

AGC Houston
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

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2009 Greater Houston Construction Market Forecast

This report was produced by AGC Houston and Kiley Advisors, LLC



KILEYADVISORS

2009

The year begins with polar opposite facts:

- In the 10-county Houston MSA*, 2008 was a record year in terms of commercial construction contract awards – over \$6.5 Billion, and there was record construction employment in the Houston MSA at 202,700 jobs.
- However, at the national level, the Dow Jones Industrial Average suffered its biggest decline in 2008 (33.8%) since the 1930's, and the US and global economy are clearly in an extremely deep recession with negative Gross Domestic Product (GDP) growth in the last two quarters of 2008 (-.5% 3Q, -3.8% 4Q08). And, unemployment is approaching levels similar to the 1980's.

*Houston-Baytown-Sugar Land Metropolitan Statistical area: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller.

These facts leave most established Houston commercial contractors with record or near record backlogs. But, they also indicate that “getting work” in 2009 will become increasingly difficult until two key global issues are resolved:

- The first is that credit must again become readily available to businesses and consumers. Credit is still basically “frozen”, despite a \$350 Billion+ dollar direct injection into major banks. As Jack Welch, the revered former head of General Electric, said on a recent TV show, “The game of business is played with credit. No credit. No game.”
- The second and even more impacting issue is that consumers must begin to spend again. Consumer spending accounts for at least 65% of GDP. With their housing values falling, their retirement accounts at record lows, and their prospects of being unemployed at very high levels, consumers have reined in spending quite drastically. Even the wealthy, who have the ability to spend, do not have the propensity to spend. Holiday sales clearly reflect this.

There are two issues negatively interrelated at the present time:

- If consumers can not get credit, they will not buy the products businesses sell (e.g. automobiles).
- If business sales and earnings start dropping, these firms become less credit worthy, and have trouble getting the credit they need, even when credit thaws.

These issues are impacting both state and local governments as well. They now have significantly declining tax revenues which impact their ability to sell bonds for capital projects.

This downward spiral must be stopped and reversed for GDP growth to return. Consumers must regain confidence and resume spending. Businesses need to see an increased demand to invest in capital projects and government entities must see future tax revenues which will support bond repayments.

President Obama and Congress recently passed a massive stimulus program to turn the economy and financial markets around. A major component of this program entails investing in infrastructure projects which are designed to create jobs and bolster consumer confidence. Another major component is stabilization of the banking system so that credit can begin to flow freely again. We will have to wait and see -- How much? How soon? and How effective? -- it all will be. Under any circumstance, it appears that 2009 will be a difficult year, both domestically and internationally:

- Economists are describing the depth and length of this current recession with alphabet letters. Some feel it will be a “V.” GDP will continue to decline rather steeply in the first two quarters of 2009, then rebound sharply in the third and fourth quarter. Others sense it will be a “U”, where GDP will remain at a current negative growth level throughout 2009 and start growing again in the first quarter of 2010. The final group call it an “L” recession; negative GDP growth at about the current level through 2010 . . .

- The consensus forecast of economists in late December/early January is a net negative GDP growth by the US in 2009. The numbers vary from -.9 to – 2.7. Also, the strong emerging markets, specifically China and India, will contract significantly too – China's growth will drop from 9% to 6%; India's from 7% to 3 or 4%. Total global GDP growth in 2009 is projected to range from 0 to 0.5%. All of these national and international dimensions will impact commercial construction activity in Houston in 2009.

Finally, there is the issue of the Houston economy itself which is normally affected by three major things:

- The health of the national economy
- The price of oil and natural gas, and
- The value of the dollar (a high dollar makes the products of our ship channel industries less competitive)

All three of these factors have been negative compared to a year ago.

Therefore, 2009 begins with major uncertainty, which has created a climate of caution and hesitancy at the national level and at the local level, even though the outlook in Houston remains more positive than in most markets.

2008

A RECORD FOR NON-RESIDENTIAL CONSTRUCTION

MCGRAW HILL CONTRACTS

Through December 2008, **nonresidential** contracts totaled \$6.5 Billion – up 28% from 2007--this bodes well for commercial contractor backlogs in 2009. Total contracts were down 8% due to the 29% decline in the residential sector.

Houston MSA McGraw Hill Contracts

	2008	2007	% Change
Nonresidential	\$ 6,541,318,000	\$ 5,092,403,000	28%
Residential	6,438,579,000	9,089,850,000	-29%
TOTAL	\$12,979,897,000	\$14,182,253,000	- 8%

-Nonresidential buildings include commercial, manufacturing, educational, religious, administrative, recreational, hotel, dormitory and other buildings.

-Residential buildings include one and two family houses and apartments.

CITY OF HOUSTON BUILDING PERMITS

The City of Houston reported total permits of \$5.7 Billion – a 3.9% **increase** from 2007 overall. Broken down, there were \$4.083 Billion in Nonresidential permits, a 22.5% **increase** from 2007, while the residential permits **decreased** by 24.4% to \$1.65 Billion. This residential number would have been worse had it not been for the many repairs and renovations due to Ike.

City of Houston Building Permits

	2008	2007	% change
New Residential	\$1,352,604,983	\$2,024,934,282	-33.2%
Additions, Alterations & Conversions - Residential	301,935,909	162,305,290	86.0%
TOTAL Residential	\$1,654,540,892	\$2,187,239,572	- 24.4%
New Non Residential	\$2,281,516,837	\$1,897,694,235	20.2%
Additions, Alterations & Conversions –Non Residential	1,801,600,620	1,435,441,300	25.5%
TOTAL Non Residential	\$4,083,117,457	\$3,333,135,535	22.5%
TOTAL All Permits	\$5,737,658,349	\$5,520,375,107	3.9%

EMPLOYMENT GROWTH

With 57,300 jobs added in 2008, Houston is #1 in the top ten cities in the U.S., and Texas had more than its share with Dallas-Ft. Worth #2 (43,300 jobs), San Antonio #3 (14,900) and Austin #5 (9,600). (2008 projections for Houston job growth in last year's Market Forecast was 55-60,000 jobs!).

2009

Drivers

A fundamental change in market drivers: All major drivers of commercial construction activities have turned negative compared to a year ago. Here are the specifics:

Employment Growth:

Both the Greater Houston Partnership (GHP) and the Institute for Regional Forecasting at the University of Houston (IRF) are calling for net job losses in 2009. GHP says 46,000. IRF says 10,000-35,000 (Dr. Barton Smith predicts these numbers will be revised upward). These numbers could change even more negatively if oil averages below \$40/barrel and natural gas below \$4/MCF. These can change positively if oil gets to the \$60-\$70 barrel range and natural gas to the \$6 or more range.

Still, the numbers are staggering:

The U. S. Unemployment rate was 7.2% in December. The U.S. lost 2.6 million jobs in 2008-- the highest level in more than 6 decades. The Houston MSA unemployment rate as of December was at 5.5 % and Texas' unemployment rate was 5.7% – well below the national average.

Population Growth

According to Dr. Barton Smith of the UH Institute for Regional Forecasting, Houston's PMSA* projected population growth for 2008 is 3.3% (down from 4% for 2007). It is expected to grow by over 1.2% in 2009, and increase by nearly 8%--- an additional 400,000 people between 2008 and 2013. Houston's economy and lower cost of living will attract companies who are looking to relocate from higher cost areas, such as California and the Northeast.

*Primary Metropolitan Statistical Area: 6 counties: Chambers, Ft. Bend, Harris, Liberty, Montgomery and Waller Counties

Vacancy, Rental & Absorption Rates

For most office retail and light industrial warehouse space, both rates and occupancy are declining and vacancies are rising. Retail is particularly hard-hit. Many mixed use projects with heavy retail and hotel components have been put on hold or cancelled. Landlords of existing retail projects are being encouraged to level rates or make other concessions to help tenants succeed. (Specific rates for the various market segments are shown below.)

Architect Hiring

Houston area architectural firms are now laying off people. The November 2008 Architectural Billing Index, a 9-12 month leading indicator of construction awards, hit the lowest level since its inception in 1995 at 34.7. A small up-tick occurred in December:

The December 2008 ABI U.S. Index:	36.4
Regional Averages:	
Midwest:	35.5
South (<i>includes Houston</i>):	35.3
West:	35.3
Northeast:	34.4

Funding for Projects

Money for construction projects is both less available and more expensive with tighter covenants and conditions. For example, as compared to a year ago, solid projects based on tenants or consumers can be financed in our area as follows:

- One month LIBOR plus 300 basis points vs. 200 a year ago
- 25-35% equity vs. 20-30 a year ago
- Pre-lease requirements significantly increased from a year ago
- Personal guarantees with full financial disclosures
- Tighter loan covenants

Energy Prices

Houston is still an energy-based economy. 2008 ended with the following price levels:

Recent prices:	12/08	12/07	% change
WTI Oil Price/bbl	\$39.51	\$92.19	-57.1%
Henry Hub Spot Natural Gas/mcf	\$ 5.76	\$ 7.07	-18.6%

For Houston to maintain its “energy edge”, oil and gas prices need to accelerate from current levels. The picture for oil services firms will not be as rosy in 2009 based on several projections, including:

EIA**	Average WTI* Oil Price:	\$42-\$45 in 2009; \$55 in 2010
	Henry Hub Natural Gas price:	\$5.01 in 2009; \$5.93 in 2010

* *West Texas Intermediate*

***Energy Information Administration Short-Term Energy Outlook February 2009*

Exports:

A low dollar is a benefit to the Port of Houston...and the docks at the Port of Houston remain busy despite the economic slowdown. However, at this time, the value of the dollar is trending upward: in 2002 a Euro was worth 87cents; in April 2008 it was \$1.60, and as of January 16, 2009, a Euro was worth \$1.32.

Sector Analysis

RESIDENTIAL

The single family and multi family markets will both be considerably off in 2009.

Single Family:

The slump in new-home construction will continue into this year, with housing starts potentially falling to their lowest level in a decade.

- Projections are that 20-25,000 homes will be built in 2009 (down 20% from 2008's 28,000 homes), and marking the third consecutive year of falling home starts.
- 2008's net sales were down 32% from 2007 levels.
- One bright spot is that the Houston Association of Realtors reports single-family inventory at 5.7 months – the lowest level in 2008!

Multi-Family:

Demand was strong in 2008.

- Last year nearly 13,000 units were added to the inventory—a 13% increase from 2007, according to Grubb & Ellis. Many projects are now under way, which will add 26,000 new units to the market over the next few years.
- While occupancy rates were healthy in 2008, look for leasing demand to taper off this year as the economy worsens, and construction slows due the credit crunch.

CBRichard Ellis 4th Quarter 08 statistics:

Absorption 2008:	10,663 net units; (3 rd largest number in Houston History)
Citywide occupancy Avg. 2008:	86.3% overall (lots of supply; lots of C & D product)
Rents:	Another record year at \$0.84/sq ft.
Under Construction 4Q:	11,752 units

HIGHWAY/CIVIL/ MUNICIPAL/UTILITY

TXDOT

In 2009, TxDot will have approximately \$751 Million in projects and \$5.2 Billion in backlog (on hold) in the Houston District (which includes Brazoria, Ft. Bend, Galveston, Harris, Montgomery, Waller counties). The projects in backlog will probably extend into 2010 unless stimulus or state action occurs.

Port of Houston

The Port of Houston has \$101Million in capital expenditures planned for 2009--a slight decrease from \$114 Million in 2008.

Metro

Metro is expecting a banner year for their capital projects, budgeting over \$745 Million for their fiscal year, which runs from October 2008 to September 2009. Their budget allows for over \$440 Million to Metro Solutions, where they will continue corridor expansion plans.

City of Houston

The City of Houston will have \$552 Million in civil work in 2009. Street and Traffic Control make up almost of that number.

City of Houston		
Department	Amount (Millions)	Big Projects
Street & Traffic Control	262,602	Hike & Bike Trail Program (\$26.3M)
Water Utility System Facilities	100,120	Neighborhood Renewal Water Mains (\$45.3M)
Wastewater Treatment Facilities	141,360	Neighborhood Sewer Rehab (\$28.8M)
Storm Drainage System	48,850	Kirby Storm Sewer Improvements (\$15M)
Total	\$552,932	

HEAVY INDUSTRIAL

Industrial companies are evaluating more than 1,000 projects scheduled to begin construction in 2009 in the U.S. Southwest market region, which includes Arkansas, Louisiana, Oklahoma and Texas, totaling approximately \$58 billion in total investment value (TIV).

Texas leads the region and the nation with **579 projects** and a total investment of **\$34 Billion**. Louisiana is 2nd with \$20 Billion; Oklahoma has \$3.9 Billion and Arkansas has \$701 Million planned.

However, all is not rosy – particularly in the Chemical sector. Dow, BASF, DuPont, Huntsman, Rohm & Haas, and others, have announced sweeping cutbacks after record energy and raw material costs in 2008 cut into profits and then a global recession sapped demand for autos, building materials and thousands of other consumer goods that contain their products.

Also, LyondellBasell, with major operations in Houston, has announced a bankruptcy filing to restructure debts after announcing similar cutbacks. The cuts will ripple through Houston and Texas, the largest chemical producing state and the backbone of the nation's chemical infrastructure.

COMMERCIAL & LIGHT INDUSTRIAL

THE PRIVATE MARKETS

General Purpose Office Space

The outlook for 2009 is quite unpredictable. The year 2008 ended with the following statistics:

CBRichard Ellis 4th Quarter 08 Statistics:

Occupancy:	88.1%
Lease Rates:	\$23.57 Avg. (Suburban Class A: \$29.60; CBD Class A: \$39.47)
Absorption:	2.7M sq ft. net (87.4% in Class A) a significant decline likely in 1 st half of 2009
Construction Completed:	5.14 M sq ft.
Under Construction:	7.7M sq ft.

Also, with layoffs, the sublease market is expanding and demand is dropping. This will lead to downward pressure on rates and probably concessions. However, there will be some build-to-suit office activity because of favorable money rates and construction costs.

Light Industrial/Warehouse/Service Center

2009 will be a difficult year in this market segment as well. The year 2008 ended with the following statistics:

CBRE's 4th Quarter 08 Statistics:

Occupancy:	93.7%
Lease Rates:	\$0.54 Avg. asking lease rate
Absorption:	4.45M sq ft. net
Construction Completed:	12.3M sq ft.
Under Construction:	4.3M

This market is primarily driven by energy-related activity. With declining oil and gas prices and the amount of available space coming on line, this segment had negative absorption in the 4th quarter of 2008 – its first in 23 quarters. However, there will be build-to-suit activity in this market as well. But the speculative market will remain at a virtual standstill.

Hotel/Motel

The U.S. Hotel/Motel market is suffering due to the national economy. Business and leisure travel are way down, and across the nation, the number of hotel guestrooms in the construction pipeline that have been abandoned increased 75% in November 2008 over November 2007.

Hotel/Motel construction in Houston was active in 2008. Smith Travel Research reports that Houston had a 130.3% year-over-year increase in the *In Construction* phase with 4,599 rooms, and 14,514 rooms in the *Total active pipeline*--a **101.9%** increase vs. the 7,187 rooms in the total active pipeline in December 2007.

PKF Consulting Reports:

Hotel Occupancy Rate Avg. 08:	68.2% (up 2% '07...due to "Ike" and a healthy convention year)
Room Rate Avg. 08:	\$127.94 (up 6.9% in 08)
RevPar* Avg. 08:	\$87.19 (up 10% in 08)

2009 will likely be a "down" year in Houston due to the economy and because "even-numbered years" are typically the strong convention years in Houston. PKF expects little to no construction to begin in 2009 other than the already announced Embassy Suites downtown.

*RevPar = Revenue per Available Room

Retail

This market is the hardest hit by the economy. There are many projects on hold and it is very tough to get financing. U. S. retail sales declined 2.7% in December (more than double the 1.2% decline Wall Street had projected)--a record 6-straight month decline. These numbers do not bode well for a good retail market in Houston. Many projects in Houston have been cancelled, halted or scaled back. Retail stores are reducing prices, cutting inventories and laying off people, and some store closings have been announced by several U.S. chains. Even in light of these facts, experts in this segment still expect about 2 million square feet of construction in Houston.

CBRichard Ellis 4th Quarter 08 Statistics:

Occupancy:	86.7%
Lease Rate:	\$19.56 avg. asking rate (Range: \$13-\$27; rental rates expected to decline in 09)
Absorption:	Negative: (1,021,318) sq ft.
Construction completed 2008:	6.7M sq ft.
Construction Underway:	5.7M sq ft. (55 centers)

Churches/Institutional/Medical

- **Churches**

The Archdiocese of Galveston-Houston is planning almost \$240 Million in 2009.

Pending	47 projects - \$113.8 Million
Preconstruction	\$50.8 Million
Under Construction:	\$75.2 Million

When you add in the other denominations, it will be another strong year for the church market. This may be proof that in down markets, more people pray.

- **Institutional**

The Institutional market will also be healthy in 2009. Here are some reported budgets and projects:

Reported Projects		
Institution	2009 plans	Comments
University of St. Thomas	No work planned in 09	
Baylor	\$ 3 Million	
University of Houston	\$ 60 Million	
Houston Community College	\$ 55 Million	
Lone Star College System	\$420 Million	A small portion may be postponed
Sam Houston State University	\$ 78 Million	Depends on legislature; includes Performing Arts Center already under construction
UT-A&M*	Undetermined*	Legislative clarity pending*
Rice	A backlog of several projects	The work may be spread over a longer period of time
Total Possible Market:	\$616 Million (+ UT-A&M-Rice)	

* The construction at these campuses, funded by the Public University Fund, is reported to be on hold until the fund revenues are better known.

- **Medical**

Medical should continue to be a strong segment in 2009, driven by the activities of Texas Medical Center institutions. However, the funding picture for these projects is not as certain as it once was. Hospitals have been forced into a more expensive sector of the bond market, and their credit-worthiness has also been impacted by falling endowment values and by elective surgery postponements.

There are major projects still planned by St. Luke's Episcopal Hospital system, The Methodist Hospital system, and the University of Texas M.D. Anderson Hospital. Some will be in the main Medical Center itself; others will be at suburban campuses. The specific re-building of UTMB at Galveston should be resolved within this year as well.

THE PUBLIC MARKETS

- **City of Houston:**

The City of Houston has several attractive projects with over \$384 Million in their '08/'09 Capital Improvement Program for building work, with the airports making up more than half that number.

Department	City of Houston	
	Amount (Millions)	Big Projects
General Government Facilities	\$15,050	East Downtown Economic Development Proposal (\$10M)
Convention & Entertainment Facilities	\$12,758	Storm Worthiness Plant (\$8M)
Fire Protection Facilities	\$8,260	New Fire Station (\$5.4M)
Homeless & Housing Facilities	\$7,300	Residential Energy Efficiency Program (\$3.5M)
Library Facilities	\$22,493	Kendall Neighborhood Library (\$7.4M)
Parks and Recreation Facilities	\$33,443	Gragg Park HPARD Campus (\$10M)
Police Facilities	\$22,682	Midwest Police Station (\$5.6M) and Police Radio Infrastructure Upgrade (\$11M)
Public Health Facilities	\$1,950	HVAC Improvement Project (\$1M)
Solid Waste Management Facilities	\$4,704	Rebuild Lawndale Depository and New near Northside Depository (\$1.28M)
Aviation Facilities	\$256,089	Terminal and Finishes at Hobby (\$73.2M)
Total	\$384,729	

- **Schools (K-12)**

The School market will be strong again this year, with a variety of both large and small projects, which should easily total over \$1 Billion. HISD and Cy-Fair make up over half of that number alone.

District	Budget	Projects
Alief	600,000+	Resurface running tracks and small maintenance projects
Alvin	\$0	no construction
Angleton	\$16 Million	Various renovations - already bid out
Channelview	\$0	no construction
Clear Creek	167.8 Million	2 new elementary schools, new high school, new intermediate, roof repairs and more
Cy-Fair	\$119.9 Million	15 renovation/additions packages with possibly more and a new elementary
Dayton	\$0	no construction
Friendswood	\$26.4 Million	HS Additions/Renovations and Natatorium
Galena Park	\$4.5 Million	Repair drainage problems, lighting and sound systems, etc.
HISD	\$450+ Million	This includes 12 new schools, 3 relief schools, 8 replacement schools, etc. over the next 2 years
Huffman	\$0	no construction
Katy	\$0	no construction and postponing new bond election in light of the economy.
Klein	\$77 Million	A variety of renovations, additions, and small projects
New Caney	\$43 Million	Through Mid 2010
North Forest	\$0	no construction
Pasadena	\$0	no construction
Pearland	\$20 Million	Waiting for board approval of 2 elementary schools
Sheldon	\$9 Million	Transportation center, operations center and paving projects
Spring	\$78.5 Million	3 elementary schools, renovations and a nutrition center
Spring Branch	\$95.7 Million	New elementary schools, upgrades, renovations, track fields, natatorium, stadium, etc.
Texas City	\$60 Million	New high school
Tomball	\$92.4 Million	New high school, new elementary and other small projects
Total	\$1.18 Billion	

Labor & Materials Costs, Human Resources, Workforce And Other Industry Issues

Labor Costs

Many companies are freezing wages or controlling them in the 2-3% range. Contributions to 401(k)'s are being reduced or eliminated, along with other measures such as shorter work-weeks, unpaid time off, and cutting or eliminating bonuses and various perks. Health care costs will continue to increase. Two global consulting firms (Aon Consulting and Mercer Health & Benefits) project increases of 8-10%. Look for more companies to pass on some of the cost to employees and/or make plan changes to increase deductibles, co-payments, etc.

Material Costs

The last several months have seen significant decreases in costs – hopefully, enough to get some projects moved forward. While some prices may have declined as much as they are going to, others may have further to fall. Some products, like cement, have not experienced the declines seen in other commodities.

The U.S. **producer price index** (PPI) for inputs to construction industries also declined in 2008 (reported by Ken Simonson, AGC Chief Economist):

2008 Increase: + 2.7%
2007 Increase: + 4.8%

The AGC Houston semi-annual Labor & Materials costs survey shows significant slowdown in 2009 for both labor and materials costs:

	2008 Projected	2008 Actual	2009 Projected
Labor:	8.25%	7.38%	0.73%
Materials	15.61%	15.22%	0.97%

Cost Projections According to Survey Results (Houston):

Both labor and material costs projections for 2009 reflect the uncertainty of the market due to the nation's economic conditions. 66% of respondents project that labor costs will either remain the same or decrease in 2009 and 58% feel that material costs will either remain the same or decrease. Since the inception of this survey in 1998, projected rates of increase have never been this low – both currently being projected at less than 1%. The actual rate of cost increases over the past 10 years has been around 7% for labor and nearly 10% for materials.

Human Resources/Workforce Challenges

Immigration Reform remains a top industry priority. Houston area contractors must have access on a legal basis to the immigrant work force. A local group is pushing the new administration to embrace comprehensive reform. Support of their efforts is critical. In addition, a McKinsey and Co. study indicates that as Baby Boomers retire, we will need the immigrant workforce to create GDP growth greater than 2%. Until comprehensive reform is enacted, there are many challenges in this arena: the no-match rule still hangs out there; recent legislation requiring E-Verify for Federal Contractors has been delayed; and so has implementation of the new I-9 form (which limits the choice of acceptable documents).

Look for Employment Law to also be a priority. The new administration has a strong workplace agenda. The Society for Human Resource Management predicts that the 111th Congress will have the most active workplace policy agenda in 30 years. In addition to employment law changes enacted late 2008, they expect many initiatives to be introduced in the first nine months. Their scope is wide range and includes potential changes to **sick leave, gender related pay differences and OSHA rulemaking.**

Proposed or enacted new Employment Law includes:

- Lilly Ledbetter Fair Pay Act
- Amendments to the Americans with Disabilities Act
- Amendments to the Family and Medical Leave Act

- Amendments to laws pertaining to performance of Federal Construction contracts, related to:
 - Changes for Certified Payroll Records
 - Non-displacement of Qualified Workers
 - Notification of Employee Rights and Government Contracting Costs
- And...a very important one that has all businesses talking: **The Employee Free Choice Act**. Perhaps **the most high profile and controversial** potential policy change is this proposed legislation, which would mandate an employer to bargain with a labor organization on the basis of a “card check” if it proved that 50%+ of the employees had signed authorization cards. If passed, this new law would be a radical change from the current policy that requires a National Labor Relations Board (NLRB) supervised secret ballot election be held before an employer can be obligated to bargain.

At the state level, the legislature will look at Worker’s Compensation and Unemployment, and the Texas Association of Business and Chambers of Commerce (TABCC) has a list of legislative priorities that include strengthening or protecting certain **employer** rights.

Other Issues:

Green Building

Green is no longer a trend; it is a requirement: All market-wise firms are increasing the number of LEED accredited people on their staff. Both public and private projects require a green approach more frequently --this will only accelerate. The new president is fully committed to a green agenda; look for incentives to be offered to expand and amplify this movement.

Building Information Modeling (BIM)

BIM is IN. A recent study of Architectural firms across the United States (conducted by Reed Business systems) indicates that the use of BIM has increased significantly over the last 12 months. 96% of the offices sampled indicated they adopted it within the last 12 months and nearly half of all respondents estimate that all projects will use BIM within one to two years.

This anticipated rapid adoption of BIM indicates the need for education and training tools that will facilitate the BIM experience.

Summary & Conclusions

Most company backlogs will hold and carry Houston firms through most of 2009. This is particularly true of general contractors and specialty contractors that work later in the construction schedule. Contractors in the early part of the schedule are seeing increased competition from residential builders.

Getting new work will become more difficult until the economy stabilizes and the financial markets stop de-leveraging. Hopefully, this starts to be certain by the third quarter of 2009.

Houston will remain one of the strongest markets in the country; expect more out of town competition and margin pressure.

Houston may see a retreat to construction volumes at 2005-06 levels – between \$3.5 & \$4.5 Billion.