

Education, Health Care Dominate Demand

State budget crisis expected not to affect school, hospital sectors because funding is in place, law mandates the work

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With the state's massive budget gap and the spending cuts likely to ensue, the institutional development world seems anything but secure.

However, public institutional development continues to be strong in California, and the outlook is positive, regardless of how state legislators decide to close the multibillion-dollar budget gap. That's because the demand for new school construction and hospital renovations has continued to increase and a significant amount of funding is in place.

The state Office of Public School Construction says California must add 46,000 new classrooms to meet the demand created by the 1 million new students expected to enroll by 2010. For higher education, California State University and University of California officials expect enrollment on some campuses to double in the next 10 years.

Last year's passage of Proposition 47, which guaranteed \$25 billion in statewide school construction bonds, and myriad local school construction bonds, such as the Los Angeles Unified School District's \$3.3 billion bond measure passed in the fall to build 160 new school facilities, guarantees that school construction projects will continue at a steady pace through out this year.

Without that money, according to John Conaty, vice president of business development with **Turner Construction**, school construction would all but disappear.

"The bond money is there for the actual con-

struction," Conaty said. "The only issue is, How are school districts going to finance the operation of those schools?"

As it stands, 30 percent to 40 percent of Turner's manpower is focused on school construction projects.

"From a construction management point of view, we are extremely busy," Conaty said.

Many school districts offer significant institutional opportunities.

In June, **McCarthy Building Companies Inc.** was awarded a contract to manage \$64.8 million in construction work for the Downey Unified School District, work paid for by Proposition 47 bond funds and a local bond measure.

"The projects being managed by McCarthy are a significant part of our \$114 million modernization program," said Gary Orsinger, assistant superintendent for the district. "The biggest facilities improvement program prior to this one was in 1996 for \$27 million, so this is by far the most ambitious construction program ever undertaken by DUSD."

Schools have been big business at McCarthy. In the past 15 years, the firm has built 300 projects nationwide, totaling \$1.5 billion in contract value, and McCarthy is working with 10 other Southern California school districts.

Juan Carlos Esquivel, president of Pasadena-based **JCE Structural Engineering Group Inc.**, said 40 percent of his firm's business is in education, and he is hoping for more work as the Los Angeles school district prepares to launch the second phase of its school construction program in August. Forty percent of his firm's work is in hospitals, and the

remaining 20 percent is commercial work.

"I wish commercial would start up, but I don't think it will happen yet," Esquivel said.

Commercial Demand

The latest nonresidential permit valuation figures from the **Construction Industry Research Board** reflect a mixed outlook for commercial construction, according to Jack Kyser, chief economist with the **Los Angeles Economic Development Corp.**

In Los Angeles County, new industrial permits were 47.4 percent ahead of last year as of May, and new office construction was 88.7 percent above last year. Retail construction was down 28.2 percent from last year.

Industrial permits were up 107.5 percent in Orange County by the five-month mark. Office and retail, however, were down 47.4 percent and 54.7 percent, respectively.

In San Diego County, industrial construction permits were down 3.9 percent, but office was up 22.7 percent, and retail jumped 75.8 percent.

The Inland Empire continued to shine through May, with industrial permits up 120 percent, office up 52.4 percent and retail up 105.6 percent compared with the first five months of 2002.

Not surprisingly, all three sectors were down significantly in the Bay Area, with industrial permit values down 63.5 percent, office down 69.4 percent and retail down 21.5 percent.

"Quite a contrast to Southern California, but wise given the Bay Area's high vacancy rates," Kyser said.

Because forecasters call for slow economic growth this year, commercial demand is

unlikely to increase significantly, keeping construction pricing competitive for institutional projects.

Health Care Challenges

Lower-cost construction should provide some comfort for the state's health care industry, which is trying to comply with SB1953's seismic upgrade requirements stemming from the 1994 Northridge earthquake.

About \$24 billion must be spent statewide for the mandated seismic retrofits, according to the California Healthcare Association. At least 100 of the state's 2,500 urgent-care hospitals have determined they will not be able to meet deadlines set by SB1953 and have asked for extensions from the Office of Statewide Health Planning and Development.

However, that office could use an extension itself. Because it is understaffed for the demand for project permit approvals, many hospitals are being forced to delay their renovation plans until those permits can be processed.

Conaty said he has heard of hospital project permits requiring as long as 80 weeks for approval.

"If, in fact, they have a deadline and they can't meet their obligation, then those deadlines have to be pushed," he said.

But Conaty doesn't see demand for hospital improvement disappearing.

"In the last 10 years, hospital construction has not proceeded," he said. "Demand is growing. You will not see things drop; you will see them delayed."