

UHERO Hawai'i Construction Forecast Update:
Global Downturn Hammers Construction

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**University of
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UHERO Hawai‘i Construction Forecast Update

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EXECUTIVE SUMMARY

Key Changes in This Forecast.

Compared with our Annual Hawai'i Construction Forecast released in September 2008, we have lowered our O'ahu median home price forecast by about \$20,000 in 2009 and roughly \$33,000 in 2010.

We now expect the level of nonresidential permits to fall to roughly \$1.0 billion for the next four years, measured in constant 2008 dollars. This is more than 40% lower than our forecast made six months ago.

We have revised downward our forecast for total construction spending to show a real decline of nearly 19% in 2009, and another 10% in 2010.

The global credit crisis and deepening recession have materially worsened prospects for the Hawai'i construction industry. Commercial and resort building are in retreat, hampered by a bleak national outlook and financing constraints. The residential construction downturn will continue as income and wealth losses undermine housing demand. We now expect a deeper adjustment in the local real estate market, although somewhat milder than past Hawai'i experience and much less severe than the steep contractions in some mainland regions. Government spending initiatives may provide substantial support for the industry in the medium term, but they will provide very little stimulus over the next two years.

- The pace of Hawai'i's construction downturn quickened in the second half of 2008. Non-residential permits, which had risen strongly in the first half of the year, took a sharp turn downward at mid-year. By the fourth quarter, both residential and nonresidential permits were running at roughly half their levels at the end of 2007.
- Construction jobs peaked in February, and were down 8% year-on-year in December. For the year, we estimate that overall construction spending rose 2% in nominal terms, but was down nearly four percent in real terms after adjusting for higher construction costs.
- While last year's 3% decline in median O'ahu home prices was in line with our September forecast, we now expect a larger decline over the next couple years. The median price will more than 13% over the next two years, to \$536 thousand by 2010.
- The outlook for new home construction has also darkened, and we expect residential permits to decline 34% in 2009, on top of the 30% decline experienced last year. The non-residential segment, which had been a source of stability, will see a permit drop of nearly 30% this year, with no significant rebound for several years.
- Construction jobs are now being shed at a rapid rate, and we expect further substantial declines over the next several years: a 10% drop in 2009 and an additional 7% contraction in 2010. Overall construction spending, measured by the inflation-adjusted contracting excise tax base, will decline roughly 30% over the 2009-2010 period.
- Our baseline forecast takes into account the modest additional construction spending due under the Federal stimulus plan as well as forthcoming State CIP spending. In alternative scenarios we look at the potential construction impacts of the pending State Highway Modernization Plan and O'ahu Rail Mass Transit. These programs have little near-term stimulative effect, but may provide a substantial boost to the industry in the medium term, adding more than \$2 billion in annual real contracting receipts and nearly 6,000 additional jobs by 2013.

HAWAI'I CONSTRUCTION FORECAST (SUMMARY)

	2007	2008	2009	2010	2011
Nominal GE Contracting Tax Base (Mil \$)	7,857	7,987	6,601	5,990	6,012
<i>% Change</i>	<i>11.95</i>	<i>1.66</i>	<i>-17.35</i>	<i>-9.26</i>	<i>0.37</i>
GE Contracting Tax Base (Mil 2008\$)	8,297	7,987	6,435	5,771	5,657
<i>% Change</i>	<i>3.75</i>	<i>-3.73</i>	<i>-19.43</i>	<i>-10.32</i>	<i>-1.98</i>
Construction Job Count (Thou)	39.03	38.96	34.85	32.19	30.83
<i>% Change</i>	<i>6.84</i>	<i>-0.19</i>	<i>-10.54</i>	<i>-7.64</i>	<i>-4.22</i>
Construction Income (Mil 2008\$)	3,381	3,301	3,029	2,872	2,815
<i>% Change</i>	<i>1.18</i>	<i>-2.37</i>	<i>-8.26</i>	<i>-5.16</i>	<i>-2.00</i>
Honolulu Median Home Price (Thou \$)	639.42	619.29	563.82	536.16	533.08
<i>% Change</i>	<i>1.17</i>	<i>-3.15</i>	<i>-8.96</i>	<i>-4.91</i>	<i>-0.57</i>
Honolulu Median Condominium Price (Thou \$)	324.79	323.35	295.78	265.01	245.84
<i>% Change</i>	<i>4.69</i>	<i>-0.44</i>	<i>-8.53</i>	<i>-10.40</i>	<i>-7.24</i>
Honolulu Housing Affordability Index	57.52	65.35	78.56	78.54	75.47

Note: Tax base is deflated by Honolulu Construction Cost Index. Income is deflated by Honolulu CPI. Housing affordability index is the ratio of median family income to qualifying income for a loan for the median-priced home (times 100). Tax Base and Construction income values for 2008 are UHERO estimates. Additional detail available to subscribers and sponsors.

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