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Construction Outlook for 2015 Forecasts Positive Market Momentum

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While the construction industry continues to experience growing pains associated with this slow economic recovery, progress continues to be measured by steady advancements. As reported in the 2015 Dodge Construction Outlook, although the construction industry endured uneven performances between 2009 and early 2014, those previous patterns have seemingly subsided, setting the stage for an optimistic outlook in 2015.

Current Economic Statistics

National, state and local unemployment rates continue to fall indicating that employers are repopulating their workforces in response to the continuing growth of the economy. As reported by the U.S. Bureau of Labor Statistics on January 9, 2015, the U.S. added 252,000 jobs in December, dropping the national unemployment rate to 5.6%. On average, employers have added about 224,000 jobs per month over the last year while the past six months have averaged over 250,000 jobs. "At the current pace of job growth, the economy will be back to full employment by early 2016," remarks Mark Zandi, Chief Economist of Moody's Analytics.

In its most recent release for Third Quarter 2014, the U.S. Bureau of Economic Statistics reported that the nation's real GDP (Gross Domestic Product) increased at an annual rate of 5%, up from 4.2% in second quarter of last year. Third quarter growth was accelerated by increased real estate investment activity coupled with the further easing of bank lending requirements.

Reflecting this more confident economy, the 2015 Dodge Construction Outlook indicates that new construction starts rose by 5% this past year as compared to 2013. Nonresidential building volume experienced the most upward momentum in 2014 with double-digit gains for commercial building (up 14%) and manufacturing (up 57%), driven primarily by the energy sector.

Industrial Market Rebounds

With 19 consecutive quarters of falling vacancy rates, the nation's industrial real estate market is poised for even greater growth in 2015. Standing at its lowest vacancy in almost 14 years, the country's 7.2% industrial vacancy rate is predicted to prompt additional development of Class A warehouse and distribution space in 2015.

The nation's GDP is watched carefully and considered a fundamental driver of demand for industrial space notes Bob Bach, Director of Research for the Americas with Newmark Grubb Knight Frank. He notes that, "...because of the nature of industrial space – both online and brick-and-mortar consumer spending, business spending, homebuilding, exports and imports – all generate activity in the warehouse and logistics markets." Due to the growing demand by tenants and a tight supply of readily-available properties, the vacancy rate continues to decline, further prompting the likelihood of future speculative development and build-to-suit activity. Large logistics operators and their retail counterparts are continually assessing congestion at large West Coast ports

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and the shortage of truck driver availability in order to reconfigure logistics plans to better serve regional and large urban market areas.

Construction Industry Forecasts

Unlike 2014, a greater number of market sectors are expected to enjoy further growth in the coming year. The U.S. Markets Construction Overview 2015 published by FMI predicts that the continued uptick in construction will benefit many major market types. Several construction sectors that are forecasted for growth by FMI include:

- **Multi-Family.** After reaching a record pace in 2014, multi-family construction is expected to grow 13% in 2015. Rents continue to increase and vacancies have decreased making multi-family developments continually profitable for developers.
- **Manufacturing.** Historically a turbulent market sector, FMI anticipates that the manufacturing sector will increase by 8% in 2015 reaching $55 billion in volume. This activity reflects the return of manufacturing operations to the U.S. given its ready labor force and the deteriorating geopolitical climate around the globe.
- **Office.** Decreasing unemployment rates and increasing GDP sets the stage for a 7% growth rate within the office sector in 2015 rising to $43.6 billion. In fact, the number of office-using employees in September of 2014 was 2.5% higher than the mid-2007 cyclical peak.

"Construction firms are clearly ramping up their hiring to keep up with the swelling demand for construction," said Ken Simonson, the chief economist for the Associated General Contractors of America (AGC). "Demand for workers to construct apartments, pipelines and huge industrial projects is likely to remain robust in 2015. Both the monthly variability and the overall upward trend are likely to continue through much of 2015."

Simonson notes that total construction spending over the same time period in 2014 was 5.7% above the same period in 2013. Private residential spending rose nearly 5%, while private nonresidential construction increased almost 11%. Public construction expenditures grew by 1.1% as state and local governments increased spending, offsetting the 4% decline in federal construction expenditures.

"The construction expansion should become more broad-based in 2015, with support coming from more sectors than was often the case in recent years," said Robert Murray, Chief Economist and Vice President for Dodge Data & Analytics. "The economic environment going forward carries several positives that will help to further lift total construction starts. Financing for construction projects is becoming more available, reflecting some easing of bank lending standards, a greater focus on real estate development by the investment community, and more construction bond measures getting passed." Dodge predicts that the diverse economic and construction industry recovery will enable total construction starts to improve by 9%, totaling $612 billion, in 2015.

The 2015 Dodge Construction Outlook offers the following forecast for 2015:

- **Commercial building** will increase 15%, a slight gain from 14% in 2014. Office construction leads the commercial building rebound due to increased development by private firms and improved dynamics within the technology and finance sectors. Hotel and warehouse construction should also improve, although an increase in new retail construction is expected to be more uncertain.
- **Institutional building** will grow by 9%, mirroring its upward momentum in 2014. The educational sector's increased activity in K-12 school construction has been enhanced by recent bond program financing. Construction of new healthcare facilities is also anticipated to improve as compared to the sector's lackluster activity in 2014.
- **Single-family housing** will enjoy an 11% increase bringing an additional 700,000 units to the market in 2015. Access to home mortgage loans will expand this year, thus improving the demand for single-family housing.
- **Multi-family housing** is anticipated to improve another 7% in 2015 with the delivery of 405,000 more units to the market. Occupancies and rent growth continue to support new developments, although the rate of activity is now slowing as the multi-family market matures.
- **Manufacturing plant construction** is forecasted for a 16% increase following significant increases in both 2013 (up 42%) and 2014 (up 57%). This unprecedented growth reflected the start of massive chemical and energy-related projects over the past two years.

Based upon the predictions of the economy's improving performance in 2015 and the insightful observations of the construction industry's well-respected forecasters, it would appear that the darkest days of the nation's recent recession are behind us. We are entering this New Year with a decidedly more positive outlook strengthened by an economy that forecasts steady growth and improvement within the coming year.

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