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George Mason University Center for Regional Analysis

Survey of Construction/Development
Industry Firms in the Washington
Region Regarding the Economic
Downturn (January 2009)

Summary Report

Sample Survey of Construction/Development Industry Firms in Greater Washington

January, 2009

Introduction

In December 2008 the George Mason University Center for Regional Analysis surveyed a sample of area firms in the development/construction industry to assess how the recession is affecting their business, how they are responding to the challenges and their outlook for the future. The survey included firms in the areas of engineering, architecture, residential and commercial real estate development. This report provides a summary of the results of the responses to the survey questionnaire from key executives with these firms. Individual responses to the survey are confidential, and there is no attribution to any individual or company in this report.

Brief Background - The Current Economy, January 2009

The U.S. “officially” entered into recession in December of 2007 and throughout 2008 has struggled. Measures of economic performance at the national level continue to indicate worsening economic conditions as 2008 ended and 2009 began. A summary of key indicators:

- Housing continues to be a drag on the economy with both new and existing home sales in a negative trend, and information on foreclosures indicating serious problems in many parts of the country.
- National job growth has dropped from an annual average of adding 2.13 million new jobs in December 2006 to a loss of 2.5 million jobs from November 2007 to November 2008.
- Both the manufacturing and business indices by the Institute of Supply Management show significant recessionary declines as of November 2008.
- Initial claims for unemployment increased to near record levels and the unemployment rate stood at 7.2 percent in November.
- Consumer confidence measures have dropped to all-time historic lows.
- The financial crisis and the recession are the focus of Congress and the Administration and measures are being implemented and planned to address the economic situation. There is hope and expectation that the actions and plans along with time for markets to recover will result in economic recovery, in general, by later in 2009.

Against the environment of the national economic situation, the Washington economy continues to expand although much more slowly. For the past four recessions going back twenty-eight years, Washington's Gross Regional Product did not turn negative, although the region experienced job losses in both the 1982 and 1991 recessions.

Recessionary effects are partially mitigated in the Washington region due to the presence of the Federal government, and as of November 2008 the region is adding jobs at annual rate of 1.0 percent per year and its unemployment rate of 4.4 percent is the lowest among all metropolitan areas in the country and far below the national rate.

But while the effects are partially mitigated in the region as measured by broad economic indicators, there are nevertheless significant impacts being felt by many sectors of the economy and especially the construction development sector.

Summary of Survey Results

Review of the responses to the questionnaire shows that the leaders of the construction/development industry in the Washington region are well aware of what is happening in the economy and that most of their businesses have been impacted. Industry leaders have taken many actions to deal with the impacts, they expect the downturn to last somewhere between later in 2009 to well into 2010, and that all are taking some action to prepare and position their companies for the recovery.

A summary of survey responses by major category of questions:

How has the downturn affected your business?

All report negative impacts on business, with a range of reduction in billings of 10-30%. Respondents report increased competition, projects being stalled for lack of financing, and projects delayed because of market conditions. Some respondents reported continued profitability but with significant reductions from 2007 and earlier years.

What Steps Have Been Taken to Deal with the Situation?

Most but not all respondents have had staff layoffs and all have taken actions to reduce expenses. Layoffs ranged from 0 to almost 50% of staffs, across a wide range of company sizes. Respondents cite elimination of bonuses, reductions in salaries (including executives in some cases), and the cutting of travel, entertainment, work hours, and some have instituted furloughs. Some also reported making adjustments in products and services being offered. Some reported voluntary pay reductions and/or deferrals by executives. Two respondents indicated that even though many expenses

were being reduced, that they were not cutting back on training and employee development programs.

What Effects Do You Expect for 2009, and When Do You Expect Recovery?

Most but not all expect 2009 to be a negative year for billings. Indications were made regarding what relief might come from proposed stimulus measures by the Federal government and that this could be very important in how 2009 will play out.

There was a majority consensus – but not unanimous – that things could be better in the second half of the year. Some expect recovery not until 2010 and not really good until 2011, although answers to this were qualified by market segment. Most negativity about longer recovery was for commercial development, with expectation of earlier recovery for residential in some areas.

What Things Have You Been Doing in Looking To The Future?

There were some interesting responses to the questions regarding how companies have been dealing with the situation and what they have been doing that they may have been too busy for in earlier good times. While survival was mentioned often and certainly seemed on their minds, most responses to these questions were focused on looking forward to where they want to be during the recovery.

Many said they were evaluating business lines, processes and business strategies to implement more efficiency for the future. Some also mentioned strengthening their internal infrastructure. Some other specific actions mentioned: examining possible acquisitions, hiring key players, improving best practices, listening to clients as we go through this time, strategic planning to look out 3-5 years in light of likely shifts in the marketplace when all this is over.

Concluding Observation

The construction and development firms in the region have been impacted by the economic downturn, and they have been adjusting by taking necessary actions to survive, to reduce business costs, and have made layoffs and other such measures where necessary. They expect the downturn to last until later in 2009 or even later, and most of the respondents have been taking strategic stock of their businesses and are developing plans to position their companies for the recovery. Historically this industry has always been resilient as has the Washington region's economy. There is no reason to think that will be different this time.

Selected Detailed Responses from Questionnaires (paraphrased)

Has the economic downturn affected business? How and how much?

All survey respondents (100%) answered that the economic downturn has negatively impacted their business

Reduced business opportunities...Billings down 30%...Have had several rounds of layoffs...current workforce is 65% below the peak in summer of 2006....

Revenues down 28%, new orders down 50%, net income down significantly but the company is still profitable...employment down 50% from peak

Have seen 10-15% drop in business and increased competition for the business that is out there.

Yes...dramatic drop in commercial sector and more competition. Billings down over 50%.

Business and billings down 20+%.

Residential work down precipitously...now seeing financial difficulties stalling all manner of projects and see municipal budget difficulties stalling some work...billings down 10%.

Projects have stalled due to lack of financing, others delayed due to overall market conditions...but company has a backlog of work through 2009.

Billings down 30%.

What actions have you taken to adapt and deal with the downturn?

Reductions for all salaried employees including executives, no bonuses, renegotiated facility leases, reduced entertainment expenses.

Have adjusted products...reducing features and eliminated products not selling.

Have laid off some employees...cutting expenses, travel, training – have a goal to reduce overhead by 20 or more percent.

Have laid off 45% of staff, cut bonuses and expenses.

Have laid off 20% of staff and reducing expenses – cutting bonuses, travel, entertainment, organizational dues – but have not reduced education and seminars.

Have laid off 10% of workforce...cut expenses...principals have taken voluntary pay deferrals.

Have not yet had any layoffs.

Have laid off 6% of staff...salary reductions including executives...cut travel, bonuses, entertainment, work hours...some furloughs.

Do you expect business your business to expand in 2009? What do you expect to happen to billings in 2009?

Expect billings to be down 35-40% in 09.

Down 15-20%.

Down 20 or so % early in year, then down 50% later.

Expect business to be stable in 09.

Expect business to be flat overall: down in first half of year and up in second half.

Think the market is now at the bottom – but the question is how long before recovery?

Business prospects in 2009 will depend on economic stimulus measures that are passed.

Expect billings down 10%.

What are you doing in facing the challenges of these tough times, especially in looking to the future?

Focus is to survive and to re-engineer processes to improve efficiency and be prepared for when the market begins to improve.

While having done cost-cutting and improving efficiencies, we know that time is needed to burn off inventory before markets and our business can return to normal growth and profitability.

While we are tightening spending, we are also looking to strengthen some of our infrastructure...communications systems, accounting controls and procedures will be improved.

We are getting lean and mean with the intention to survive and once through this to be ready to prosper...are implementing new project management processes, re-evaluating business models and strategies: what worked before won't now because it's time for a new paradigm.

We are looking to survive...getting lean and mean...examining different business segments for possible marketing.

Our objectives are two-fold: surviving by remaining profitable and exploiting opportunities presented by the downturn such as doing acquisitions and hiring key players...we are concentrating heavily on strategic planning to determine how we want to look 3-5 years out in light of the major shifts in the marketplace – some of which we feel will be permanent.

We are using these times to capitalize on the opportunities that are available and improve our overall business and services...The lessons learned as we evaluate the best use of our workforce, monitor spending and budgets, and listen to our clients needs will help our company maintain our presence in the industry. The economic storm came at a time when we were already focusing on lean methods, green building and sustainability, and the downturn has been

the impetus to remain focused on these items. Through our internal green campaigns we have championed recycling and waste reduction – good for the environment and good for our bottom line. We remain committed to continuing to develop our talented employees. A stall in the economy should not mean a stall in their career development.

We are looking to survive while improving best practices, productivity and efficiency...also targeting new markets.

How long will it last and what kind of recovery do you expect?

2010 and it will be 2011 until more normal...a slow recovery.

9-12 months.

Early 2010...we all go insane together – we only become sane one at a time.

Some parts of the economy picking up in the 2nd half of 2009, general recovery into 2010. Expect a generally slow recovery, although expect faster recovery in residential as lot inventory shrinkage meets growing market demand.

2010 and 2011 until really better. For residential, need time to burn off inventory...its working but will take time.

Commercial construction 2-3 years beginning now...slow recovery and the landscape in terms of lenders and developers will likely look different.

1-2 years.

At least through 2009 and into mid 2010...a slow recovery.

Other General Comments

Plan for the worst hope for the best.

For Washington markets – we're better off than everyone and those outside this market will not feel sorry for us.

Stick to your knitting – what you've done well – and get better at it.