



Commercial
Construction

TREND REPORT

2020

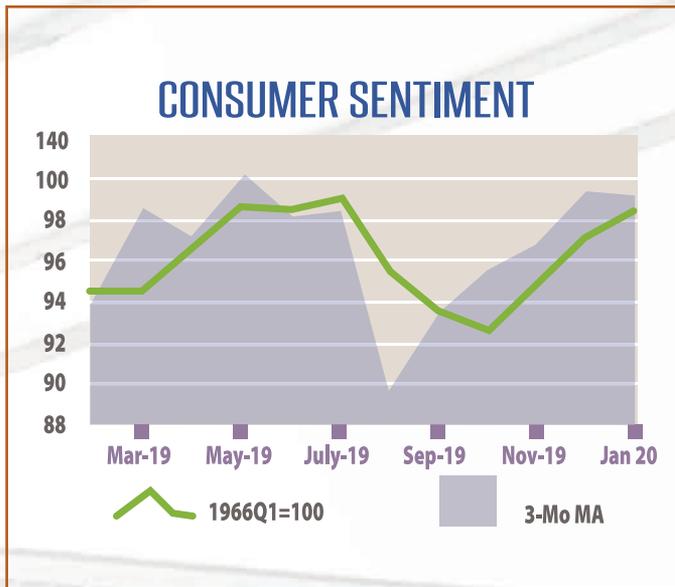
Breaking New Ground In Construction

EXPERTS

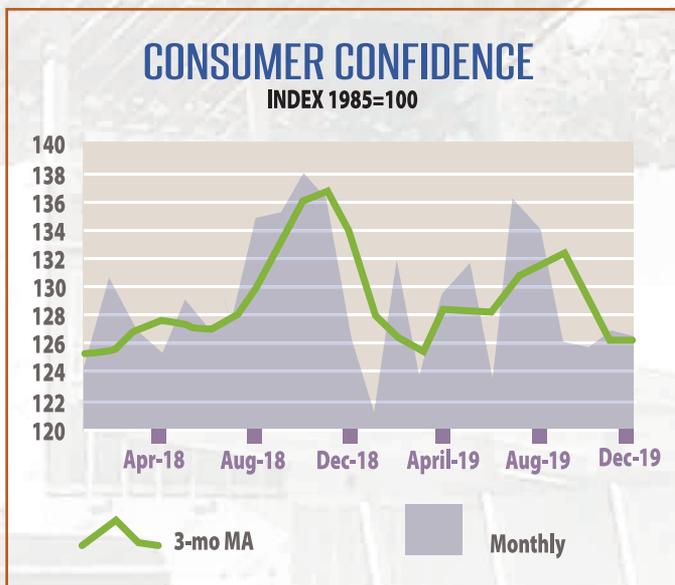
call for slow, but continued growth in 2020

As we look ahead to 2020, experts are calling for slower economic growth, but few are predicting the 2020 market correction they anticipated last year. Instead, they're expecting subdued growth while noting international trade brings some uncertainty, particularly in global manufacturing and U.S. agriculture.

Overall, economic growth as measured by GDP will slow from 2.2% in 2019 to 2.1% in 2020, according to the Conference Board. But many economists say the worst of the market slowdown is now behind us, and growth will improve in 2021.



(Source: University of Michigan Consumer Sentiment Survey)



(Source: United States: Conference Board Consumer Confidence)

ECONOMIC
GROWTH
BY GDP

2.1%

2020

Commercial Construction Outlook

OVERALL
CONSTRUCTION
REMAINS
EVEN

When it comes to the commercial construction industry, Dodge Data & Analytics expects construction starts to dip 3% but notes that overall activity will remain more even.



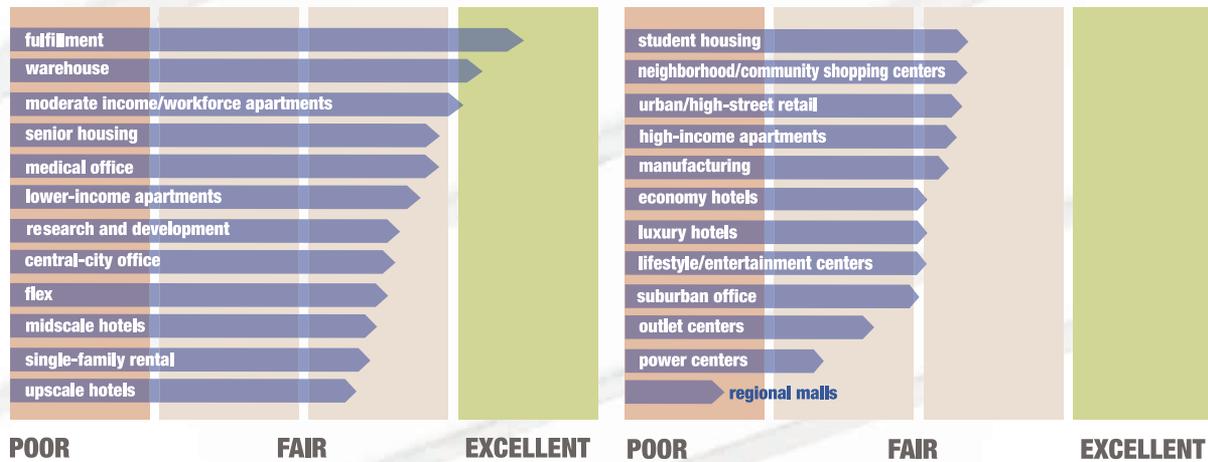
(Source: Ed Zarenski)

Whatever the economic outlook, need and opportunity will drive commercial property development and investment decisions. Keep in mind that opportunity is greatest not just in areas with the greatest predicted growth, but in those where current supply isn't meeting demand — whether regarding capacity or what consumers want and need. That's where you'll find the greatest promise for a solid return-on-investment over the long run.

PROSPECTS

for Commercial/Multifamily Subsectors in 2020

INVESTMENT PROSPECTS



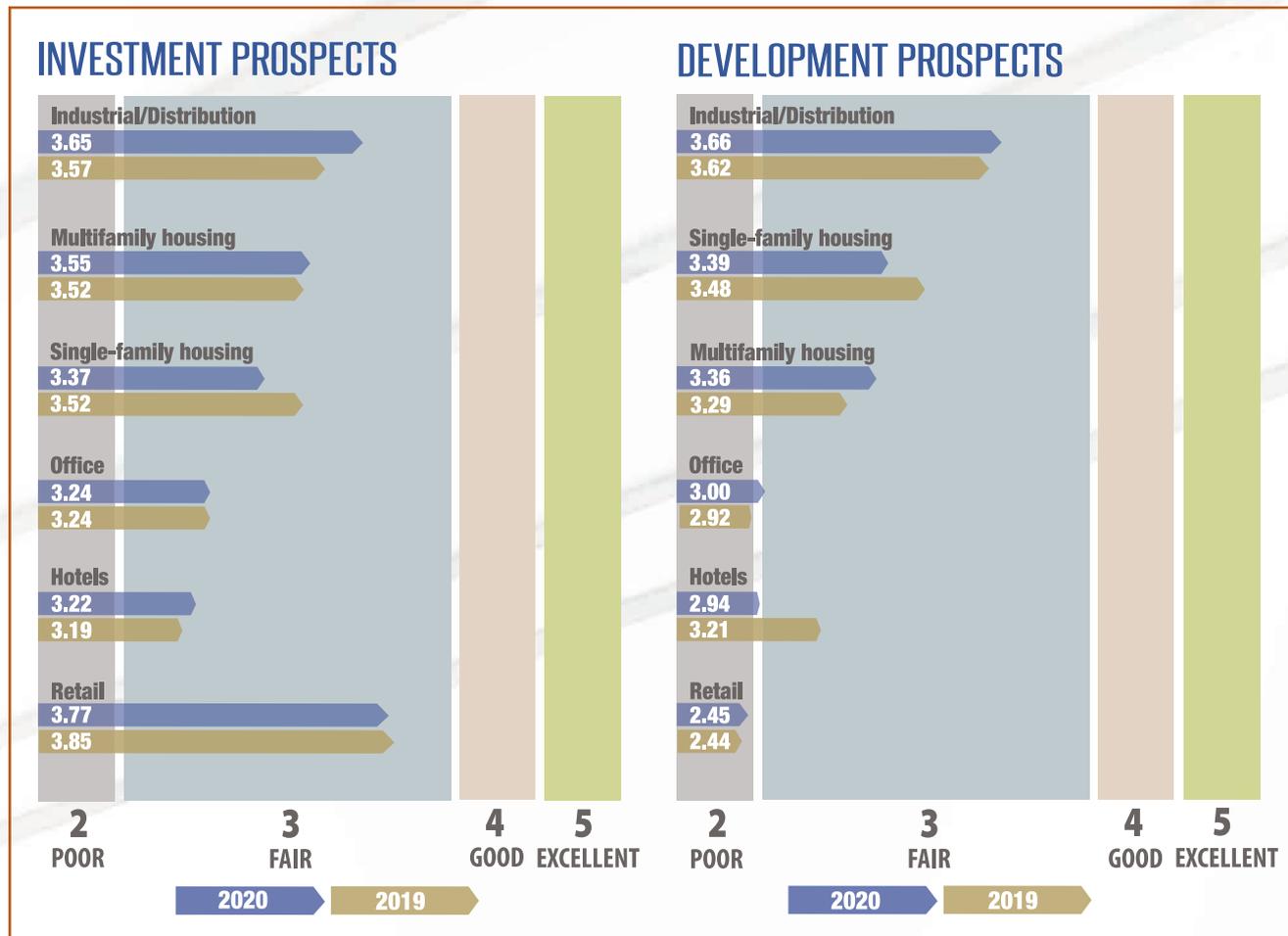
DEVELOPMENT PROSPECTS



(Source: Emerging Trends in Real Estate 2020 surveys)

PROSPECTS

for Major Commercial Property Types, 2019-2020



(Source: Emerging Trends in Real Estate 2020 surveys)

Dominant trends we'll see across construction sectors in nearly all areas are:

Sustainability. A few factors are driving this trend. First, advances in the availability and efficacy of energy-efficient products are making them both more affordable and more ubiquitous. Second, as the products become better and less expensive, building owners are seeing a greater, faster return on their investment in green technologies and practices. And finally, younger generations who are now entering the economy as consumers and workers cite global warming as their number one humanitarian concern and making buying and employment decisions accordingly.

Multi-use structures. While multi-use may not make sense for industrial sectors, it offers a definite advantage when looking at places to live, work, shop and play. It's cross-marketing at its best.



RETAIL & GROCERY

Growth 1.6%

Breaking New Ground In Construction

2020

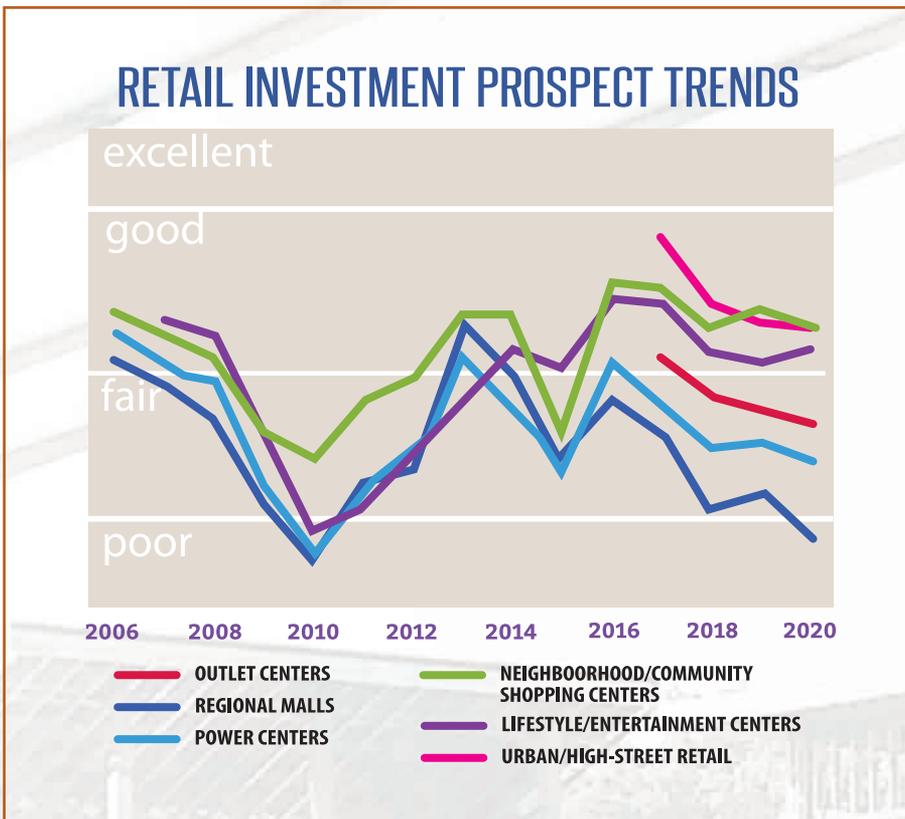
Retail & Grocery

PROJECTED
GROWTH

1.6%

(Source: Deloitte)

Good news is coming for retailers who have been hard-hit by e-commerce. Gen Z is now entering the consumer market. Born somewhere between 1997 and 2010, Gen Z is into retail therapy and the social experiences it offers. In fact, according to A.T. Kearney, 81% of Gen Z prefer to shop in stores, and 73% like to discover new products in stores. And by 2026, they'll represent the nation's largest-ever consumer group.



(Source: Emerging Trends in Real Estate surveys)



DESIGN & BUILD FOR THESE TRENDS:

Technology (charging stations, interactive apps, smartphone checkout)

Smarter, not bigger

Green design (global warming is chief humanitarian concern among Gen Z)

Mixed-use

Socializing & entertainment

Product trials

2020

Retail & Grocery



GEN Z

however, is a group that blends technology with the experiential. Raised with internet and social media, they have less patience and more distractions, and they come with high expectations. Price is secondary to all of the above. The key to winning these consumers:

Make it easy. Make it fast. Make it fun.

Make it easy

Location is important. Your store must be easy-to-get-to and offer convenient parking. Knowledgeable staff is key. Your staff must be able to answer questions about your products. If they can't, Gen Z will go online to learn more, and you could lose a sale.

Make it fast

Digital is everything. If checkout takes too long, they'll buy online. And forget about punch card loyalty cards. For checkout, loyalty programs and promotions, it's all about the smartphone.

Make it fun

Incorporate experiential digital elements for those looking for the social aspects of shopping. Create a Snapchat filter, develop interactive screens, and be sure to allow shoppers to try your products.

Some retail experts predict that while many big box and department stores have exited a brick-and-mortar existence, we'll likely see new brands emerge, many of which will test their brands with pop-up stores that lead to permanent buildings.

**Wherever you build, don't forget
the charging stations.**





MULTI-TENANT HOUSING

Retraction

13%

Breaking New Ground In Construction

2020

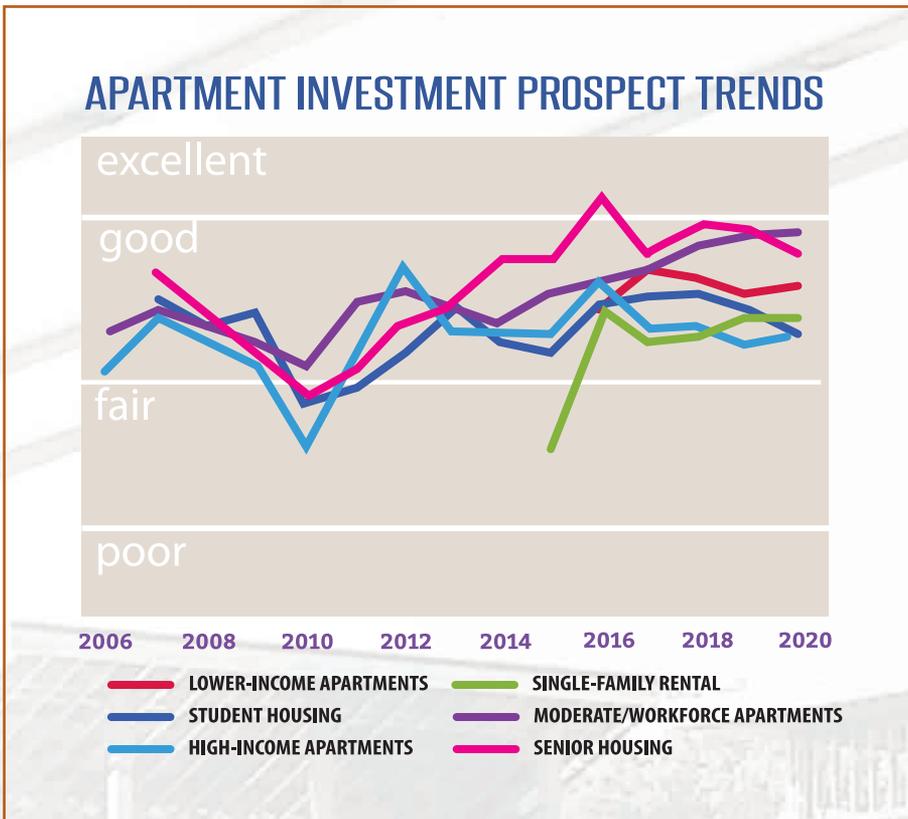
Multi-Tenant Housing

RETRACTION

13%

(Source: Dodge Data & Analytics)

Don't let the numbers fool you. While Dodge Data predicts a 13% decline in multi-tenant housing, time and again, has proven to be a safe investment in uncertain economic times. After all, housing is an essential need, and our population continues to grow. The key is focusing on the right subsector and for the long-term. And for 2020, our analysis remains unchanged.



(Source: Emerging Trends in Real Estate surveys)



DESIGN & BUILD FOR THESE TRENDS:

Value engineering

Different sizes and configurations within the same building, including micro-units

Shared living, with more bathrooms per bedroom to accommodate roommates

Green spaces or roofs for sunshine and gardening

Stairways with windows

Onsite fitness centers and bike storage

Cross-ventilation to reduce the need for air conditioning

On-premise package lockers or other means for accepting packages

More urban locations

2020

Multi-Tenant Housing

PwC continues to rank workforce housing among the top five best-rated investments to make right now because demand currently exceeds supply, and, according to research from the National Multifamily Housing Council and the National Apartment Association, the U.S. will need 4.6 million additional rental units by 2030.

Workforce housing should not be confused with “affordable housing.” Rather it is housing that is affordable to the average worker, often defined as someone earning 80% to 120% of the area’s median income. “The Case for Workforce Housing,” a study from CBRE, demonstrates the market potential, revealing that over the past five years, workforce housing has accounted for more than 51% of the total for all multifamily asset classes.

With more millennials seeking workforce housing, not to mention Gen Z coming of age, you can expect demand for moderately priced apartments to continue growing.





SENIOR HOUSING

Growth

Flat

Breaking New Ground In Construction

2020

Senior Housing

GROWTH

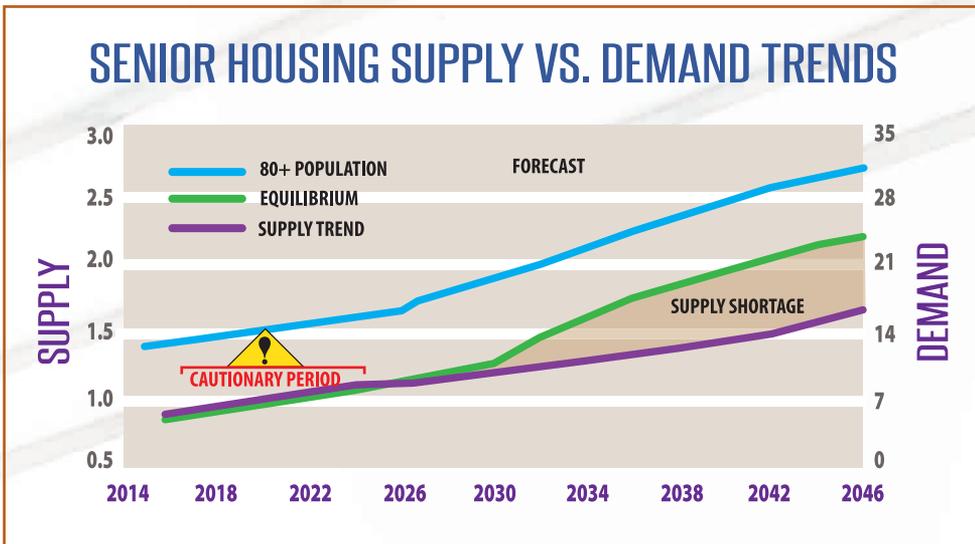
Flat

Though demand hasn't yet caught up with supply, many experts say it will happen in the next few years. While you have a few more years to enter the market, you'll want to be ready to capture your share. With rising building costs, 2020 is a good year to begin planning, even if you won't break ground until later.



DESIGN & BUILD FOR THESE TRENDS:

- Middle-income market
- Active adults
- Hospital-hospitality hybrid
- Medical records technology
- Onsite entertainment, restaurants and bars
- Technology designed to increase independence
- Pharmacy services and medication management
- Adaptive reuse
- Renovation of facilities older than 2000



(Source: National Investment Center for Senior Housing & Care)

The oldest baby boomers will turn 74 this year, continuing their increasing migration to senior housing options.

Housing for active seniors should remain hot for several years, underscoring the importance of providing senior housing that attracts people who want to live there as much as for those who need to live there. That means demand for hotel-like amenities will continue to be important, and incorporating fitness and business centers, lounge areas for socializing and entertainment and dining spaces like restaurants and bars will offer a competitive edge.

Incoming seniors also want more integration with the greater community, leading many to seek housing options in more urban or vibrant environments. That may lead to more adaptive reuse of buildings already existing in such areas.

2020

Senior Housing

IMPORTANT TRENDS TO NOTE

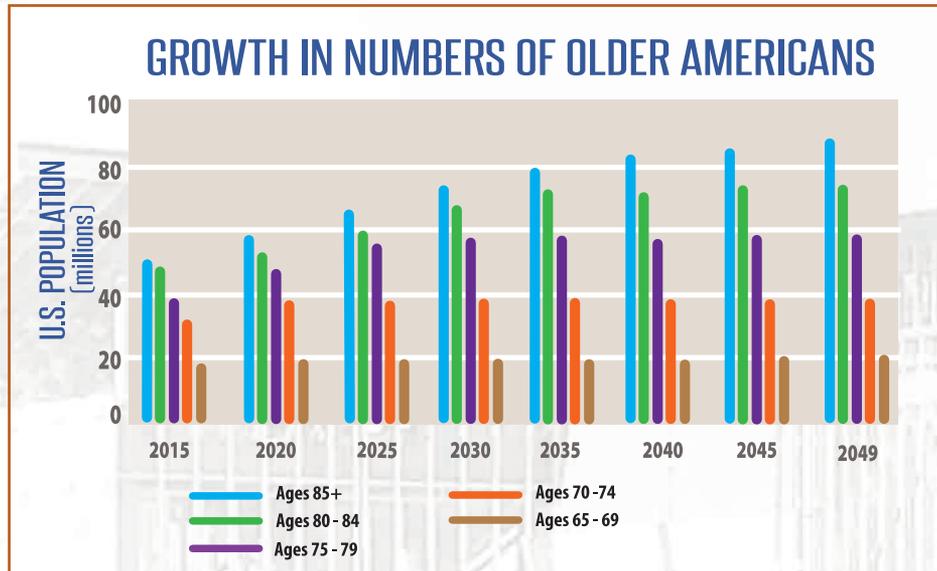
As you consider building a new senior housing development, you'll want to watch two other trends that will affect senior housing development.

#1 Seniors will be living longer and requiring additional medical services as they age.

More medical services

As more active lifestyles and improved health care have people living longer these days, the number of Americans who are 85 years old or older is expected to more than double between now and 2040, according to "An Aging Nation: The Older Population in the United States Population Estimates and Projections."

As baby boomers age, so will their medical needs, leading to more hospital-hospitality hybrids. In addition to providing services such as health care management programs and in-house physical therapy, owners may want to explore technology that eases access to medical records and health information, in-house pharmacy partnerships and more medical features.



(Sources: U.S. Census Bureau; Moody's Analytics)

2020

Senior Housing

#2 Baby boomers are a diverse group, and much of newer senior housing outprices the middle market.

More middle-market options

A study released last year by the National Institute on Aging (*"The Forgotten Middle,"* published in Health Affairs) brought attention to the fact that in just ten years, half of middle-income seniors won't be able to afford housing. The primary focus of most senior housing instead has focused on people with higher incomes. That focus has left a gaping hole in housing for people who can't afford that level of housing but who have too much to qualify for Medicaid. It also leaves a significant area of opportunity for developers.

PROJECTED SUPPLY NEEDED IN 2029 TO FILL MIDDLE-MARKET SENIOR HOUSING DEMAND AT CURRENT COSTS

Annual Rent	Medical Out-of-Pocket	Total Cost	Number of Middle-Income Seniors Who Can Afford the Total Costs (millions)	Percentage of Middle-Income Seniors Who Can Afford the Total Cost	Units Needed at Different Penetration Rates	
					11%	14%
\$40,000	\$5,000	\$45,000	10.2	71%	1,145,088	1,431,360
\$40,000	\$10,000	\$50,000	9.0	63%	1,008,000	1,260,000
\$55,000	\$5,000	\$60,000	6.6	46%	739,200	924,000
\$55,000	\$10,000	\$65,000	5.3	37%	593,600	742,000
\$75,000	\$5,000	\$80,000	2.9	20%	324,800	406,000
\$75,000	\$10,000	\$85,000	2.1	15%	235,200	294,000

(Sources: National Investment Center and NORC)



HOSPITALITY

Growth

1.3%

Breaking New Ground In Construction

AmericInn

2020

Hospitality

GROWTH

1.3%

(Source: CBRE)

While CBRE predicts year-over-year RevPAR growth of 1.3% in 2020, it expects growth to pick up soon, with year-over-year RevPAR growth rates of 2.1% in 2022 and 3.5% in 2023. And if PwC's predictions hold, the best opportunities for growth this year will be in found in the luxury and independent markets.



DESIGN & BUILD FOR THESE TRENDS:

- Repurposed, interesting buildings
- Upgraded technology options and smart rooms
- Minimalist design, accented by decor that mimics outdoors
- Smaller private rooms
- Sustainable, green practices
- Wellness offerings and partnerships
- Trendy lobby bars



(Source: Emerging Trends in Real Estate Surveys)

Starting in 2017, results are the average investment prospects for three categories—luxury, upscale, and midscale hotels. Previous years' results are based on investment prospects for a single category—full-service hotels.

2020

Hospitality



PWC PROJECTED U.S. REVPAR CHANGE - YEAR OVER YEAR

	2019	2020
luxury	1%	1.3%
upper upscale	0.8%	0.4%
upscale	-0.7%	-0.2%
upper midscale	-0.2%	-0.4%
midscale	-0.9%	-0.6%
economy	0.7%	-0.2%
independent	1.4%	1.2%
U.S.	0.7%	0.5%

(Source: PwC, based on STR data)

The sharing economy, combined with millennial generation preferences, continues to be the biggest disruptor in the hospitality industry, but understanding this dynamic also leads to identifying the most promising development opportunities.

Hospitality investors who adopt the same unique, creative offerings as Airbnb and VRBO, thereby differentiating themselves from traditional hotels, and combine them with smart technology stand to see the greatest gains moving ahead. That's why independent properties show most promise this year right after luxury properties.

Additionally, tending to sustainability and wellness demands can only help. Travelers today are increasingly committed to wellness, according to a recent report from Avison Young. Many independent hotels, especially those that are tucked into downtown areas and can't afford the space, are partnering with local gyms and yoga studios. That's a win-win for attracting millennials seeking the hyperlocal experience. You can take it a step further by offering healthy, organic and locally-sourced foods, whether through a kiosk or onsite restaurant.

Sustainability is also a top demand of younger consumers. In addition to green design and construction, hotels can go a long way toward communicating care for the planet through eliminating plastic straws, installing bike racks (or renting them outright), using compostable paper products and installing vehicle charging stations. Whatever steps you take, communicate those efforts to prospective and current guests.



INDUSTRIAL

MANUFACTURING
WAREHOUSING

Growth

1.3%

Breaking New Ground In Construction

2020

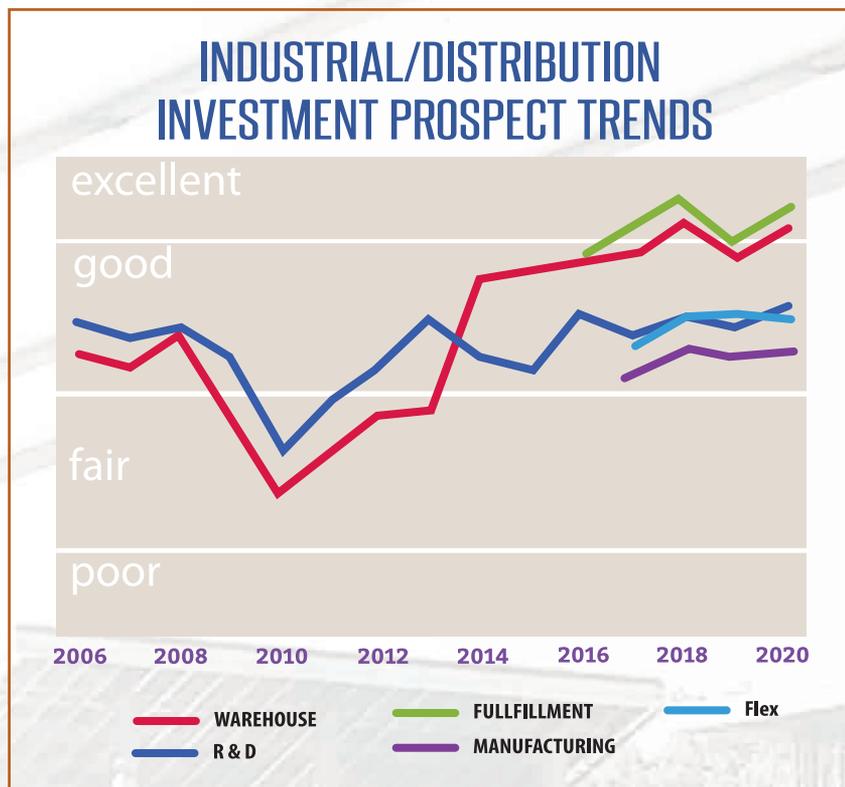
Industrial

GROWTH

1.3%

(Source: Deloitte 2020
Manufacturing Industry Outlook)

While in many ways industrial construction starts look promising and experts predict growth, those projections should be tempered by several unknowns in 2020 — specifically, trade restrictions, volatile pricing and a presidential election. The most promising areas of development this year center on a drive for smarter ways to get things done and addressing needs created by internet commerce.



(Source: Emerging Trends in Real Estate Surveys)

Much of what we reported in 2019 remains for 2020. While experts are calling for some growth, trade restrictions remain uncertain, and labor remains a challenge. Also, the drive we reported last year for newer, smarter ways to get things done will only accelerate in 2020.

2020

Manufacturing

Deloitte suggests that U.S. manufacturing is in the first of two stages of transformation. They classify phase 1 as a slow adoption phase for smart factory development, running from 2019-2024. In 2025, they predict full-scale smart factory adoption will accelerate in 2030.

Those predictions are based on a Deloitte and MAPI smart factory study released last year, wherein well over half of the manufacturers surveyed said they plan to increase their smart factory budget by 13%. Additionally, 86% of manufacturers say they believe smart manufacturing will be a major factor in competitiveness in five years, and 83% say smart factory initiatives will transform the way products are made. We're already seeing steps in that direction with the increasing use of robotics, 3D printers and, now, the industrial Internet of Things.



DESIGN & BUILD FOR THESE TRENDS:

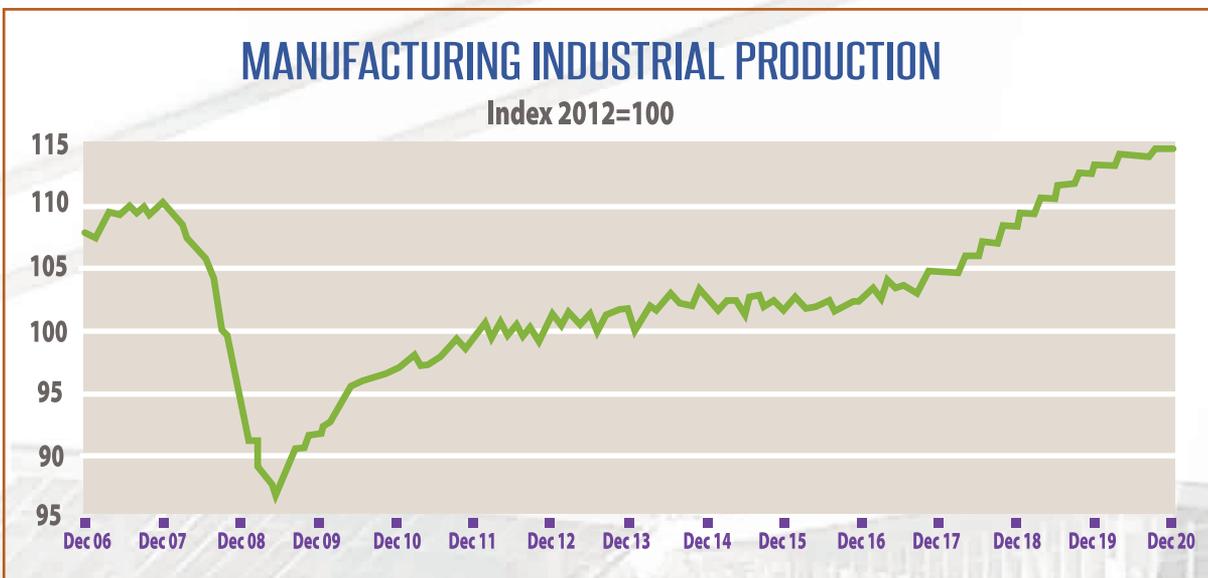
Smart factory adoption

Robotics

3D printing

Nearsharing

Sustainability



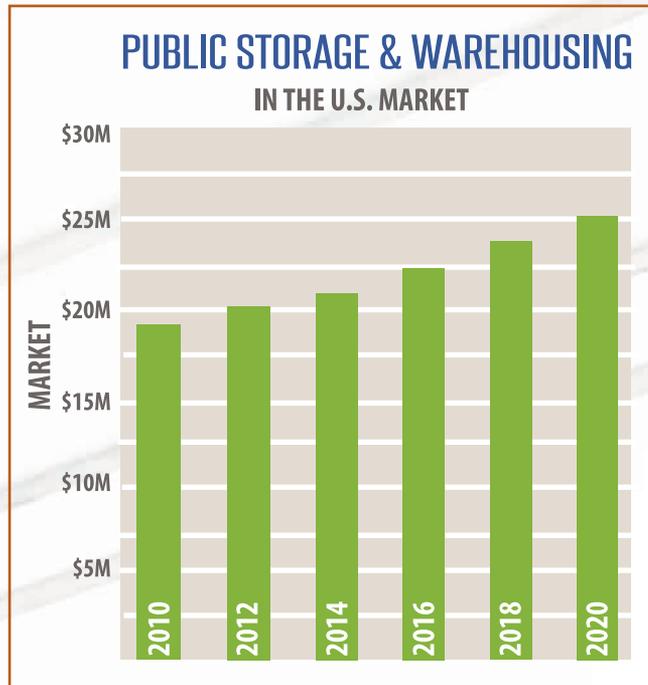
(Source: MAPI Foundation)

Manufacturing is no exception to the trend toward sustainability we've seen across all commercial construction segments in recent years. And as manufacturers ramp up their smart factories, you can expect manufacturing to increase with it, reducing pollution and waste while employing increased renewable energy sources. That will go over well with consumers who are increasingly drawn to earth-friendly products. Perhaps the best news is that once you've invested in green construction and practices, you'll see increased savings on operating costs.

2020

Warehousing

As online shopping continues to grow, so does the warehousing and logistics industry. And more than ever, customers are expecting faster, even same-day, delivery in high-population areas. That calls for more light-industrial warehouses less than 120,000 square feet closer to customers.



(Source: IBIS World)

These smaller, more regional warehouses represent a good opportunity for warehouse owners and developers. The objective with these new starts being to fulfill orders in faster, cheaper and greener ways, so functionality, technology and automation will be at the core of their design.

To meet those needs, developers would be wise to incorporate features to support progressive technology and speed processes. When it comes to personnel, forward-looking owners will also look to designs that support interleaving tasks rather than traditional single-task assignments. With those cross-job descriptions will also come features like cross-docking,

It's important to note that green construction and energy efficiency is becoming a greater priority for building owners as they begin to see increasing savings from environmentally-friendly practices. In many cases, this priority will mean more shipping envelopes (and fewer boxes), solar panels, sensors for lighting and HVAC systems and other features to reduce energy consumption.



DESIGN & BUILD FOR THESE TRENDS:

- Regionality
- Warehouse management systems
- Internet of Things
- Increased automation
- Artificial intelligence
- Advanced imagers and cameras
- Energy efficiency
- Logistics and data centers
- Cross-docking



OFFICE SPACE

Retraction

1%

Breaking New Ground In Construction

2020

Office Space

Construction of private office buildings is expected to hold relatively steady in 2020, with only a slight decrease in growth when compared with 2019. While starts will vary by region and office type, the primary challenge for today's employers is attracting and retaining top talent. The current unemployment rate is historically low at 3.5%, meaning employers who want the best talent must step up the employment packages, from benefits to workspaces. About the latter, employers will be wise to create workspaces that appeal to millennials and the influx of Gen Z workers now entering the labor force.

RETRACTION

1%

(Source: CBRE)



DESIGN & BUILD FOR THESE TRENDS:

Green construction and sustainability

Dynamic, multifunctional spaces

Areas designed for collaboration

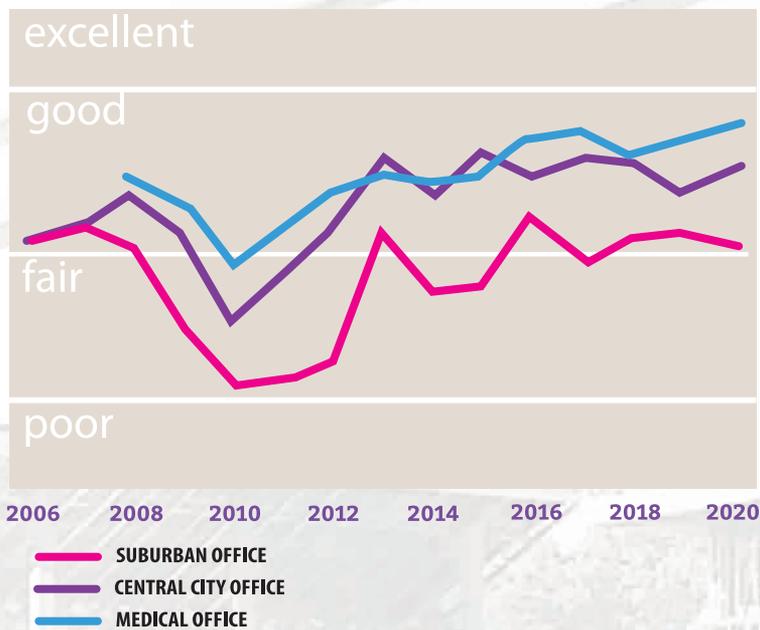
Personal, domesticated space and décor

Natural light

Healthy food choices and other wellness-focused spaces

Lightning-fast internet

OFFICE INVESTMENT PROSPECT TRENDS



(Source: Emerging Trends in Real Estate surveys)

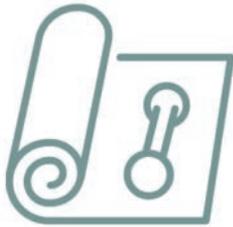
2020

Office Space

Attracting and retaining valuable employees is driving much of the design and construction now underway as employers strive to create work environments that appeal to them. The result: offices are taking on a decidedly new look and feel.

Younger workers thrive in collaborative settings. Board rooms, traditionally, have served that need in prior years, but more home-like settings are beginning to trend as employers find more comfy environments spark greater creativity.

Among the newest trends are dynamic workspaces that provide greater flexibility while keeping workers motivated and innovative. Dynamic workspaces also allow room for individual work styles while accommodating individual worker needs at various stages of work.



Today's employees are also looking for natural light and wellness features (think exercise machines and healthy food kiosks), and sustainability is a growing, if not chief, concern for those now entering the labor force.



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Breaking New Ground In Construction

If you're considering a new commercial construction project, contact DBS Group to learn how we can leverage our design & construction expertise to drive value for your project, creating an investment poised to bring positive returns for years to come.

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