



2014 Dodge Construction

# Outlook

\$495

# EXECUTIVE SUMMARY

**There's an expansion underway** for the construction industry, but depending on one's perspective it can be viewed in a variety of ways. Looking at total construction, the pattern of recovery was slow and tenuous early on, with McGraw Hill Construction reporting that total construction starts edged up just 2% in both 2010 and 2011. Multifamily housing was showing signs of life and the stimulus-supported public works sector was moving at a decent clip, but other parts of the industry continued to languish. The year 2012 brought single family housing into the recovery process, and at that point it appeared that a more typical construction upturn was taking hold. Last year total construction starts advanced 10%, lifted by healthy percentage growth for housing. This also raised the expectation that nonresidential building with its commercial and institutional sectors would soon follow in 2013, but that's only partially materialized.

For 2013, total construction starts are estimated to rise 5% to \$508 billion, and the main driver of growth continues to be housing. For nonresidential building, there's been some lift coming from its commercial sector, but the level of activity for the commercial categories remains very low. The institutional sector in 2013 has proven to be a drag on nonresidential building for yet another year, keeping the volume of nonresidential building close to the depressed amounts reported from 2009 through 2012. In effect, the process of turning the corner for nonresidential building has been stretched out, which is not surprising given the sluggish economic conditions.

The backdrop for the construction industry remains the hesitant U.S. economy. At the outset of 2013, it seemed that some of the uncertainty affecting economic activity would ease, given the fact that the presidential election had been decided and the fiscal cliff averted. There was some dampening from the tax hikes in January and the start of the sequester in March, but the economy seemed to be adjusting. However, the prolonged Congressional impasse in October over approving federal spending for fiscal 2014 and raising the debt ceiling has dealt another blow to the economy. While the October 16 budget vote ended the government shutdown and the likelihood of default, it has contributed to more uncertainty which may prove to be persistent. The October 16 agreement, after all, only keeps the government running through January 15 and raises the debt ceiling through February 7. On a hopeful note, there have been comments from Congressional lawmakers that they intend to avoid a repeat of what took place in October.

**While the October 16 budget vote ended the government shutdown and the likelihood of default, it has contributed to more uncertainty which may prove to be persistent.**

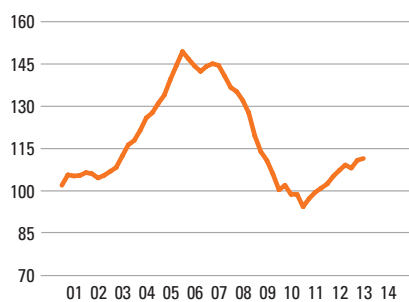
For 2013, the U.S. economy is estimated to grow at just 1.6%, down from 2.8% in 2012. Assuming the federal budget deliberations can proceed in a more orderly manner, then there are enough positive factors in the U.S. economy to enable it to grow in the range of 2.5% to 3.0%, with the working estimate for this Outlook being 2.7%. Job growth was moving at a reasonable pace during 2013, and less uncertainty could encourage firms to hire more workers. Interest rates, while edging up, are still low. Market fundamentals for commercial building, such as occupancies and rents, are improving, and bank lending standards for commercial real estate development are easing gradually. And while federal spending restraint will prove to be a drag on publicly financed construction, the improved fiscal posture of states and localities will offset some of that drag. In this environment, it's forecast that total construction starts will climb 9% to \$555 billion, a bit faster than 2013 although still at a measured clip. The following are the main points by sector for the 2014 construction market:

# EXECUTIVE SUMMARY

**Dodge Construction Starts**  
Indexed, 2000=100



**Construction Put in Place**  
Indexed, 2000=100



- Single family housing will grow 26% in dollars, corresponding to a 24% increase in units to 785,000 [McGraw Hill Construction basis], and basically matching the gains in 2012 and 2013. The positives for single family housing are numerous — the pace of foreclosures has eased, home prices are rising, and mortgage rates remain near recent lows. However, the demand for housing will continue to be restrained by careful bank lending practices towards issuing mortgages.
- Multifamily housing will rise 11% in dollars and 9% in units. While growth continues, the percentage gains will be smaller than the previous four years, reflecting a maturing multifamily market. This structure type is still a favored investment target by the real estate finance community, which in the near term should lead to more high-rise residential buildings in major cities.
- Commercial building will increase 17%, a slightly faster pace than the 15% gain estimated for 2013. Warehouses and hotels will continue to lead the way, while stores and office buildings pick up the pace. The positives for commercial building are improving market fundamentals and more bank lending for commercial development. Next year's activity in dollar terms will still be 28% below the 2007 peak.
- Institutional building will edge up 2%, turning the corner after five years of decline. For the educational building category, colleges are revisiting capital expansion plans, and passage of recent construction bond measures in several states should help K-12 construction projects. Healthcare construction is expected to remain flat, given continued emphasis on cost containment.
- Public works construction will drop 5%, pulling back after a 3% gain in 2013 that was lifted by the start of several large highway and bridge projects. More focus on deficit reduction will limit federal support for environmental public works, although the improved fiscal position of state and local governments will help to cushion the extent of the public works decline.
- Electric utilities will retreat 33%, continuing the 55% correction estimated for 2013 that followed the current dollar high reached in 2012. Capacity utilization is down sharply, limiting the near term need for new generating capacity. The need for transmission line work remains strong.

## THE PATTERN OF U.S. CONSTRUCTION STARTS

Billions of Dollars

	2008	2009	2010	2011	2012	2013	2014
Total Construction	558.2	426.3	435.3	442.9	485.3	508.1	555.3
	-13%	-24%	+2%	+2%	+10%	+5%	+9%
Single Family Housing	122.4	94.3	100.0	97.3	125.8	159.5	201.1
	-39%	-23%	+6%	-3%	+29%	+27%	+26%
Multifamily Housing	38.1	17.9	22.0	29.4	40.2	48.0	53.1
	-37%	-53%	+23%	+34%	+36%	+19%	+11%
Commercial Buildings	81.4	47.3	42.1	48.3	54.0	62.4	72.7
	-19%	-42%	-11%	+14%	+12%	+15%	+17%
Institutional Buildings	130.6	112.3	112.2	100.0	90.7	87.1	89.1
	+11%	-14%	-0-	-11%	-9%	-4%	+2%
Manufacturing Buildings	31.0	9.7	9.5	17.3	12.9	13.8	14.9
	+50%	-69%	-2%	+82%	-25%	+6%	+8%
Public Works	121.2	123.6	120.7	106.6	110.9	114.3	108.9
	-0-	+2%	-2%	-12%	+4%	+3%	-5%
Electric Utilities	33.5	21.1	28.7	43.9	50.9	23.0	15.5
	+77%	-37%	+36%	+53%	+16%	-55%	-33%

# DODGE CONSTRUCTION STARTS

	2012 Actual	2013 Preliminary	2014 Forecast	%Change 2014/2013
<b>2014 NATIONAL</b>				
<b>Residential Buildings</b>				
Dwelling Units (Thousands of Units)*				
Single Family Housing	516	635	785	+24
Multifamily Housing	286	335	365	+9
<b>Total Residential</b>	<b>802</b>	<b>970</b>	<b>1,150</b>	<b>+19</b>
Floor Area (Millions of Square Feet)				
Single Family Housing	1,146	1,446	1,804	+25
Multifamily Housing	330	387	421	+9
<b>Total Residential</b>	<b>1,476</b>	<b>1,833</b>	<b>2,225</b>	<b>+21</b>
Contract Value (Millions of Dollars)				
Single Family Housing	125,791	159,525	201,125	+26
Multifamily Housing	40,174	47,975	53,125	+11
<b>Total Residential</b>	<b>165,965</b>	<b>207,500</b>	<b>254,250</b>	<b>+23</b>
<b>Nonresidential Buildings</b>				
Floor Area (Millions of Square Feet)				
Stores & Shopping Centers	105	117	137	+17
Office Buildings	67	75	87	+16
Hotels and Motels	33	38	46	+21
Other Commercial Buildings	212	253	298	+18
<b>Total Commercial</b>	<b>417</b>	<b>483</b>	<b>568</b>	<b>+18</b>
Manufacturing Buildings	61	50	54	+8
Educational Buildings	111	108	110	+2
Healthcare Facilities	70	68	68	—
Other Institutional Buildings	113	99	100	+1
<b>Total Institutional &amp; Other</b>	<b>294</b>	<b>275</b>	<b>278</b>	<b>+1</b>
<b>Total Nonresidential</b>	<b>772</b>	<b>808</b>	<b>900</b>	<b>+11</b>
Contract Value (Millions of Dollars)				
Stores & Shopping Centers	15,720	16,700	19,350	+16
Office Buildings	17,293	20,350	23,500	+15
Hotels and Motels	6,489	7,725	8,850	+15
Other Commercial Buildings	14,502	17,575	21,000	+19
<b>Total Commercial</b>	<b>54,004</b>	<b>62,350</b>	<b>72,700</b>	<b>+17</b>
Manufacturing Buildings	12,921	13,750	14,850	+8
Educational Buildings	37,565	36,275	37,300	+3
Healthcare Facilities	22,384	21,525	21,950	+2
Other Institutional Buildings	30,707	29,350	29,900	+2
<b>Total Institutional &amp; Other</b>	<b>90,656</b>	<b>87,150</b>	<b>89,150</b>	<b>+2</b>
<b>Total Nonresidential</b>	<b>157,581</b>	<b>163,250</b>	<b>176,700</b>	<b>+8</b>
<b>Nonbuilding Construction</b>				
Contract Value (Millions of Dollars)				
Highways and Bridges	52,697	58,800	55,850	-5
Environmental Public Works	28,980	31,300	29,500	-6
Other Public Works	29,217	24,200	23,500	-3
<b>Total Public Works</b>	<b>110,894</b>	<b>114,300</b>	<b>108,850</b>	<b>-5</b>
Electric Utilities	50,856	23,000	15,500	-33
<b>Total Nonbuilding Construction</b>	<b>161,750</b>	<b>137,300</b>	<b>124,350</b>	<b>-9</b>
<b>All Construction</b>				
Contract Value (Millions of Dollars)				
<b>Total Construction</b>	<b>485,296</b>	<b>508,050</b>	<b>555,300</b>	<b>+9</b>
Dodge Index (2000=100)	103	107	117	

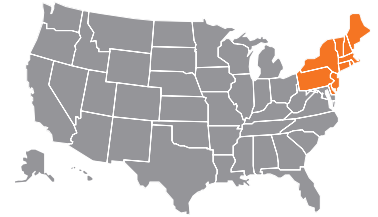
# DODGE CONSTRUCTION STARTS

## 2014 REGIONAL

	2012 Actual	2013 Preliminary	2014 Forecast	%Change 2014/2013
<b>Residential Buildings</b>				
Single Family Housing	9,960	12,075	14,800	+23
Multifamily Housing	10,641	13,700	14,400	+5
<b>Total Residential</b>	<b>20,601</b>	<b>25,775</b>	<b>29,200</b>	<b>+13</b>
<b>Nonresidential Buildings</b>				
Commercial & Manufacturing	12,830	13,950	16,275	+17
Institutional & Other	18,195	17,075	18,650	+9
<b>Total Nonresidential</b>	<b>31,025</b>	<b>31,025</b>	<b>34,925</b>	<b>+13</b>
Nonbuilding Construction	20,869	24,750	20,400	-18
<b>Total Construction</b>	<b>72,495</b>	<b>81,550</b>	<b>84,525</b>	<b>+4</b>

### Northeast

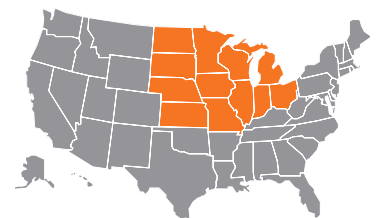
CT, ME, MA, NH, NJ, NY, PA, RI, VT



<b>Residential Buildings</b>				
Single Family Housing	20,530	26,000	30,925	+19
Multifamily Housing	5,318	6,625	7,075	+7
<b>Total Residential</b>	<b>25,848</b>	<b>32,625</b>	<b>38,000</b>	<b>+16</b>
<b>Nonresidential Buildings</b>				
Commercial & Manufacturing	15,894	14,975	16,875	+13
Institutional & Other	19,734	18,075	17,525	-3
<b>Total Nonresidential</b>	<b>35,628</b>	<b>33,050</b>	<b>34,400</b>	<b>+4</b>
Nonbuilding Construction	28,474	28,450	28,025	-1
<b>Total Construction</b>	<b>89,950</b>	<b>94,125</b>	<b>100,425</b>	<b>+7</b>

### Midwest

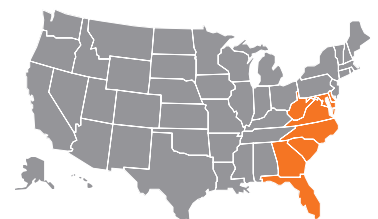
IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI



<b>Residential Buildings</b>				
Single Family Housing	32,179	43,325	55,025	+27
Multifamily Housing	8,703	11,125	13,075	+18
<b>Total Residential</b>	<b>40,882</b>	<b>54,450</b>	<b>68,100</b>	<b>+25</b>
<b>Nonresidential Buildings</b>				
Commercial & Manufacturing	12,668	15,750	19,775	+26
Institutional & Other	16,112	15,400	15,950	+4
<b>Total Nonresidential</b>	<b>28,780</b>	<b>31,150</b>	<b>35,725</b>	<b>+15</b>
Nonbuilding Construction	37,472	20,325	19,550	-4
<b>Total Construction</b>	<b>107,134</b>	<b>105,925</b>	<b>123,375</b>	<b>+16</b>

### South Atlantic

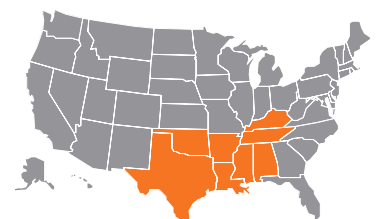
DE, DC, FL, GA, MD, NC, SC, VA, WV



<b>Residential Buildings</b>				
Single Family Housing	32,831	39,375	48,750	+24
Multifamily Housing	6,339	6,400	7,100	+11
<b>Total Residential</b>	<b>39,170</b>	<b>45,775</b>	<b>55,850</b>	<b>+22</b>
<b>Nonresidential Buildings</b>				
Commercial & Manufacturing	13,221	16,050	18,250	+14
Institutional & Other	17,384	16,400	16,200	-1
<b>Total Nonresidential</b>	<b>30,605</b>	<b>32,450</b>	<b>34,450</b>	<b>+6</b>
Nonbuilding Construction	38,472	29,700	26,550	-11
<b>Total Construction</b>	<b>108,247</b>	<b>107,925</b>	<b>116,850</b>	<b>+8</b>

### South Central

AL, AR, KY, LA, MS, OK, TN, TX



<b>Residential Buildings</b>				
Single Family Housing	30,291	38,750	51,625	+33
Multifamily Housing	9,173	10,125	11,475	+13
<b>Total Residential</b>	<b>39,464</b>	<b>48,875</b>	<b>63,100</b>	<b>+29</b>
<b>Nonresidential Buildings</b>				
Commercial & Manufacturing	12,312	15,375	16,375	+7
Institutional & Other	19,231	20,200	20,825	+3
<b>Total Nonresidential</b>	<b>31,543</b>	<b>35,575</b>	<b>37,200</b>	<b>+5</b>
Nonbuilding Construction	36,463	34,075	29,825	-12
<b>Total Construction</b>	<b>107,470</b>	<b>118,525</b>	<b>130,125</b>	<b>+10</b>

### West

AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY

