

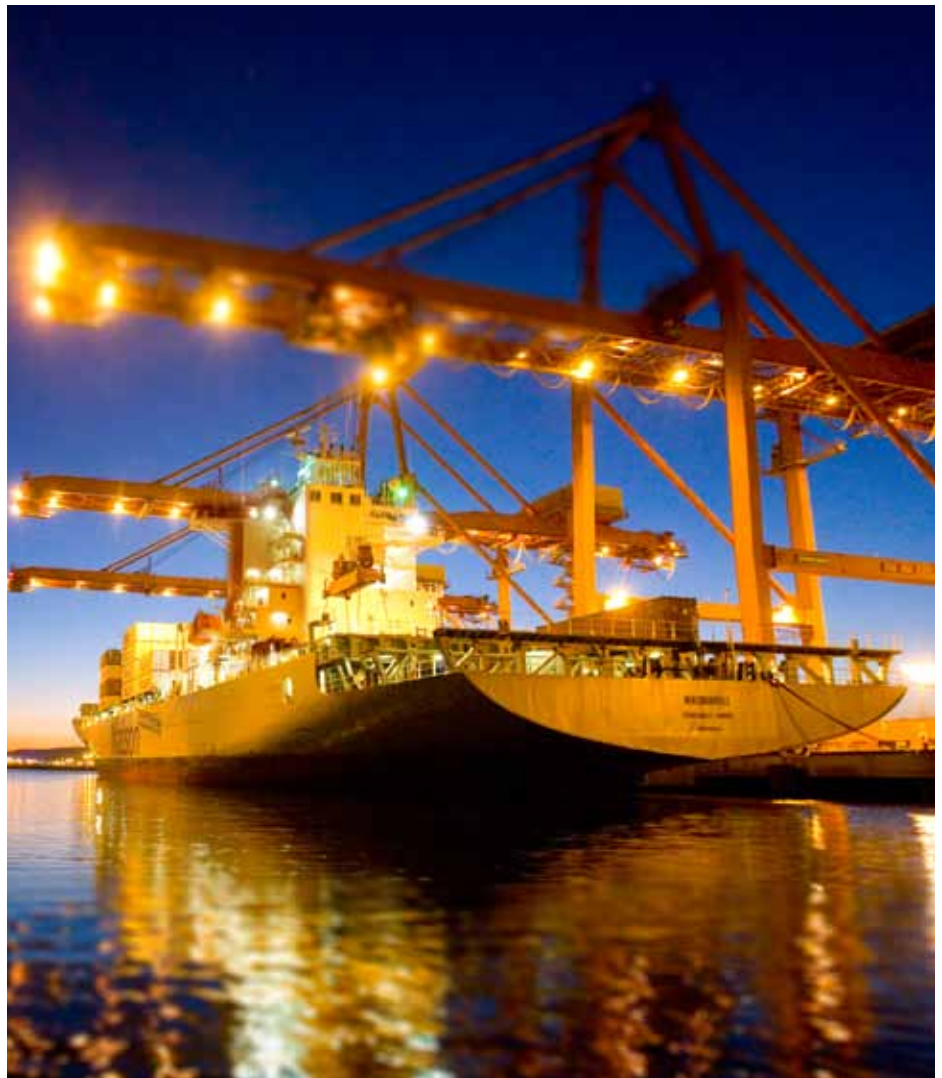


UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
HAWAII CONSTRUCTION FORECAST:
PUBLIC SUMMARY

**CONSTRUCTION
UPTURN ON TRACK**

MARCH 28, 2014





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THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

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

JAMES JONES

Graduate Research Assistant

RESEARCH ASSISTANCE BY:

Joel McMurry
Jonathan Page
Natalie Schack
Ben Trevino
Qianxue Zhao

EXECUTIVE SUMMARY

The construction industry is headed onto a stronger recovery path. Last year was mixed, with government contracts making impressive gains, but private permitting flat. Now there is a flurry of residential and commercial activity in the pipeline (much of it on Oahu), and private building permits will surge by more than 20% this year and next. The ramp-up of construction associated with the Honolulu rail project will make a significant contribution. By 2016, employment in the construction industry will surpass the peak of the previous cycle.

- Moderate interest rates and further strengthening of economic fundamentals will stimulate demand for homes and drive prices upward. While the Neighbor Islands are still waiting for a decisive upturn in residential permits, the Kakaako condo boom is leading a strong pickup in Honolulu. Tight housing markets will push Oahu median home prices above \$700,000 this year.
- Last year, non-residential permits fell 10%, in large part due to a drop in the value of photovoltaic installations. The decline in PV was driven by lower equipment cost, but also by delays in the approval process in areas with high levels of saturation. This year, tourism-related construction in Waikiki and expansion of retail space at the Ala Moana Center will contribute to a greater-than-20% surge in permitting for non-residential construction statewide.
- The value of public construction contracts awarded more than doubled over the last two years and is back to levels seen during other economic expansions. Excluding rail, the largest share of government construction spending is going to upgrading public infrastructure. Federal military contracting has been strong despite the sequester, but more austere Department of Defense spending plans suggest somewhat lower military construction going forward.
- The Honolulu rapid transit project has now passed all significant legal hurdles, and the project will now ramp up sharply. Including rail, total public construction spending will be close to \$2 billion this year and next.
- The construction sector has now recovered a quarter of the jobs lost during the recession and job gains will accelerate further in 2014-2015. Growth in the inflation-adjusted contracting tax base will build to more than a 15% rate by 2015. As a side effect of faster growth, construction cost inflation has accelerated to about 5% and will remain relatively high in coming years.
- With the construction cycle now on firmer footing, a number of related issues are emerging. There is some question about whether the pace of residential building will keep up with household formation on Oahu. And, while public contracting has rebounded, a prolonged period of low public investment leaves many infrastructure needs unmet. From the industry's perspective, a looming issue is limits to the pool of qualified workers that will be needed as the cyclical upswing proceeds.

HAWAII CONSTRUCTION FORECAST (SUMMARY)

	2010	2011	2012	2013	2014	2015
Total Commitments to Build (Mil 2013\$)	3,344	2,469	3,590	3,915	4,701	5,258
% Change	9.7	-26.2	45.4	9.1	20.1	11.9
GE Contracting Tax Base (Mil 2013\$)	6,153	6,295	7,361	7,597	8,238	9,631
% Change	-15.6	2.3	16.9	3.2	8.4	16.9
Construction Job Count (Thou)	28.9	28.8	29.4	30.8	32.6	35.9
% Change	-8.0	-0.3	2.1	4.8	5.8	10.2
Honolulu Median Home Price (Thou \$)	594.6	576.1	624.9	647.0	710.5	773.8
% Change	3.6	-3.1	8.5	3.5	9.8	8.9
Honolulu Median Condominium Price (Thou \$)	310.9	300.0	316.0	333.6	354.4	376.3
% Change	-0.6	-1.8	5.3	5.6	6.2	6.2

Note: Source is UHERO. Figures for 2014-2015 are forecasts. Tax base for 2013 is a UHERO estimate. Commitments to Build are the sum of private permits and public contracts awarded, excluding rail. Permits and tax base are deflated by the Honolulu Construction Cost Index. Additional detail available to subscribers and sponsors.

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