

REAL ESTATE WEEKLY

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Construction & Design

Luxury home builders drive construction to new records

Driven by an unprecedented surge in high-end residential construction, as well as by continued strength in the commercial and government sectors, New York City construction activity is brushing up against the heights experienced during the boom years of 2007 and 2008.

In its annual New York City Construction Outlook, the New York Building Congress – with support from the New York Building Foundation – forecasts \$32.9 billion New York City construction spending in 2014, a 17 percent increase from 2013, when spending reached \$28.2 billion.

Construction spending is expected to increase further — to \$35.3 billion in 2015 and \$35.6 billion in 2016. If the forecast holds, it will mark the first time that construction spending has topped \$32 billion.

Once inflation in construction costs is factored in, however, overall construction activity is expected to register slightly below the levels achieved in 2007 and 2008, during

the height of the previous building boom. When measured in current dollars, this year's forecasted spending of \$32.9 billion would be about 17 percent below the 2007 peak in terms of volume of work actually delivered, while 2015 would come in at 13 percent below peak activity.

“Thanks to an improving economy, increased foreign investment, and continued progress on a handful of major public and private sector initiatives, the New York City construction market has just about fully rebounded from its post-recession depths and is nearing boom territory once again,” said Building Congress President Richard T. Anderson.

The Building Congress forecasts an increase of more than 2,000 construction jobs — from 120,900 in 2013 to 123,000 in 2014. Industry employment is expected to increase further — to 125,100 jobs in 2015 and 127,300 in 2016. The 2016 jobs total would be the sec-

ond highest level of industry employment in at least two decades, behind the 132,600 produced in 2008.

One area that is undeniably booming, at least in terms of overall spending, is the residential sector. The

Building Congress forecasts a total of \$10.9 billion will be spent on housing in New York City in 2014 — an increase of \$4.1 billion from 2013. The Building Congress anticipates residential spending of \$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. 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.

While residential spending is expected to rise by 60 percent this year, the number of new dwelling units produced is expected to increase by just 22 percent, from 18,400 units in 2013 to 22,500 this year. The Building Congress forecasts a total of 23,250 new dwelling units in 2015 and 24,000 units in 2016. By comparison, this sector managed to produce 33,200 housing units on only \$5.9 billion in spending in 2008.

“New York City is producing more than 20,000 housing units annually, which is the benchmark that the Building Congress believes is necessary to accommodate household growth, replace antiquated buildings, and maintain adequate housing options for New Yorkers of all income levels,” said Building Congress Chairman Thomas Z. Scarangelo. “What is concerning, however, is that the current level of production is falling far short of the more than 30,000 units that were constructed annually between 2005 and 2008.”

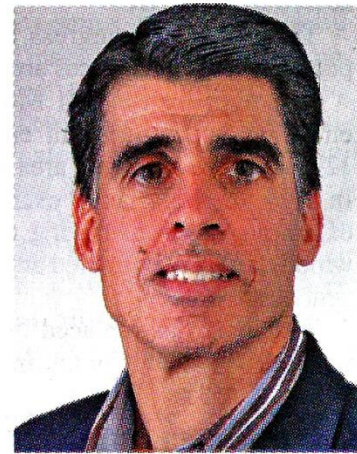
“Such a wide disparity between spending and production is partially explained by a wave of so-called ultra-luxury condominium towers that are being planned and built in Manhattan,” added Building Foundation Chairman Frank

J. Sciame. “While any and all new housing stock is certainly welcome, the key to the City’s future success will rest in part on our ability to produce a wide range of housing at multiple price points throughout the five boroughs.”

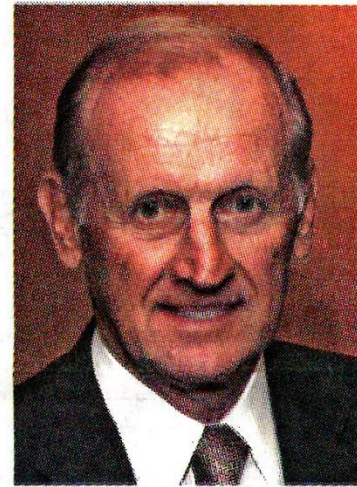
Government spending, which includes investments in mass transit, public schools, roads, bridges, and other infrastructure, is forecast to increase from \$13.4 billion in 2013 to \$14.3 billion in 2014, before dropping back to \$13.3 billion in 2015 and \$13.6 billion in 2016.

The City of New York remains the single largest purchaser of construction services in the five boroughs. In 2014 alone, the various agencies of City government will spend approximately \$7.5 billion on design and construction services, which is 53 percent of all government spending and 23 percent of all public and private construction spending. The Building Congress estimates that the City of New York will spend \$7.7 billion in 2015 and \$6.9 billion in 2016.

This forecast for City construction spending is consistent with the levels achieved during the final years of the Bloomberg administration, but the numbers are significantly below the \$8.6 billion average from 2007 through 2011, even prior to factoring



THOMAS Z. SCARANGELLO



RICHARD ANDERSON

Congress identified a number of challenges the State, City, and the building industry will need to address in order to sustain and build upon the City’s growing momentum and offered the following recommendations:

- Mayor Bill de Blasio and the building community

in the effects of inflation.

The second largest construction spender in New York City is the Metropolitan Transportation Authority (MTA), which is currently undertaking a number of major expansion projects and a host of repairs and resiliency upgrades, in the aftermath of Superstorm Sandy, while also continuing system maintenance and improvement projects. The Building Congress estimates MTA construction-related spending to reach \$5.1 billion in 2014, followed by \$3.7 billion in 2015 and \$4.6 billion in 2016.

The Building Congress forecasts non-residential construction, which includes office space, institutional development, sports/entertainment venues, and hotels, to reach \$7.8 billion in 2014, down from \$8.0 billion a year ago. If realized, it would mark the first year since 2005 in which spending dipped below the \$8 billion mark. The Building Congress anticipates spending in this sector to rebound to \$10.3 billion in 2015 and \$9.6 billion in 2016.

The office market continues to be a considerable source of investment. As many as 13 new office buildings will be under various stages of construction between 2014 and 2016, highlighted by the World Trade Center project and the Hudson Yards district. The Building Congress also reports a positive near-term outlook for the hotel, retail, and institutional construction sectors.

In its report, the Building

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.