

ACEC Private Industry Brief

Commercial & Residential Real Estate

Fall 2022

Market Scope

Design and construction spending for **single-family** and **multifamily residential** markets in the U.S. is projected to reach a combined \$602 billion, up 38% year-over-year in 2022 while spending for the **commercial** real estate market may reach \$98 billion, up 8% year-over-year, according to FMI's Q3 2022 *Engineering and Construction Outlook*. The residential and commercial markets are expected to drive construction spending through 2022 and the overall industry outlook remains positive for H2 2022. Nonbuilding structures spending is expected to increase more than 30% to \$367 billion over the next five years due to its direct correlation with strong residential growth. Segments including water supply, sewage and waste disposal, conservation and development, highway and street and transportation are all forecasted to experience 45 to 50% growth from 2023 to 2026. (Source: FMI)

Top Multifamily Development Firms

According to *Multi-Housing News (MHN) Indexes and Rankings for 2021*, the Top 10 Multifamily Development Firms and their property types are:

1. **Greystar** (L, M, St, Se)
2. **The Related Cos.** (L, M, A, St, Mi, Se, X)
3. **The NRP Group** (L, A, Se, X)
4. **LMC** (now Quarterra) (L, M)
5. **Trammell Crow Co./High Street Residential** (L, M, Se)
6. **Related Group** (L, M, A, X)
7. **JPI** (M)
8. **Holland Partner Group** (M, A)
9. **The Bainbridge Cos.** (M, St)
10. **Edward Rose Building Enterprise** (M, A, Se)

Property types key: L=Luxury; M=Market rate; A=Affordable; St=Student; Mi=Military; Se=Senior; X=Other

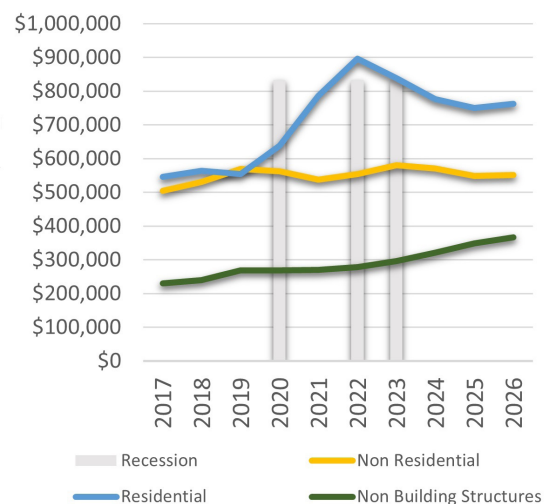
5 Current Market Trends

- 1. **The Slowing Economy Impacts the Markets:** Design and construction spending in the real estate market typically lags 12- to 18- months behind the rest of the economy. Increased mortgage rates, a slowing economy and historically high inflation are projected to force overall construction spending to decline by late 2023 and FMI predicts recession years in 2022 and 2023 (see chart below). Spending in **single-family** and **multifamily** residential markets are expected to decline by 18% and 16%, respectively, over the next three years, before stabilizing in 2026. The **commercial** market is anticipated to remain stable in 2023 with a 27% decline from 2024 to 2026. Investment-driven sectors including amusement and recreation, lodging, and office are estimated to experience sharp declines while construction spending for logistics infrastructure and warehousing will slow gradually over the next five years. (Source: FMI)

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Total Construction Spending

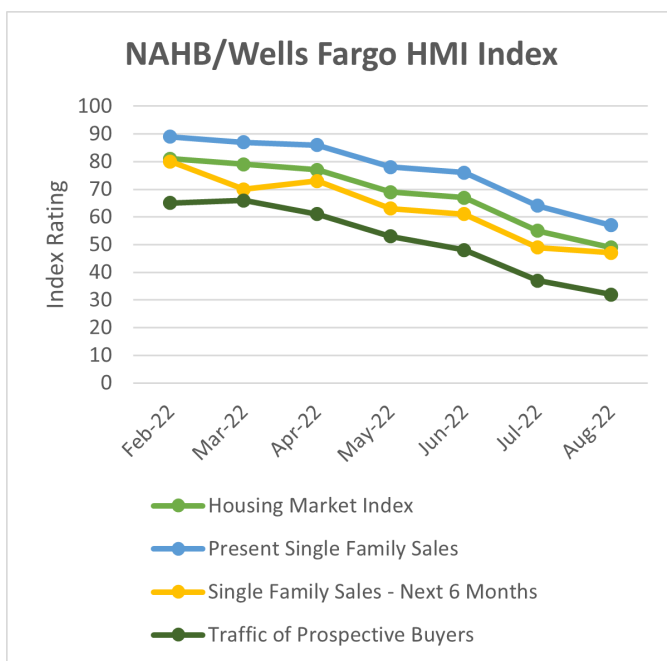
3rd Quarter 2022 Forecast (millions)



(Source: FMI Forecast Report)

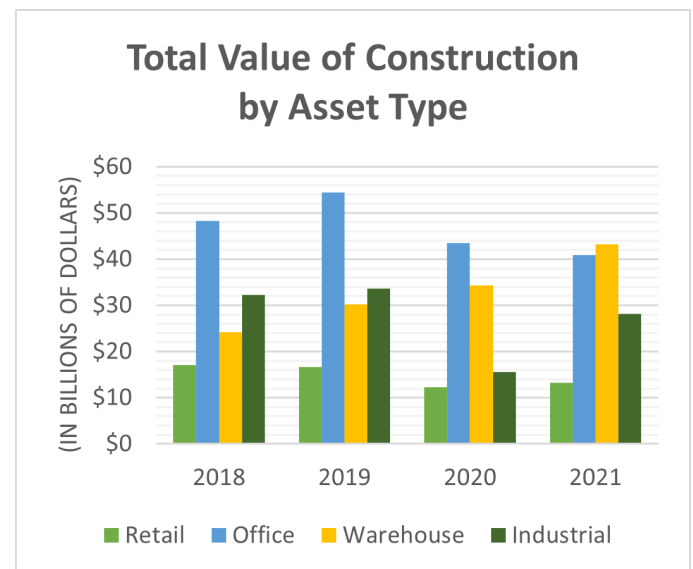
Current Market Trends, *continued*

- **2. Demographics & Supply are Driving Rent Prices:** In June 2022, overall rent in the U.S. rose to a new all-time high of approximately \$1,710 per month, increasing average asking rents by \$19, according to Yardi Matrix's *National Multifamily Report 2022*. The U.S. is experiencing a housing supply shortage due to land availability, zoning constraints, a reduced construction workforce, along with the increased cost of materials, including lumber and steel. According to NAHB, single-family construction costs have increased 19% year-over-year, resulting from supply chain constraints further increasing demand for existing multifamily rentals. The millennial generation is quickly becoming the leading home buyer in our economy but rising mortgage rates are making these first-time home buyers look to alternative housing thus driving demand and rents higher.
- **3. Single-Family Housing Market Cools:** The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) is a key indicator of single-family housing market conditions and builder sentiment. The HMI survey's NAHB members on market components including single-family sales at present, single-family sales in the next six months and traffic of prospective buyers. It then reports the average as an index. The HMI for August 2022 was reported at 49 (see chart below), which is at its **lowest** point year-over-year. Present single-family sales reported an index of 57 with a predicted 10-point decline over the next six months. (Source: NAHB & Wells Fargo)



(Source: NAHB/Wells Fargo HMI -seasonally adjusted data)

- **4. Distribution Centers Rise & Retail Falls:** Industrial construction activity increased 81.3% from 2020 to 2021 totaling \$28.2 billion and warehouse activity rose 25.9% totaling \$43.2 billion in the same reporting period, according to NAIOP Research Foundation's *2022 Economic Impacts of Commercial Real Estate* report (see chart below). Retail construction has been down year-over-year due primarily to the e-commerce boom. A challenge for this asset class is last-mile distribution centers which make up 53% of total supply chain costs, according to Statista and Building Design+Construction. Two new trends have emerged: 1.) building distribution centers and multifamily housing in one vertical, high-rise footprint in urban environments, and 2.) online retail returning to brick-and-mortar locations; e.g., when Amazon purchased Whole Foods.



(Source: Dodge Data & Analytics & NAIOP)

- **5. Return to the Office:** In 2020, CBRE released its *Workforce Sentiment Survey*, a collection of data around employee experience and expectations while working remote during COVID-19, reporting that 85% of survey respondents preferred remote work at the time. Since then, its *Spring 2022 U.S. Office Occupier Sentiment Survey* reported that 36% of respondents indicated they were already returning to the office, 26% would return by Q2 2022 and 15% would return by the second half of 2022. Office space construction size decreased from 117 to 100 million square feet from 2020 to 2021, according to NAIOP. Office space has changed over the course of the last decade and demand for flexible office space is projected to grow by 34% over the next two years, according to CBRE.

Government Affairs Action

► **H.R. 5376, The Inflation Reduction Act of 2022:** The \$740 billion Inflation Reduction Act was signed into law August 2022, including provisions on energy security, reducing consumer energy costs, and GHG (greenhouse gas) emission reductions. Specific investments aimed at decarbonization will target commercial real estate because it is one of the largest energy guzzlers. The law includes electrification rebates for homeowners and tax deduction and funding for energy efficient commercial buildings.

► **Securities and Exchange Commission (SEC) Proposed Rule:** The SEC proposed a new rule that would require firms to report climate-related disclosures that would impact their businesses finances and operations. This includes emissions and risks related to a firm's real estate portfolio including publicly traded firms and real estate investment trusts (REITs). ACEC supports integrated climate adaptation and mitigation policy that aligns sustainability, competitiveness, and security. ACEC is advocating for clear metrics that will provide comparable, consistent, and reliable information among firms, both private and public. The potential for required reporting will be costly to smaller firms who may be unable to carry the expense. ACEC recommends an examination of the framework, costs and benefits of climate related disclosures and relative roles and responsibilities to advance a more constructive SEC proposal. Public and private companies in the real estate industry should take heed of these announcements since they account for a majority of scopes 1 and 2 GHG emissions being tracked by the SEC. Here are a few potential opportunities:

✓ **Long Term Savings & Reduced Risks:** Aging assets can be costly and create long-term risks for companies and the real estate sector will now be expected to comply with new government-imposed emission reductions. Designing, building, or retrofitting for a more resilient real estate footprint will likely cost more in upfront investments however insurance and utility costs will ultimately be less over the long term.

✓ **Increased Value of Assets:** Investors will re-evaluate their portfolios to include assets that aim to reduce their emissions, reduce operating costs, and bring in more income. Keeping older and out-of-date buildings on a portfolio with high emission rates could pose higher operating costs and more climate-related risks over time. Incentives to decarbonize portfolios will make resilient buildings more attractive than their non-resilient counterparts.

Business Development Insight

From Sun Belt Migration to Affordability

During COVID-19 home buyers transitioned from densely populated urban environments to the Sun Belt states. A new trend is emerging called the "affordability migration." Now that employees are being called back to the office, it is important to note which housing markets are hottest and which are coolest and why.

According to Bankrates Housing Heat Index, here are the five hottest and coolest states as of Q1 2022, per these data points: annual home price appreciation, share of mortgages past due, unemployment rate, annual job growth, statewide cost of living index, and state-by-state tax burdens.

Top 5 Hottest Housing Markets

1. Utah
2. Montana
3. Florida
4. Arizona
5. Tennessee

Top 5 Coolest Housing Markets

1. Connecticut
2. Washington, DC
3. Alaska
4. Maryland
5. Louisiana

Building Permits Survey

The U.S. Census Bureau releases the building permits survey which includes new privately owned housing unit authorizations by building permits filed. Member firms want to know which states have the most authorizations to target residential growth (*see map on page 4*).

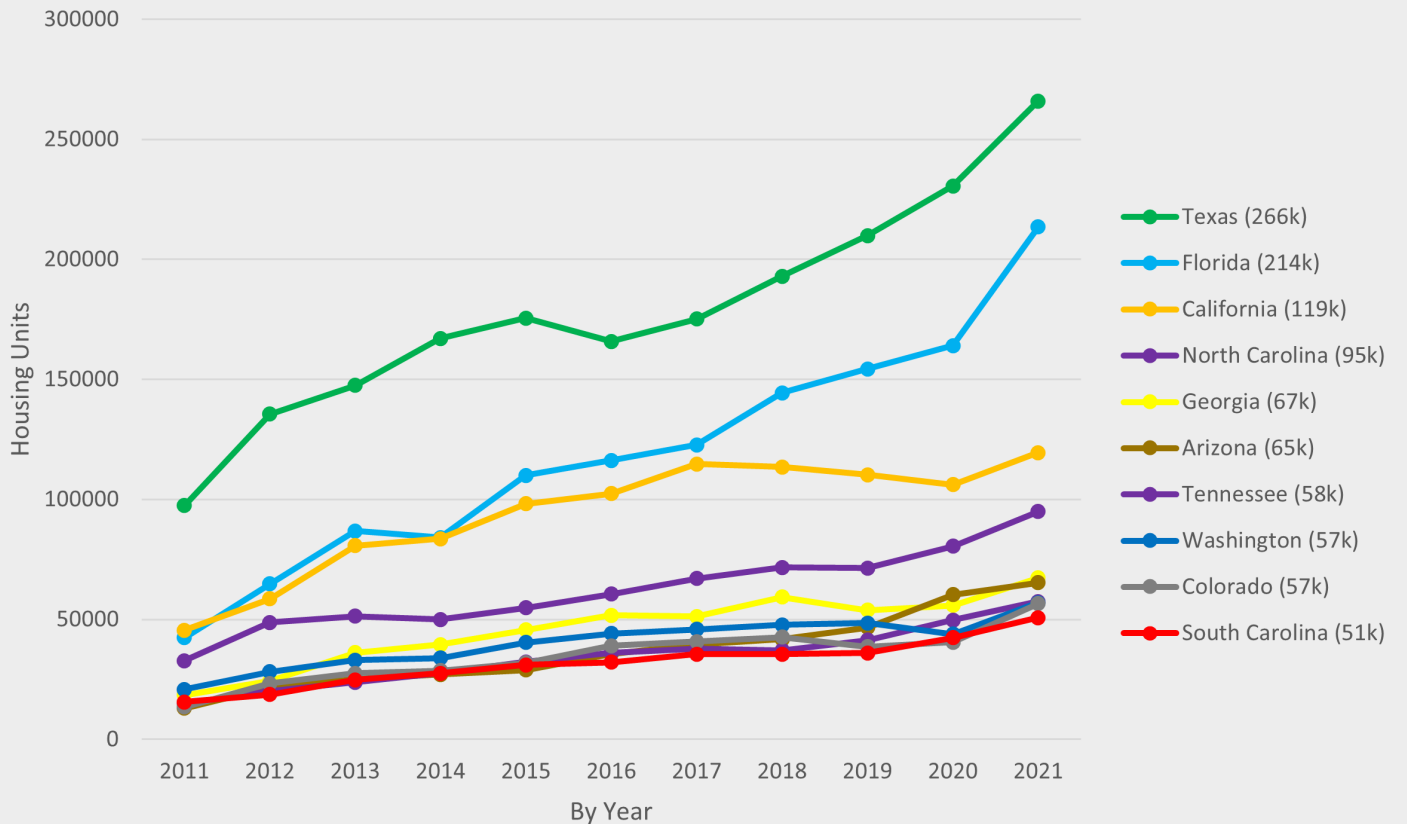
Top 10 Authorized Private Building Permits

(includes single family and multifamily permits combined)

1. Texas; 265,955
2. Florida; 213,494
3. California; 119,436
4. North Carolina; 94,874
5. Georgia; 67,223
6. Arizona; 65,334
7. Tennessee; 57,484
8. Washington; 56,941
9. Colorado; 56,524
10. South Carolina; 50,680

(Source: U.S. Census Bureau, Federal Housing Finance Agency's Home Price Index, the Mortgage Bankers Association, the U.S. Labor Department, the Center for Regional Economic Competitiveness and the Tax Foundation.)

New Privately Owned Housing Unit Authorizations by State (top 10 in 2022)



(Source: U.S. Census Bureau Building Permit Survey)

ACEC's Private Market Resources

ACEC provides business resources and education for five key private-sector markets listed below.



Commercial & Residential Real Estate



Health Care & Science+ Technology



Energy & Utilities



K-12 & Higher Education



Intermodal & Logistics



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Further coverage can be found in Engineering Inc.'s column "The Private Side".

Industry Briefs

ACEC's Private Industry Brief's are available via subscription; they are free, and you can cancel at any time. Visit here to subscribe: <https://programs.acec.org/industrybrief/>

Symposiums

ACEC will host a Symposium in Houston, TX on November 15th, 2022. ACEC will convene clients, economists, policy-makers and engineering leaders for an in-depth look into the energy market. Register [here](#).

Podcasts

ACEC's Engineering Influence podcast includes market updates and economic trends impacting member firms. Recent podcasts:

[Real Estate Market - Assistant Vice President for Forecasting and Analysis at NAHB](#)

[Life Sciences Market - National Director of Capital Markets Research with Colliers](#)