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# NEW YORK CITY CONSTRUCTION OUTLOOK



# NYC CONSTRUCTION ACTIVITY SURGES INTO RECORD TERRITORY, FUELED BY INTENSE DEMAND FOR NEW HOUSING AND OFFICES

Thanks to continued white-hot demand for new residences and offices, as well as a rebound in government infrastructure investment, New York City construction spending and employment are approaching or exceeding record territory in 2016.

## CONSTRUCTION SPENDING

The New York Building Congress forecasts New York City construction spending of \$43.1 billion in 2016. This would mark the first time in City history that construction spending has eclipsed the \$40 billion mark and represents a 26 percent increase from 2015, when spending reached \$34.3 billion. The Building Congress anticipates the current building boom to continue through the next two years, with \$42.1 billion in construction spending projected for 2017 and \$42.3 billion in 2018.

If the forecast holds, 2016 construction spending will surpass the peak of the previous building boom, even after adjusting for inflation. In 2007, \$31.1 billion in actual dollars were spent on construction, which equates to \$41.6 billion in spending when measured in constant 2016 dollars.

On an inflation-adjusted basis, this year's projected spending on residential and non-residential buildings is 47 percent greater than the total for 2007. Government spending on infrastructure projects, however, is expected to be 39 percent lower than in 2007, after factoring in the effects of inflation. This indicates that the current building boom is being driven far more by private sector investment than the previous construction surge, when spending was split almost evenly between the government and private sectors.

## Employment

New York City construction employment is poised to increase for the fifth consecutive year and surpass 140,000 jobs for the first time since these data started being recorded more than two decades ago.

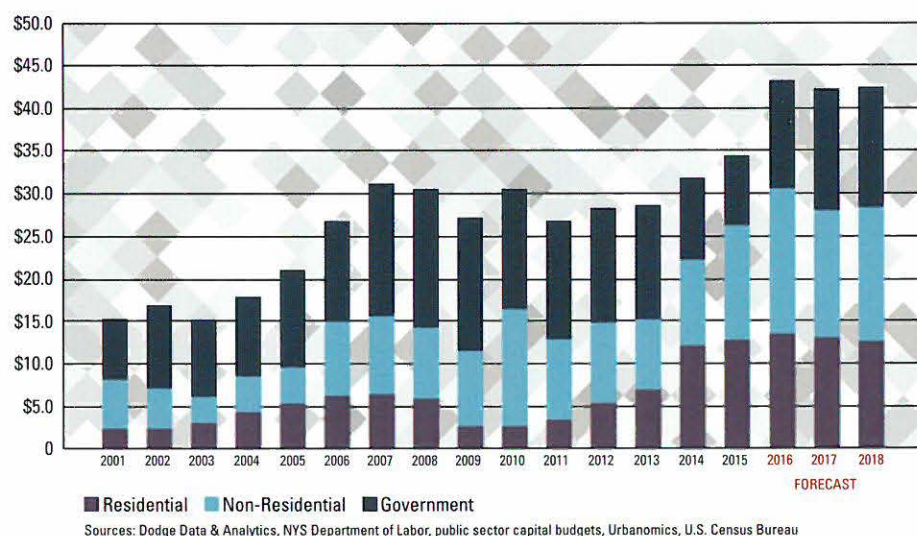
The Building Congress forecasts a total of 147,100 jobs in the five boroughs in 2016, an increase of 8,900 jobs from 2015. Employment is expected to fall back to 142,600 jobs in 2017 and 138,100 in 2018, which would still exceed the levels experienced even during the previous boom.

## New Floor Space

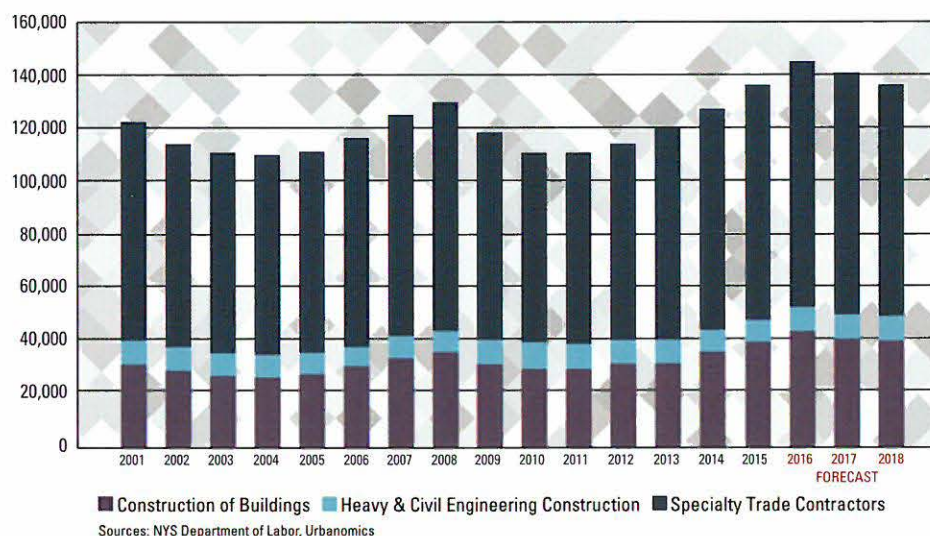
Driven by a wave of ground-up residential and office construction projects, the Building Congress estimates that 56.6 million gross square feet (gsf) of new space will be added

to the City's inventory in 2016, which is slightly below the two-decade high of 57.8 million gsf reached in 2007. The residential sector is expected to account for approximately 61 percent of the newly-built space this year.

Annual Construction Spending in NYC by Sector  
(In Current Dollars — Billions)



Construction Employment in NYC





increase to \$3.9 billion this year from \$2.8 billion in 2015. The Building Congress anticipates MTA spending will total \$5.1 billion in 2017 and \$4.3 billion in 2018.

The Port Authority of New York & New Jersey is expected to invest \$1.2 billion this year on New York City capital projects, up from \$1.0 billion in 2015. The Building Congress estimates that Port Authority construction spending in the City will remain steady, with \$1.1 billion projected in 2017 and \$1.0 billion in 2018.

The remaining \$1.0 billion in public works spending will be undertaken by agencies on the State and federal levels, including DASNY, the State Department of Transportation, and the U.S. Army Corps of Engineers. These entities are expected to account for a total of \$1.1 billion in spending in 2017 and \$1.2 billion in 2018.

## INSIDE THE NUMBERS

### Housing Boom Continues

The residential construction sector remains in the midst of an epic run, both in terms of overall spending and new units produced. The \$26.2 billion in anticipated residential construction spending in 2015 and 2016 far exceeds any other two-year period in recent memory, even after adjusting for inflation. The same holds true for the 68,150 new housing units that are forecast to be produced during this period.

The Building Congress estimates the production of another 52,000 units and \$25.7 billion in spending in 2017 and 2018. That figure is based on a review of recent construction starts and the fact that approximately 67,000 housing units have been approved for construction from January 2015 through September 2016.

There are reasons for real concern, however, when it comes to how much additional housing will be produced once all of these current projects work their way through the construction pipeline.

The biggest concern revolves around the 421-a tax reduction program, which has helped spur construction of tens of thousands of housing units over the years. The program expired after 2015 and has not yet been replaced by a program that can reliably stimulate similar levels of new housing construction, especially in the outer boroughs where the need for more affordable rental units is acute.

In addition, two proposed housing developments that would have created more than 300 affordable units in the Bronx and Queens were



rejected due to the opposition of the two City Council members representing those districts.

This is a signal of growing resistance to Mayor de Blasio's signature affordable housing programs and rezoning initiatives.

Still another area of concern is the lack of vacant, buildable sites for future development. At times, it seems that construction is underway at virtually every vacant lot in some of the City's most popular neighborhoods.

All of these issues will need to be addressed in order for New York City to provide housing for a growing population at all income levels.

### Non-Residential Soars on Office Construction

Office construction has been the primary driver of the recent surge in non-residential construction. The Building Congress estimates that 11.6 million square feet of office space will be constructed within 22 ground-up office development projects in Manhattan alone during the forecast period.

The office construction sector is also getting a boost from a number of major office construction projects slated for Brooklyn and Queens, which will add millions of additional square feet of inventory in the coming years.

All of this modern office inventory is motivating owners of existing buildings to make substantial capital investments in order to remain competitive for tenants. Alterations and renovations of existing office space accounted for 87 percent of the \$1.9 billion in construction projects initiated in the first half of 2016.

New York City's public and private institutions also continue to invest substantially in their facilities. The educational sector, led by the public school system and the City's universities, will account for more than 10 percent of non-residential spending in 2016. Public and private hospitals and healthcare institutions are expected to contribute another 5 percent toward the total.

### Government Spending on the Mend

Since reaching \$16.3 billion in 2008, government spending on infrastructure projects has fallen in each of the past seven years. While the declines were gradual at first, the slump deepened in 2014 and then again in 2015, when infrastructure spending stood at just 40 percent of the level reached in 2008 after adjusting for inflation.

Judging from this year's forecast, as well as by a review of recently approved capital plans and proposed projects, it looks as though that trend will be reversed.

In April, the City of New York released its Fiscal Year (FY) 2017 Executive Budget, which included the largest five-year capital commitment plan over the last 35 years. The \$61.8 billion committed to capital projects represents a \$9 billion, or 17 percent, increase from the FY 2016 Executive Budget. Among the highlights is a \$675 million commitment to complete City Water Tunnel No. 3 and a 20 percent increase in the New York City Department of Transportation's (NYC DOT) commitment plan.

One month later, after receiving an \$8.3 billion commitment from the State of New York, the



MTA Board formally approved its five-year, \$27 billion capital program, which runs through 2019. That infusion allowed a number of stalled projects to move forward and will fund a number of big-ticket construction projects in New York City, including East Side Access, the second phase of the Second Avenue Subway, and four new Metro-North stations in the Bronx.

While New York City spending by the Port Authority has declined considerably since the major infrastructure work at the World Trade Center was completed, the bi-state agency continues to invest substantially in the five boroughs. In particular, the Port Authority is leading the effort to overhaul LaGuardia and JFK Airports, which account for more than half of its capital spending in the City in 2016.

Governor Andrew Cuomo also recently announced a public-private partnership to undertake a \$1.6 billion transformation of the Farley Post Office into a grand rail station serving Amtrak and the Long Island Rail Road. This project, which will include contributions from New York State, regional and federal sources, is just one aspect of the Governor's ongoing \$100 billion plan to modernize and expand the State's transportation and infrastructure assets.

Even with all of these positive developments, the amount of infrastructure spending anticipated for 2016 through 2018 remains well below the levels achieved annually throughout the period between 2005 and 2013. This is a cause for concern given the additional demands that have been placed on the City's infrastructure by the record levels of private sector growth.

## PRIORITIES AND RECOMMENDATIONS

### Infrastructure Investment

- **The City of New York must take a more strategic approach to capital planning and budgeting.** The Building Congress recommends the adoption of a process that better defines long-term priorities and comprehensively guides ongoing investment decisions. This process would include a 20-year capital needs assessment, a fiscally responsible 10-year capital strategy, and ultimately a fully-funded four-year capital program.
- **Funding New York City's vast infrastructure needs requires far greater use of dedicated revenue streams.** One notable example is the Move NY plan, which would generate vital funds for the MTA and NYC DOT through an enhanced and more equitable system of tolling.
- **Governor Cuomo is pushing forward on a number of City-shaping infrastructure investments with benefits to the entire region. It is now up to the Governor, working with City, State, and federal entities, along with their private sector partners, to forge a strategy to fund and deliver these projects.**

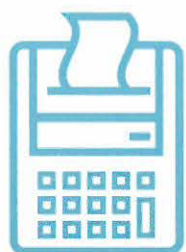
### Policy

- **New York City must produce 20,000 units of new housing annually in order to accommodate a growing population and replace lost units.** This cannot happen without a replacement for 421-a. All stakeholders need to agree on a new program in the coming months.
- **The New York State Legislature should make it a priority to finally pass legislation to expand the use of alternative project delivery methods, such as design-build, Construction Manager-at-Risk, and public-private partnerships, to all State agencies and local governments.**
- **The de Blasio administration and City Council should make the Greater Midtown East rezoning proposal a top priority for the coming year and must work together to rezone former manufacturing areas and transit-rich neighborhoods for a new era of residential and economic development.**
- **Government must also reform environmental review and eliminate bureaucratic waste throughout the project approval process and construction phases.**

### Innovation & Best Practices

- **To speed project delivery and reduce costs, New York City's construction industry must expand its use of integrated project delivery and Lean construction practices.**
- **With the industry firing on all cylinders and a workforce stretched thin, it is incumbent upon the entire building community to ensure all workers are properly trained and supervised, and all job sites are adhering to the best safety practices.**
- **The building community and government must work collaboratively to improve project delivery through streamlined procurement processes, updated work rules, and a greater commitment to workforce development.**

## THREE-YEAR FORECAST



**\$127.5 BILLION  
IN TOTAL  
SPENDING**



**83,300 NEW  
HOUSING UNITS**



**178 MILLION  
GSF OF NEW  
SPACE**



**BETWEEN 138,000 – 147,000  
JOBS ANNUALLY**



## Residential

The Building Congress forecasts \$13.4 billion in residential construction spending in 2016. If realized, this would be the third consecutive record-breaking year. Residential spending, which includes spending on new construction as well as alterations and renovations (A&R) to existing buildings, reached \$12.7 billion in 2015 and \$12.0 billion in 2014. This year's forecasted total would be more than five times the amount spent in 2010, when housing construction dropped to a post-recession low of \$2.6 billion.

While overall residential spending is expected to increase, the number of new housing units produced is forecast to decline from 36,850 units last year to 31,300 in 2016. This is due in part to increased A&R spending and an increase in the average square footage of the new units being constructed.

Looking ahead, the Building Congress forecast calls for 27,000 new units and \$13.1 billion of residential spending in 2017, and 25,000 units and \$12.7 billion in spending in 2018.

## Non-Residential

Non-residential construction spending, which includes office space, institutional development, government buildings, sports/entertainment venues, and hotels, is expected to skyrocket to \$17.0 billion in 2016, a 27 percent increase from a year ago when spending reached \$13.4 billion. This would be the highest level of inflation-adjusted, non-residential spending in more than two decades and just the fourth time that nominal spending has topped \$10 billion.

The Building Congress forecasts continued strength in the non-residential sector, with spending expected to reach \$14.8 billion in 2017 and \$15.6 billion in 2018.

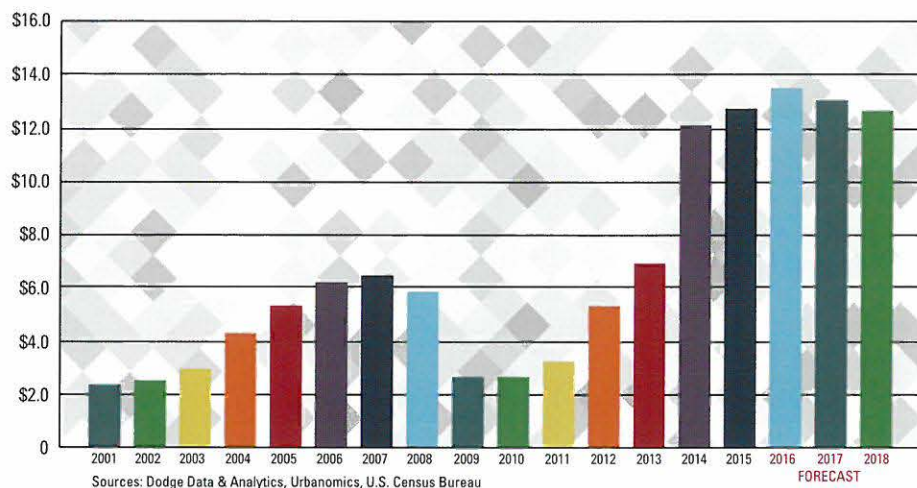
## Government

Government spending on public works, which includes investments in mass transit, roads, bridges, and other essential infrastructure, is forecast to reach \$12.7 billion in 2016, a 56 percent increase from 2015 when spending dipped to \$8.1 billion. Spending in this sector is expected to reach \$14.3 billion in 2017 and \$14.1 billion in 2018.

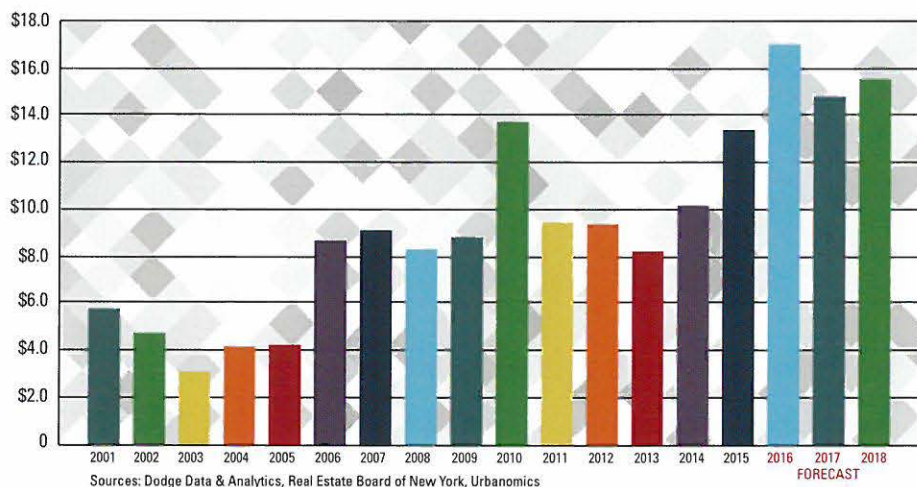
The City of New York is forecast to spend \$6.7 billion on infrastructure projects in 2016, nearly double the \$3.4 billion spent in 2015. The Building Congress anticipates City spending to increase even further – to \$7.0 billion in 2017 and \$7.6 billion in 2018.

Construction spending by the Metropolitan Transportation Authority (MTA) is expected to

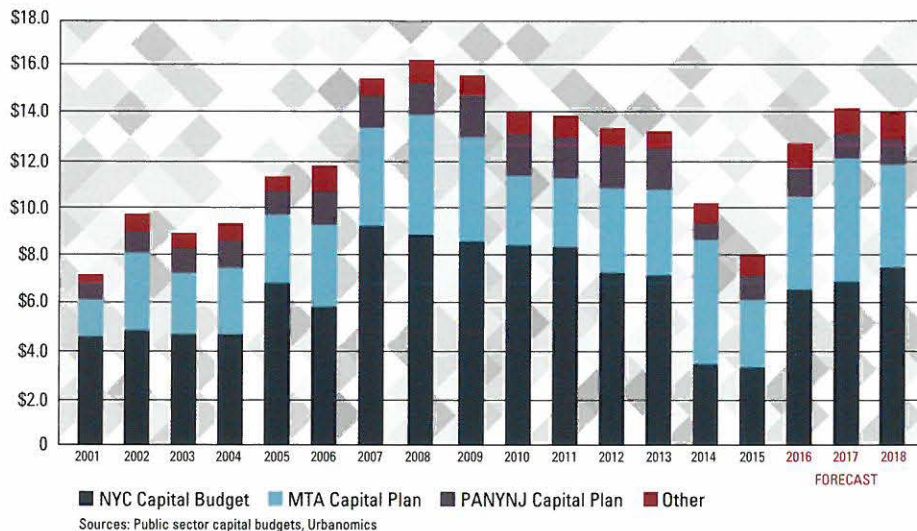
Residential Construction Spending in NYC  
(In Current Dollars — Billions)



Non-Residential Construction Spending in NYC  
(In Current Dollars — Billions)



Government Infrastructure Spending in NYC  
(In Current Dollars — Billions)



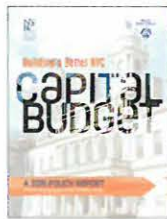


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*A yearly overview of the Building Congress and its rich program of advocacy, communications, research, committees, and events.*



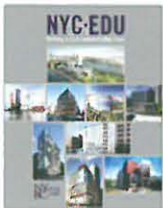
**Capital Budget**

*A report on the City's growing infrastructure needs and solutions to meet them.*



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*A report highlighting the work and recommendations of the Task Force on Innovation and Best Practices, which spearheaded a wide-ranging initiative to promote construction innovation and improve the way New York City builds.*



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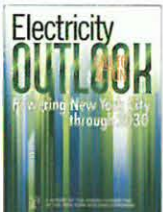
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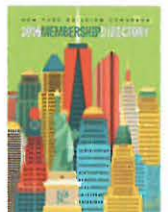
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**Credits:** New York City Construction Outlook 2016-2018, the sixteenth in an annual series, was prepared with the assistance of Urbanomics by the New York Building Congress and the New York Building Foundation.

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**Design:** ruzowgraphics.com

Published: October 2016