

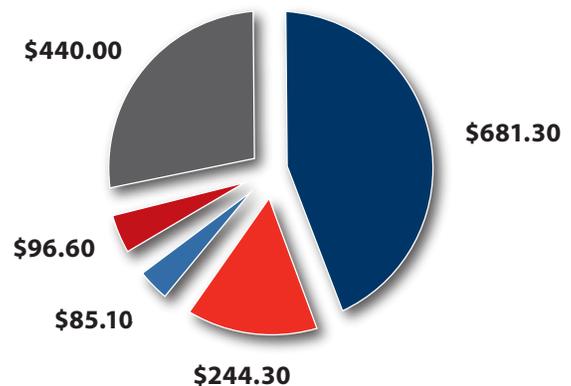
THE OUTLOOK FOR NONRESIDENTIAL CONSTRUCTION

Permit authorized nonresidential construction in Utah has averaged \$1.5 billion annually (constant 2009 dollars) over the past 15 years. During this time, 70 percent of all new nonresidential construction was located in the four Wasatch Front Counties (Weber, Davis, Salt Lake, and Utah Counties). Salt Lake County dominated new construction activity with a 44 percent share of statewide nonresidential construction and an average annual value of \$681 million, *Figure 1*.

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Figure 1
Average Nonresidential Construction Valuation by Counties – 1995 to 2009 (Million Constant 2009 Dollars)



■ Salt Lake County ■ Utah County ■ Weber County
■ Davis County ■ Other Counties

Source: Bureau of Economic and Business Research, University of Utah.

In 2009 the level of nonresidential construction fell to \$990 million, well below the 15 year average of \$1.5 billion. The 42 percent decline in 2009 was the steepest single-year decline on record. The pace of the decline has continued at least through July of 2010. For the first seven months of 2010 the value

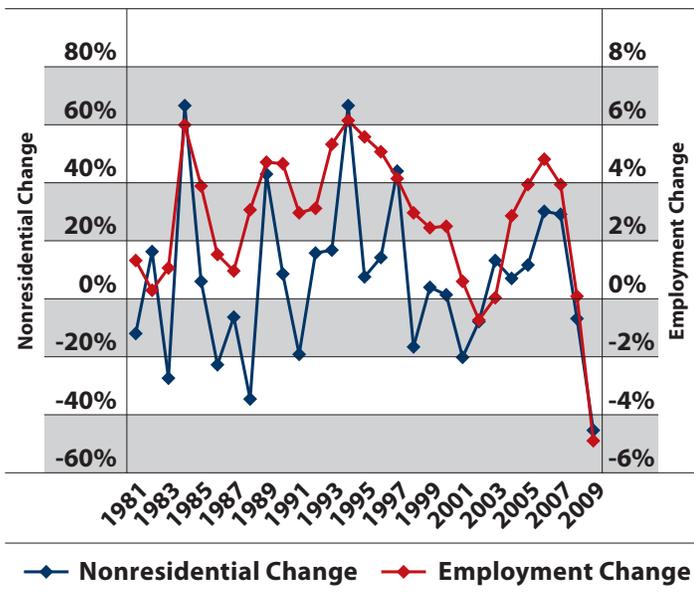
of permit authorized nonresidential construction has fallen by another 42 percent. However, some relief in the second half of the year should come from a \$100 million permit expected from Kennecott Copper for their molybdenum processing facility.

The demand for nonresidential buildings is very sensitive to local labor market conditions. The jobs generated by a growing economy lead to demand for additional office and industrial space, while the income received by workers drives the demand for additional retail space. The Utah labor market is not insulated from slow job growth during recessions. To lose jobs, as the state has done in the current recession—expected loss of 71,000 jobs in 2009 and 2010—is very rare and has painful consequences for the nonresidential sector. Changes in nonresidential construction are closely related to changes in employment, *Figure 2*. The decline in nonresidential construction in Utah will continue through 2010 and 2011 with values falling to \$650 million. From the peak

of 2007 to the trough of 2011, permit authorized nonresidential valuation will fall by 66 percent. The magnitude of decline is deeper than any of the past contractions. The three previous nonresidential contractions (1980-1983, 1986-1988 and 1998-2001) had peak to trough declines of 53 percent, 56 percent and 54 percent respectively.

After 2011 the forecast shows four years of steady increases as total permit authorized valuation rises from \$650 million to \$1.5 billion by 2015, *Table 1*. Over the four-year period of 2012 through 2015, nonresidential valuation will total \$4.5 billion or an average annual rate of \$1.1 billion. This forecast was based, in part, on the two most recent nonresidential cycles. In these two cycles the first four years of expansion from the cycle's trough averaged \$1.2 billion in new nonresidential valuation annually. By 2015 nonresidential valuation will reach the average valuation for the past 15 years of \$1.5 billion.

Figure 2
Percent Change in Nonresidential Construction Valuation and Nonfarm Employment in Utah



Source: Bureau of Economic and Business Research, University of Utah and Utah Department of Workforce Services.

Table 1
Projections for Permit Authorized Nonresidential Construction in Utah (2009 Constant Dollars)

Year	Valuation (million)	Percent Change
2005	\$1,366	2.2%
2006	\$1,613	18.1%
2007	\$1,938	20.1%
2008	\$1,705	-12.0%
2009	\$990	-41.9%
2010	\$800	-19.2%
2011	\$650	-18.8%
2012	\$800	23.1%
2013	\$1,000	25.0%
2014	\$1,200	20.0%
2015	\$1,500	25.0%

Source: Bureau of Economic and Business Research, University of Utah.

While the near term outlook for the permit authorized nonresidential sector is pessimistic, nonresidential contractors and workers will benefit in 2011 through 2013 from the third largest project in Utah's history. The National Security Administration's data center at Camp Williams, a nonpermit authorized project in Utah County, is projected to have a construction value of \$1.5 billion. It is uncertain how much of the total value of the project will be devoted to construction costs. Equipment costs are expected to be substantial. Nevertheless, at a minimum, hundreds of millions of dollars of construction costs will spread over a three-year period. The project award is scheduled

for October 2010. Construction will begin 30 days after contract award. Construction employment for the data center will require several thousand workers. Operational employment for the facility is projected at just a few hundred full-time employees. Both the Intermountain Power Plant in the late 1980s in Millard County and the reconstruction of I-15 in the late 1990s had construction values of over \$2 billion in inflation adjusted dollars. The Micron Plant built in Utah County in 1999 was \$1.2 billion in inflation adjusted dollars. The building permit value for City Creek Center now under construction in Salt Lake City has been less about \$500 million.