

UHERO Hawai'i Construction Forecast:
No Bottom Yet to Construction Downturn

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**University of
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E conomic
R esearch
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UHERO Hawai‘i Construction Forecast

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EXECUTIVE SUMMARY

Key Changes in This Forecast.

We have revised upward slightly our 2010 forecast for O'ahu median single-family home prices to a 2.4% drop, up from -4.9% in our March report.

We have revised downward our 2009 forecast for residential permits to -44%, 10 percentage points lower than reported in March.

Because of slow contracting, we have pushed back by one year our forecast for Federal and State infrastructure spending.

We have lowered our forecast for construction costs inflation to less than 1% for both 2009 and 2010.

We have lowered our forecast for construction jobs to -14% for 2009, down from -10% in our March report.

The U.S. recession is easing, but prospects for a quick Hawai'i construction recovery remain poor. At the national level, expansion is just now getting underway. We expect U.S. output to grow by more than 2% during the current quarter, but job losses will continue into the first part of 2010. And, while overall credit conditions have improved, commercial lending is still being affected by the weak economic outlook and the hangover from past excesses. For Hawai'i, this means that commercial and resort development will continue to suffer for some time. The downturn in residential permitting has actually deepened, and we will not see any marked improvement until home prices bottom out in 2011.

- Despite some positive signs of a bottom in resales and encouraging levels of inventory, we have raised only marginally our forecast for single family homes. We expect the median price of a single family home on O'ahu to fall by 8.7% this year, followed by a 2.4% drop in 2010, before stabilizing the following year.
- The peak-to-trough decline in home prices between the second quarter of 2007 and the first quarter of 2011 is expected to be 18%. This is considerably less than the average decline that has occurred nationally, and less than that experienced during the 1990s Hawai'i downturn. The primary reason for this optimism is that we have not yet seen inventory and days on market reach the high levels of the '90s.
- Price declines have been considerably deeper on the Neighbor Islands than on O'ahu. This is particularly true for condominiums, which on the Neighbor Islands include a large portion of vacation homes and timeshares. Median condo prices have fallen from their peaks by 39% on the Big Island, 33% on Maui, and 46% on Kaua'i.
- UHERO's Honolulu Housing Affordability Index dropped to a low of 56.4 in 2006 and will peak at near 76 this year—meaning that a household earning the median income will be able to afford a single family home that cost no more than 76% of the existing median home price. We expect that mortgage rates will rise slowly over the next few years.
- The outlook for new home building is modestly lower than we reported in our March report. For 2009, we now expect a drop in residential permits of 44% this year, followed by a further 4% drop in 2010.
- Because of larger-than-expected job losses in recent months, we have lowered our forecast for construction jobs to -14% for the year. We expect that 2010 will see additional job losses, with quarter-to-quarter growth not resuming until the end of the year.

- Credit conditions remain tight, and prospects for broad based growth in Hawai'i's economy are limited. Because of this, commercial, industrial and resort development will continue to slide this year and next. We continue to predict a 30% drop in real non-residential building permits in 2009 and expect one more year of modest (5%) decline in 2010.
- Because contracting for Federal and State infrastructure programs has taken longer than we originally expected, the surge in government contracts has been pushed back one year. We now expect real government contracts awarded to grow by only 4.5% in 2009, before jumping by 36% to \$1.36 billion next year.
- We expect total real construction spending measured by the inflation-adjusted contracting tax base to decline 20% in 2009, and an additional 16% in 2010.
- This report marks the first time in more than a year that we are not lowering our forecast significantly. In fact, our forecast for O'ahu single family home prices is slightly higher than in March, and our outlook for total private building is almost identical to our forecast from six months ago. While there is still considerable downside risk, the stabilization of the forecast picture is encouraging news.

HAWAI'I CONSTRUCTION FORECAST (SUMMARY)

	2007	2008	2009	2010	2011
GE Contracting Tax Base (Mil 2008\$)	8,297	7,987	6,353	5,310	5,449
<i>% Change</i>	3.76	-3.74	-20.49	-16.41	2.61
Nominal GE Contracting Tax Base (Mil \$)	7,857	7,987	6,387	5,368	5,631
<i>% Change</i>	11.96	1.65	-20.06	-15.95	4.91
Construction Job Count (Thou)	39.11	38.02	32.68	30.38	30.69
<i>% Change</i>	7.07	-2.79	-14.06	-7.04	1.01
Construction Income (Mil 2008\$)	3,381	3,218	2,863	2,742	2,806
<i>% Change</i>	1.20	-4.82	-12.30	-4.25	2.35
Honolulu Median Home Price (Thou \$)	639.42	619.29	565.26	551.60	549.54
<i>% Change</i>	1.17	-3.15	-8.72	-2.42	-0.37
Honolulu Median Condominium Price (Thou \$)	324.79	323.35	300.82	274.29	266.05
<i>% Change</i>	4.69	-0.44	-6.97	-8.82	-3.00
Honolulu Housing Affordability Index	57.52	64.41	75.89	72.57	72.45

* 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). Additional detail available to subscribers and sponsors.

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