

NEWS RELEASE

January Construction Slips 3 Percent

New York, N.Y. – February 19, 2009 – The value of new construction starts fell 3% in January to a seasonally adjusted annual rate of \$410.9 billion, according to McGraw-Hill Construction, a division of The McGraw-Hill Companies. The housing sector continued its extended slide, and it was joined by a further loss of momentum for nonresidential building. At the same time, nonbuilding construction in January cushioned the total construction downturn relative to December, with gains reported for nonbuilding's public works and electric utility segments.

The January statistics lowered the Dodge Index to 87 (2000=100), down from December's 90. For the full year 2008, the Dodge Index averaged 116. "The construction starts data showed a declining trend over the course of 2008, and this has continued through the first month of 2009," stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction. "January's pattern was similar to what occurred during 2008 – more weakness for housing, combined with a mounting loss of momentum for commercial building. At the same time, public works has been able to hold up relatively well, even with the erosion in state and local finances. For 2009, the pattern of construction activity will be affected by how quickly the three parts of the federal economic recovery plan have an impact. The most immediate benefit will come from the \$787 billion stimulus bill, given the spending boost that will be directed at infrastructure work. This should enable the public works sector to shift from what would have been a decline for construction starts in 2009 to an increase. The benefits coming from the housing bailout and the financial rescue packages are less certain and will require more time, which means that housing and commercial building are looking at another tough year in 2009."

Residential building in January dropped 12% to \$97.2 billion (annual rate). Single family housing fell an additional 7%, marking the ninth monthly decline in a row. In the three years since the start of 2006, single family housing has shown decreased activity in 32 out of 36 months, underlining the extended weakness for this structure type. January's 7% decline for single family housing at the national level was due to this regional behavior relative to December – the South Atlantic, down 16%; the Midwest, down 14%; the Northeast, down 13%; the West, down 4%; and the South Central, up 3%. Multifamily housing in January

plunged 25%, with especially steep reductions in the Northeast, down 43%; the Midwest, down 37%; and the South Atlantic, down 36%. A more moderate 12% decline for multifamily housing was reported in the West, while the South Central ran counter with a 19% gain in January. The number of large multifamily projects that have reached groundbreaking has fallen considerably over the past two years. In January, the largest multifamily construction start was a \$49 million project in Tennessee, considerably smaller in scope than the numerous \$100 million-plus condominium and apartment towers that reached groundbreaking in 2005 and 2006, and to a lesser extent in 2007 and 2008.

Nonresidential building, at \$181.9 billion (annual rate), retreated 11% in January. Three of the commercial structure types witnessed substantial declines relative to December – stores, down 21%; hotels, down 33%; and warehouses, down 54%. The slide for office construction was a more moderate 5%, as January included the start of a \$316 million office project in Long Island City NY. Murray noted, “The immediate climate for commercial building is especially difficult – the weak economy has caused such market fundamentals as occupancies and rents to deteriorate further, while lending standards remain tight despite last fall’s attempts by the U.S. Treasury and Federal Reserve to thaw frozen credit markets.” The manufacturing plant category in January increased 25%, helped by the start of a \$500 million steel plant upgrade in Pennsylvania.

The two largest institutional structure types showed reduced activity in January. School construction settled back 16%, registering some loss of momentum after the 8% gain that was reported for this structure type for full year 2008. Healthcare facilities construction dropped 47% in January after an exceptional December, which completed a very strong 2008 for this structure type when contracting jumped 26%. Even with the substantial pullback, the healthcare facilities category in January still included groundbreaking for five large projects, located in Nevada (\$365 million), Maryland (\$100 million), California (\$100 million), and Florida (\$100 million and \$93 million). Church construction in January also lost momentum, slipping 2%. On the plus side, the public buildings category (including military facilities) increased 10% in January, and amusement-related projects climbed 39%. Lifting the amusement category was the start of a \$119 million convention center in Irving TX. An even larger January gain was reported for transportation terminal work, which soared 515%. This reflected the start of two large airport terminal projects – a massive \$1.2 billion project in Las Vegas NV and a \$316 million project in Sacramento CA.

Nonbuilding construction in January advanced 23% to \$131.8 billion (annual rate). The water supply category rebounded 26% after a weak December, helped by the January start of large water treatment plant

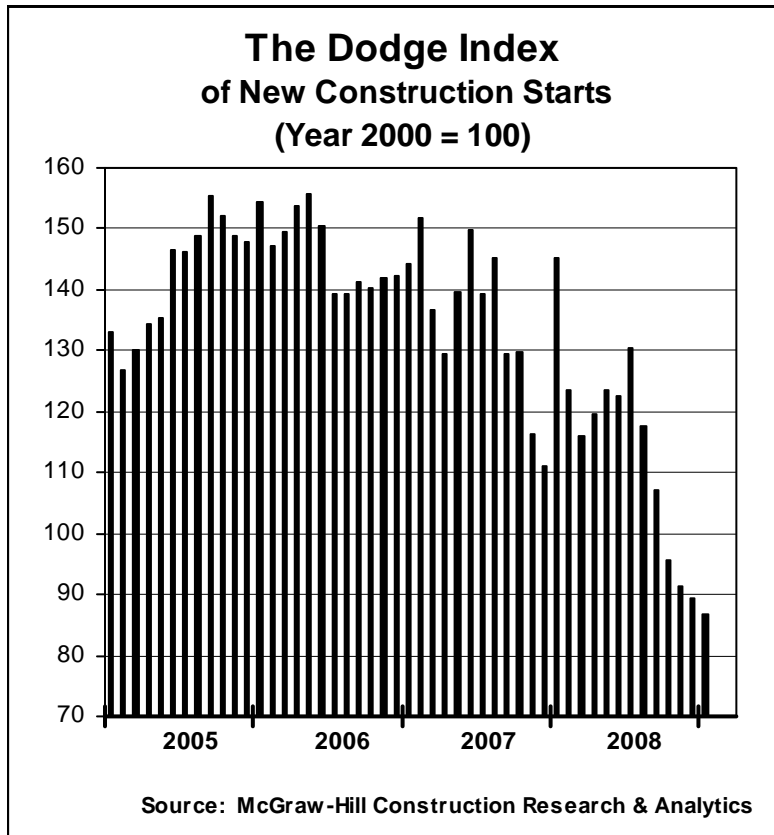
expansions in Texas (\$94 million) and Maryland (\$62 million). Highway construction in January grew 8%, aided by an \$89 million turnpike expansion in Plano TX, and bridge construction edged up 1%. River/harbor development in January was unchanged, while sewer construction retreated 4%. The sewer decline was eased by the start of large waste water treatment projects in Washington state (\$97 million) and California (\$88 million). The electric utility category began 2009 on a strong note, rising 206% after a lackluster December, reflecting the January start of a \$1.5 billion coal-fired power plant in Arkansas.

On an unadjusted basis, total construction in January 2009 was reported at \$28.0 billion, down 46% from the same month a year ago. At this point, the year-to-date comparisons are based on just one month, and the construction start statistics can show volatility for any one month, as opposed to later in the year when the year-to-date comparisons include a greater number of months.

For January 2009, nonresidential building was down 53% from January 2008, a month which included as construction starts three exceptionally large projects – the \$7.0 billion Motiva refinery expansion in Port Arthur TX, plus the \$1.4 billion World Trade Center Tower 3 and the \$1.1 billion World Trade Center Tower 4 in lower Manhattan. If these three unusual projects are excluded from the January 2008 statistics, nonresidential building in January 2009 would be down a less severe 27% from a year ago, while total construction would be down 34%. For residential building, January 2009 was down 57% from a year ago, which reflects the steady decline for housing that took place over the course of last year. Nonbuilding construction in January 2009 was down 11% from a year ago. The steep decline for U.S. total construction starts in January 2009 compared to last year was the result of this regional pattern – the Northeast, down 60%; the South Central, down 51%; the Midwest, down 49%; the South Atlantic, down 46%; and the West, down 25%.

Additional perspective can be obtained by looking at twelve-month moving totals, in this case the twelve months ending January 2009 versus the twelve months ending January 2008, which lessens the volatility present in one-month comparisons. For the twelve months ending January 2009, total construction was down 19%, due to this pattern by major sector – nonresidential building, down 9%; residential building, down 40%; and nonbuilding construction, up 5%. By region, the twelve months ending January 2009 showed the following behavior for total construction compared to the previous twelve months – the South Atlantic and West, each down 26%; the South Central, down 14%; the Midwest, down 12%; and the Northeast, down 8%.

January 2009 Construction Starts



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JANUARY 2009 CONSTRUCTION STARTS

MONTHLY SUMMARY OF CONSTRUCTION STARTS

Prepared by McGraw-Hill Construction Research & Analytics

MONTHLY CONSTRUCTION STARTS
Seasonally Adjusted Annual Rates, In Millions of Dollars

	<u>January 2009</u>	<u>December 2008</u>	<u>% Change</u>
Nonresidential Building	\$181,938	\$205,342	-11
Residential Building	97,183	110,511	-12
Nonbuilding Construction	<u>131,785</u>	<u>107,499</u>	<u>+23</u>
TOTAL Construction	\$410,906	\$423,352	-3

THE DODGE INDEX

(Year 2000=100, Seasonally Adjusted)

January 200987
December 200890

YEAR-TO-DATE CONSTRUCTION STARTS
Unadjusted Totals, In Millions of Dollars

	<u>1 Mo. 2009</u>	<u>1 Mo. 2008</u>	<u>% Change</u>
Nonresidential Building	\$12,762	\$26,927	-53
Residential Building	6,214	14,575	-57
Nonbuilding Construction	<u>9,028</u>	<u>10,128</u>	<u>-11</u>
TOTAL Construction	\$28,004	\$51,630	-46

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