

New Construction off to a Shaky Start in 2023



According to a recent GlobeSt article, the US construction industry should prepare for a 3% drop-off in construction starts (i.e. new construction projects) in 2023. This follows a complicated couple of years for the industry in 2021-2022, as soaring materials prices and supply chain disruptions kept developers guessing about their next steps.

GlobeSt was reporting on data from the Dodge Construction Outlook Conference which took place in November 2022. The Dodge Construction Network provides data analytics and insights to construction executives and industry leaders across the US, and the annual conference is cited as: “the leading economic forecast event for commercial construction.”

Multifamily Set to Slow

As is often the case, the expected decline will affect specific real estate sectors in different ways. GlobeSt notes, for example, that the value of multifamily construction may see a large decline (around 7% when adjusted for inflation).

In their own report on the data, industry news site Engineering News Record (ENR) adds: “In the multifamily sector, starts are expected to finish the year [2022] up 16%, but will drop 9% next year.”

Mixed Bag for Retail, Office and Industrial

ENR also notes that the increases in retail and manufacturing starts seen in 2022 are likely to taper off, though it's worth pointing out that the manufacturing industry saw gains of 196% over the year.

Quoted in the article, Dodge Chief Economist, Richard Branch, noted that despite an anticipated 43% drop for manufacturing construction, “that is still historically a very strong record level of activity.”

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Meanwhile the dollar value of office construction is in for a “slight decline” of 1% in 2023, as remote work trends and the tight labor market continue to put pressure on the sector.

Niche Sectors Still Offer Respite

Despite these generally downhill trends, other predictions made during the conference include ongoing strong performance from some of the niche CRE sectors we’ve seen rise to prominence in recent years.

As Archinect reports: “While traditional school construction is set to fall, life science buildings and healthcare projects, including outpatient clinics and hospitals, continue to rise.”

These are assets we’ve seen big things from over the past year and it seems they’re set to continue attracting investors in the year to come.

Recession Effects

As the above predictions show, there are still many factors in play that will influence how things shake out for the construction sector in 2023. Arguably the biggest determinant is the likelihood and severity of a potential recession.

In Branch’s words: “We’re walking the razor’s edge here. In our estimation, there is a very, very, very narrow path to avoiding a technical recession in 2023.”

