1990 CONSTRUCTION OUTLOOK:

More of the Same

An expert looks at the commercial, residential, and remodeling construction markets.

Commercial construction has been in apparent decline for the last three years. This decline trend is expected to continue, unfortunately, throughout 1990. The good news is the rate of decline has been decreasing for the past five years.

The combination of a “soft landing” rather than a recession in the economy, and continued high (although declining) vacancy rates, presents a problem for any improvement in office construction. Office vacancies currently average about 18 percent in the United States, down from their high of 21 percent just a few years ago. But, while vacancy rates are dropping and office construction should decline about 10 percent in 1990 as compared to 1989, at least for vacancy rates, the movement is in the right direction.

Another brighter note is institutional construction. Schools and health care facilities should show measureable growth in 1990. The under-15 and over-65 age brackets are increasing in numbers. Coupled with lower interest rates in 1990, this should translate to approximately 4 percent growth in institutional construction overall.

Construction for manufacturing facilities will be off probably 3 percent compared to 1989. The emphasis by management in 1990 will turn more to increasing productivity, which means more investment in equipment than in facilities.

While non-residential construction as a whole is projected to decline 6 percent on a floor area basis in 1990, the major drop will be in commercial office and manufacturing, as institutional construction will show a slight increase. This mix will also influence regional performance. The northeast, west, and southeast, will probably decline slightly overall. The north central should be essentially flat, while the previously depressed south central should register a small improvement.

Commercial construction is again expected to decline in 1990. But the rate of decline is decreasing. The primary cause of these declines-high interest rates and prior overbuilding of commercial structures-appear to be improving. This offers some encouragement for the future.

Housing starts declined in 1989 and should continue dropping throughout the first half of 1990, before improving in the second half of the year. The “soft landing” of the economy suggests there will be some reduction in market interest rates into 1990. Fixed rate home mortgages should drift down to about 10 percent by early 1990.

Housing starts will probably total just above 1.4 million in 1989, and in 1990 should be about 1.45 million starts. Single-family starts appear to have plateaued at approximately one million units, and will probably remain at that level through 1990. However, multi-family starts still remain depressed due to the effects of tax reform and overbuilding in some areas of the country (though rental vacancy rates began declining in 1989.) It is difficult to see multi-family starts much above 375,000 units in 1990.

Regionally, 1990 may be much the same as 1989. One of the weaker areas of the country is the northeast, where very high home prices, coupled with a slowdown in the financial services, computer, and defense high-technology sectors of their economy, have created affordability problems. On the other hand, the midwest and southeast regions may remain relatively strong in 1990.

The west should also hold strong, although continued “environmental” and “no-growth”
issues in this section of the country may become a concern. The south central area, the oil patch states, may have finally bottomed out, but any recovery is expected to be quite gradual.

The size of new homes continues to increase, as well as both amenities and prices. The median square footage for single-family homes has risen steadily since 1982, and in 1988 reached an all-time high of 1,810 square feet. In 1988, the median square footage of multi-family units was 940.

In 1988, the median single-family new home price increased 7.7 percent over 1987 to $112,500, and continued to increase in 1989. On a square-foot basis, the northeast continues to be the highest-priced region for residential construction, while the south is the lowest.

Also in 1988, 42 percent of the homes completed had 2% baths, compared to only 28 percent in 1984. More than 25 percent of new homes are being built with four or more bedrooms.

Wood products were selected as the exterior wall cladding material in 42 percent of the homes in 1988. Brick, which had a reported 32 percent market share as late as 1982, was used on only 17 percent of the homes in 1988. Vinyl siding took much of the share away from brick.

In both single and multi-family homes, gypsum board continues to dominate as the interior finish material, with about 94 percent of the total wall area finished with gypsum board. Gypsum board coated with a thin coat of plaster accounted for about 3-5 percent of the total wall area, although in New England where this system is most popular, its usage is much higher at 27 percent.

In single-family homes, 81 percent of the gypsum board is 1/2" thick. But in multi-family, 53 percent of the gypsum board is 1"

Single-family starts appear to have plateaued.

Gypsum board used in new residential construction will account for about 10 billion square feet in 1990. This figure is slightly above 1989, due primarily to the small improvement forecasted in housing starts.

Residential repair and remodeling is a vitally important segment of the construction industry. For the past six years, remodeling has increased steadily. In 1988, Americans spent $101.3 billion to repair and remodel their homes—a 7.7 percent increase over the previous year alone.

Since 1986, the residential new construction market has declined, but the remodeling market increased consistently. While housing starts are expected to show only slight growth in 1990, residential repair and remodeling should enjoy an annual growth rate of 5 to 8 percent over the next few years.

In 1988, remodeling of owner-occupied structures increased, and
is expected to increase over the next few years due to a large turn-over of new and existing homes which become prime targets for updating. However, many experts believe the recent decline in multi-family construction presages increased remodeling activity in rental properties as well.

Most remodeling is done by professionals, the majority of which are small independent contractors. In 1988, approximately 77 percent of total residential remodeling was by professionals, while do-it-yourselfers accounted for the remaining 23 percent.

Remodeling is usually broken down into three major types of expenditures: maintenance and repairs, additions and alterations, and major replacements.

Maintenance and repairs, such as fixing a leaking roof, are usually done as required. These projects account for about 41 percent of the residential remodeling total. Additions and alterations account for approximately a 42 percent share, but these investments are usually considered discretionary and often postponed.

Major replacements, such as new heating systems, account for approximately 17 percent of the total. Overall, the share of maintenance and repair work has increased over the past few years, while the share of both additions and alterations, and major replacements, has declined slightly.

Although remodeling activity began to level off by the end of 1989, it will still be a strong and important market for the foreseeable future at more than $100 billion annually. In addition, repair and remodeling of commercial structures is expected to increase 5 to 7 percent in 1990.

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