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New York City Construction Spending And Employment Surge Into Record Territory

New York Building Congress Forecast Calls for \$127.5 Billion in Total Spending Through 2018
Building Boom Being Fueled by Intense Demand for New Housing and Offices

Thanks to continued white-hot demand for new residences and offices, as well as a rebound in government infrastructure investment, New York City construction spending and employment are approaching or exceeding record territory, according to New York City Construction Outlook 2016-2018, an annual forecast and analysis prepared by the New York Building Congress with support from the New York Building Foundation.

Construction Spending

The New York Building Congress forecasts New York City construction spending of \$43.1 billion in 2016. This would mark the first time in City history that construction spending has eclipsed the \$40 billion mark and represents a 26 percent increase from 2015, when spending reached \$34.3 billion. The Building Congress anticipates the current building boom to continue through the next two years, with \$42.1 billion in construction spending projected for 2017 and \$42.3 billion in 2018.

If the forecast holds, 2016 construction spending will surpass the peak of the previous building boom, even after adjusting for inflation. In 2007, \$31.1 billion in actual dollars were spent on New York City construction, which equates to \$41.6 billion in spending when measured in constant 2016 dollars.

On an inflation-adjusted basis, this year's projected spending on residential and non-residential buildings is 47 percent greater than the total for 2007. Government spending on infrastructure projects, however, is expected to be 39 percent lower than in 2007, after factoring in the effects of inflation. This indicates that the current building boom is being driven far more by private sector investment than the previous construction surge, when spending was split almost evenly between the government and private sectors.

Employment

The Building Congress forecasts a total of 147,100 jobs in the five boroughs in 2016, an increase of 8,900 jobs from 2015. If realized, it would mark the fifth consecutive year of rising New York City construction employment. The Building Congress anticipates employment to fall back to 142,600 jobs in 2017 and 138,100 in 2018, which would still exceed the levels experienced during the previous boom.

Residential

The Building Congress forecasts \$13.4 billion in residential construction spending in 2016, which would mark the third consecutive record-breaking year. Residential spending, which includes spending on new construction as well as alterations and renovations (A&R) to existing buildings, reached \$12.7 billion in 2015 and \$12.0

billion in 2014. This year's forecasted total would be more than five times the amount spent in 2010, when housing construction dropped to a post-recession low of \$2.6 billion.

While overall residential spending is expected to increase, the number of new housing units produced is forecast to decline from 36,850 units last year to 31,300 in 2016. Looking ahead, the Building Congress forecast calls for 27,000 new units and \$13.1 billion of residential spending in 2017, and 25,000 units and \$12.7 billion in spending in 2018.

"The residential construction sector remains in the midst of a historic run," said Building Congress President Richard T. Anderson. More than \$50 billion in residential spending and the construction of 120,000 new housing units throughout the five boroughs are expected over the four-year period from 2015 through 2018. The big question is whether this pace can be sustained once all the projects currently in the pipeline have been completed. It is going to be very tough, if not impossible, without a renewal of the 421-a tax reduction program or better progress on the de Blasio's administration's efforts to rezone areas of the City to accommodate greater density and more affordable units."

Non-Residential

Non-residential construction spending, which includes office space, institutional development, government buildings, sports/entertainment venues, and hotels, is projected to skyrocket to \$17.0 billion in 2016, a 27 percent increase from a year ago when spending reached \$13.4 billion. If the numbers hold, it would be the highest level of inflation-adjusted, non-residential spending in more than two decades and just the fourth time that nominal spending has topped \$10 billion.

The Building Congress forecasts continued strength in the non-residential sector, with spending expected to reach \$14.8 billion in 2017 and \$15.6 billion in 2018.

"While the non-residential sector has benefited from spending on hotels and hospitals, as well as colleges and universities, the big story is office construction, which is at its highest level in more than a quarter of a century," said Building Congress Chairman Richard Cavallaro. "We estimate that 11.6 million square feet of office space will be constructed in Manhattan alone during the forecast period, with millions of additional square feet anticipated in Brooklyn and Queens."

Government

Government spending on public works, which includes investments in mass transit, roads, bridges, and other essential infrastructure, is forecast to reach \$12.7 billion in 2016, a 56 percent increase from 2015, when spending dipped to \$8.1 billion. Spending in this sector is expected to reach \$14.3 billion in 2017 and \$14.1 billion in 2018.

The City of New York is forecast to spend \$6.7 billion on infrastructure projects in 2016, nearly double the \$3.4 billion spent in 2015. Construction spending by the Metropolitan Transportation Authority (MTA) is expected to increase to \$3.9 billion this year from \$2.8 billion in 2015. The Port Authority of New York & New Jersey is expected to invest \$1.2 billion this year on New York City capital projects, up from \$1.0 billion in 2015. The remaining \$1.0 billion in public works spending will be undertaken by agencies on the State and federal levels, including DASNY, the State Department of Transportation, and the U.S. Army Corps of Engineers.

"Since reaching \$16.3 billion in 2008, government spending on infrastructure has fallen in each of the past seven years," noted Building Foundation Chairman John M. Dionisio. "This is a cause for concern given the additional demands that have been placed on the City's infrastructure by record levels of private sector growth. The good news is, judging by our forecast and a recent review of the long-term capital plans, it appears as though that downward trend will be reversed starting in 2016."

Priorities and Recommendations

The Building Congress identified a number of challenges that need to be addressed in order to sustain and build upon the City's current building boom and offered the following recommendations:

Infrastructure Investment

The City of New York must take a more strategic approach to capital planning and budgeting. The Building Congress recommends the adoption of a process that better defines long-term priorities and comprehensively guides ongoing investment decisions. This process would include a 20-year capital needs assessment, a fiscally responsible 10-year capital strategy, and ultimately a fully-funded four-year capital program.

Funding New York City's vast infrastructure needs requires far greater use of dedicated revenue streams. One notable example is the Move NY plan, which would generate vital funds for the MTA and City DOT through an enhanced and more equitable system of tolling.

Governor Cuomo is pushing forward on a number of City-shaping infrastructure investments with benefits to the entire region. **It is now up to the Governor, working with City, State, and federal entities, along with their private sector partners, to forge a strategy to fund and deliver these projects.**

Policy

New York City must produce 20,000 units of new housing annually in order to accommodate a growing population and replace lost units. This cannot happen without a replacement for 421-a. All stakeholders need to agree on a new program in the coming months.

The New York State Legislature should make it a priority to finally approve legislation to expand the use of alternative project delivery methods, such as design-build, Construction Manager-at-Risk, and public-private partnerships, to all State agencies and local governments.

The de Blasio administration and City Council should make the Greater East Midtown rezoning proposal a top priority for the coming year and must work together to rezone former manufacturing areas and transit-rich neighborhoods for a new era of residential and economic development.

Government must also reform environmental review and eliminate bureaucratic waste throughout the project approval process and construction phases.

Innovation and Best Practices

To speed project delivery and reduce costs, **New York City's construction industry must expand its use of integrated project delivery and Lean construction practices.**

With the industry firing on all cylinders and a workforce stretched thin, **it is incumbent upon the entire building community to ensure all workers are properly trained and supervised, and all job sites are adhering to the best safety practices.**

The building community and government must work collaboratively to improve project delivery through streamlined procurement processes, updated work rules, and a greater commitment to workforce development.

The New York Building Congress prepared *New York City Construction Outlook 2016-2018* with the assistance of Urbanomics, an economic consulting firm. It incorporates reviews of U.S. Census Bureau and private construction data as well as public capital budgets and plans at the City, State, and Federal levels. The New York Building Foundation, which is the philanthropic arm of the New York Building Congress, co-sponsored the report.

The New York Building Congress is a membership coalition of business, labor, association, and government organizations promoting the design, construction, and real estate industry in New York City.

The New York Building Foundation was formed in 1998 to complement the New York Building Congress through a program of targeted philanthropy, research, and educational activities.