



UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
HAWAII CONSTRUCTION FORECAST:
PUBLIC SUMMARY

RAIL CONSTRUCTION WILL SPUR INDUSTRY PICK-UP

FEBRUARY 4, 2011





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HAWAII CONSTRUCTION FORECAST

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EXECUTIVE SUMMARY

Private construction has largely stabilized in the islands and is poised for limited growth. But the big impetus for construction on Oahu will come from rail transit. Assuming no additional delays, the rail project will lead to a sharp pick-up in construction beginning later this year, and the construction job base will approach its 2007 peak level by 2015. Expansive government infrastructure spending will amplify what was already a building outlook that favors Oahu relative to the Neighbor Island economies.

- This report marks the first UHERO forecast to incorporate the impact of the Honolulu High-Capacity Transit Corridor Project. According to city estimates, the rail project will involve the expenditure of about \$3.7 billion in local construction, with another roughly \$1 billion in professional services. By our estimate, this will raise construction jobs in Hawaii by 5,000-5,500 at the peak in 2013-2014, sufficient to reduce the statewide unemployment rate by more than one-half percentage point. Not all of the construction expenditures will result in increased economic activity and jobs in Hawaii, because of the large volume of imported building materials and potential in-migration to meet some workforce needs.
- Even without rail, other large infrastructure projects would raise government contracting well above the average outlays of recent years. These include upgrades to Oahu sewer systems, ongoing state harbor modernization, deferred DOE and University maintenance, and federal military construction projects. All told, the value of real government contracts awarded will surge 60% in 2011 and will double by 2013, compared with the 2010 level.
- The timing of rail construction is advantageous given the relatively slow pace of recovery expected for residential and non-residential sectors. On Oahu, home resale markets have stabilized and median prices are edging upward. Although we continue to be concerned about the foreclosure overhang, rising demand will spur more rapid home price appreciation by 2012, and a moderate home building cycle will begin. Neighbor Island housing markets remain very depressed, and it is difficult to see where the next demand upswing will come from. For the state as a whole, we expect slight 3% growth in real (inflation-adjusted) residential permits in 2011, accelerating to 34% growth next year. In 2012, the level of real residential permits will remain 62% below the 2005 peak.
- There has been a mini-flurry of permitting for commercial and industrial construction in recent months, much of it for grocery stores and Big Box retail outlets. The pace of non-residential building will begin to edge upward, but still-high vacancy rates, difficult capital markets and the measured pace of economic growth will prevent a more buoyant recovery. The total value of real non-residential permits will expand at mid-single-digit rates over the next several years, rising to 1.37 billion 2009 dollars by 2012.
- Our near-term forecast for overall private construction is somewhat lower than the forecast we presented in September 2010. Total real private building permits are expected to rise by 5% this year, accelerating thereafter. Taking into account government contracts, overall building authorizations will rise 24% in 2011 and by double-

digit rates for the following two years. The construction job count will rise to 32,500 by 2012 and just under 39,000 in 2015. The real General Excise and Use contracting tax base will stabilize this year and by 2012 will be surging upward as we feel the effects of rail construction and firming private sector building activity.

- If rail holds the best near-term prospects for Oahu construction, it also presents a substantial risk. It is impossible at this point to know whether rail work will ramp up quickly, as envisaged in official estimates, or whether legal challenges or other factors will delay progress. Other risks to the current construction outlook include rising energy costs—which would both raise production costs and undercut overall economic growth—and high interest rates that could emerge if inflationary fears begin to build.

HAWAII CONSTRUCTION FORECAST (SUMMARY)

	2008	2009	2010	2011	2012	2013
GE Contracting Tax Base (Mil 2009\$)	8,098	6,642	5,398	5,443	6,466	7,642
% Change	-3.7	-18.0	-18.7	0.8	18.8	18.2
Nominal GE Contracting Tax Base (Mil \$)	7,987	6,642	5,393	5,589	6,852	8,456
% Change	1.7	-16.8	-18.8	3.6	22.6	23.4
Construction Job Count (Thou)	37.9	31.5	29.9	31.0	32.9	35.5
% Change	-3.2	-16.9	-5.0	3.7	6.3	7.7
Construction Income (Mil 2009\$)	3,376	2,824	2,601	2,774	2,997	3,268
% Change	-6.1	-16.4	-7.9	6.7	8.0	9.1
Honolulu Median Home Price (Thou \$)	619.3	573.8	595.2	607.7	648.2	708.8
% Change	-3.1	-7.4	3.7	2.1	6.7	9.3
Honolulu Median Condominium Price (Thou \$)	323.4	303.7	307.1	311.2	319.4	341.8
% Change	-0.4	-6.1	1.1	1.3	2.6	7.0
Honolulu Housing Affordability Index	62.7	77.3	79.5	77.9	72.2	67.0
% Change	9.1	23.2	2.9	-2.0	-7.3	-7.2

* Note: Source is UHERO. Figures for 2011-2013 are forecasts. Except for labor market data, figures for 2010 are UHERO estimates. 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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