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Report: Construction spending will hit record level this year

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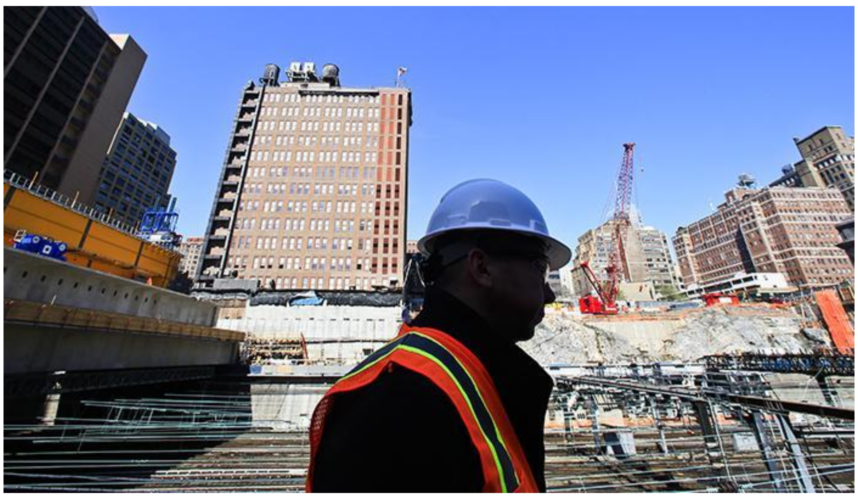

Spending on construction in New York City is on track this year to surpass $32 billion for the first time in history, driven in large part by a residential building boom, according to a report released Thursday morning by an industry trade group.

The report, a three-year forecast produced by the New York Building Congress, projects that total spending will continue to rise to $35.3 billion in 2015 and $35.6 billion in 2016. This year is forecast to end at a record $32.9 billion in total development activity, a 17 increase from the previous peak in 2007, the report said.

But looks can be deceiving. The cost of building is also on the rise, meaning construction activity still remains well below those peak levels reached before the bubble popped and the recession took its toll. Adjusted for inflation, the Building Congress' projection for this year would actually come in at 17 percent below peak, while the 2015 projection would be 13 percent below.

What's more, New York's construction industry has still not recovered the number of jobs lost during the recession, remaining almost 10,000 positions short of the 2008 peak of 132,600. The report does not anticipate the industry will close that gap any time soon; the authors forecast total jobs reaching 127,300 by 2016. The number of jobs has been rising steadily but slowly since bottoming out in 2010 and '11.

None of that is to say builders aren't bullish about New York City's future, or that there is any sense of a new bubble. In large part, the report predicts upward trends will continue in major categories. That's driven, Building Congress president Richard Anderson says, by the improving economy, increases in foreign investment and work on some major projects in both the public and private sector. He says the city's “construction market has just about fully rebounded from its post-recession depths and is nearing boom territory once again.”

Take residential, particularly the top-end of the market, where there seems to be no stopping the proliferation of luxury condos. The profit margins are massive for most luxury developers and many have taken to sparing no expense. The Building Congress forecasts total residential spending to reach 10.9 billion by the end of the year—an increase of $4.1 billion from 2013. That would grow to $11.7 billion in 2015 and $12.4 billion in 2016

“By way of contrast, New York City managed to invest just $8.3 billion in the residential sector during the three-year, post-recession period of 2009 through 2011,” the report says. “Furthermore, the 2016 forecast of $12.4 billion represents a more than 400 percent increase from the post- recession low of $2.4 billion in 2010.”

Even if the construction of ultra-high-end units falls, Mayor Bill de Blasio’s affordable housing plan is expected to encourage residential building in general. There are, of course, risks there as the city plans rezonings for 15 neighborhoods where residential developers will be required to include affordable units in their buildings. Pushing for too much affordable housing could discourage development in general, Anderson said.

“What’s risky is to require developers to contribute more to affordable housing. The question is, how far you can go?” he said, noting it remains to be seen what the incentive will be to build in these yet-to-be identified neighborhoods. “And I think that’s an open question. But you can understand, from our numbers, why the administration would want to do this. This is a market overwhelmingly focused on ultra luxury construction.”

Other sectors do not have the same sort of trajectory, though. Even non-residential, non-government development isn’t as frothy as one might think. As colleges plot massive expansions, gigantic office towers sprout across Manhattan and hotels pop up on what seems like every block, that sector is actually forecast to produce $7.8 billion by the end of the year—a $200 million drop from 2013.

The lack of spending on sports and entertainment venues is a big reason; work on Yankee Stadium, Citi Field, the Barclays Center and Madison Square Garden took place between 2006 and 2013. Indeed, while the Building Congress expects non-residential spending to climb again to $10.3 billion in 2015, it anticipates another drop in 2016 to $9.6 billion. It will remain far away from its enormous 2010 peak of more than $13 billion, which appears to have been an anomaly.

Public sector spending—far and away the biggest piece of the construction spending pie—never recovered from its 2008 peak and is not expected to do so by the end 2016. The report anticipates government investment in mass transit, public schools, roads, bridges and other infrastructure to increase from $13.4 billion in 2013 to $14.3 billion by the end of this year. But it will fall again, the report predicts, to $13.3 billion in 2015 and $13.6 billion in 2016.

The city remains the largest purchaser of construction services and, this year alone, will spend about $7.5 billion—53 percent of all government spending and almost a quarter of all construction spending. The government sector is the biggest area of concern, Anderson said.

“The public sector—government spending, mostly on infrastructure—is fragile. The MTA has a $32 billion capital program and only about half of it is funded,” he said, noting the city capital plan is always subject to politics. “While we’ve been encouraged by the level of government spending in recent years, there’s nothing certain about infrastructure.”

Here’s an overview of the report’s recommendations:

—Mayor Bill de Blasio and the building community need to form a partnership to achieve his administration’s goal of preserving and constructing 200,000 units of affordable housing over the next decade. Particular focus should be placed on strategic rezonings, stalled construction sites, and streamlining regulatory requirements and processes that add unnecessary cost and delay to building projects.

—The building community, along with transit advocates and elected officials representing downstate commuters, must form a united coalition advocating new sources of dedicated revenue and increased budgetary support from Albany. At the same time, the industry must lend its support to the New York Congressional delegation as it seeks increased federal support for urban transit systems.

—All segments of the design, construction, and real estate community must analyze and adopt best practices in their areas of expertise. In addition, the industry must work together and alongside government to improve project delivery in a host of areas, including procurement, work rules, site safety, and workforce development.

—The design, construction, and real estate industry must step up its efforts to educate government leaders on the multiple benefits of forward-looking private development, such as job creation, new revenues, and enhancing the quality of life for all New Yorkers.

—The Cuomo and de Blasio administrations must remain vigilant in ensuring that the billions of dollars in federal funding are put to quick and productive use in rebuilding storm-damaged neighborhoods and fortifying the City's mass transit network, electrical system, and other vital infrastructure against future weather-related disasters.