

Commercial office construction will show minimal growth in 1989, until excess stock is absorbed by the market. But on a more positive side, high office vacancies have lowered rents and begun to stimulate overall demand.

Limitations on public and private funding will continue to restrict institutional construction, especially of educational and public buildings. Commercial warehouse building, which accounts for approximately 15 percent of all commercial construction, also is likely to show little if any growth in 1989.

Thanks to an improving balance of trade and strong manufacturing sales, the outlook for manufacturing construction looks brighter. If the economy avoids a recession, healthy manufacturing growth should continue in 1989. Regionally, strong manufacturing starts in the Midwest and West have more than offset declines in the Northeast and South. Recently, construction of garages and service stations also has demonstrated strength, especially in the Midwest.

In 1989, new commercial construction will use an estimated 4.6 billion square feet of gypsum wallboard. Another 3.2 million square feet will be used by the commercial renovation and remodeling market.

The commercial renovation and remodeling market is expected to show a modest increase of 6.2 percent in 1989 as older buildings are modified. East Coast and Midwest cities still account for most of the reconstruction activity.

Remodeling expenditures for residential applications have increased from \$45 billion in 1982 to \$94 billion in 1987, at an annual rate of increase of 15.8 percent. The Northeast has shown the greatest increase in remodeling expenditures, while the Midwest has shown the least. Most remodeling and repair work continues to be done by small independent contractors, though some larger firms are grossing more than \$5 million per year.

Primary reasons for residential remodeling are: the need for more space; wanting to stay put; changing needs, such as a new baby; incurring less financial risk and inconvenience than buying a new home; and taking

advantage of tax incentives. The most common areas for remodeling jobs are kitchens and bathrooms. But curiously, since 1983, repair and remodeling expenditures for rental properties have been increasing at a faster rate than for owner-occupied properties.

Repair and remodeling expenditures are also closely tied to new and existing home sales. Owners who live in their home four years or less spend 50 percent to 60 percent more on such work than those who live in their homes for longer periods.

Total residential repair and remodeling demand for gypsum wallboard should increase from 2.3 billion square feet in 1987 to 2.72 billion in 1989.

Overall, remodeling is expected to grow in the next few years at a rate of 5 to 8 percent. This growth in both residential and nonresidential markets will be stimulated by a lack of prime sites in larger cities, a growing inventory of existing buildings and a general

HAPPY NEW YEAR?

By Robert C. Doran

**The construction outlook for 1989
is for slow growth in most sectors,
but with a few bright spots**



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The growth of office, institutional, and commercial renovation construction will be slow in 1989, though manufacturing construction looks brighter.

In 1989, new commercial construction will use an estimated 4.6 billion square feet of wallboard.

interest in preserving landmarks.

The overall market is not a doom-and-gloom forecast for 1989, but overall production will be less than expected. Housing starts reached 1.8 million in 1986 and 1.6 million in 1987, but were in the 1.4 million range in 1988. Several factors contributed:

- Fixed rates were at 10.5 percent at mid-year, and by comparing the 12-monthly averages, fixed rate mortgages were 34 basis points higher in 1988 than in 1987.
- Inventories of existing and new homes were high last year. Existing

home sales in 1988 fell 6.9 percent, and new home sales declined 6.4 percent compared to 1987. It is very likely the downturn in sales negatively affected housing starts.


- Multi-family starts in 1988 were low (and are likely to stay low in the foreseeable future) due to overbuilding in some regions and the impact of tax reform.

All regions showed declines in permit activity last year, though single family activity, driven by trade-up demand, continues to remain stronger than multi-family. Multi-family starts rose 12 percent at mid-year, but permits fell by an equal percentage.

The median size of single family homes is increasing—up from 1,680 square feet in 1986 to 1,755 square feet in 1987. The number of bathrooms, bedrooms and amenities per house continues to increase. But despite the trend toward increased amenities, use of brick as an exterior siding has been declining. Vinyl siding has become the ex-

terior siding of choice and has doubled its share of the exterior market in all regions except the West, where stucco remains most popular.

Gypsum wallboard continues to remain the most specified interior finish material in new single family homes, with 93 percent of the total wall area finished with gypsum wallboard. Six percent of all interior wall area is covered with plaster-coated gypsum wallboard. Eighty-nine percent of all gypsum wallboard used is ½" thick.

Total new residential construction demand for gypsum board is expected to be 8.92 billion square feet in 1989. 

Editor's Note: Robert C. Doran, Director Gold Bond Marketing Research & Planning, Charlotte, NC, is responsible for the company's long-range planning, economic forecasting and marketing research. He joined Gold Bond in 1972. A graduate of Bowling Green State University, Doran holds an MBA from the University of Toledo.