

2008 Greater Houston Construction Market Forecast



**This report was produced by The Associated General Contractors – Houston Chapter
and Kiley Advisors LLC.**



2008

STEADY THROUGH THE STORM

2008 dawns with apprehension:

- There's talk of recession (two successive quarters of negative growth).
- There is enormous volatility in the stock market causing the Federal Reserve to make substantive rate cuts.
- The housing market has been steadily declining, eroding a sense of wealth on the part of consumers.
- The wind-down of the sub-prime debacle has led to tighter credit for all types of businesses.
- Congress is considering a stimulus package.

Reading and listening to the media reports, many based solely on speculation and conjecture, could cause a real loss of confidence about the coming year. However, the facts point toward a much less troubling picture, particularly here in Houston.

U.S. GDP growth in 2008 is projected to remain positive, but slowing, in the 1.7-2% range, and globally, growth rates will continue to be positive too, though moderating from last year. (2007 U.S. GDP was 2.2%; 2006 was 2.9%.) The Chart below shows other countries.

Global GDP	2008 Projected GDP (Est.)	2007 Projected GDP (Est.)
China	10.8%	11.5%
India	8.6%	8.6%
Korea:	4.8%	5%
Euro Zone:	2.2-2.4%	2.8%
Brazil	4.0%	4.4%

None of these projections portend a total meltdown, but rather a moderate slowdown.

There are other concerns on people's minds, as well:

- There is a Presidential Election in November, which always causes hesitancy on capital spending until results are known.
- Internationally, the same concerns continue (Iraq and Afghanistan remain turbulent).
- Iran and Pakistan are more threatening, and terrorism issues remain.

No-one expects these situations to dramatically worsen during 2008.

The outlook for Texas, and particularly Houston, is much better than the national forecast:

- Population and job growth are projected to occur statewide again in 2008.
- Houston is particularly fortunate to be the energy capital of the world in a time of rising global demand.

While there are certainly storm clouds on the horizon compared to 2007, there are rays of sunshine for Texans and Houstonians that should allow continued, steady business activity.

2007

A RECORD FOR NON-RESIDENTIAL CONSTRUCTION

MCGRAW HILL CONTRACTS

The charts below tell the tale. Not only was the nonresidential market up substantially in 2007, but Houston's share of the total Texas market was also up.

Chart 1: McGraw Hill Contracts – Houston/Baytown/Sugarland MSA – 06 vs. 07

As of	Houston MSA \$ Residential	% Chg	% of Hou MSA Market: Residential	Houston MSA \$ Non- Residential	% Chg	% of HMSA Market: Non- Residential	Houston MSA Total Contracts	% Chg
12/06	9,671,059,000		69.4%	4,256,676,000		30.6%	13,927,735,000	
12/07	\$8,813,772,000	-9%	65.4%	\$4,664,714,000	+10%	34.6%	\$13,478,486,000	-3%

Chart 2: McGraw-Hill Contracts - Houston Contracts % of Texas Contracts Volume

As of:	Total \$ Residential Texas	<i>Houston Share</i> of Texas Residential	Total \$ Non-Res Texas	<i>Houston Share</i> of Texas Non-Res	\$ Total Contracts Residential & Non-Residential Texas	<i>Houston Share</i> of Total Texas Market
12/06	35,209,596,000	27.5%	19,089,077,000	22.3%	54,298,673,000	25.7%
12/07	28,141,022,000	31.3%	18,050,655,000	25.8%	46,191,677,000	29.2%
% Chg	-20%	+ 3.8%	-5%	+ 3.5%	-15%	+ 3.5%

Chart 3: McGraw-Hill Contracts – TEXAS – Non Building Construction (Hwy/Heavy/Civil/Municipal)

2006	2007	% Change
\$15,220,720,000	\$11,393,907,000	-25%

CITY OF HOUSTON BUILDING PERMITS

Another record year! Even with the national housing slump, Houston's *new* residential building permits are up 5.5% and total residential is up 3.7%. Non-Residential construction also has an impressive showing.

CITY OF HOUSTON BUILDING PERMITS 2006 vs. 2007

	2006	2007	% Change
New Residential	1,918,930,364	2,024,934,282	5.5%
Adds/Alter/Conversions	190,702,045	162,305,290	-14.9%
Residential Total	\$2,109,632,409	\$2,187,239,572	3.7%
New Non-Residential	1,494,015,476	1,897,694,235	27%
Adds/Alter/Conversions	1,109,307,649	1,435,441,300	29.4%
Non Residential Total	\$2,603,323,125	\$3,333,135,535	28%
Total	4,712,955,534	\$5,520,375,107	17.1%

2008

DRIVERS

Important drivers for construction activity (particularly multi-family residential and commercial & light industrial) are mostly favorable for 2008.

Interest Rates and Money Supply:

Interest rates will remain low, especially in light of the recent Fed moves. Underwriting requirements, however, will be stricter. There will be more covenants, and equity requirements will increase slightly, but there will be ample money available for the right project, particularly in Houston.

Employment/Population Growth:

These drivers clearly indicate continued growth. For Houston, the projections are:

Population Growth:	2.5%	(42,000 new households – over 100,000 people) <i>(Today, over 5 million people live in our region. By 2035, 8.8 million people are expected to live here. This growth will add 3.5+ million people, and 1.5 million jobs – the equivalent of the size of Los Angeles.)</i>
Job Growth:	2%	55-60,000 jobs
Unemployment Rate:	4.2%	(State: 4.3%, National: 4.8%)

Energy Prices:

Projected 2008 Average Prices:

West Texas Intermediate Oil Price:	\$84.00/bbl
Henry Hub Natural Gas:	\$8.01/mcf
<i>(Houston's upstream economy benefits from natural gas prices above \$7/mcf)</i>	

Both averages are higher than 2007.

Absorption, Vacancy and Rental Rates:

In all commercial leasing segments, absorption rates are positive, vacancy rates are low, and rental rates are up. Office space absorption has been positive for 15 straight quarters; Light Industrial had the highest absorption in ten years and the 19th straight quarter of positive absorption. These trends are expected to continue in 2008. (Retail absorption was down slightly in 2007; the picture for 2008 is unclear.)

Exports

The low dollar is export's friend, and Houston's downstream energy companies are benefiting. This will drive activity in many areas, including the Port of Houston.

Architectural Firm Hiring

There is still a highly active and competitive hiring market for Architects.

The National Architectural Billings Index, a leading indicator of construction spending, predicts a healthy 2008 for commercial construction. The December billings index rose to 55.4, the highest since July, and up from 55.3 in November and 53.2 in October. New Project inquiries came in at 58.1, up from November's index of 56.6.

The strongest showing is in firms with a commercial/industrial specialization. Institutional firms reported a continued moderate pace and firms specializing in residential reported the 5th month in a row of declining billings.

Houston Architectural Firms are among the most positive in the nation, and most seek to hire additional people, especially those with project management experience.

Sector Analysis

RESIDENTIAL

Single Family Residential

This is the segment where activity in 2008 will be down, but not as dramatically as in other markets. Here are some observations:

- At the end of 2007, though permits for the year were up, contract awards (a leading indicator) were down 9%.
- Sub-prime mortgage loans are no longer available.
- There is an expectation that the amount of new single family homes will drop to the 2005 level, about 30,000 units.
- Note: Of the top ten metropolitan markets, Houston is the least affected by falling home values and the sub-prime crisis; several new housing developments, delayed in 2007, are expected to get underway in 2008.
- Houston area homes in the \$900,000 - \$999,999 price range are up 15%, and homes selling for \$1M or more are up 25%.

Multi Family

This market remains with a positive outlook.

- 6,800 new units came online in 2007, mostly Class A projects in the Northwest, Far West and Galleria area.
- 7,500 units are expected to come online in 2008.
- 52 projects totaling over 18,000 units are in the planning stages.
- Vacancy for 2008 is projected at 11%.
- Rental rates are expected to increase 3.5%.

There is no question this remains a vibrant market segment in the Houston area.

HIGHWAY / CIVIL / MUNICIPAL / UTILITY

TXDOT

The TXDOT work in the greater Houston Area will be down a bit. From January through August 2008, the amount will total just over \$500 million. How much work will be available in the September through December period is unknown at this time. However, it appears TXDOT is going through some significant changes.

Among the upcoming possibilities for this market is a commuter rail link for Houston-Galveston. Recent studies support its feasibility, and if all goes well, the first phase may be up and running by 2012. Estimated cost is \$385 - \$412 million. Additional jobs (21,000) and over \$130 million in taxes would be some of the benefits to be realized, in addition to air quality and cost savings. Hurdles remain: agreements with the railroad and Metro, partnerships with other municipalities, and the blessing of the Federal Transportation Authority.

In addition to TXDOT, many other entities have civil and municipal projects. Some of the major entities and agencies are listed below and there will be a very respectable amount of volume in this overall sector again this year.

Port of Houston

Turning Basin Terminal	\$12.69 Million
Woodhouse Terminal	\$4.74 Million
Jacintoport & Care Terminals	\$940,000
Barbours Cut Terminal	\$13.65 Million
Bayport Terminal	\$139 Million
Port Security	\$9.489 Million
Other Facilities	\$100,000
Total	\$180.6 Million

Harris County

Building	\$157.3 Million
Concrete Road	\$106 Million
Asphalt Road	\$22.7 Million
Total	\$286 Million

Metro

Fixed Guide Way Modernization	\$2 Million
Main Street Corridor Enhancements	\$3 Million
HOT Lane Conversions	\$7 Million
Signature Bus	\$2 Million
Emergency Preparedness	\$1 Million
Major Facility Rehab Initiative	\$6 Million
Other Misc. Projects	\$4 Million
Total	\$25 Million

City of Houston

Department	Amount (Millions)	Big Projects
Street & Traffic Control	4,429,250	Hike & Bike Trail Program (\$35M)
Water Utility System Facilities	263,140	Neighborhood Renewal Water Mains (\$95M)
Wastewater Treatment Facilities	297,752	Neighborhood Sewer Rehab (\$60M)
Storm Drainage System	104,129	Kirby Storm Sewer Improvements (\$17M)
Total	\$5,094,271	

HEAVY INDUSTRIAL

Industrial Info Resources reports that 2007 marked the end of a year of tremendous industrial project construction activity in North America, which has experienced double-digit growth for the past two years. North American industrial project spending activity for 2007 is measured at \$217 billion based on projects that began construction in 2007. Leading industries in 2007 were Alternative Fuels with 337.34% growth, Oil & Gas Transmission with 205.52% growth, Petroleum Refining with 168.77% growth and Power with 39.33% growth.

More than 5,300 major projects, with a Total Investment Value of over \$400 Billion have been identified to begin construction in 2008. When the historical adjustments for delays, cancellations and additions occur, it is likely that about \$245 Billion will actually start. This forecast is up by \$13.6 Billion (+5.5%) over 2007's actual spending.

The Southwest area represents one of the highest-spending areas at \$54.6 billion, second only to the Great Lakes area with \$61.6 billion. Texas is the nation's leader in wind-generated power, and we will see more development in that area. Alternative fuels, including nuclear plants, biodiesel, ethanol, etc, drive much of the industrial spending in the Southwest and Texas, with 66 projects and \$15.8 billion in spending. Environmental compliance projects will also add to industrial volume.

The industries covered include: Power; Terminals; Oil & Gas Transmission; Oil & Gas Production; Alternative Fuels; Petroleum Refining; Chemical Processing; Metals & Minerals; Pulp, Paper, & Wood; Food & Beverage; Industrial Manufacturing; and Pharmaceutical & Biotech.

In Harris County, the Petrochemical construction plant activity along the Houston Ship Channel amounts to more than \$5 billion in project spending. At this time, 144 projects are planned to begin construction over the next 2-3 years, with about 60% of the future project spending for downstream oil and gas industry projects, including refining and petrochemical expansions. The Chemical Processing Industry has 57 planned projects totaling more than \$1.2 billion, and Industrial Manufacturing has 14 projects totaling more than \$1 billion. Add to this the \$870 million worth of industrial projects under construction, including the Bayer Corporation chlorine unit expansion in Baytown.

Just “down the road” from Houston, significant energy projects (totaling \$15 Billion) are under way, being planned or considered:

Projects and completion dates include:

- Motiva – Refinery expansion, Port Arthur (\$7 Billion, 2011)
- Eastman Chemical – Coal gasification plant, Beaumont, \$1.6 Billion, 2011)
- Cheniere Energy Partners – LNG terminal, Cameron, La. (\$1 Billion, 2008)
- Golden Pass (Exxon Mobil affiliate) – LNG Terminal, Sabine Pass (\$1 Billion, 2008)

Other projects under consideration include:

- Total Petrochemicals USA – Refinery expansion, Port Arthur (\$1.8 Billion, 2010)
- Valero – Refinery expansion, Port Arthur (\$1.4 Billion, 2010)
- Sempra – LNG terminal, Port Arthur (\$1 Billion, 2010), currently on hold.

The Southeast Texas Workforce Development Board reports these projects will create as many as 4,500 permanent high-skilled jobs, and will require more than 20,000 construction jobs to build them. (See Human Resources/Workforce Challenges Section at the end of this report).

Commercial & Light Industrial

THE PRIVATE MARKETS

General Purpose Office Space

General purpose office space construction was very significant in 2007 and is expected to remain so in 2008.

Here are some facts:

- Currently, there are 29 buildings under construction containing over 5 million square feet.
- 3,300,000 s.f. of positive absorption occurred, making 15 consecutive quarters of positive growth.
- Overall vacancy rate for the city is 11%; with the breakdown as follows:

Class A	8.6%
Class B	14.6%
Class C	15.4%
CBD:	9%

These are Houston’s lowest vacancy levels in over 8 years.

- Highest Occupancy: Woodlands (97.9%); Energy Corridor (93.5%), Westchase (93%) and South Main/Medical Center (92.1%)
- Rental rates also increased significantly:

Citywide:	\$21.67	+15%
Class A:	\$29.54	+23% (CBD \$36+)
Class B:	\$19.85	+15%
Class C:	\$15.45	+ 6%

In addition to demand, tax increases and operating expenses contribute to higher rents. Expect further increases in 2008.

What will drive the additional construction in 2008 is the continued prosperity of our energy-related companies, business and professional service company expansions, and health-related services.

Light Industrial/Warehouse/Service Center

2007 was one of the strongest years on record.

- 9.5 million s.f. was delivered in 2007; 6.6 million s.f. remain under construction.
- Absorption was over 7.5 million s.f., the highest in 10 years, and the 19th consecutive quarter of positive absorption.
- Vacancy rates are 6.1%; rental rates are as follows:

Avg. asking lease rates:	\$.48
Warehouse/Distribution	\$.38
Flex/Service	\$.68
Manufacturing	\$.38

Construction of this space in 2008 will continue to be driven by the Port, oilfield-related service companies, companies that export, and by Houston's role as an international gateway to Mexico and South America. Construction will occur in all areas. There will probably be less speculative buildings and more build-to-suits.

Hotel/Motel

Year-end numbers have not yet been released; however, Houston's hotel performance shows impressive numbers through November, 2007. All metrics were positive:

- Occupancy % 2007 Average: 69.4%
- Average Room Rate \$: \$112.37 – up 7.5%
- Revenue per Available Room: \$77.96 – up 6.9%

Houston's supply has not kept up with demand. Consequently, occupancy and room rates are expected to increase, and many projects are planned for the next two years. These include:

- Another downtown convention hotel
- Other, more affordable CBD hotels
 - LaQuinta Inn and Hotel - 206 suites
 - A 22-story 250-room full service hotel by Embassy Suites near the convention center
- Energy Corridor properties
 - 190-Room Hilton Garden Inn
- Multiple Galleria Projects:
 - A 5-star Ritz-Carlton in Boulevard Place
 - "W" Hotel and a LeMeridien as part of a \$750-million mixed use development
 - A \$40 Million Starwood Hotels and Resorts "Aloft" property
- A luxury hotel including apartments in the Medical Center
 - MD Anderson Cancer Center Extended Stay Motel for \$10 Million in 2008
- Two new hotels and a restaurant in a master planned business park (Interwood) near Bush Intercontinental Airport
 - A 123-room extended stay hotel, Element, at Vintage Park on Highway 249.
 - A 250 unit Westin in the Clear Lake/Nassau Bay area

Note: If the credit crunch worsens, some of the planned developments could be postponed or cancelled.

Retail

This market segment is perhaps the cloudiest for 2008. The slowdown in single-family construction will certainly have some impact, but perhaps not this year.

2007 net absorption:	1,996,613 square feet.
Under Construction:	12,570,265 s.f. (82 buildings) with the heaviest concentration in the South, Far West and Far Northwest markets.
Delivered in 2007:	3,020,720 s.f. (22 centers), with the Far Southwest market leading the way.
Vacancy rate (4Q07)	14.45% up slightly from 4 th Quarter, 2006.
Lease rates:	\$33.46 for Regional Malls, \$22.55 for Community centers, \$20.03 for neighborhood retail, and \$17.63 for strip centers) also up from 4 th quarter, 2006.

An accelerating trend is “mixed-use” and lifestyle centers. Here are some projects that are in that category:

- A project in the Heights combining retail and 200-300 apartment units and parking garage.
- A 5-acre mixed use development at Kirby and Westheimer (*West Avenue*), which includes retail, restaurants apartments and office space.
- Houston’s high-profile project in the CBD, *Houston Pavilions*, an urban entertainment and retail hub, with office space.
- A mixed-use development just outside Sugar Land
- *Park8*, a Chinatown development on the west side of Beltway 8, between Beechnut and Bellaire, which will include residential, hospital, hotel and shopping center properties.
- A Friendswood mixed-use building with offices, retail and lofts.

Churches/Institutional/Medical

- **Churches**

The Catholic Diocese has over 50 projects in the Greater Houston Area. Add in the other denominations and this market will again be prosperous.

Diocese of Galveston-Houston	
Pending	\$96.9 Million
Pre-Construction	\$62.9 Million
Construction	\$52.5 Million
Total	\$212.3 Million

- **Institutional**

Texas A&M has several attractive projects coming through their pipeline this year. Some projects include the Anderson Track Modifications (\$2M), the Emerging Technologies and Economic Development Interdisciplinary Building (\$78M), and the TTI State Headquarters and Research Building (\$9.1M). Other projects which have yet to be given a budget include the Leudecke Cyclotron Building Expansion, the MSC and University Center renovations, the Agriculture Headquarters building, a Music Building, a Multipurpose Library Building and Central Plant, and an Athletics Master Plan and Facility Assessment. Overall, it should be another great year for A&M construction.

The University of Texas also has some promising work this year with the Health Science Center’s Research Park Expansion (\$161.5 Million). UT Galveston has \$40 Million awarded with an additional \$10 Million in Planning and another \$10 Million in Cladding. Over the next 5 years, it is projected that UTMB Galveston will have \$185.5 Million and the Health Science Center will have \$465 Million.

The University of St. Thomas is in the process of a \$2 Million renovation to their student union building. Rice University is planning \$850 Million for future campus projects. Those projects include a building to house the physics department and its research labs, McMurtry College and Duncan College, and renovations to the south colleges and nearby facilities which should begin later this year. The University is also looking at building several parking garages over the next few years, though the locations have yet to be determined.

- **Medical**

On November 21, 2007, Dr Richard Wainerdi, CEO of the Texas Medical Center (TMC), held a press conference to announce that in the next 5 years, the institutions that make up the TMC would build an addition 20 Million square feet! Some of this would be at the main campus and would require some demolition of current structures, but much of it would be in the suburban areas to serve these growing communities. He further noted that 12.7 million square feet would be medical facilities; the balance would be parking structures.

All the major institutions have aggressive programs. MD Anderson leads the way with over \$800 million in 2008. But the Methodist Hospital System, St Luke’s Episcopal Hospital System, Texas Children’s Hospital and the Memorial Hermann System all have major projects too. So do the universities, Baylor College of Medicine and University of Texas Health Science Center.

This segment remains the most dynamic for Houston’s commercial builders.

THE PUBLIC MARKETS
Cities/Counties/Other Public Entities (Other than Schools)

City of Houston:

The City of Houston has several attractive projects with over \$5.6 Billion in their '08/'09 Capital Improvement Program, \$545 Million of which is building work.

Department	New	Renovations	Other	New/Renovated	Total (Millions)
General Government Facilities	8,464	6,199	12,250	1,784	28,697
Convention & Entertainment Facilities		2,248	553		2,801
Fire Protection Facilities	11,539	9,505	1,637		22,681
Homeless & Housing Facilities		2,968		783	3,751
Library Facilities	12,345	8,833	1,000	2,456	24,634
Parks and Recreation Facilities	4,141	22,896	3,906		30,943
Police Facilities	19,787	1,437	841		22,065
Public Health Facilities		5,565	150		5,715
Solid Waste Management Facilities	4,005	300	511	743	5,559
Aviation Facilities	111,840	85,172	120,010	81,527	398,549
Total	172,121	145,123	140,858	87,293	545,395

Large projects include:

Department	Big Projects
General Government Facilities	East Downtown Economic Development Proposal (\$10M)
Convention & Entertainment Facilities	Civic Center Garage Repairs (950K)
Fire Protection Facilities	New Fire Stations (\$4.5M & \$4.4M)
Homeless & Housing Facilities	Multi-Family Improvements (\$2M)
Library Facilities	Library Replacement (\$5.8M)
Parks and Recreation Facilities	Hermann Park Renovations (\$4.5M)
Police Facilities	Replacement of Property Room (\$10M)
Public Health Facilities	Kashmere Multi-Service Center Renovations (\$3M)
Solid Waste Management Facilities	Southwest HHW Facility (\$3.8M)
Aviation Facilities	People Mover Extension (\$106M)

Harris County - Building

Harris County (including Highway)	
Precinct 1	\$87 Million
Precinct 2	\$88 Million
Precinct 3	\$34 Million
Precinct 4	\$75 Million
Total	\$284 Million

Schools (K-12)

The School market will be strong again this year, with a variety of both large and small projects, which should total at least \$900 Million. The following chart shows the budget amounts for those school districts we were able to contact, as well as 2007 bond approvals.

District	Budget	2007 Bond Amounts
Aldine		\$365 Million
Alief	\$30 Million	
Alvin	\$21 Million	
Angleton		\$139.9 Million
Brazos	\$0	
Channelview		\$125 Million
Clear Creek	\$140.84 Million	\$183 Million
Crosby	\$0	
Cy-Fair	\$245 Million	\$807 Million
Dayton	\$0	
Dickinson		\$107.5 Million
Fort Bend	\$122 Million	\$428 Million
Friendswood		\$92.9 Million
Galveston	\$500,000	
HISD	\$50 Million**	
Huffman	\$20.28 Million	\$20.4 Million
Humble	\$0	
Katy	\$20.4 Million	
Klein	\$20 Million	
La Porte	\$33.5 Million	
New Caney		\$56.6 Million
North Forest	\$0	
Pasadena	\$22 Million	
Pearland	\$54 Million	
Sheldon	14.6 Million	
Spring		\$280 Million
Spring Branch	\$44.2 Million	\$597.1 Million
Texas City		\$122 Million
Tomball		\$198 Million
Waller	\$0**	\$49.29 Million
Total	\$838.32 Million	\$3.571 Billion

** The litigation involving Waller ISD has caused their bond funds to be held up in the court system. While Waller is still pursuing the release of these funds, the outcome is uncertain. The implications of the case could also affect HISD, which is facing a similar challenge in the court system. Furthermore, other districts are keeping a watchful eye in the hopes of avoiding a similar issue within their own district.

Labor & Materials Costs and Other Industry Issues

LABOR

Construction Workforce Shortage Concerns

Worker shortages are a serious concern in the construction industry. It is estimated by Construction Labor Research Council that construction worker needs from 2005 – 2015 are about 185,000 new entrants per year due to growth and replacement of retiring workers. Craft employment is projected to increase by 90,000 persons per year through 2015 (less than half of the need).

AGC has recently released an important report, the Craft Worker Compensation Research Report. Conducted by FMI, the national construction consulting firm, it includes detailed information on wages and other industry issues to analyze factors that contribute to the skilled labor shortage. In its conclusion there are observations that compensation is a major factor in the labor shortage. While the construction industry does compensate workers at a higher rate than the other industries, the positive gap is decreasing. Further, historically, construction wages have failed to keep up with inflation. When you also consider other factors (safety, work/life balance, and job security), upcoming generations are being encouraged to opt for a lower-risk track either in a different industry or through a college education.

For the full report, go to the National AGC website, www.agc.org, and click on the survey under “Hot Topics.”

Human Resources/Workforce Challenges

Expanding Workers' Rights

2008 will bring several changes: the Family and Medical Leave Act (FMLA) will be extended to family members of the armed forces; there will be a redesigned I-9 immigration form with revised document requirements, and there will be more aggressive attempts by the Department of Labor and other federal agencies to identify misclassified employees (i.e., exempt or non-exempt, and independent contractor vs. employee). The Equal Employment Opportunity Commission (EEOC) has renewed emphasis on enforcement priorities that include sexual harassment and other gender-based claims, as well as new issues now arising from the multi-generational workforce. Employers face higher litigation risks, due in part to the record-setting numbers of protected-class employees (i.e. baby boomers).

Other employment law issues to watch: Americans with Disabilities Act (ADA) changes providing greater employee rights; and Family Responsibility Discrimination, protecting workers with family care responsibilities.

Health Care Costs

Mercer Health & Benefits, a global consulting company, projects that private-sector premiums will increase by nearly 7% in 2008, and the Kaiser Family Foundation survey predicts a 7-8% rise.

Immigration Reform

Many states and local communities are enacting laws requiring employers to use the Federal “E-Verify system to verify employment eligibility of new hires. Other laws and ordinances severely penalize employers for hiring illegal immigrants, including suspension or loss of business licenses. It is becoming more important for multi-state/intra-state construction firms to stay informed regarding these laws.

Proposed immigration reform could severely impact U. S. job growth. Immigrants are estimated to contribute to about half of the labor force growth in the U.S., and Fed chairman Bernanke has estimated that immigration needs to *increase* to about 3.5 Million per year (from 1 million today), to overcome the workforce shortages we will experience from loss of the baby boomer generation.

Slower growth in the labor force will impact economic growth. If job growth slows to 150,000 new jobs per month vs. the 300,000 we have experienced in the past, economists predict that economic growth will slow from 4% in the 90's to 2.5–3% in the future.

The Multi-Generational Workforce

The 55-64 age group is projected to grow by 52% by 2010, while the 35-44 age group will decline by 10%. This means that expanded retention strategies are needed such as flexible or part-time work schedules, productivity enhancements, or sound knowledge-transfer programs (or all of these) to maintain an adequate workforce. There is also the need for better understanding, by managers at all levels, of the differing values and perspectives toward work between the generations. Also, due to the high cost of higher education, the next generation may be less educated, thereby requiring real employer training programs.

Texas

Texas is one of the strongest job markets in the nation with hiring increases across almost all industries, and Houston is a leader in Texas. Business and Professional services growth (due to the energy sector) is exceptional. The health care industry and construction industry also contribute to impressive growth.

Houston

While Houston's low unemployment rate (4.2% in December) is a "good thing", the downside is inability to hire adequate staff. The construction industry competes with many other industries, and industry working conditions, pay and benefits are often less attractive than those found in competing industries such as manufacturing, energy and industrial companies. Relocations are less possible with two-wage earner families, so hiring from "depressed" construction markets is no longer a solution.

Take, for example, the competition for workers in the Heavy Industrial sector described above. The Southeast Texas energy projects will create high demand and attract many from the Houston area with higher pay and benefits. The Motiva plant expansion project in Port Arthur is still in early stages, and already about 1,200 workers are reporting to the site each day. At its peak, this project will need up to 6,000 workers per day.

MATERIAL COSTS

According to Ken Simonson, AGC economist, the expected overall average increase in construction materials costs is 6-8%. Soaring oil-related costs will contribute directly, and also to transportation and installation costs as well. Fuel-intensive Highway and Heavy construction will likely see larger cost increases.

Diesel fuel is up 35% from a year ago, at \$3.33 per gallon in early January. Motor gasoline and diesel are projected to average over \$3 per gallon in 2008 and 2009.

Imported materials, and those that compete with imports (i.e., steel) are also going to increase in cost due to the weakened dollar.

Other materials will see price relief (gypsum, lumber, etc. due to the homebuilding slump).

Overall, construction materials will likely see smaller price increases in 2008 vs. 2007, but these increases will still likely outpace inflation elsewhere, because of the level of imported commodities.

Watch for AGC Houston's Labor and Materials Costs Survey which will provide specific data for the local market.

OTHER ISSUES

Green Building

Everyone in the construction industry in Houston needs to become knowledgeable about Green Building and the LEED Accreditation requirements. Owners, both Public and Private are embracing this approach. It is no longer just a trend; it is increasingly becoming a standard construction method.

Building Information Modeling (BIM)

There is growing interest in the use of BIM, a computerized 3-D modeling system that shows conflicts in drawings, the impact of changes and provides many other valuable pieces of information. The requirement for the use of this system is appearing in more and more specifications.

Summary & Conclusions

Certainly, there are real concerns about the economy, but the impact of any national slowdown will be lessened here by the dynamic energy and medical business activity.

Major concerns related to terror remain; any attack anywhere in the US would definitely impact Houston and alter this forecast.

The biggest threat to the local construction economy, however, remains the aggressive enforcement, by Homeland Security, of the ill-conceived modifications to the Social Security "No-Match" Rule. This could cause a real disruption in all aspects of our current favorable construction climate and outlook.

For 2008, major construction forecast groups project growing markets in non-residential and heavy construction sectors, and declining markets in residential construction. Both Reed and FMI project a \$1.2 Trillion market.

Total U. S. Construction Spending <i>(Reed Construction Data)</i>	\$1.2 Trillion	+ 3.8%
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Reed Construction Data Specifics:

New Residential*	\$323.5 Billion	- 10.3%
Residential Improvements*	<u>\$181.8 Billion</u>	+ 4.3%
Total Residential: *(SF Units -15%; MF Units +6.1%)	\$505.3 Billion	
Non-Residential	\$449.1 Billion	+ 12.1%
Non-Building (<i>Heavy Engineering</i>)	\$254.5 Billion	+ 11.0%

Reed's forecast anticipates the highest growth sectors in 2008 to be:

Lodging	30.6%
Amusement/Recreation	15.4%
Public Safety	15.4%
Office	15.4%
Health Care	13.5%

If Houston's traditional 1% share of national volume holds, non-residential construction should hit the \$4 Billion plus mark again and overall building construction should reach \$12 Billion level. All contractors should continue to prosper.

Houston is well positioned to continue "steady through the storm" in 2008!

The information contained in this report was obtained from various publications and sources. Special thanks to CB Richard Ellis, American Metro Studies, O'Connor & Associates, Grubb & Ellis, Greater Houston Partnership, Ken Simonson, National AGC economist, Industrial Info Resources, University of Houston Institute for Regional Forecasting, Reed Construction Data, McGraw-Hill, PKF Consulting, and other sources mentioned in this paper who supplied information and assistance for this forecast.