



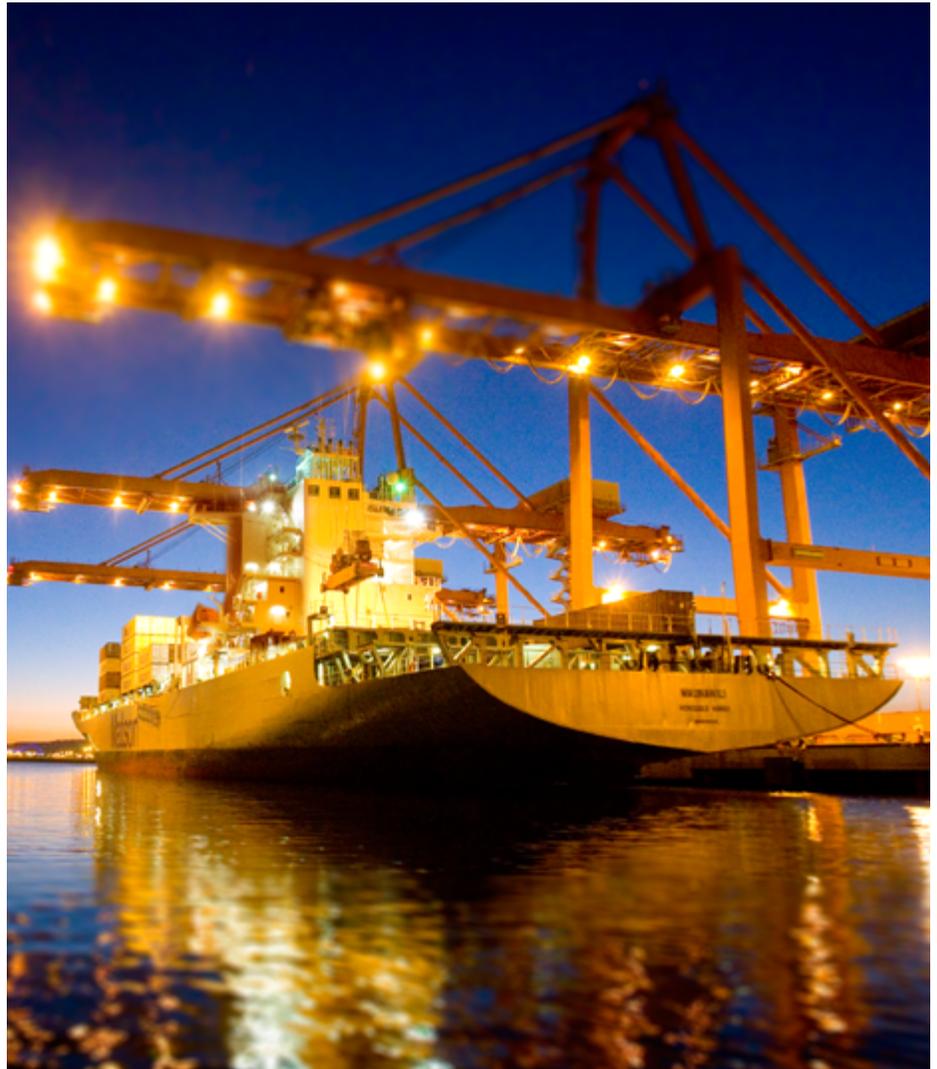
UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
HAWAII CONSTRUCTION FORECAST:
PUBLIC EDITION

BUILDING CYCLE APPROACHES PEAK

SEPTEMBER 30, 2016





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HAWAII CONSTRUCTION FORECAST

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CARL S. BONHAM, PH.D.

Executive Director

BYRON GANGNES, PH.D.

Senior Research Fellow

PETER FULEKY, PH.D.

Economist

ASHLEY HIRASHIMA

Graduate Research Assistant

JAMES JONES

Graduate Research Assistant

RESEARCH ASSISTANCE BY:

Adele Balderston

Victoria Ward

EXECUTIVE SUMMARY

Construction has accelerated over the past year and will approach its cyclical peak over the next. Jobs and income are now growing at double-digit rates, driven by strength across all major sub-sectors and, increasingly, all counties. Increments to growth will be much smaller going forward, and activity will begin to fall off by 2018 as the surge in resort and condo building wanes, costs for builders and homebuyers mount, and global economic conditions become less favorable.

- While the surge in high-rise construction in Kakaako/Ala Moana is not yet over, the focus for new Oahu home building will begin to shift westward to single-family development at Hoopili and Koa Ridge. Homebuilding on the Neighbor Islands has only recently picked up; further growth is expected, but the pace will remain well below the mid-2000s boom. Residential building statewide will peak late in the decade before falling back.
- Real estate sales have picked up sharply. Home price gains have been limited despite tight inventory, quick sales times, and lack of new homebuilding. This may be explained by anemic income growth, restrictive lending standards, and still-elevated foreclosure levels, especially on the Neighbor Islands. We expect 6-7% growth in Honolulu median single-family home and condo prices this year and next, with appreciation tapering off by the end of the decade.
- Commercial construction has been relatively strong, with resort-related development the biggest driver. Retail building may slow a bit with the completion of work at Ala Moana Center, Waikiki's International Marketplace, and the first phase of Ka Makana Alii in Kapolei, although new projects are also in the works. We will see several more years of moderately strong nonresidential construction activity.
- The inflation-adjusted value of government contracts reached a ten-year high last year, propelled by improvements to harbors, airports, and waste treatment facilities. The value of government contracts will drop off a bit next year. Honolulu rail rapid transit remains on shaky financial ground, with uncertainty about the source of the new revenues that will be needed to take the project to its completion at Ala Moana Center.
- Rising construction costs are a challenge for developers. The increases have been somewhat larger than in past cycles, although they have cooled recently. For the rest of this year cost pressures will remain subdued, firming to mid-single-digit rates over the next several years.
- In the first half of this year, there was a surge of nearly 5,000 construction jobs statewide as the newest wave of major developments added to a high volume of existing projects. The construction sector has accounted for nearly half of all personal income gains recently. Growth will fall below 2% next year, and activity in the sector will gradually decline thereafter.

- A number of forces will limit further construction gains and ultimately precipitate the next industry downturn. These include deteriorating home affordability and rising construction costs. Some drag will come from rising interest rates, although we expect the pace of such increases to be very slow. There will be an inevitable decline in the number of new profitable opportunities compared with the early stage of the business cycle upswing, and the macroeconomic environment for construction will be less hospitable than it is today.

HAWAII CONSTRUCTION FORECAST (SUMMARY)

	2014	2015	2016	2017	2018	2019
Total Commitments to Build (Mil 2015\$)	4,639	5,518	5,066	5,261	5,480	5,312
% Change	5.6	19.0	-8.2	3.8	4.2	-3.1
Real GE Contracting Tax Base (Mil 2015\$)	7,385	8,112	8,259	9,207	9,249	9,241
% Change	-10.2	9.8	1.8	11.5	0.4	-0.1
Construction Job Count (Thou)	32.1	35.0	38.8	39.5	39.0	38.5
% Change	3.5	9.0	10.9	1.7	-1.1	-1.4
Honolulu Median Home Price (Thou \$)	675.6	697.5	739.7	783.7	814.1	821.2
% Change	4.4	3.2	6.0	6.0	3.9	0.9
Honolulu Median Condominium Price (Thou \$)	350.4	362.1	388.3	414.9	438.4	452.9
% Change	5.0	3.3	7.2	6.9	5.6	3.3

Note: Source is UHERO. Construction job counts for 2015 are UHERO estimates of the benchmark revision. Figures for 2016-2019 are forecasts. Commitments to Build are the sum of private permits and public contracts awarded. Permits and tax base are deflated by Honolulu Construction Cost Index. Additional detail available to subscribers and sponsors.

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