

SCHOOL CONSTRUCTION

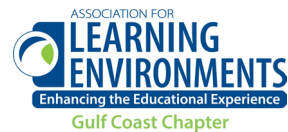
A LOCAL SNAPSHOT

GREATER HOUSTON BULLETIN

SPRING 2019

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AGC Houston
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.



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This school construction cost report is the result of a collaboration between members of the Associated General Contractors of America, Houston Chapter (AGC) and members of the Association for Learning Environments, Gulf Coast Chapter (A4LE).

The goal of this report is to provide information to assist local school districts in planning for their construction projects.

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2019-2020 COST TRENDS SURVEY

BY: BOB RICHARDSON, DUROTECH, INC.

As part of the AGC/A4LE Joint Committee, Durotech conducts an annual survey of over 3,000 subcontractors from major design firms in the K-12 construction market within the Houston region. Respondents are asked to provide cost projections from their point of view based on how costs affect their specific trades. They are grouped into three categories: Labor Intensive (shell; concrete, masonry, earthwork, underground, etc.), Finish/Specialty (non-MEP interiors), and MEP (mechanical, electrical, plumbing, and data).

MAJOR SUBCONTRACTOR CONCERNS

Subcontractor concerns expressed over the last several years appear to be abating due to the drop in energy prices and its impact on all sectors of the construction industry. According to the 2019 survey, 32 percent of respondents remain concerned about how the economy will affect their businesses, down from 57 percent in 2018.

Additionally, subcontractor concerns regarding labor availability remain high at 28 percent, although down from 80 percent in 2018. This difference suggests a phased recognition or acceptance of on-going labor market concerns.

Productivity, among some trades, appears to be improving citing the drop of concerns from 38 percent in 2018 to 13 percent in 2019.

Another major concern is price competition, which has put many subcontractors under profit pressure. In 2019, respondents reported a decrease to 18 percent compared to 40 percent in 2018.

The amount of available work has played a major role in the mitigation of these concerns leading to improved confidence in the economy. This improvement could lead to greater margins and more stable revenue streams available in the market. Subcontractors are also experiencing increases in materials and labor costs. These trends, which show an improved economic environment as well as margin and pass-through price increases, are setting the stage for a rise in overall project costs.

The charts below detail the subcontractor survey results and trends for the past four years.

Contact Bob Richardson at bobr@durotechgc.com for more information regarding this survey.

Specialty Contractor Surveys & Trends: Average* (%)															
	Labor Intensive Trades					Finish/Specialty Trades					MEP Trades				
	2016	2017	2018 Est.	2018 Act.	2019	2016	2017	2018 Est.	2018 Act.	2019	2016	2017	2018 Est.	2018 Act.	2019
Materials Cost Increases	7.1	5.3	4.7	6	5.9	4.2	4.8	7.5	3.6	5.5	0.9	4.5	8.29	3.1	9.83
Labor Cost Increase	9.9	6.3	3.7	7	5.2	5.4	4.9	5.9	3.3	4	5.8	3.5	5.14	3	5.5
Labor Production Rate Increase	6.4	9.3	0.5	6	4.4	6.6	2.6	2.8	2.3	1.75	0.8	5	1	-0.63	3.17
Revenue Increase	4.1	7.1	0**	7	5.8	26	12	11.9	12.5	14.4	15	9.5	5.71	5.5	6.83
Margin Increases	2	1.6	1.3	2.7	3.2	3.7	2.2	1.3	2.8	3.4	-0.5	-0.1	2.29	0**	4.17

*Percentages indicated are an average of all respondents overall.
 **Survey responses included both increases and decreases resulting in a zero net increase.
 Source: Annual Subcontractor Survey by Durotech, Inc.

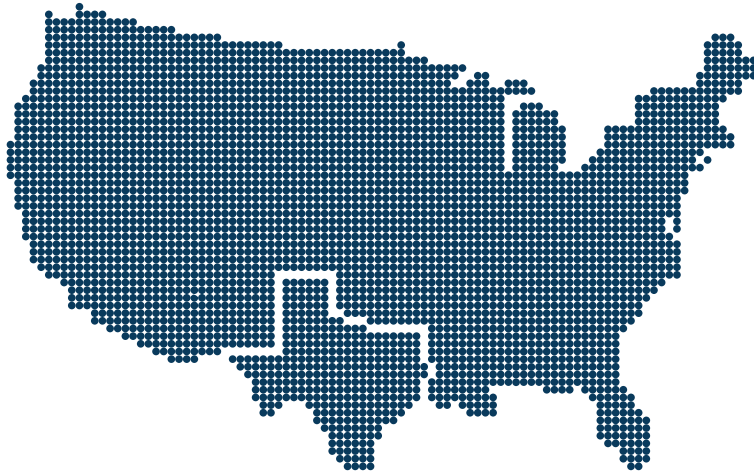
Specialty Contractor Surveys & Trends: Average All Trades* (%)					
	2016	2017	2018 Est.	2018 Act.	2019
Materials Cost Increases	3.6	4.8	6.5	4.35	6.8
Labor Cost Increase	6	4.5	4.6	4.87	5.09
Labor Production Rate Increase	4	1.3	1.4	1.82	3.15
Revenue Increase	18.5	10.1	7	5.16	9.5
Margin Increases	1.3	1.5	0.6	2.09	3.68

*Percentages indicated are an average of all respondents overall.
 Source: Annual Subcontractor Survey by Durotech, Inc.

Design Professional Average Future Cost Projections*			
	2018	2019	2020
Elementary	\$197-210/sf (Avg. \$203/sf)	\$200-258/sf (Avg. \$229/sf)	\$195-263/sf (Avg. \$230/sf)
Middle/JHS	\$220-269/sf (Avg. \$241/sf)	\$210-280/sf (Avg. \$250/sf)	\$205-288/sf (Avg. \$250/sf)
High School	\$242-298/sf (Avg. \$270/sf)	\$245-305/sf (Avg. \$280/sf)	\$245-305/sf (Avg. \$280/sf)

*Costs vary in school types based on location, programs, scope, technology and finish requirements.
 Source: Annual Subcontractor Survey by Durotech, Inc.

**Current Oil Rig Count
(as of 4/12/2019)**



**UNITED STATES
1,022
TEXAS
502**

Source: Baker Hughes



West Texas Intermediate Spot Market Price

	Feb. 2018	Feb. 2019	% Increase
Monthly Price	\$62.23	\$54.95	-11.7%
YTD Average Price	\$62.97	\$53.17	-15.6%

EIA expects West Texas Intermediate (WTI) crude oil prices will average almost \$8/b lower than Brent prices in the first half of 2019 before the discount gradually falls to \$4/b in late-2019 and through 2020.

Source: US Energy Information Administration
Forecast as of 4/9/2019

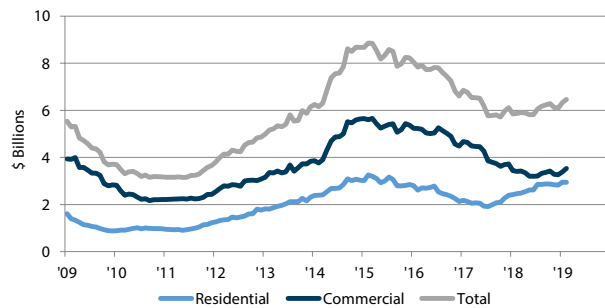
Henry Hub Natural Gas Price

	Feb. 2018	Feb. 2019	% Increase
Monthly Price	\$2.67	\$2.69	0.7%
YTD Average Price	\$3.27	\$2.90	-11.3%

EIA expects Henry Hub natural gas spot prices will average \$2.82/MMBtu in 2019, down 33 cents/MMBtu from 2018. The forecasted 2020 Henry Hub spot price is \$2.77/MMBtu.

Source: US Energy Information Administration
Forecast as of 4/9/2019

**City of Houston Building Permit Value
12-Month Total**



Source: City of Houston & Greater Houston Partnership

According to the City of Houston's Department of Public Works & Engineering Planning & Development Services, building permits for the 12 months ending February 2019 totaled \$6.5 billion, up 10.1 percent from \$5.9 billion for the same period a year ago. Residential permit values rose 19.2 percent to \$2.9 billion while commercial permit values increased 3.6 percent to \$3.5 billion.

PMI - Houston Indicators

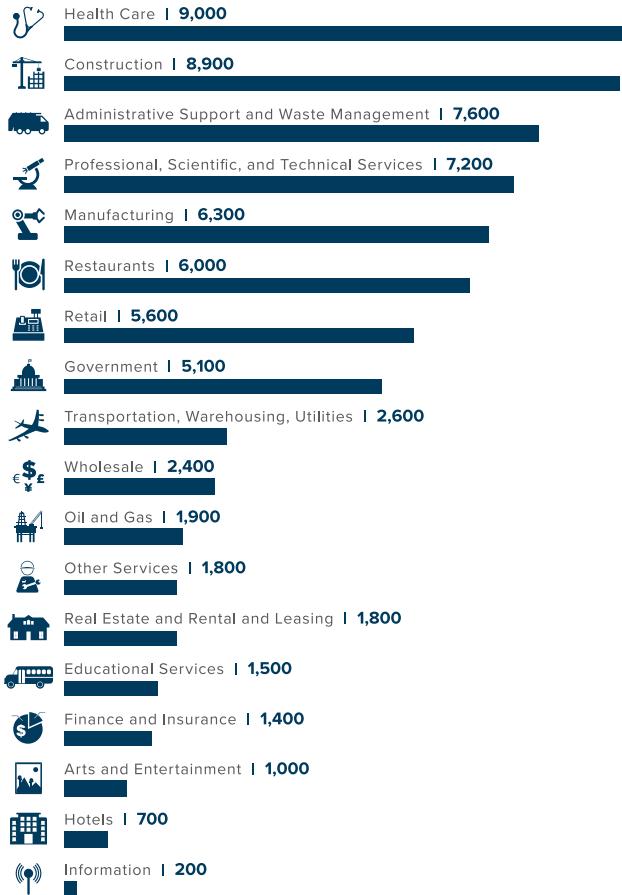
	March 2018	March 2019	Percent Change
Monthly	56.5	64.0	13.3%
YTD Average	55.6	58.7	5.6%

Source: Purchasing Managers Index (ISM)

The PMI is a leading indicator of economic conditions for Houston. An index number below 50 represents a contracting economy; readings above 50 indicate an expanding economy. The region's PMI has signaled expansion in overall economic activity for 32 consecutive months and manufacturing activity for 19 consecutive months.

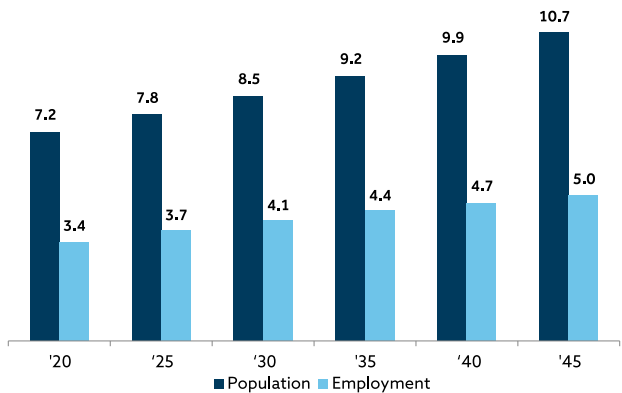


Metro Houston, Forecast Job Gains December '18 - December '19



Source: Greater Houston Partnership

Population and Employment Forecast Houston-The Woodlands-Sugar Land MSA in Millions



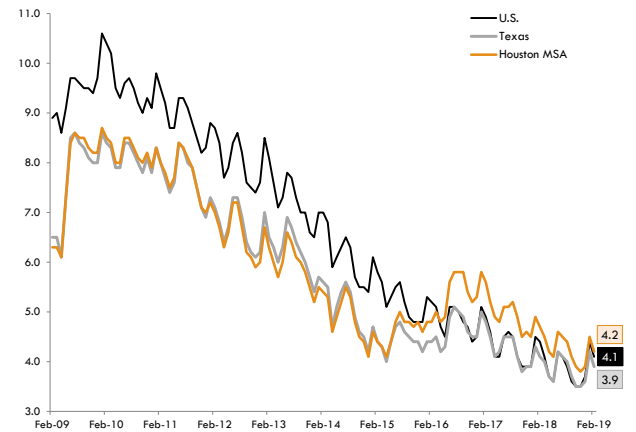
Source: The Perryman Group

Unemployment Rate

February 2019	Monthly
Houston - Sugar Land - Baytown	4.2
Texas	4.1
U.S.	3.9

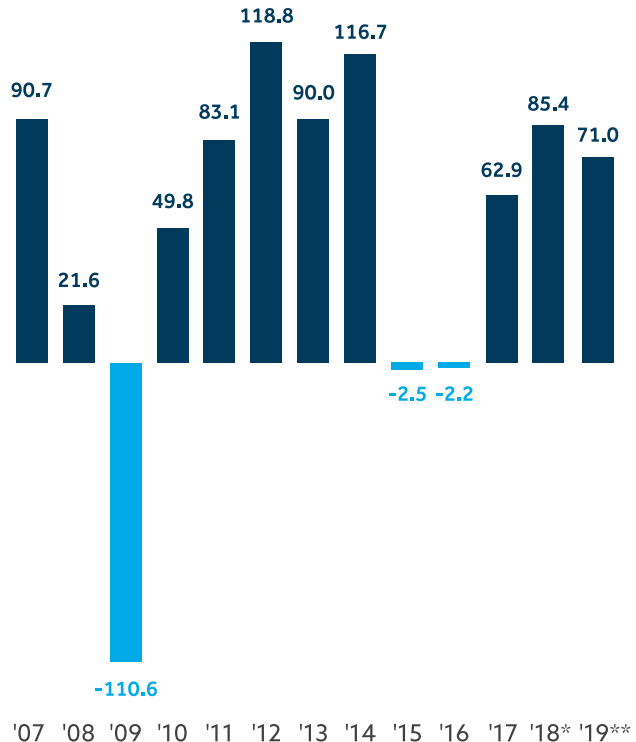
Source: Texas Workforce Commission (Not seasonally adjusted)

Unemployment Rates (NSA) - U.S., Texas, and Houston MSA, Feb. 2009 to Feb. 2019



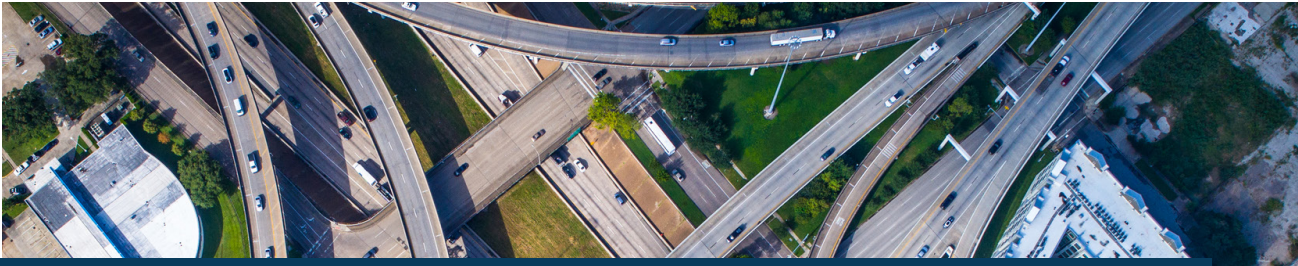
Source: Texas Workforce Commission (Not seasonally adjusted)

Metro Houston Job Growth December to December, (000s)



Source: Texas Workforce Commission & Greater Houston Partnership forecasts

*October YTD **Partnership's '19 forecast



HIGHEST GROWTH SCHOOL DISTRICTS IN THE HOUSTON AREA

BY: PAT GUSEMAN AND JUSTIN SILHAVY, POPULATION AND SURVEY ANALYSTS (PASA)

2018 GROWTH TRENDS

Since school districts have meaningful geographic boundaries that affect where residents choose to live, plotting growth trends in housing for these districts gives us insight into future relocations. The highest increases in housing starts for 2018 are shown below:

- 3,688 – Fort Bend ISD**
- 3,136 – Lamar CISD**
- 3,078 – Conroe ISD**
- 2,705 – Katy ISD**
- 2,286 – Cy-Fair ISD**

In 2018, three districts were the strongest leaders - with the highest percent increases in housing starts. Those larger districts leaping forward with significant growth acceleration included:

- 37% – Conroe ISD**
- 25% – Lamar CISD**
- 22% – Fort Bend ISD**

Both measures of high growth - numeric and percent - are in school districts that are each driven by uniquely strong “pulls” in their respective districts. These pulls can be based on a number of factors including optimum locations of jobs, affordable homes relative to other districts, and school district reputation.

PROJECTIONS OF NEW HOUSING FOR THE LARGEST SUBURBAN SCHOOL DISTRICTS - TEN YEARS FORWARD

Considering the prognosis for a stable economic environment, Houston’s suburban districts with the greatest number of projected housing units over the next decade are shown below. (These housing projections are prepared by Population and Survey Analysts for every active and planned subdivision, all planned apartments, and, in some cases, as-yet-undeveloped parcels within each school district, summed annually for the coming decade.)

- Lamar CISD - 54,831 (with 77% as detached SF)**
- Conroe ISD - 39,418 (with 72% as detached SF)**
- Katy ISD - 37,848 (with 68% as detached SF)**
- Fort Bend ISD - 36,557 (with 63% as detached SF)**
- Cy-Fair ISD - 35,486 (with 59% as detached SF)**

Lamar CISD is projected to lead in adding new housing - among all the 61 districts in the Houston Consolidated Metro Area - accelerating each year. Also, the current high growth districts of Cy-Fair, Fort Bend, and Katy will be mostly built out within ten to fifteen years. However, these districts are currently attracting more multi-family units - i.e., using the smaller tracts that remain. Likewise, other districts not on this above list, such as Klein and Humble, are also rapidly building out.

Among the rural fringe districts, Willis, Waller, New Caney, and Barbers Hill should show the greatest percent increases in the next five to ten years, partly due to a “spillover” effect from other, larger districts and from new employment centers. These districts will make great leaps forward in new housing, added jobs, and overall population growth.

Continued on next page



LARGEST RESIDENTIAL DEVELOPMENTS IN THE HOUSTON METRO AREA - TEN YEARS FORWARD

Master planned communities likely have a bigger impact in the Houston area than any other Metro area in the nation. Houston's housing leaders for the next ten years are Bridgeland, with new housing in three school districts that will sum to 10,464 housing units, including apartments. Additionally, the Waller, Cy-Fair, and Katy school districts will continue to see almost 5,000 housing units being added post-2028 in this one development.

Fort Bend County continues to be the epicenter for high growth in the Houston area. In Missouri City, Sienna Plantation has ~6,320 projected homes for the coming ten years and another 1,300 homes projected to be occupied post-2028. Across the County in Simonton, Twinwood, with approximately 15,000 acres via multiple ownerships, has been working on wetlands mitigation, but the timing of a major master-planned community is unknown. Johnson Development's Jordan Ranch and Cross Creek Ranch, combined with D.R. Horton's Tamarron, make up the high growth epicenter in the western suburbs. Combined, these three contiguous projects will add over 10,200 new housing units over the next ten years.

In Montgomery County, within Conroe ISD, the largest master planned community expected over the next decade is Artavia - with 3,910 homes and multi-family units expected in the coming ten years. Another ~2,600 units will be added post-2028. Development has been concentrated along the I-45, I-10, and I-69 corridors. However, new development is beginning to emerge along the Grand Parkway, SH 242, FM 1314, and FM 2854. Artavia is located along FM 1314. Also in this corridor, a long-term plan is underway by Caldwell Companies for a 4,000-lot development in New Caney ISD.

In the northwest suburbs, Waller and Willis are the two school districts which should accelerate the most rapidly in adding housing units. Johnson Development and Howard Hughes will have big impacts on both these districts' ten-year growth patterns. The Woodlands Hills in Willis ISD has over 4,500 homes planned, plus apartments. In this new development, 28 homes are now occupied with another 58 available or under construction. Additionally, Willis ISD will soon have an active adult community, Chambers Creek Ranch, to be developed by Caldwell Companies, with upwards of 3,400 housing units.

Contact Justin Silhavy at jsilhavy@pasatx.com for more information.



K-12 School Bonds Passed from 2016 to 2018 in Millions			
District	2016	2017	2018
Alvin ISD	-	-	\$480.5
Anahuac ISD	\$15	-	-
Barbers Hill ISD	-	\$120	-
Clear Creek ISD	-	\$487	-
Cleveland ISD	-	\$80	-
Crosby ISD	-	\$105.9	-
Danbury ISD	-	\$18.7	-
Deer Park ISD	-	\$156	-
Dickinson ISD	\$70	-	-
Fort Bend ISD	-	-	\$992.6
Galena Park ISD	\$290	-	-
Galveston ISD	-	-	\$31
Huffman ISD	\$44.1	-	-
Humble ISD	-	-	\$575
Katy ISD	-	\$609.2	-
Lamar CISD	-	\$445.4	-
Pasadena ISD	-	\$135	-
Pearland ISD	\$220	-	-
Santa Fe ISD	\$34.5	-	-
Sheldon ISD	\$285	-	-
Spring ISD	\$330	-	-
Spring Branch ISD	-	\$898.4	-
Stafford MSD	-	\$62	-
Texas City ISD	-	-	\$136.1
Tomball ISD	-	\$275	-

Source: Texas Bond Review Board & Texas Comptroller



LEGISLATIVE UPDATE

BY: CORBIN VAN ARSDALE, AGC-TEXAS BUILDING BRANCH

THE 86TH TEXAS LEGISLATURE

The Texas Legislature is back in Session, and for the first time anyone can remember in Texas history, the State's Big Three leaders - the Governor, Lt. Governor, and House Speaker - all spent their professional careers in the Houston area. This greatly empowers the Houston region.

When the Legislature convenes, it always gets interesting. Here are some actual bills that have been filed this Session:

- HB 410 - Relating to the personal use exemption for domestic rabbit meat
- HB 2717 - Relating to the use of a turn signal before turning a vehicle
- HB 3017 - Relating to nonconsensual pelvic examinations
- HB 3646/SB 2084 - Relating to operating a motor vehicle while a person is occupying the trunk of the motor vehicle
- HJR 135 - Proposing a constitutional amendment abolishing daylight saving time in Texas
- SB 130 - Relating to the use of hypnotically induced testimony in a criminal trial
- SB 2287 - Relating to the random drug testing of members of the legislature during a legislative session

MAJOR ISSUES SHAPING THE SESSION

The big issues this Session are the budget (as always), school finance, property tax reduction/revenue caps, school safety, and the Hurricane Harvey response.

The Texas House and Senate have both passed school finance bills that add \$9 billion in new dollars to public schools, but they disagree on:

1. How much money to use to buy down property taxes
2. Which school personnel will get raises

Those issues will be resolved in conference committee.

The current rollback rate on local governments' property taxes is 8 percent. Revenues (appraisals x tax rate) above that percentage trigger an automatic election. The Senate and House both filed bills to reduce the rollback rate to 2.5 percent, but negotiations are ongoing as to:

1. What percent
2. What government entities the percentage applies to
3. Whether the cap will apply to certain types of city services (debt, public safety, etc.)

After school shootings, the Legislature is also looking at upgrading safety standards for both new and existing schools. For retrofitting schools on safety, the Legislature is also appropriating money to pay for these renovations.

The Legislature is also shaping up to appropriate about \$5 billion for Harvey-related expenses.

CONSTRUCTION ISSUES

An unusually high number of construction bills have been filed this Session. A major focus of several of these bills is the litigation abuse over construction defects:

- HB 1734/SB 1907 - Requiring ISDs to spend school construction defects judgment/settlement proceeds on the repairs
- HB 1999 - Providing contractors a right to repair/cure before being sued
- HB 1737 - Reducing the statute of repose (time for suing for building defects) from 10 years to 7 years
- HB 2901 - Contractors not liable for design defects
- HB 2899 - Contractors not liable for design defects on road projects
- HB 2826/SB 28 - Texans for Lawsuit Reform bill on transparency and Texas Attorney General approval before local governments hire contingency plaintiffs lawyers to pursue construction defects cases

Contact Corbin Van Arsdale at corbin@agctbb.org or visit constructorsvote.com for more information.

2019 K-12 School Bond Elections Greater Houston Area School Districts

District	Purpose	Bond Total	Election
Brazosport ISD	New Construction, Safety and Security, Additional Career and Technical Education Programs and Renovation	\$267,000,000	May 4, 2019
Channelview ISD	School Replacements, Renovations, Transportation, Career and Technology Center	\$195,000,000	May 4, 2019
Cleveland ISD	New School and Expansions	\$250,000,000	May 4, 2019
Conroe ISD	New Schools, School Renovations and Additions, Technology, Transportation, Land Purchase	\$807,000,000	May 4, 2019
Cypress-Fairbanks ISD	Instructional and Support Facilities, Safety and Security, Transportation, Technology, and Facilities Renovations and Additions	\$1,762,000,000	May 4, 2019
Goose Creek CISD	New Schools, Renovations, Athletics, Safety and Technology	\$335,000,000	May 4, 2019
Sweeny ISD	School Renovations, Safety, Health and Wellness	\$28,000,000	May 4, 2019

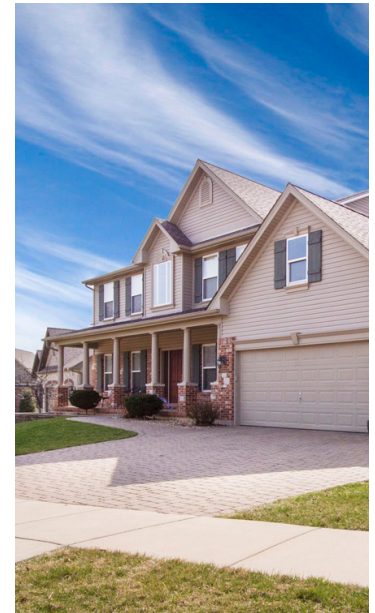
Source: Texas Comptroller

Houston Housing Indicators

Categories	March 2018	March 2019	Change
Total Property Sales	8,182	8,475	3.6%
Total Dollar Volume	\$2,263,301,035	\$2,393,088,711	5.7%
Total Active Listings	34,991	41,127	17.5%
Single-Family Home Sales	6,740	7,072	4.9%
Single-Family Average Sales Price	\$292,966	\$298,766	2.0%
Single-Family Median Sales Price	\$235,000	\$240,000	2.1%
Single-Family Months Inventory*	3.3	3.9	0.6 mos.
Single-Family Pending Sales	7,628	8,740	14.6%

*Months inventory estimates the number of months it will take to deplete current active inventory based on the prior 12 months sales activity. This figure is representative of the single-family homes market.

Source: Houston Association of Realtors



Houston Real Estate Highlights in March

- Single-family home sales rose 4.9 percent year-over-year, with 7,072 units sold, marking the second consecutive month of positive sales;
- Days on Market (DOM) for single-family homes remained unchanged at 64;
- Total property sales increased 3.6 percent with 8,475 units sold;
- Total dollar volume jumped 5.7 percent to \$2.4 billion;
- The single-family home median price rose 2.1 percent to \$240,000, which represents an all-time high;
- The single-family home average price was up 2.0 percent to a March high of \$298,766;
- Single-family homes months of inventory was at a 3.9-months supply, up from 3.3 months last March and at its most plentiful level since October 2018. For comparison, the national inventory is at a 3.5-months supply, according to NAR;
- Townhome/condominium sales fell for a seventh straight month - down 9.2 percent, with the average price flat at \$211,241 and the median price up 2.8 percent to \$174,750;
- Lease properties staged another strong performance as single-family home rentals shot up 18.4 percent with the average rent unchanged at \$1,746;
- Volume of townhome/condominium leases surged 16.7 percent with average rent up 2.0 percent to \$1,530.

Source: Houston Association of Realtors