Hot Markets, Warm Markets, and Cold Markets for 2010

People often use the terms “hot” and “cold” to describe the outlook for markets in industry forecasts. But those terms may not always be appropriate for the situation— especially in 2010.

The single-family housing market is growing, but is it really “hot”? Even with growth projections of 20 percent to more than 50 percent, it is still operating at less than half of where it was a few years ago. Is that “hot” or, as one expert said, “less bad”?

If the higher education and health care markets drop, yet they continue to operate at the elevated historical levels they have been, is it accurate to call these markets “cold”?

And, just because renewable energy is the darling of the media and politicians right now— certainly the “hottest” market if you base the competition purely on the amount of buzz generated— does that mean the A/E/C industry is going to get loads of work from it?

Not necessarily. But maybe.

With this in mind, here is a look at some markets likely to provide the best opportunities for a significant percentage of the A/E/C industry in 2010, as well as a few that seem sure to struggle. These lists are based on a combination of economists’ predictions and anecdotal evidence from primary and secondary research conducted for PSMJ’s *2010 AEC Firm U.S. Market Sector Forecast*.

Best Markets

Power. Certain segments of this market— coal-fired power plants, for example – should be in the doldrums in 2010. Otherwise, the energy market seems poised for another solid year in 2010.

Reed Construction Data’s Jim Haughey is not a believer, saying that the overcapacity in electric power will deter investors from planning and building new plants and associated infrastructure. But, while demand is down and supply plentiful, the long-term outlook for electric power capacity is that demand is only going to rise as the population grows and technology requires more and more power.

Natural gas, transmission and distribution, and renewable energy also seem solid heading into 2010.

Health Care. The tight credit market, drop in investment value and charitable donations, and looming health care reform have taken some of the shine off the industry’s perennial “hottest market.” Most economists, and even industry insiders, expect health care activity to be relatively flat in 2010, moving a couple of percentage points one way or the other.

Nevertheless, the health care market remains one of the healthiest in the industry. Health care organizations with access to capital— or those that can provide their own financing – will want to take advantage of the low cost of construction today. More importantly, the strong drivers that made the health care market the industry's darling remain solidly in place.

Robert Cassidy, editor-in-chief of *Building Design + Construction*, told the AIA Academy of Architecture for Health in July that, despite the challenges facing the health care industry, the outlook for the market is solid.

"Just as the population is aging, so, too, is the hospital infrastructure. Many of the 3,000 or 4,000 hospitals in the U.S. are over 40 years old and are either obsolete or obsolescing. They've got to be reconstructed or replaced, which is going to mean more business for your firms," Cassidy said.

As FMI says in its third quarter report, though the health care market is not growing as rapidly as it once did, and it may even clip some, it is still at "historically high levels" of activity.

Higher Education. Higher education is in a situation very similar to health care—facing serious challenges, but also with many reasons and opportunities to build. Most of the calls for a decline in the education market are the result of an expected pullback of the K-12 education side of things due to state and local budget difficulties.

Higher education is on a little more solid ground. As long as the stock market stays in the 10,000 range or above and does not pull a repeat of the plummet of the spring of 2009, project cancellations and delays should be minimal. More importantly, administrators should feel safe to move ahead with new capital projects required to accommodate a growing student population and to compete for the best students.

Forward-thinking technology in educational buildings and residence halls and green building/sustainability will be top issues in higher education construction.

Water/Wastewater. Beyond 2010, the state and local budget crisis may affect the water and wastewater market to the point where activity is no longer running high. For 2010, it appears that stimulus funding, combined with projects already planned and financed, will help to keep this a good market for A/E/C firms. Add to that the regulatory drivers requiring water and wastewater improvements, legislation setting aside federal money for the cause, and the overall pressing need to upgrade the water and wastewater infrastructure, and 2010 may be another great year for many firms working in this space.

Dams and Flood Control. ARRA funding is plentiful, needs are great, and the potential for disaster is of critical concern for a federal government that can't afford another Katrina. The amount of work for A/E/C firms in dams and flood control may not approach that of some of the larger markets, but it is sizable and does appear to be growing.

Mixed Bag

Some markets are down off incredible highs, and some are just plodding along. Others barely make a ripple in the overall A/E/C scheme. Here is a look at few of these:

K-12 Education. This is one market almost certain to be negatively affected, at least in the short term, by the state and local budget crunch. The economic difficulties being experienced by the taxpayer, which is a primary cause of the budget crisis in the first place, can only make finding money for school projects even more difficult. K-12 will most likely still be a decent market in 2010, on a volume basis, but the many firms that make their living on this market alone may find it tough going. The long-term outlook remains strong.

Roads and Bridges. The priming from the stimulus, along with the tremendous need for infrastructure improvements, is likely to keep the roads and bridges market from falling too far in 2010. But money for major projects, particularly on the design end, may be hard to find. The best-case scenario would be for stimulus money to begin flowing to the front-end of "game-changing" projects while Congress and the Obama Administration pass a comprehensive, adequately funded surface transportation funding package. It could happen.

Transit. High-speed rail, in particular, is exciting transportation officials from coast to coast. The overwhelming demand for $8 billion in ARRA funding for high-speed rail projects illustrated the interest among regional, state, and local government officials. Private industry, seeing an opportunity for a growth market in transit and high-speed rail, is helping to drive the issue as well. The problem for A/E/C firms is that 2010 is likely to be spent ironing out the money issues and moving early-stage planning forward. It may not be until 2011 or beyond that significant amounts of money flow to the A/E/C industry. Firms may need to set the stage in 2010 by tracking projects and making proposals to collect the rewards a year or more further down the track.

Single-Family Housing. Economists are solidly in the camp of a growing single-family residential market. Some are more optimistic than others— the naysayers worry that the foreclosure crisis will rear up again when all the homeowners who modified their loans in 2009 begin to default again in 2010. This would drive inventory back up and the demand for new construction down. Either way, residential housing is still a depressed market that is unlikely to get anywhere close to normal activity in 2010.

Retail. Some economists are calling for retail to bounce back in 2010, primed by the single-family housing recovery. That seems optimistic given the relative size and pace of the residential recovery, combined with the depths of the commercial development market as of 2009. It may not be horrible, but don't expect too much.

Military. It's a relatively small market to begin with, and the high levels of activity driven by the Base Realignment and Closure program are projected to wane over time.

Slow Markets

In the slow recovery expected for 2010, several markets will lag the curve. Developer-backed commercial properties are likely to struggle in 2010, along with a few other market sectors that probably won't catch the recovery wave until at least late 2010 or 2011.

Lodging. The clear consensus is that lodging is overbuilt and demand will remain slack in 2010. A few megaprojects could prop up the numbers, but don't look for a rebound in 2010.

Office. Until the unemployment picture turns sunnier, the office construction market stays dark.

Multifamily. As with single-family residential, the multifamily market is expected to stage a comeback in 2010. However, multifamily is projected to grow less than single-family, and both are emerging from deep troughs. Overall activity should still be relatively low in 2010.

Coal-fired power plants. It appears that, unless the circumstances are perfect, the power industry will look elsewhere for its generation needs. Lack of support from the current administration, the specter of tighter air pollution controls, and the current reduced demand don't help the situation.**— JERRY GUERRA** *(jguerra@jagg-group.com)*

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