

Some sectors show promise as construction rebounds from the recession

by Michael Bosse, shareholder and chair of the Construction Practice Group at Bernstein Shur
Portland | May 2, 2012

National recessions tend to affect New England later and with less severity than the rest of the country. It also takes New Englanders longer to pull themselves out of recession. This is where an industry vital to our state — construction — finds itself right now.

More than 90% of construction companies are small businesses with fewer than 20 employees, representing a vital part of the Maine economy. Things aren't as bleak as they were a couple years ago, but the industry hasn't dug itself out of the hole enough to be completely confident about the future. There are, however, bright spots and promising indicators in different sectors of the construction industry.

Infrastructure

Public construction of roads, bridges and the like has kept construction laborers and many companies near capacity for the past couple of years and, with the anemic winter we experienced, there's an early uptick in construction work in many municipalities. Although the level of funding may not be what the industry or the country ultimately needs to have a first-rate transportation and infrastructure system, public-sector construction will keep laborers busy in 2012.

Multi-family housing

Housing authority projects, senior assisted-living and other private multi-family housing starts have increased as new, single-family housing has declined. For example, the U.S. Department of Housing and Urban Development awarded Maine \$5 million in February for large-scale improvements to public housing units. Expect this trend to continue until the inventory of single-family residential homes on the market decreases to more manageable levels.

Health care

Maine has one of the oldest populations in the country, a population that's going to need more health care services. The MaineGeneral Health project is the largest construction project in Maine's history at a reported \$322 million, promising 350 construction jobs. We're likely to see more renovations, additions, satellite and new health care facilities in Maine.

Colleges and universities

College and university construction has been somewhat immune from the recession. For instance, Colby College is building a 26,000-square-foot addition to its art museum that will

make it the largest museum in Maine. Bates, Bowdoin and the University of New England will undoubtedly continue to increase their footprints.

Green construction

Green construction is off to a slow start because of the length of the recession, but sustainability concepts are here to stay. Many contractors now have LEED-accredited professionals on staff because customers are asking sustainability questions as part of the design and construction process.

Wind power

Although this is a topic with two very passionate sides, the fact is that wind power construction has provided a significant amount of revenue over the past couple of years and that's likely to continue. There are about 20 projects under development, in construction or up and running, starting with Mars Hill in 2007. This doesn't include smaller-scale wind projects across the state.

Regionalization

The extended downturn in construction work in all New England states caused contractors to try to regionalize in order to maintain their annual levels of work. Southern Maine has never seen such an influx of contractors from Massachusetts, New Hampshire and Vermont. Companies have opened satellite offices in other states where there are more promising levels of sustained construction work. Since the lien laws, prompt payment laws and licensing statutes are different in the various New England states, this regionalization bears watching.

Residential

There are upticks in residential construction in some regions of the country, but new residential construction starts in Maine are still poor. Many people who were in residential construction have exited the sector, and the work doesn't appear to be increasing significantly anytime soon. Residential contractors that remain, however, are more likely to be better capitalized and able to turn out first-rate quality construction, as are the material suppliers and specialty subcontractors. These are the folks who made good business decisions about how to cope with the downturn and they're more likely to be poised to take advantage of future opportunities.

Long-term economic forecasts for both residential and commercial construction are actually bullish, and people in the industry, including this author, are optimistic about its long-term prospects.

Mike Bosse is the chair of Bernstein Shur's Construction Practice Group and a member of its Litigation Practice. He can be contacted at 207-228-7276 or mbose@bernsteinshur.com.

Reprinted with permission of MaineBiz.