UTAH'S ECONOMY
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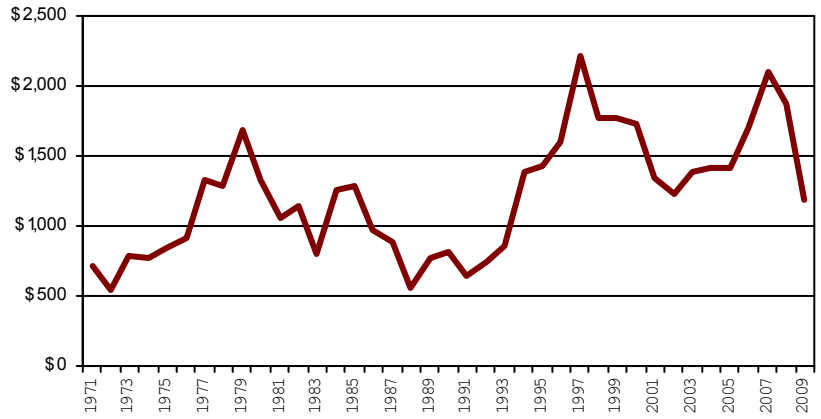
COMMERCIAL CONSTRUCTION CONTRACTION

We are beginning to see signs that the Utah economy is beginning to stabilize; monthly losses in employment are shrinking, unemployment claims are dropping, and permits for new homes are up. At the national level the stock market had an incredible year in 2009, the Christmas retail season was better than expected, and housing prices have managed slight increases in many urban areas. It still appears, however, too early to call it bottom for the commercial real estate sector, nationally or locally. The cycle for this sector generally lags other economic indicators by one to two years and it is no different in this recession.

One of the best indicators of market conditions for the commercial real estate sector is new construction activity. The level of new construction declines as vacancy rates, leases rates and job growth weaken. In 2009, nonresidential construction in Utah dropped 37 percent, falling from $1.9 billion in 2008 to $1.2 billion in 2009 (real dollars). This drop is the largest single-year decline for nonresidential construction since nonresidential record keeping began in the 1950s.

Figure 1 shows the long-term trend line for permit authorized nonresidential construction activity in Utah. The current cycle peaked in 2007 at $2.1 billion, just shy of the all-time high of $2.2 billion set in 1997. The trend line depicts the volatility of the nonresidential construction sector with its rapid run-ups in activity followed by sharp declines.

Figure 1
Value of Permit Authorized Nonresidential Construction in Utah*
(millions of 2008 dollars)



*Permit authorized construction does not include road and highway construction or government buildings (schools, institutional buildings, etc.).
Source: Bureau of Economic and Business Research, University of Utah.

The duration of the nonresidential contraction is generally about 4 years, with new construction activity falling by 45-55 percent. In this cycle, new construction is already down 43 percent in two years and will likely fall by over 60 percent before a trough is established at around $800 million in 2011, *Table 2*.

Table 2
Characteristics of Nonresidential Construction Cycles in Utah

Peak Year	Peak Value (billions)	% Decline Peak to Trough	Yrs. From Peak to Trough
1979	$1.7	53%	4 yrs.
1985	$1.3	56%	3 yrs.
1997	$2.2	44%	5 yrs.
2007 to Current Date	$2.1	43%	2 yrs.
Forecast 2007 to 2011	$2.1	62%	4 yrs.

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

Table 3
Value of Nonresidential Construction in Utah for Selected Sectors
(millions of 2008 dollars)

	Industrial	Retail	Office
2000	$289.9	$291.8	$322.6
2001	$195.9	$268.4	$245.4
2002	$124.0	$210.4	$268.7
2003	$240.4	$299.0	$161.3
2004	$184.2	$293.2	$200.7
2005	$288.3	$207.3	$275.7
2006	$336.0	$323.6	$341.0
2007	$459.6	$283.3	$422.7
2008	$470.0	$330.0	$270.0
2009	$402.0	$144.3	$116.3
Avg. 2000-09	$280.03	$265.13	$262.44

** Shaded area denotes all-time record.*
Source: Bureau of Economic and Business Research, University of Utah.

In 2007 and 2008 the value of new industrial, retail and office construction hit all-time highs, shown by the shaded cells in *Table 3*. Since their construction peaks the decline has been precipitous for new retail and office space. Retail construction is down 56 percent and office construction down 72 percent. The industrial sector has been protected from a significant decline in 2009 due to the new eBay building in South Jordan. The building permit value for the eBay building was $232 million, which accounts for nearly 60 percent of the value of nonresidential construction in Utah in 2009.

Over the next 24 months the amount of new space added to the existing commercial real estate inventory will be modest. Despite this reduction in new construction activity, commercial lease and vacancy rates will be under pressure due to Utah's job market conditions. Historically, employment conditions in Utah have been far better than at the national level, but in the current contraction Utah has not fared any better than the overall U.S. economy. A look at the percent change in jobs from the peak month of the expansion to November 2009 shows that Utah is tracking almost exactly with the nation, *Table 4*. The number of jobs (seasonally adjusted) in Utah peaked in December 2007, the same month that jobs peaked nationally. Since the peak the number of jobs in Utah has declined by 5.1 percent compared to a decline of 5.2 percent nationally. Compared to other

western states Utah has done slightly better. Of the eleven western states six experienced percentage losses larger than Utah. Nevada and Arizona had the worst declines with employment in both states dropping by 10 percent since the peak employment month.

In the past 12 months Utah has lost jobs at a faster rate than the nation. From November 2008 to November 2009 the number of jobs in Utah declined by 4.1 percent compared to 3.4 percent nationally, *Table 5*. Utah ranks in the middle of the pack among western states in job loss over the past year; five states doing better and five states doing worse. In the next 12 months job losses in Utah are expected to decelerate through the third quarter, however, we will see some job growth in the fourth quarter. It will probably take well into 2011 before job growth is sufficient to support the beginnings of a rebound in commercial construction activity.

Table 4
Percent Change in Nonagricultural Employment from Peak Employment Month
(000)

	Peak Employment Month (Seasonally Adj.)	Percent Chg. from Peak
Nevada	May-07	-10.0%
Arizona	August-07	-10.0%
Oregon	December-07	-7.3%
California	July-07	-6.6%
Idaho	August-07	-6.6%
Wyoming	December-08	-6.4%
US	December-07	-5.2%
Utah	December-07	-5.1%
Colorado	May-08	-4.9%
Washington	July-08	-4.6%
New Mexico	September-08	-3.6%
Montana	October-07	-2.5%

Source: U.S. Bureau of Labor Statistics

Table 5
Percent Change in Nonagricultural Employment
(November 2008-November 2009)

	Percent Chg.
Nevada	-6.1%
Wyoming	-6.1%
Arizona	-5.6%
Oregon	-5.1%
California	-4.2%
Utah	-4.1%
Idaho	-3.9%
Colorado	-3.8%
Washington	-3.6%
US	-3.4%
New Mexico	-3.0%
Montana	-1.7%

Source: U.S. Bureau of Labor Statistics

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