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Construction Has Held Steady in Albuquerque and New Mexico, Despite National Downturn

By Richard Metcalf*Journal Staff Writer*

Look around and there's construction everywhere, from road improvements and utility projects to those extra-large buildings going up that mean either business or government.

Construction has held steady in the Albuquerque metro area and the state in general, despite all of the national news about turmoil in the housing and credit markets.

"New Mexico has done fairly well," said Ken Simonson, chief economist of Arlington, Va.-based Associated General Contractors of America. "It's probably in the upper half of states in terms of the shape its economy is in."

And the construction outlook for 2008 appears to be just strong enough for continued growth.

While home construction in the metro is half of what it was when the housing boom peaked in 2005, commercial, government and institutional (hospitals and universities, for example) projects have taken up the slack.

In the third quarter alone, there was well over 1.3 million square feet of commercial buildings under construction throughout the metro area, according to Grubb & Ellis New Mexico.

Albuquerque's construction employment has remained strong. In October, there were about 30,900 construction jobs, a slight decrease of 100 from a year earlier, according to the state Department of Workforce Solutions.

Although construction had seen a slow, steady decline in jobs for eight straight months, the sector still employed 7.7 percent of the metro's total nonfarm employment. The national average is about 5 percent.

2007 and 1991

Total construction spending nationwide dropped by 2.5 percent to 3 percent last year, the first such drop since 1991, Simonson said.

But the economic environment of 2007 was very different from that of 1991.

"Inflation and unemployment were big influences back in the late '80s and early '90s," Simonson said. "We had very high interest rates compared to today."

The U.S. economy was in an official recession from mid-1990 to early 1991. In contrast, there was only talk of a recession looming in late 2007.

In addition, both residential and nonresidential construction were down in 1991, he said. In 2007, only residential was down.

The housing slowdown hit in 2006 after all-time records were set here and around the country for new and existing home sales the year before. Since then, forecasts for a turnaround have been made and missed.

The latest forecast for a housing turnaround, which Simonson goes along with, is late 2008.

Commercial forecast

The forecast for commercial and other nonresidential construction this year ranged from 2 percent to 7 percent growth nationwide, according to a panel of experts at a recent forum hosted by the Associated General Contractors.

On the high side was Daryl Delano, principal and chief economist at Delano Data Insights, who predicted 7 percent growth driven in large part by major infrastructure projects.

On the low side was John Cross, vice president of the American Institute of Steel Construction, who went with 2 percent to 3 percent growth based on weakness in small- to medium-sized projects.

Simonson, sticking to a 2 percent to 7 percent growth range, said, "I think we'll see more regional variation than we've seen in the last year or two."

For comparison, nonresidential construction increased from 14 percent to 16 percent nationwide from 2006 to 2007.

Cities that are losing population and have tanking residential markets will be hit the hardest. Commercial projects could be difficult to finance.

"Many markets will start to look blighted, and that will have a negative impact on the way institutional lenders look at those markets," Simonson said.

N.M. and Albuquerque

New Mexico and the Albuquerque metro area in particular should see 4 percent to 5 percent growth in nonresidential construction this year, Simonson said.

Commercial projects— particularly hotels, offices and retail— may slip, reflecting a national trend, both Simonson and Delano said.

Institutional and government projects should continue at a pace similar to 2007.

New Mexico's financial strength relative to other states is in its oil and natural gas revenues.

In fiscal 2007, which ended June 30, the state reported \$2.3 billion in oil and gas revenue.

Albuquerque also benefits from the federal government's large and steady presence, particularly Kirtland Air Force Base and Sandia National Laboratories, Simonson said.

In addition, the metro's residential market has avoided the plague of foreclosures seen in other major cities in the West and Southwest. Houses are still being built.

As a result, the real estate tax base has held up, Simonson said.

Education and health

Institutional projects, particularly for higher education and health care, will continue at a brisk pace due to demographic trends.

The continuous construction at the University of New Mexico campus reflects a move across the country to accommodate the Gen Y population bubble.

"This is a boom time for enrollment— a record number of kids are applying to colleges these days— so colleges are doing a lot of construction," Simonson said.

The metro's three major health care providers— Lovelace Health System, Presbyterian Healthcare Services and University of New Mexico Hospital— are also in a continuous construction mode.

Over the past two years, those three providers have completed nearly \$400 million in assorted expansions and new facilities in the metro area. Another \$242 million is either under way or planned to start in 2008.

"A lot of it is catching up to technology," Simonson said about sustained construction activity among health care providers both here and nationwide. "There's also population movement, providing services to areas formerly not served."

Projects

HEALTH CARE

- Presbyterian Healthcare Services plans to break ground this summer on its \$150 million hospital on Unser, just south of Westside Road, in Rio Rancho.
- Construction is under way on the five-story, 190,500-square-foot University of New Mexico Cancer Research and Treatment Center at 900 Camino De Salud NE, just west of University. The \$88 million project is expected to be completed by early 2009.
- Presbyterian Healthcare plans to break ground next fall on a 13,000-square-foot physicians' office building in the town of Bernalillo. The \$4 million project will sit on six acres.

GOVERNMENT

- In a rare state-built project in Albuquerque, the New Mexico General Services Department plans to begin construction this spring on the new five-story, 190,000-square-foot New Mexico Tri-Lab Building. The \$70 million project near Interstate 25 and Indian School NE is expected to be completed in 2010.
- The city of Albuquerque is renovating and expanding its fire academy into a 48,000-square-foot facility at Nine Mile Hill. The \$8.5 million project, funded through the quarter-cent public safety tax, is expected to be completed in May

2009.

HIGHER EDUCATION

- Construction is well under way on the 158,000-square-foot Centennial Engineering Center on University NE, near Martin Luther King Jr. Boulevard, on the UNM campus. The \$42 million project is expected to be completed this fall.

COMMERCIAL

- Although the official groundbreaking was last summer, actual construction of Sony Pictures Imageworks' 100,000-square-foot office complex will begin this year at Mesa del Sol.
- Forest City Covington broke ground in December on a 78,000-square-foot mixed-use town center building at Mesa del Sol. The \$10 million project was designed by local architect Antoine Predock.

HOUSING

Phoenix-based Alliance Residential Cos. is hoping to break ground within the next two months on a 240-unit apartment and townhouse project on Gibson SE near University. The \$20 million project is classified as residential for construction purposes.

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