



UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT

HAWAII CONSTRUCTION FORECAST:
PUBLIC SUMMARY

CONSTRUCTION EDGING TOWARD RECOVERY

MARCH 16, 2012





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HAWAII CONSTRUCTION FORECAST

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EXECUTIVE SUMMARY

Construction has yet to turn the corner in Hawaii, but a pickup is now more clearly in sight. Single-family home construction languishes, but new high-rise condos, retail, and resort-related development will boost non-residential building. And legal challenges aside, rail construction is poised to begin in earnest as this year progresses.

- The beginnings of a construction recovery that we had anticipated failed to materialize last year. Instead of a modest expansion in permitting for residential and commercial construction, additional significant declines occurred. And the much ballyhooed plans for large, ongoing public sector spending fizzled. Real measures of construction activity—especially jobs—were disappointing.
- A relatively weak housing market continues to weigh on new home construction. To blame are tepid economic conditions that retard household formation and (on the Neighbor Islands) foreclosure overhang from a glut of homes built during the 2000s boom. On Oahu, resale inventories have declined, setting the stage for modest price gains in 2012. As economic conditions continue to improve, demand will push against a limited supply and price appreciation will build to double-digit rates by 2014.
- The value of statewide real (inflation-adjusted) residential permits fell more than 13% in 2011, to the lowest level on record. Modest increases in permitting will occur this year, and the next cyclical upswing will begin. Still, in 2014 activity will be only half the level of 2005.
- There has been a flurry of announcements of new high-rise condos in Kakaako, and we are also seeing increased movement in shopping center development and resort-related projects. The total value of real non-residential permits will jump more than 40% this year, to more than \$1.6 billion and will sustain a similar level of activity through mid-decade. This is roughly in line with the level of permitting in 2005-2006 and represents a significant increase over last year's forecast.
- Contrary to expectations, 2011 turned out to be a disappointing year for public sector spending. The value of government contracts awarded came in much lower than we had anticipated, in part because rail-related contracts are not being included in the series that DBEDT compiles. Contracting for several large public infrastructure projects also fell short of expectations. The public sector will nevertheless make a bigger impact this year as rail construction gets underway, and spending on highways, sewers, military and other projects kicks in. Excluding rail, the value of real government contracts awarded will more than double in 2012 from last year's paltry \$431 million. Spending above \$900 million dollars is anticipated in four of the next five years.
- The construction job count, which averaged 28,500 in 2011, will rise above 29,000 this year and to nearly 36,000 by 2015 when both rail and the next housing upswing will be pushing activity. The real General Excise and Use contracting tax base stabilized in 2011, following a greater than 15% decline in 2010. By next year the tax base will be surging as we feel the effects of rail construction and firming private sector building activity.
- If one is looking for risks, the biggest are a potential halt to rail and pricey oil. The latter could act as both a

demand and supply shock for the industry: jobs and disposable income that drive demand could wither under a substantial energy price shock, and construction costs could undermine the profitability of some projects. On the plus side, the interest rate environment has continued to be supportive longer than we had anticipated, and absent a stronger-than expected US recovery funds should remain cheap for some time. Together with our gradually improving local economic conditions, this should support a measured private sector construction recovery over the next several years.

HAWAII CONSTRUCTION FORECAST (SUMMARY)

	2009	2010	2011	2012	2013	2014
GE Contracting Tax Base (Mil 2011\$)	6,759	5,706	5,820	6,376	7,294	8,373
% Change	-18.0	-15.6	2.0	9.6	14.4	14.8
Nominal GE Contracting Tax Base (Mil \$)	6,642	5,590	5,820	6,563	7,802	9,321
% Change	-16.8	-15.8	4.1	12.8	18.9	19.5
Construction Job Count (Thou)	31.4	28.8	28.5	29.1	31.7	34.2
% Change	-17.1	-8.4	-0.8	2.1	8.8	7.9
Construction Income (Mil 2011\$)	3,216	3,029	2,858	2,947	3,233	3,499
% Change	-14.1	-5.8	-5.7	3.1	9.7	8.2
Honolulu Median Home Price (Thou \$)	574.2	594.5	576.1	592.1	616.3	680.1
% Change	-7.3	3.5	-3.1	2.8	4.1	10.3
Honolulu Median Condominium Price (Thou \$)	303.9	305.6	299.8	301.0	310.6	330.0
% Change	-6.0	0.6	-1.9	0.4	3.2	6.2
Honolulu Housing Affordability Index	79.7	82.2	87.6	99.7	93.6	83.3
% Change	23.8	3.2	6.5	13.7	-6.1	-10.9

Note: Source is UHERO. Figures for 2012-2014 are forecasts. Tax base and income figures for 2011 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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