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News & Information

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Commercial Real Estate Still "Vital" to GDP, says NAIOP Report

According to the latest data from Real Estate Development Association NAIOP, commercial real estate (CRE) contributed a hefty USD 2.3 trillion to the U.S. gross domestic product (GDP) in 2022. The report, titled "Economic Impacts of Commercial Real Estate," also showed that CRE:

- "Generated $831.8 billion in personal earnings" (defined as "wages and salaries"), and
- "Supported 15.1 million jobs" over the period.

NAIOP states that these figures represent contributions from both new building developments and the "operations of existing commercial buildings".

CRE Construction was Strong in 2022

One of the bright spots is the CRE (non-residential) construction sector which "increased 7.6% year-to-date through October 2022 when compared with the same period in 2021."

NAIOP notes that industrial construction shot up 143% between 2021-2022 and that retail is staging "a comeback" with a 21% increase in spending on retail construction. The data used in the report was drawn from the Dodge Construction Network.

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Expert Opinions

Dodge Chief Economist, Richard Branch, had this to say: "One of the key construction storylines for 2022 was the return of enthusiasm and optimism in prospects for nonresidential growth. While some of that will likely erode in 2023 as economic growth wanes, increased demand for some building types like data centers, labs, and healthcare buildings will provide a solid floor for the construction sector."

Other voices in the construction sector seem to echo the positive outlook, seeing a silver lining even with a potential recession on the horizon. Associated General Contractors of America (AGC) Chief Economist, Ken Simonson, sees the situation favorably compared to 2007, saying: "Nonresidential construction has been growing more strongly in the second half of 2022 than [it did] in the second half of 2007."

Worth bearing in mind, however, is that last year Dodge did predict an overall drop in construction starts in 2023, with sectors like multifamily bearing the brunt.

Operational Trends

On the operational side, 2022's performance was a mixed bag by sector. NAIOP noted several trends, saying:

- Office is likely to face ongoing "downward pressure" in terms of lease rates and sales transaction volumes
- Demand for retail space has been increasing, especially as supply has remained largely unchanged and "overall occupancy rates have recovered to pre-pandemic levels," and
- Though demand for industrial properties like warehouses is slowing, the decline will be counterbalanced by a longer-term shift towards "re-shoring" industrial operations.

Long-Term Outlook

NAIOP's data paints a picture of a CRE industry that, while strong, is still in the grips of large-scale shifts as we navigate an ever-changing landscape. And though it's hard to say exactly where those shifts will carry the industry in the coming year, there's still a sense of optimism and resilience for what's to come.

NAIOP President and CEO, Marc Selvitelli, sums it up best: "The data in the report are strong economic indicators of commercial real estate development investment, job growth, and subsequential contributions to the U.S. economy."

However, he adds that: "Our success could be met with headwinds as inflation, workforce constraints, and higher interest rates create uncertainty."

For our part here at NAI Realvest, we'll be keeping an informed eye on both sides of the coin. As always, we'll keep you posted as the CRE situation develops through 2023.