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From a distributor's point of view, 2009 was the worst year experienced in the California construction market in decades. A number of distributors have gone out of business and a great percentage have had layoffs and shortened work hours. In surveying some key accounts, the overall outlook for 2010 is pessimistic and uncertain. Many of the end users either have smaller jobs or almost no activity. The residential activity that does exist is mostly made up of remodeling, condo and custom home construction. Track home construction which was the driving force behind the boom years is still in a very weak state.

Home prices have started to stabilize and were off approximately 2-5% 2009 v. 2008. Existing home sales are up 13% from a year ago. Most of the sales were driven by foreclosures which made up 32% of the total. The rest were helped by the tax incentives which were extended through the spring. Mortgage defaults have been on the decline the last quarter of 2009 (down 24%), but it's uncertain how 2010 will shape up with shifting market trends and additional resetting of adjustable loans. For those who want to buy, whole mortgages don't exist and putting a deal together is excruciating. The outlook is bleak for the lending institutions to open up the funding spigots anytime soon. There is still an 8-month supply of new homes which need to be sold to clear the way for additional new construction.

Commercial construction had some steam starting 2009, but now many of the privately funded projects have been shelved, including large condo projects, retail shopping centers and office buildings. A big setback to the greater Bay Area economy is the scheduled closing of NUMI Motors (joint venture of GM and Toyota). This facility is by far the largest industrial plant in the area and will see around 4,500 people lose their jobs. It is estimated around another 21,000 jobs of local companies which source parts and supplies to NUMI will be greatly impacted as a result of the closure. Many will close their doors. One other concern is the pending defaults on the commercial side. One local hotel chain with 11 properties is declaring chapter 11 due to vacancy rates falling down to around the 30% mark. The outlook for non-residential this year is for a decline of 3-5% v. 2009. On the positive side, there are numerous hospital projects either in the construction phase or set to begin soon. The largest of these is the California Pacific job which is worth around 1.0 billion dollars in construction costs. There are 6 other hospitals in the greater Bay Area which combined are worth close to 1.5 billion. There are numerous DOT jobs slated to take place, including an extension of Bart, a new Bart station in Livermore, and a new bore in the Caldecott tunnel. The Bay Bridge project continues to move into new stages and will keep thousands of construction jobs going for the next 3-4 years. The funds for the new high speed train running from the Bay Area to southern California have been approved. The amount allocated for the project by the federal government is 2.25 billion in stimulus money. This will be additionally funded through a bond by the state in the amount

of 3.0 billion. This job is not scheduled to begin this year, but will provide thousands of jobs once it is under way.

In an announcement by Governor Arnold Schwarzenegger, the California Building Standards Commission unanimously adopted the first-in-the-nation Green Building Standards Code (CALGREEN) requiring all new buildings in the state to be more energy efficient and more environmentally responsible. This will take effect on Jan. 1, 2011. The measure will prompt distribution in our market to take a harder look at stocking green products for the future.

Stafda distributors were down between 20-50% in 2009 v 2008. Inventories have shrunk to the lowest levels in decades. The prevailing mantra is keep the bare minimum needed to supply the customers. Adding new products to existing core lines or bringing in new product lines are not on the table for discussion as a general rule. There is a prevailing hope the worst of this "great recession " is past, but our industry needs many more concrete signs to believe the turn round is here.

-Jay Myers