be in a better position to look ahead rather than to look behind at a repeat of recent years performances.

Industry experts have recently advanced predictions on anticipated construction level activity for 2012, and although the picture is not robust, it appears to suggest growth in overall construction volume for years 2013 and 2014. However, positive economic forecasts do not necessarily equate to an immediate jump in construction activity and that's why 2012 will yield only slightly noticeable growth.

The growth of construction activity in 2011 advanced slower than expected as market forecasters one year ago appeared more optimistic about the recovery. 2011's anticipated recovery was also slowed by cutbacks in federal, state and local spending that included the remaining funds brought forward in 2009 under the American Recovery and Reinvestment Act.

McGraw-Hill Construction predicts that 2011 will end with a 4% drop in overall construction compared to 2010, resulting in a market valued at \$411 billion. It was originally anticipated that the market would enjoy an 8% increase but the continued decline of the single-family market, tightening of credit standards and reduced spending in the public works and institutional sectors slowed new construction starts. This past year marks the fifth consecutive year that construction volumes have declined over the previous year. Industry analysts are forecasting that 2012 will experience flat levels of activity moving up slightly to \$412 billion in overall volume providing the market with a stable performance that will likely prepare for greater increases in 2013. Robert Murray, Vice President of Economic Affairs at McGraw-Hill Construction stated recently, "The corner is being turned but ever so slowly and in an uncertain manner."

Housing Market Impact

Ken Simonson, Chief Economist for the Associated

General Contractors of America, predicts a slight uptick in potential activity in 2012. He notes that some improvement will manifest in the housing sectors and that additional private sector activity in non-residential projects could result in single-digit growth in overall construction volumes for the year 2012. He added, "I'm a bit more optimistic for 2012. It's anyone's guess what will happen in the housing market, but it won't get any worse."

The single-family housing market, spurred by low mortgage rates and moderate job growth, is anticipated to improve to \$104.6 billion representing an increase of 10%. The shining star within the housing sector continues to be the multi-family component. Activity within this residential market is estimated to have risen 13% in 2011 to \$23.6 billion with growth forecasted to rise a robust 18% in 2012 to \$28 billion.

Industrial Market Rebound

The 2012 Dodge Construction Outlook predicts that the distribution sector including warehouses will be one of the areas to enjoy the largest growth percentage of construction, with predictions of an 8% increase in the coming year. During the early stages of the recession, construction activity within this submarket was robust with record levels of activity recorded in 2008. However, this high construction activity pulled down the sector when demand turned negative, furthering the



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vacancy rate and driving down rents. As the recession took hold, new construction activity quickly dropped to a record-low level in 2010 and has only marginally improved in 2011. However, during the past four quarters, larger industrial markets particularly Los Angeles, New Jersey and Chicago, have reported stronger absorption versus new construction activity prompting a return of new construction to these rebounding markets.

This trend is leading to lower vacancy rates that will likely begin spurring new construction activity. In fact, the McShane Development Company/MetLife Real Estate Investments alliance will launch a new 704,115 square foot speculative distribution facility in Redlands, California with groundbreaking scheduled for March 2012. This new speculative delivery reflects the growing return of the industrial market, particularly in port-enhanced submarkets such as the Inland Empire, that will contribute toward a healthier industrial real estate forecast for 2012 and beyond.

Commercial Market Forecast

In 2010, the commercial building sector experienced its lowest recorded history of activity since 1960 recording just 56 million square feet of new construction. Impressively, 2011 enjoyed a 6% uptick in activity that is estimated to rep-

resent approximately \$43.9 billion in new construction. The commercial market is expected to continue this trend in 2012 with improvements anticipated to represent nearly \$47.4 billion in volume. The increased activity anticipated in 2012 will be buoyed by the expected growth within the retail, office and hotel sectors.

Government Spending to Lessen

There's nothing like a Presidential election year to influence (positively or negatively) activity within construction markets and spending levels on a national basis. What's more, state and local governments are reeling from the downturn in property tax revenues resulting from the devaluation of properties over the past five years. Simonson is predicting that institutional building starts could record a downturn of 15% in 2011 and be reduced by another 2% in 2012. School construction in particular is slated to drop 13% in 2011 to \$40.9 billion. Public building work is likely to realize a drop of 27% in 2011 with another 9% decline predicted in 2012. Until state and local tax revenues can improve, spending levels will continue to shrink and that includes new construction projects.

Healthcare to Become Healthier?

Construction activity in the healthcare

market remained nearly flat in 2011, marking a slight increase of 2%. This \$22.8 billion sector has witnessed several growth and retrenchments (dropping 38% in 2009) to return to a healthier outlook for the upcoming years. Although still unsure of the impacts of the current federal care health legislation and the potential reductions in Medicare and Medicaid reimbursements, the lag in hospital construction particularly was due to challenges within the financial sector. Simonson states, "The bond markets froze for a while, and hospitals could not get projects funded. Those sources have come back up now, and health systems have pent-up demand for modernizations and expansions."

Construction Cost Forecast

With the modest economic recovery expected in 2012, construction material prices will become steady and reflect more closely the growth of general inflation numbers. A faster than anticipated recovery (greater than 3% annually) is likely to accelerate commercial construction activity thereby pushing material prices higher than the general inflation percentage. A more robust recovery is not anticipated to materialize at least for the first six months of 2012 so material

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prices should remain fairly steady from numbers posted in 2011.

Energy prices remain the most unstable risk to maintaining a modest increase in construction material prices together with the overall health and stability of the world economy. A prolonged and sharp increase in oil prices would negatively impact both consumers and businesses and would likely adversely affect the nation's economic recovery and growth in 2012.

Leveling out all the uncertainties, Engineering News-Record is forecasting a 2.1% increase in its Construction Cost Index for 2012 following the 2.5% uptick experienced in 2011. A surprising increase in steel prices during the first half of 2011 nudged costs upward but forecasters predict that a steady pace of increase will be the norm until the end of 2013 when price escalation will likely reflect the return of growth within the economy. Steel prices returned to a more normal price point by 2011's year end and are likely to decline throughout 2012.

Lumber prices have bottomed out with that industry operating at 70% below capacity. Following the closing of 130 mills, the lumber industry is reeling from the collapsed housing market and the decreased demand for exports.

Cement prices are also skimming the bottom of pricing levels with an anticipated increase of merely 0.5% in 2012. Hard hit by the ravages of the economy, this industry is operating at just below

60% of capacity after closing 18 plants of which eight represent permanent closures.

Asphalt prices fell 3.2% in the last part of 2011 but still banked an increase of 19% as compared to November 2010. It's anticipated that as the price of oil climbs, the costs for asphalt and other oil-based products will also escalate.

Copper product prices have decreased slightly since July 2011. From November 2010, copper prices had dropped 14.5% but still represented an astounding 78.1% increase since November 2008. Copper based scrap has also been highly erratic. Since November 2010, prices of this material were up a modest 1.4% but have more than doubled from three years earlier as the prices skyrocketed upward by 121.7% since that time.

Looking Ahead

As the economy lumbers toward a slow but eventual recovery, 2012 is shaping up to be the year of preparation, planning and implementation. The economic recovery will reawaken several markets such as the industrial, commercial and multi-family sectors that will contribute toward the resurgence of markets requiring a longer recovery period. With construction pricing anticipated to remain steady in 2012, now is a perfect time to begin new construction activity taking advantage of the positive pre-recovery elements that will provide a more timely, cost-efficient and proactive solution to your business' overall growth plan for the future.



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