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Construction industry likely to go from soft to worse in '08

Sacramento County may fare OK with more commercial projects

Sacramento Business Journal - by [Robert Celaschi](#) Correspondent

Last year could have been worse for construction in Sacramento. This year, indeed, will be worse, based on the forecast by the **Construction Industry Research Board**.

What saved the region in 2007 was a surge in new offices and stores, plus alterations to old ones. It was almost enough to make up for a steep drop in new housing, though construction employment fell. Public works projects -- a category that includes anything from sewers to government offices -- slowed down locally but typically account for only about half as much work as the private sector generates.

Add the two sectors, and the total value of construction in the four-county region fell by 6.4 percent for the first 11 months of the year compared to the same stretch of 2006, as measured by the Construction Industry Research Board using data from building permits.

That makes Sacramento a relative bright spot. Statewide, the drop was 11.8 percent. When December's numbers can be added in, the statewide picture is expected to only get worse -- a projected 16.1 percent drop for the full year.

Put another way, last year saw the lowest total value for California construction in a decade, after adjusting for inflation. In 2008, the total value is expected to decline 5.3 percent more.

In Sacramento, the combination of a weak office market, a weaker housing market and a looming halt to building in levee-ringed Natomas offers little hope that this region will fare any better this year.

Local new-home sales are predicted to be about the same as last year, at best. Homebuilders cut back production sharply at the end of 2007. Now the nonresidential side also is poised for a slowdown that could last a couple of years.

"Typically our marketplace lags behind residential (by) one to three years. When residential starts tanking, we still have a couple of years of residual infrastructure,

schools and retail," said Robert Kjome, vice president of pre-construction services with **Roebbelen Contracting Inc.** in El Dorado Hills and president of the Sacramento Builders' Exchange.

The residential market started tanking in 2006, which means nonresidential construction's slow stint would be starting right about now.

The public-works sector in California is starting strong in 2008, but little of it can be found close to home, Kjome said. The biggest project Roebbelen is bidding on is the expansion of a Solano County jail in Fairfield. The company also landed a contract for Fresno's airport expansion.

"Sacramento is pretty slow. There's really not a whole lot of action right now," he said.

Construction companies aren't the only ones that will feel a pinch from a slowdown in business. Local governments look to development for new sources of taxes and fees.

"If the trend stays, it obviously cuts down our revenues and, to some degree, almost anything we do. But right now there is no panic mode," said Jim Pardun, economic development manager for Sacramento County.

Sacramento County finds itself in a better position than the incorporated cities, he added, because the county's growth areas are primarily zoned for commercial and light industrial space, while the open land within the cities is more often for housing.

Taking it by the numbers, here's how the various components of the construction market shook out through the first 11 months of 2007:

Nonresidential: softness ahead

The Sacramento region proved a powerhouse in nonresidential private-sector construction last year, with permit values up 20 percent from the same period in 2006. The rest of the state managed a gain of only 4.8 percent, and a weak December is expected to take most of that away for a year-end total that's nearly flat.

This year looks like nonresidential valuation will sag an additional 4.2 percent for the whole state, the CIRB said.

The biggest question mark locally is the effect of a likely building halt in Natomas. In January, the **Federal Emergency Management Agency** said it planned to give Natomas a flood-map designation that would effectively block all new construction projects.

In the long run, officials have said, that would delay or kill outright at least \$1 billion in construction projects planned for this year and the same amount for 2009. The short-term effect isn't as clear. The city would still take permit applications through Dec. 8, but any developer who pulls a permit by then would have to begin substantial construction within six months.

Some developers might speed up their plans to meet the deadline. But it will take deeper pockets to commit early on to projects that otherwise would have been put off until 2009.

A single large project can have a dramatic effect in a softening market. That's especially true right now in West Sacramento, where the California State Teachers' Retirement System is building a new headquarters and a five-story parking garage. The total project cost of \$275 million normally would be the annual grand total of all nonresidential building in Yolo County.

On the whole, though, office vacancy rates were on the rise through most of 2007, a sign that the market is already overbuilt and there's little incentive for more speculative construction.

Major retailers are pulling back as well, delaying or pulling out of big projects.

Where the picture may stay strong locally is in alterations and additions to existing buildings. Last year that work added up to nearly as much as the new stores and offices combined, and was up about 22 percent growth from the year before. The entire state showed only a 12 percent increase in additions and alterations.

Residential: Consistently woeful

Housing was a bust all across the state last year, but the four-county Sacramento region put its own spin on the dismal sector.

The numbers through November showed the dollar value of new single-family housing falling 19.3 percent here, not nearly as bad as the 37 percent decline statewide. On the other hand, the bottom fell out for local apartment construction, off 49.2 percent compared to only a 20.8 percent decline statewide.

Combined, that's a 27.1 percent drop in value for all types of housing under construction in the Sacramento area, slightly better than the statewide fall of 31.5 percent.

This was also one of the most consistent categories from county to county here, with each showing a decline close to the regional average. In most other categories the numbers can vary widely, with one county showing strong growth while another shows little activity at all.

California isn't expected to add much to its housing inventory in 2008. The CIRB is predicting the fewest new units in a dozen years.

Government: Sewers, few schools

Public works contracts come in two general types, one for buildings and the other called "heavy construction" -- for roads, bridges, sewers and other infrastructure.

This is another category where a single large project can skew the year-to-year comparisons. The new Oakland span of the Bay Bridge added \$1.43 billion to the statewide 2006 total. Leave it in, and 2007 was a down year for heavy construction. Take it out of the equation, and the statewide total for 2007 would be up 8.8 percent, with this year's total expected to be up 4 percent more.

Sacramento County had its own major projects to boost numbers for 2007. One was the Northwest Interceptor system of sewage pipelines and pump stations that will bring wastewater from West Sacramento and Natomas to the Sacramento Regional Wastewater Treatment Plant in Elk Grove. The other is the Freeport Regional Water Project, a joint venture of the Sacramento County Water Agency and the East Bay Municipal Utility District to pipe Sacramento River water to customers in Sacramento County and the East Bay.

Last year, five contracts related to these two projects added up to more than \$400 million, according to the CIRB. Construction work on the Freeport project is scheduled to continue through the summer of 2009, which should help prop up this year's numbers as well.

Schools had been a large source of public works contracts locally in past years. That business dropped off dramatically last year, except in El Dorado County.

The Natomas flood designation hits the public works sector as well, halting plans for a library and a high school. Still in the clear, however, is work on the new Terminal B at **Sacramento International Airport**, scheduled to start in June.

The CIRB final estimate for 2007 shows public-works construction of all stripes in California down 10.3 percent in value, but headed for a 2.8 percent rise this year.