At Least One Expert Says We’re Headed For A Banner Year

1986 should be a good year for new non-residential buildings. Volume will be 2 or 3% below the 1.25 billion feet of new construction started in 1985. Because of current high vacancy rates, you can expect a 20% decline in office building. However, some other categories will record modest increases and partially offset the office building decline.

For gypsum manufacturers, the new non-residential market is second only to new home building in size. In 1986, between 3.5 and 4.0 billion feet of gypsum wallboard will be used to build stores, offices, schools, churches, hospitals and other types of non-residential structures.

In 1986, store and hospital construction is expected to be level with last year. Schools, churches and factories will be up moderately, but only enough to bring total building activity up to slightly over 1.2 billion feet.

Concern that tax reform would make building investment property less attractive in 1986 has undoubtedly caused some sponsors to move their projects up to 1985. We believe that as much as 5-10% of 1985’s activity would have occurred in 1986 if tax reform had not been an issue.

An activity closely associated with new non-residential construction is repair and remodeling. From a gypsum usage standpoint, this market is very difficult to quantify. Office buildings are remodeled on average every six to eight years. Shopping centers usually receive major renovation on the expiration of leases, which typically run five years. In most types of non-residential building, the trend has been toward recycling rather than replacing structures.

We estimate that 2.5 to 2.8 billion feet of gypsum board is used each year for remodeling existing non-residential buildings. This includes adding partitions in office buildings as new space is rented out or when there is a change in tenants.

Expenditures for R&R Up Sharply . . .

During 1984, dollar expenditures for residential repair and remodeling ac-
tivity rose sharply. More recent data suggests this trend will continue into 1985 and 1986. Large contractor-improvement jobs and major investments to upgrade rental properties are known to have caused most of the dollar value increase.

The outlook for building materials used in residential repair and remodeling is good, but not as impressive as the 20-25% rate of increase for dollar spending.

Gypsum wallboard usage in this market is expected to reach just over one billion square feet in 1986, a 3 or 4% increase over 1985. Most of this material is used for room additions and alterations. Only a minor amount is used to repair damaged walls or ceilings in existing homes.

1986: Good Year for Housing . . .

The new home building industry can look forward to another good year in 1986. For the fourth straight year, new housing starts will slightly exceed the 1.7 million unit level. Since World War II, the industry has never had four back-to-back level years. More than any other single factor, the good supply of mortgage money since 1983 has flattened the housing cycle.

Since bank deregulation became a reality, sources of mortgage money have expanded rapidly. Even Wall Street has gotten into the act by becoming directly involved with equity financing of all types of construction. Innovative mortgage instruments, principally adjustable rate mortgages and the huge growing secondary mortgage market have played a key role in leveling out new home building activity.

For the gypsum industry, 1.7 million housing starts translate into close to 10 billion feet of gypsum wallboard. New home building is gypsum’s best market, and in 1986 nearly 55% of all board sold will be for this purpose.

The 1986 homebuilding market will be nearly identical in level to this year, but the mix will be a little different. Single-family starts will be higher, while multi-family construction is expected to decline slightly. This year’s multi-family construction is expected to decline slightly. This year’s mix is running 62% single-family, and 38% multi-family. Next year, the single-family portion will increase to about 65%.

In 1986 the trade-up buyer will account for a bigger share of total sales. First-time buyers will be hampered by tougher Fannie-Mae requirements for minimum down payment home purchases. Due to the shift in buyers, the average single-family home will increase in size by one or two percentage points.

Also next year, as always, some markets will be winners—while others will be losers. Good long-term economic growth will support a healthy homebuilding market in cities like Atlanta, GA; Phoenix, AZ; Raleigh, NC; Norfolk, VA; Austin, TX; San Diego, CA; and Tampa, FL. An uncertain economic outlook will hamper new homebuilding activity in cities such as Buffalo, NY; Pittsburgh, PA; Cleveland, OH; Baltimore, MD; New Orleans, LA; and Chicago, IL.