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United States Commercial Construction Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

Market Report | 2023-01-23 | 150 pages | Mordor Intelligence

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Report description:

The United States Commercial Construction Market is anticipated to register a CAGR of over 6% during the forecast period. Despite inflation and labour shortage, the demand for commercial real estate continues to drive the market. Furthermore, the market is driven by the huge investments pouring into infrastructure building in the country.

Key Highlights

Overall, the commercial construction industry had a good year in 2021. Construction spending increased due to high spending in residential construction; however non-residential segment fell for the second year in a row. Construction firms also had to deal with ongoing labour shortages and delays in receiving building materials due to supply issues and rising material prices. Through November 2021, construction spending totalled USD 1.46 trillion, setting the year to another record-high for construction put-in-place.

Infrastructure spending will be one of the top areas for growth in construction in 2022. With the USD 1.2 trillion Infrastructure Investment and Jobs Act, Congress finally passed a long-term infrastructure bill after years of stopgap measures and short-term spending bills. Over the next five years, the federal government will invest USD 550 billion in new infrastructure construction and repairs to existing infrastructure. The bill proposes investing USD 110 billion in roads, bridges, and infrastructure projects, USD 40 billion in bridge repairs and replacement, USD 39 billion in public transportation, USD 66 billion in passenger and freight rail, USD 65 billion in broadband internet, USD 65 billion in electric grid reconstruction, and USD 55 billion in water infrastructure.

During the pandemic, the non-residential building market did not see a similarly dramatic increase in construction services. To be sure, some industries experienced rapid growth, such as warehouses and data centres, but these were offset by more pervasive laggards, such as office buildings and hotels. Construction, like so many other industries, was harmed by brittle supply chains and a shrinking labour force. Building material prices skyrocketed, with lumber, for example, rising as much as 264% from pre-pandemic levels at one point. Furthermore, product lead times continued to skyrocket, with three and four times the

pre-pandemic rates not uncommon. To combat rising prices, the Federal Reserve has raised the federal funds rate aggressively, with four hikes in 2022 to date.
Skanska, one of the industry's leading construction management firms, reports that inflation and lead times for certain building materials are finally easing. Construction spending in six sectors-manufacturing, highways, transportation, multifamily housing, lodging, and communications-is expected to increase by at least 5% in 2023, according to the firm. Other sectors, including healthcare, public safety, education, and commerce, are expected to grow by 0% to 4%. Lead times for other materials, such as architectural interiors, lumber, and plumbing, have also decreased. In the case of plumbing pipes, raw material availability has improved, production has increased, and residential construction demand has decreased.

US Commercial Construction Market Trends

Increase in infrastructure investment in the country driving the market

Historically, the federal or state governments have led the construction of roads and bridges in the United States. However, as the Biden administration encourages private capital to enter the infrastructure investment space, this trend is likely to change. Private-public partnerships are reshaping the future of infrastructure investment, according to the latest report from global infrastructure provider IFM. The Biden administration introduced the USD 1.2 trillion Infrastructure Investment and Jobs Act in 2021, allowing for USD 550 billion in new infrastructure spending over the next five years. According to the IFM report, the act is so large and comprehensive that it provides numerous opportunities for the private sector to participate in constructing these infrastructure projects.

By the end of 2021, infrastructure investors were already feeling the effects of the act. In a Preqin investor survey conducted in November 2021, 70% of investors stated that their infrastructure assets were more expensive than a year ago. However, they remain committed to the asset class, with 87% of survey respondents saying they would continue to invest in infrastructure in 2022. According to Preqin, infrastructure will attract USD 1.87 trillion in private investment by 2026, surpassing real estate as the second-largest real asset class.

Over the next few years, the United States plans to invest USD 1.2 trillion in infrastructure, including USD 550 billion in new funding from the Infrastructure Investment and Jobs Act, which will be spent on a wide range of projects, including roads and bridges, passenger and freight rail, smart infrastructure, broadband access, and electric vehicles.

According to the survey, the pandemic demonstrated the importance of technology, which is changing infrastructure priorities. Almost half of those polled believe that the increased demand for better broadband and Wi-Fi access is a post-pandemic shift that will significantly impact infrastructure. Almost 40% believe that people will continue to work from home. This could explain why nearly two-thirds of respondents believe governments will prioritize digital infrastructure investments in the next few years.

Demand for office and retail space is driving the market

Despite widespread predictions that the COVID-19 pandemic would halt construction, it has continued - albeit at a slower pace. While 86.4 million square feet of new supply was broken ground in 2019, the figure dropped to 58.4 million in 2020 and crept up to 63.1 million in 2021. In March 2022, 144.7 million square feet of office space were under construction in the United States, accounting for 2.2% of total stock. Notably, half of that pipeline will be provided in urban submarkets outside of key business areas. Furthermore, 93% of the space is Class A or A+, indicating that businesses are continuing to prioritize high-quality projects to retain their workforce.

In March 2022, Austin, Texas, had 10 million square feet of office space under construction. This represented 11.5% of the city's current stock, while planned projects represented 25.3% - the highest percentage among major cities. This comes after Austin outperformed all other markets in 2021 in terms of office-using job growth (14%), as well as new development (5.3 million square feet). In contrast, construction in Denver and Phoenix slowed due to the pandemic and massive pre-pandemic deliveries; between 2015 and 2021, each city added more than 16 million square feet of additional supply. In March, both cities had slightly more than 1 million square feet of office space under construction, accounting for slightly more than 0.8% of total stock.

US Commercial Construction Market Competitor Analysis

The United States Commercial Construction Market is fragmented and highly competitive, with the major local and international players have created a highly competitive environment in this sector. However, the market opens opportunities for small and medium players due to increasing govt investments in the sector. Major players in the market include Gilbane Building Company, MA Mortenson Company, Balfour Beatty LLC, Hensel Phelps Construction Co., McCarthy Holdings Inc. and Tutor Perini Corporation. The market presents opportunities for growth during the forecast period, which is expected to drive market competition further. Large players competing with others for a significant increase in market share leaves the industry with no observable levels of consolidation.

Additional Benefits:

The market estimate (ME) sheet in Excel format
3 months of analyst support

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