The Houston Picture
2011

The Bad News First:

- 2010 saw the market in critical condition throughout the first half of the year and absolutely moribund in the 2nd half. It was the worst commercial construction market in the past 7 years. The volume of new contracted awards in the Greater Houston Area (10 Counties) will barely surpass $3 Billion dollars as contrasted with 2009 at $3.65 Billion dollars and 2008 at $7.2 Billion.

- As the big jobs secured in 2007 and 2008 ended, and there was nothing to replace them, General and Specialty Subcontractors were forced to lay off employees. The industry lost an estimated 3400 jobs in 2010.

- Competition was vicious from both the local contractors and the increasing number of new players in the market. Margins continued to drop for both GC's and Specialty Contractors. These practices leave many firms with a precarious financial picture. Survival is a legitimate concern for a number of firms.

There is a Pulse Beat as 2011 Begins:

- Decent Gross Domestic Product (GDP) growth is projected both internationally and domestically. The consensus for International GDP growth is 3.3 %, which includes over 9 % for China and 8% for India, which is slightly lower in both countries than 2010. Projections of GDP growth for the US range fro 2.6 % (which appears to be the average for 2010) to 4%. The consensus, however, seems to be that we will reach at least 3.3% each quarter in 2011.

- Unemployment, now at 9.4%, is projected to drop to 8.8%, nothing spectacular, but at least the trend is right.

- The local picture is better. According to the Greater Houston Partnership, Houston will add 18,200 jobs in 2011. This number factors in a loss of 5300 public sector jobs and a loss of approximately 3500 more construction jobs.

- Other items that drive commercial construction in the Houston area are positive, too. Architects are all reporting greater activity in terms of both inquiries and billings; some are starting to hire again. Also, oil prices are projected to remain well north of $70/bbl, which will promote activity both by the large oil companies and the oilfield supply industry.

- Money is now available for both construction and take out loans, and it is affordable; interest rates are projected to remain low. And, construction prices are expected to remain low, despite material cost increases of 4-6%. 2011 may be the most ideal time for any owner to start a project. Rents and occupancy rates remain reasonable for construction; they are not the huge barrier they were in the 80's.

There Are Headwinds Though:

- Houston's economy is built on 4 pillars: the Medical Center; the Port; NASA and the Energy Industry. There are uncertainties yet facing all of them. The impact of Healthcare Reform is not truly known to the medical institutions, so they have dramatically curtailed their capital programs; the Port, whose long term picture is superb because of the widening of the Panama Canal, faces, in the short term, possible consequences of current trade discussions gone awry; NASA is not at all in favor with the current administration, and the energy industry, even though the moratorium on drilling in the Gulf has been lifted, still faces burdensome regulations and long delays, as they try to expand.

- State institutions are paralyzed by the $27 billion budget shortfall and the uncertainty of their construction plans, especially when combined with a possible drop of 25% in the Permanent University Fund (PUF) that funds construction projects at UT, Texas A&M and UH.

- And, there are still many potential real estate loans to be renewed, where the property is underwater. Will "extend and pretend" continue?

A Look at Markets

- Only preliminary data is available. The trend with Public Work is that building work (schools, universities, city and county buildings) will be down slightly due to the budget issues, but the civil projects will be up slightly.

- However, for the first time in 2 years, there is real serious activity in the Private Sector. Plans put on hold are being seriously considered, revised slightly and re-priced. This activity is occurring in office, warehouse, retail and hotel. Medical is more uncertain.

Some Other Market Issues

- This is the year for potential failures, especially if the positive drivers that we see don't translate to real projects until late 3rd or even 4th quarter, which is a realistic estimate. Pick project partners very carefully. Some firms exist at the mercy of their suppliers; that could end.

- Look for more new players. Some will come just for a job; some will set up offices; some will acquire local companies. Everyone wants to be here because of the better picture both short and, especially, longer range. Acquisitions are taking place. So are talent raids.

- What we are seeing - lower market volume, smaller projects, new players and compressed margins - could be the "new normal" for another 2 to 3 years.

For more detailed information, please contact our office at 713-840-1775

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