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Building Construction

Bankers: Real estate rebound at least six months away

The construction market – in both the residential and commercial sectors – has suffered through its worst year in 2008 since the recession in the early 1990s.



And it may still be at least six months before it begins to enter a recovery, according to some bank executives.

Through the end of October, U.S. housing starts continued to fall. Privately owned housing starts in the U.S. fell 4.5 percent to an annual rate of 791,000 units in October. This is the slowest housing pace since the Department of Commerce began keeping statistics in 1959.

Sales of higher priced homes, availability of credit, prices, demand and, therefore, building activity, have dropped sharply, especially in formerly booming states such as California and Florida.

In sections of the Midwest, construction has fallen off largely because of a weak local economy.

But even in areas where prices and building didn't spike, and where the local economy has stayed healthy, the credit crunch has weakened demand, weakened commercial construction and slowed residential construction to a halt, according to Dana Johnson, chief economist for Comerica, Dallas.

"No sector of the country has escaped," Johnson says.

There are some indications that the decline in residential construction will start to level off soon. But the commercial construction market is more difficult to forecast because good information on actual activity, delays and other data isn't readily available, Johnson says.

Typically, commercial construction lags residential construction by several months in both boom and bust cycles.

Unemployment numbers are starting to increase and, as a result, there's an increase in office and retail vacancies, said Paul Kasriel, chief economist for investment firm The Northern Trust in Chicago. Any vacancy of existing space severely weakens the need to build new retail and commercial properties.

The construction weakness isn't limited to the United States, Kasriel said. In Britain, for example, the building market is expected to be soft for several years.

"My sense on [U.S.] residential construction is that we are probably approaching a bottom," Johnson says. "We're seeing some of the signs in housing permits and number of building starts that are starting to approach levels indicating the end [of the downturn]. It will probably be at least another six months before housing starts begin picking up."

The number of new homes completed compared to the number of new homes sold is at an all-time high, according to Kasriel, who says that any rebound in the housing construction market is likely more than six months away.

As a result, credit is much tighter, meaning little in the way of funds to finance new construction.

Commercial construction tends to lag behind residential construction in boom and bust times by several months, Johnson said. So a rebound in commercial construction probably won't occur until well into 2009. The one area that may have some strength because of good export activity is warehousing near ports, according to Johnson.

Kasriel suspects any rebound in commercial construction could be delayed until late 2009.

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McLean, Koehler, Sparks & Hammond

11311 McCormick Road, Suite 100
Hunt Valley, MD 21031
410.296.6200

www.mksh.com

70 Thomas Johnson Drive, Suite 100
Frederick, MD 21702
301.662.2400