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News & Information

November 21, 2023

Construction Still Shaky but Green Shoots in Some Sectors, Says Dodge

Earlier this year, NAI Global reported on projections from the Dodge Construction Outlook Conference, where construction industry leaders gave their forecast for the year to come. As we noted then, the forecast at the start of the year was shaky, with a 3% drop-off in starts (i.e., new construction projects) predicted for 2023.

As we head into the final stretch of the year, ongoing concerns about interest rates, labor shortages, and construction materials continue to impact the industry – and in turn, the availability of fresh commercial real estate (CRE) stock to take us into 2024. As is to be expected, however, the effects are far from uniform across different real estate sectors.

Multifamily Down But Not Out

Among the predictions at the start of the year was that new multifamily projects would likely drop 7-9% this year, a forecast that's well on track based on the latest Dodge data. Dodge notes: "On a year-to-date basis through July 2023, total residential starts were down 21%. Single-family starts were 25% lower, and multifamily starts were down 14%."

While that's a lot higher than the original projection, it's worth noting that new multifamily starts shot up over 60% for July. So, while the first six months of the year got off to a rocky start, there may still be some surprises in store in terms of the sector's performance before year-end.

The apartment market is also set to grow massively in the coming two years, with RentCafe reporting that we should expect to see around 460,000 deliveries before the end of the year, and a million new rentals by 2025.

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Strength in Warehouses, Manufacturing

Among the commercial sectors that showed ongoing resilience in 2023, unsurprisingly, warehouses topped the list. For July, Dodge states: “Commercial starts rose 11% on the back of gains in warehouse and parking starts, offsetting a decline in office and hotel starts.”

Dodge data also shows that compared to the year ending July 2022, this year non-residential building starts were 16% higher overall. Within that, the manufacturing sector in particular showed ongoing strength, coming in at 24% higher than the preceding 12-month period.

One caveat is that, for July, manufacturing starts dropped 39%. That drop-off (and a similar one in June) came, however, on the back of massive growth earlier in the year. The manufacturing sector also saw gains of 196% through 2022, as US companies sought to on-shore their supply chain and manufacturing processes to areas closer to home.

Mixed Signals

As with many sector updates this year, this latest Dodge report is a mixed bag, demonstrating once again that 2023 is a year that refuses to be pinned down in terms of what we should expect from CRE markets.

As always, the key for savvy CRE professionals will be to keep a close eye on developing trends, including the amount of new stock set to impact rents and absorption in local markets.

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