



Breaking New Ground In Construction

2022

TREND REPORT

COMMERCIAL
CONSTRUCTION

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Pandemic Shapes Trends Heading Into 2022

To call the last two years unpredictable is to grossly understate the tsunami of uncertainty generated by the combined forces of the global pandemic, resulting supply chain issues and long-anticipated labor shortage. Even now, an end to these issues remains unpredictable.

But some things we know for certain. For instance, we know people will continue to need goods and services — many online but many in person, too. And we know each generation will continue to age, and as they do, their wants and needs will shift, affecting supply and demand across various sectors. These realities tell us the types of structures that are and will be needed in the next few years.

Meanwhile, the tumult and challenges of the past two years are informing how structures should be priced, designed, built and even scheduled. Materials shortages and price increases, germ eradication, acknowledgment that social distancing will be more a part of our future than our past, even the anxiety induced by COVID, are affecting everything from ventilation and floor plans to décor and paint colors.

The following pages lend insight into finding the best investment opportunities and approaching design and construction projects in light of today's new reality. But to get the information you need to make the best decisions about what, when and how to begin your next project, call DBS Group.

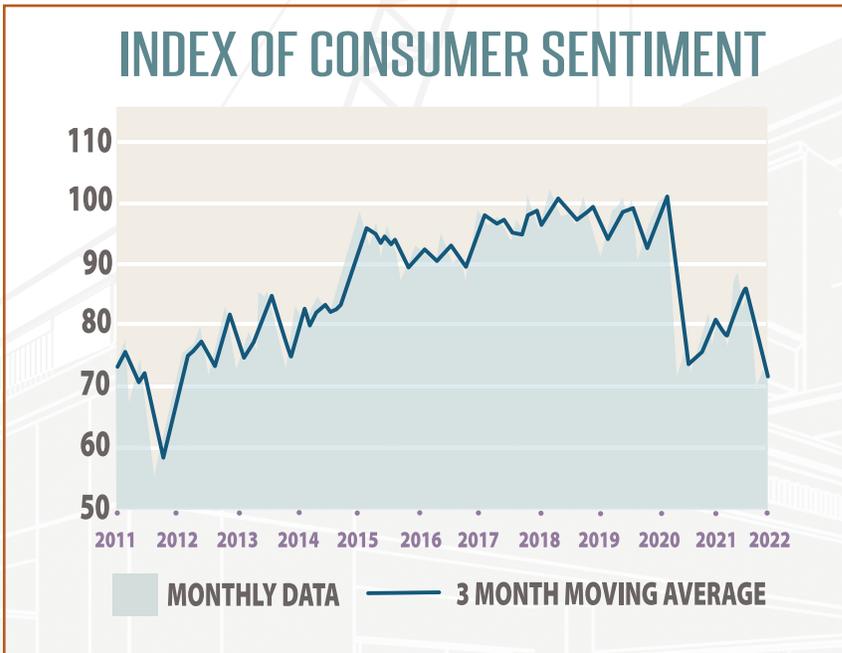


Chris Walters
CEO and President

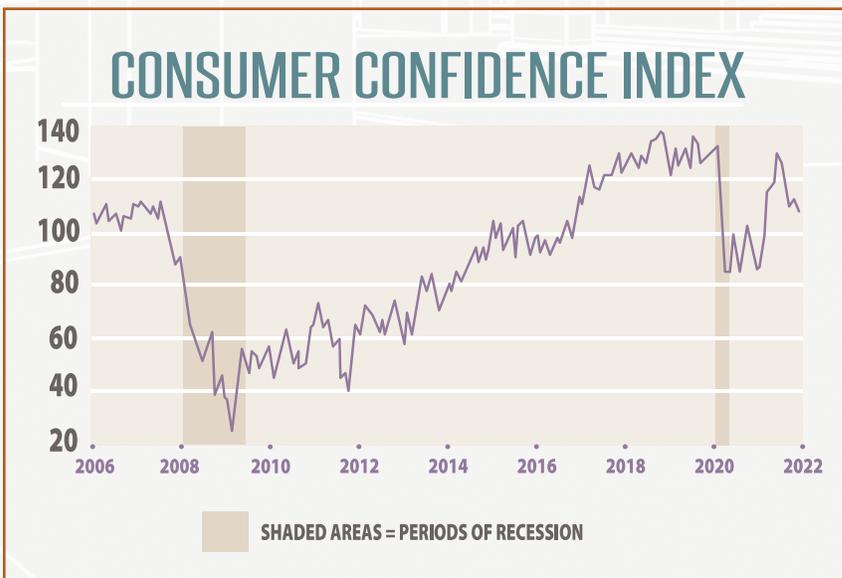
Economists

Predict Continued Growth

Even as consumer sentiment appears to fluctuate in unison with the nation's COVID-19 cases and consumer confidence seems skittish, economists see positive indicators ahead. Most predict GDP growth of 4% to 5%, and Dodge Data & Analytics expects a 13% increase in construction starts. That's up from 2021's increase of 4% posted at the end of the third quarter.



(Source: University of Michigan Consumer Sentiment Survey)



(Source: United States Conference Board)

ECONOMIC
GROWTH
BY GDP

3.9%

(Source: Conference Board)

COMMERCIAL
CONSTRUCTION
STARTS

13%

(Source: Dodge & Data Analytics)

2022

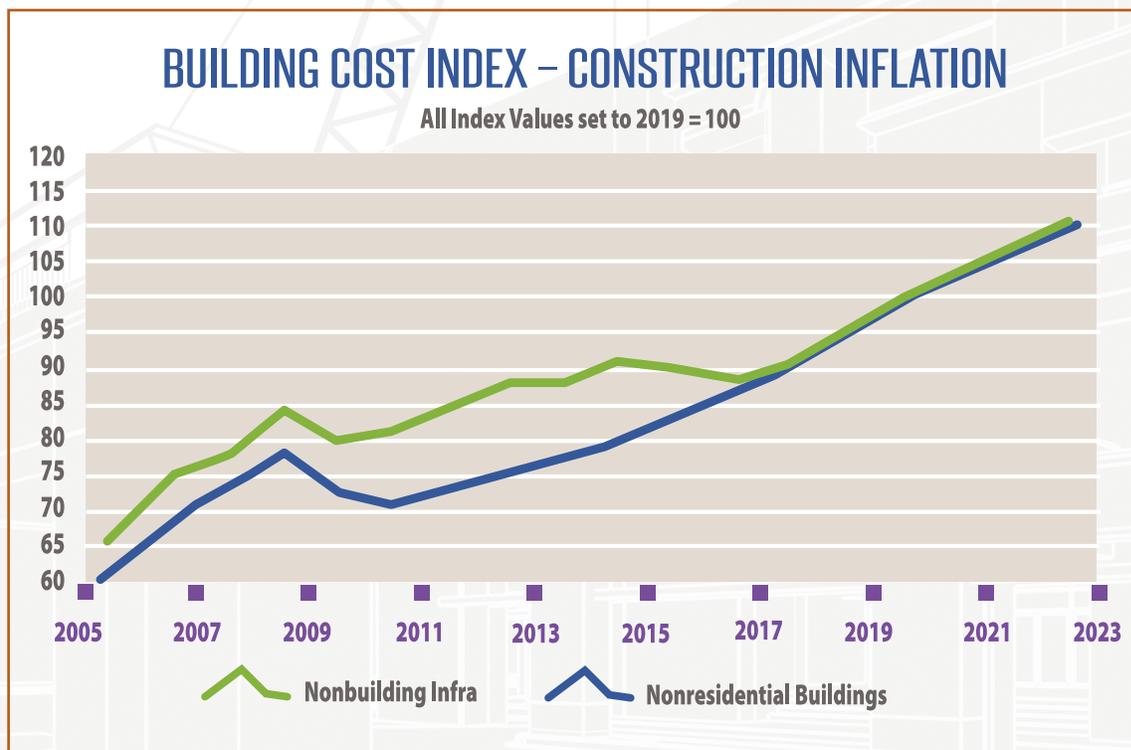
Inflation Continues to Affect Building Costs

Perhaps the number most steadily increasing is, not surprisingly, inflation. However, experts predict it will grow slightly less in 2022 than in 2021. For example, construction economics analyst Ed Zarenski, who has been tracking construction costs for more than 40 years, estimates that nonresidential building inflation growth for 2021 will come in at 6.8% before increasing by a lesser 4.5% in 2022.

CONSTRUCTION
INFLATION
GROWTH

4.5%

(Source: Ed Zarenski)



(Source: Ed Zarenski)

2022

Dominant Factors Driving 2022 Design-Build Trends

Three of the four dominant factors driving 2022 construction trends are tied to the pandemic's lingering effects and associated federal fiscal policy. And each of those translates into longer lead times for materials and equipment needed for commercial construction projects. Initiating planning in January for a project to begin in spring is an outdated expectation.

1

Labor shortage. Businesses will be keen on technological improvements and smart initiatives to improve efficiencies and compensate for the lack of workers.

2

Supply chain instability and resulting materials scarcity. Businesses large and small are looking for ways to bridge current supply chain gaps and prepare for future disruptions — whether storing larger inventories over longer periods or sourcing from more state, regional and American manufacturers.

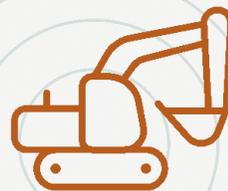
3

Inflation. The labor and materials shortages mean short supply and high demand, which equates to higher prices. As evidence, the U.S. Bureau of Labor Statistics reported that construction material costs in 2021 were up 33% from 2020 prices.

4

Sustainability. Whatever your ecological view, designing and building for sustainability is smart business. Conserving energy saves money, and recycled materials can be less expensive than their counterparts. But there's still more to it. Multiple studies indicate that Gen Z, soon to comprise the largest group of consumers the country has ever seen, prefers to purchase goods and services from companies with sustainable practices.

Longer lead times for materials and equipment are now the norm for commercial construction projects.



2022

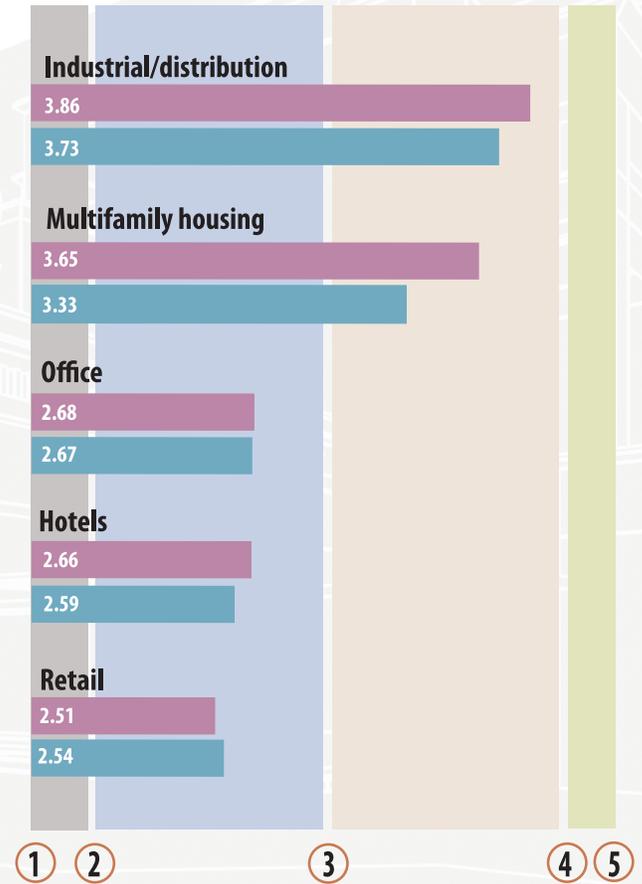
Ranking Prospective Projects

Each year, accounting and advisory firm PwC rates major commercial property types to show where developers are likely to find the best investments. For 2022, they expect industrial and multifamily housing to continue to lead investment and development prospects.

INVESTMENT PROSPECTS



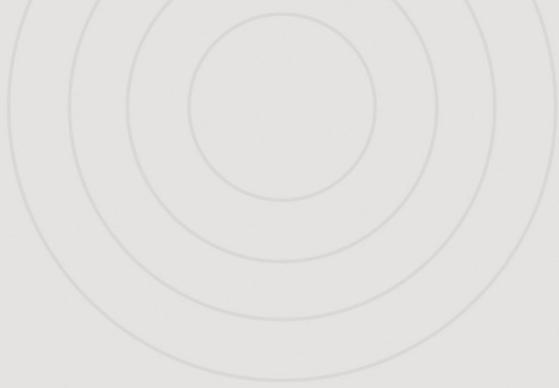
DEVELOPMENT PROSPECTS



2022 2021

1 = ABYSMAL 2 = POOR 3 = FAIR 4 = GOOD 5 = EXCELLENT

(Source: PwC's Emerging Trends in Real Estate)



INDUSTRIAL

Growth

6%

(Source: Dodge Data & Analytics)

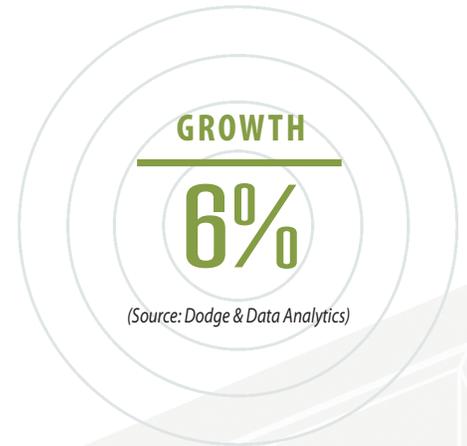
MANUFACTURING 4.1% *(Source: Dodge Data & Analytics)*

WAREHOUSE 13% *(Source: Deloitte Manufacturing Industry Outlook)*

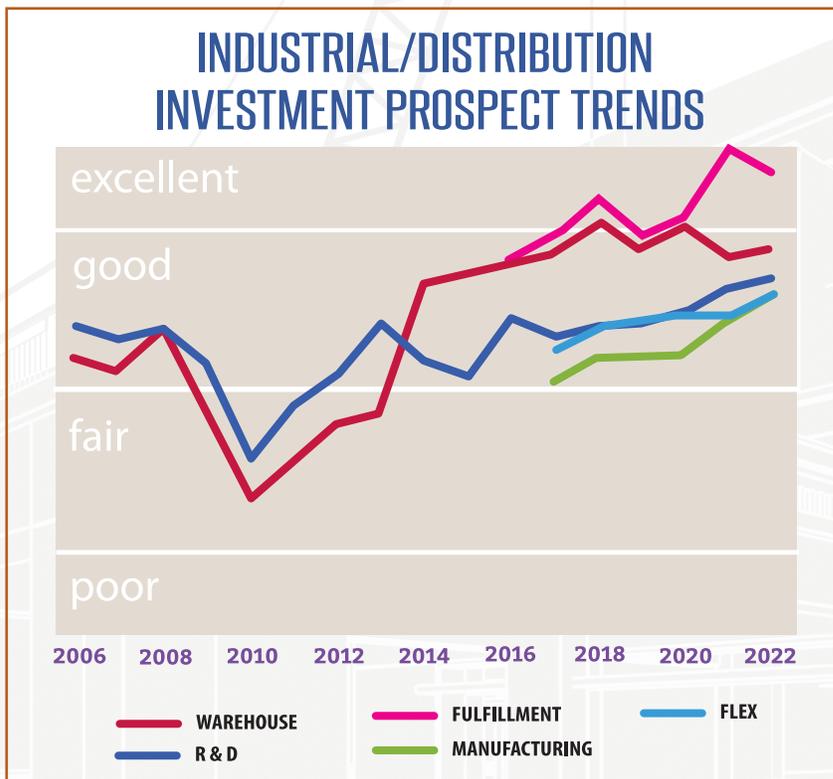
Breaking New Ground In Construction

2022

Industrial Sector Trends



As e-commerce continues to grow, so will the need for production facilities and, even more so, warehouses — not just to manage order fulfillment but also to accommodate more inventory as suppliers brace against future supply chain disruptions.



(Source: PwC's Emerging Trends in Real Estate)



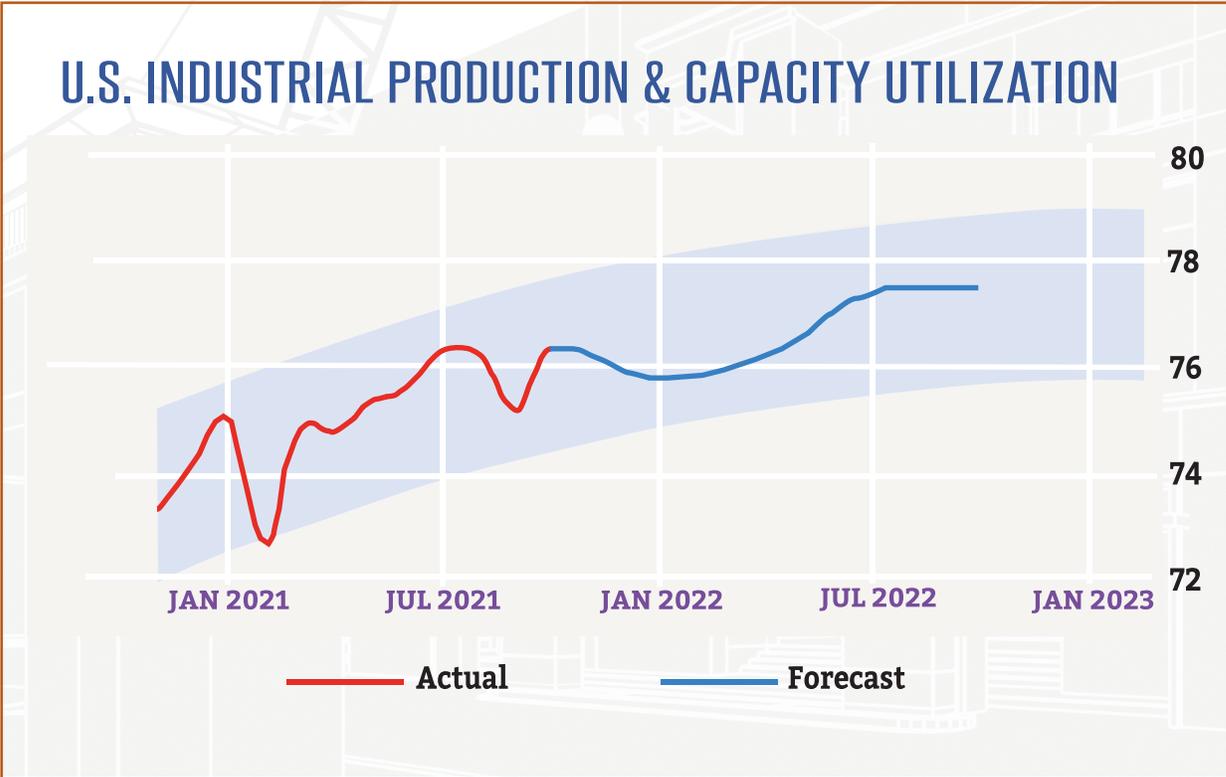
DESIGN & BUILD FOR THESE TRENDS:

- Automation
- Cross-dock capabilities
- Expanded storage
- Micro-fulfillment
- Scalability
- Sustainability

These structures will also be designed for increased automation and technology to counterbalance workforce shortages now and into the future. According to MHI, the nation's largest supply chain association, robotics and automation are expected to grow from 39% in 2020 to 68% in 2022 and 72% in the next two to four years. We expect increased automation to affect numerous design factors — from electrical standard revisions to power it all to ceiling heights for more stacking and retrieval by drones.



At the same time, warehouse owners will be incorporating green measures for the environment and cost-savings, mainly to offset the added power needed for increased automation. Such measures likely will include more energy-efficient cooling and heating, LED lighting, solar panels and roofing systems designed for better indoor temperature control.



(Source: Trading Economics, based on figures from the Federal Reserve)





MULTIFAMILY

Growth

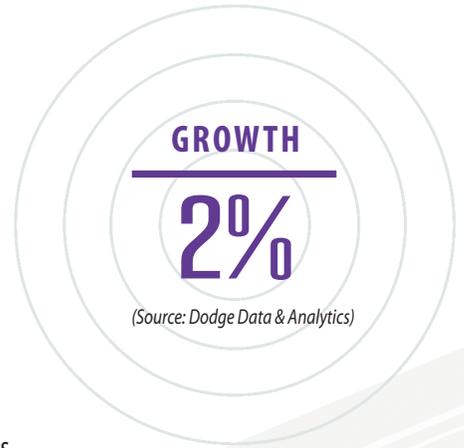
2%

(Source: Dodge Data & Analytics)

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Multifamily Housing Trends

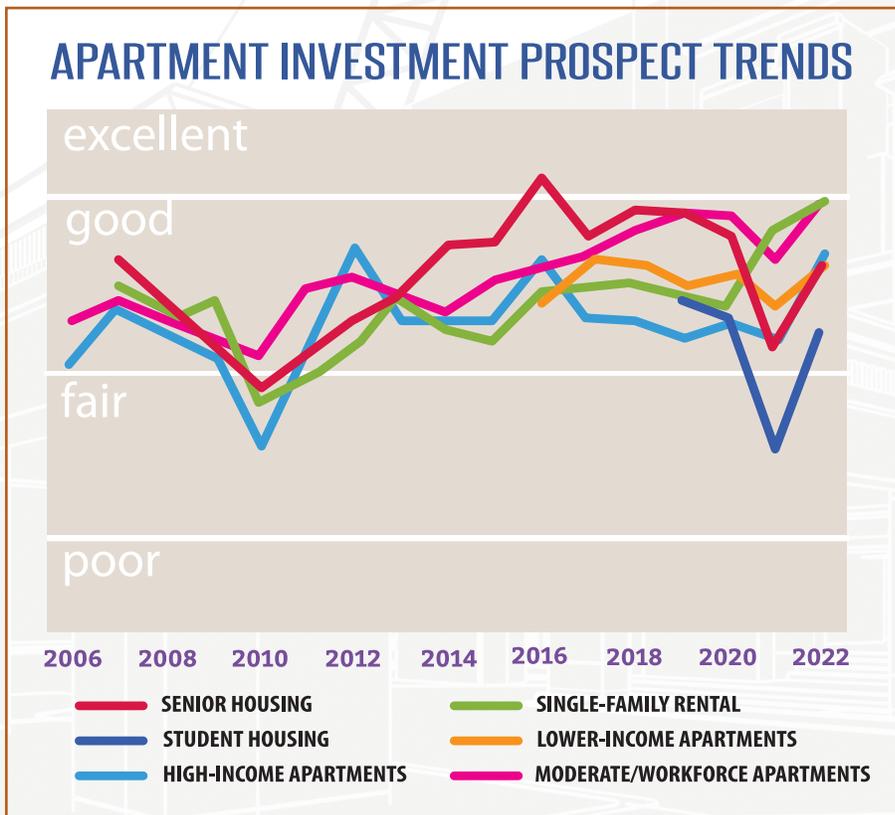


The multifamily sector continues to represent substantial opportunity heading into 2022. The primary reasons are the affordability of single-family homes for middle-income families and the lack of inventory, particularly as more people move from urban to suburban areas. Housing experts expect affordability and availability challenges will continue for years to come.



DESIGN & BUILD FOR THESE TRENDS:

- Air filtration
- Easily sanitized surfaces
- Health and wellness
- Natural light and neutral colors
- Roofs, terraces and outdoor access
- Soft, natural materials



(Source: PwC's Emerging Trends in Real Estate)

Economists note that the return on multifamily investments remains strong, with lower interest rates and a yield trending up as high as 10% in some markets. To identify locations with the most significant potential, look for areas where single-family home prices have increased the most in the last year.



2022

Multifamily Housing Trends

Workforce Apartments

Workforce apartments in the mid-dollar range especially present opportunity. It's a trend we've seen growing in the last several years for a good reason. The National Multifamily Housing Council and the National Apartment Association predict the U.S. will need 4.6 million additional rental units by 2030.

But workforce apartments are not to be confused with affordable housing. Instead, workforce apartments are designed for middle-income workers (e.g., teachers, public servants, retail clerks, etc.), a group that, while not seeking luxury amenities, is looking for mid-range comforts.

Many of those comforts now are driven by the realities of COVID-19 and having been homebound for much of 2020. Think outdoor spaces (gardens, terraces, rooftops, playgrounds, dog parks), recreational and wellness areas (workout rooms, pools) and health-focused features (good air filtration, low volatile organic compounds [VOCs]). Remember that after the past two chaotic years, design features that promote calm will also pull tenants. Such features include biophilic design, neutral colors, sunlight and natural materials.

Many amenities now are driven by the realities of COVID-19 and having been homebound for much of 2020.





SENIOR HOUSING

Growth

12.5%
in senior
population by 2025

(Source: PwC's Emerging Trends in Real Estate)

HOPE STAY, INC.
Assisted Living

Breaking New Ground In Construction

2022

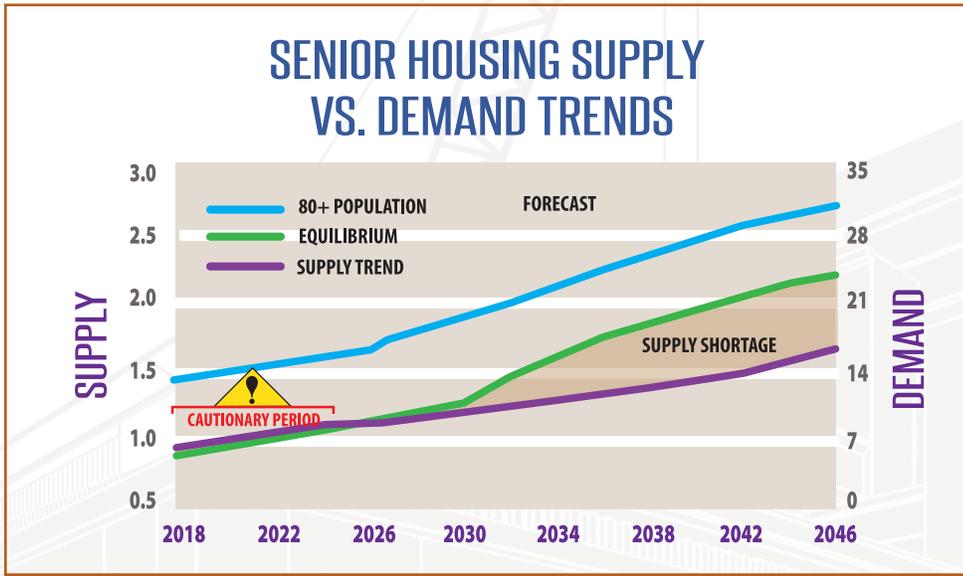
Senior Housing

GROWTH

12.5%

IN SENIOR POPULATION BY 2025

(Source: PwC's Emerging Trends in Real Estate)



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



DESIGN & BUILD FOR THESE TRENDS:

- Adaptability of spaces
- Amenities that allow social distancing
- Convenience technology
- Disinfecting capabilities
- Locations in smaller population centers
- Pre-lobbies
- Services continuum
- Wellness

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)

2022

Senior Housing

As the senior population grows, so do opportunities in the senior housing sector. Short-term, it's a market that remains on the verge of growth, making now an excellent time to enter the market — just in time to capitalize on a supply shortage taking shape in the next five years.

The pandemic-induced out-migration from urban centers indicates a growing need for senior housing in smaller cities and population centers (but near hospitals), a move that is consistent with the increasing call for middle-market options.

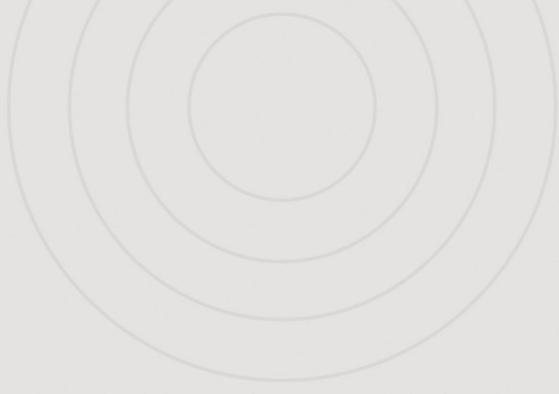
The last two years have also revealed a new set of needs in this sector to protect emotional and physical health in the event of future COVID-19 surges or new pandemics. Among the highest priorities are designs that allow flexibility and adaptability to address fluctuating acuity levels and create hospital-at-home units.

Having seen the harm that isolation caused residents during the pandemic's initial shelter-in-place orders, new senior living designs are incorporating features to make it safer for residents to have visitors and socialize with other residents. Pre-lobbies for screening and testing visitors or donning personal protective equipment, separate delivery spaces to contain the spread of viruses, UV lighting and air filtration systems are now being incorporated into designs for 2022 projects.

It's important to note that these features are in addition to (not replacing) some trends in place before the pandemic. Such trends include design and construction that facilitate service continuums to accommodate aging in place, wellness spaces and equipment and increased use of technology (particularly in-room, voice-activated and telehealth capabilities).

Among the highest priorities are designs that allow flexibility and adaptability to address fluctuating acuity levels and create hospital-at-home units.





Net
Absorption

228%

(Source: NAIOP)

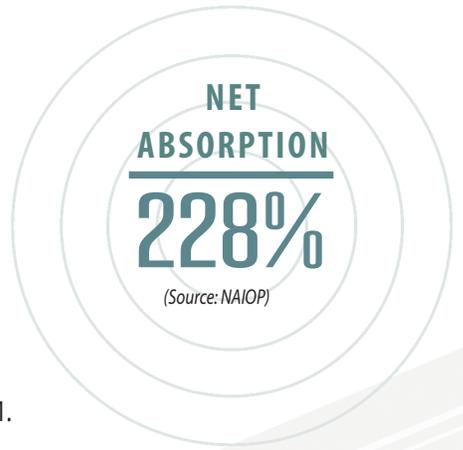
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OFFICE SPACE

Breaking New Ground In Construction

2022

Office Space

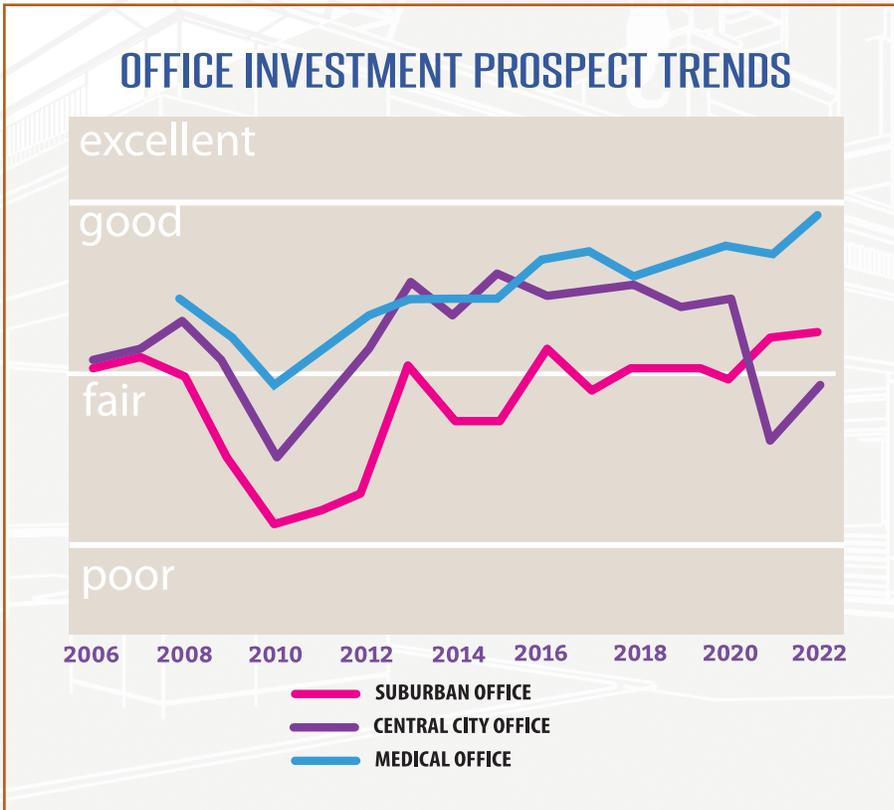


As more businesses developed return-to-work strategies, office space use increased in 2021. And economists expect occupancy to continue improving in 2022, mainly in the latter half of the year and particularly in medical offices and suburban areas. In its 2022 U.S. Real Estate Market Outlook, CBRE says the creation of 1 million new office-using jobs combined with medical advancements that increase workplace safety will fuel that growth.



DESIGN & BUILD FOR THESE TRENDS:

- Air filtration
- Contactless systems and screens
- Convertible, homelike offices
- High, exposed ceilings
- Noise cancellation
- Outdoor access
- Relaxation and social areas
- Sustainability



(Source: PwC's Emerging Trends in Real Estate)



2022

Office Space

But as more companies and their employees have embraced remote and flexible work arrangements, many offices will look and operate in noticeably different ways to accommodate today's new hybrid workforce.

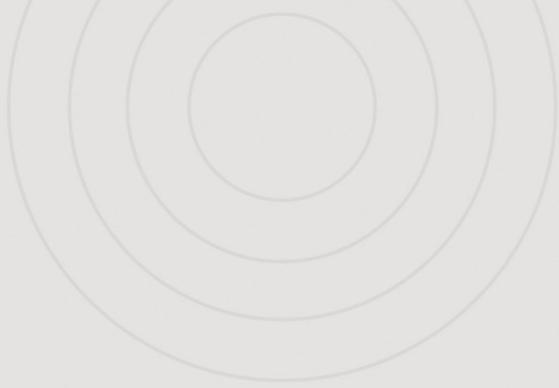
Convertible offices will be the next big thing, with modular furniture and changeable partitions for quick configuration changes. As these new modular arrangements increase, so will the potential for noise and the need for noise cancellation measures like plush carpeting and acoustic partitions.

Safety features will also figure prominently as businesses strive to balance employee productivity and health. More offices will incorporate noncontact measures like automatic doors, soap dispensers and flushing systems; plexiglass and fabric screens to contain germs; and improved supply and exhaust ventilation.

The green, sustainable structures trend will extend to office design-build plans as employers seek to save energy (and money) while also integrating calming and homelike features, including natural materials, textures and light; comfortable, soft seating; and household appliances. The goal is to foster an engaged, productive workforce.

Many offices will look and operate in noticeably different ways to accommodate today's new hybrid workforce.





HOSPITALITY

Growth

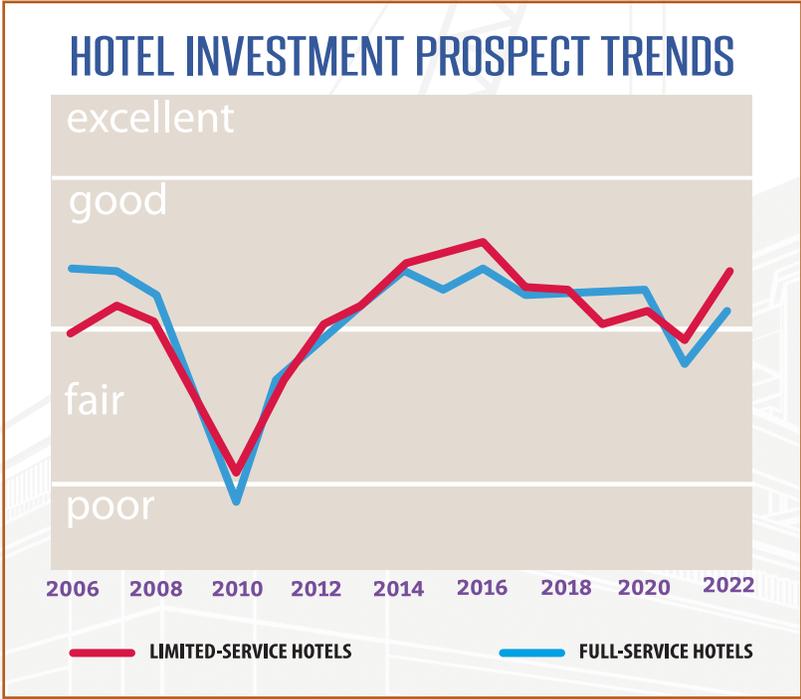
24%

(Source: Dodge Data & Analytics)

Breaking New Ground In Construction

2022

Hospitality



(Source: PwC's Emerging Trends in Real Estate)
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.



DESIGN & BUILD FOR THESE TRENDS:

- Air filtration
- Contactless systems and screens
- Earthy palettes
- Ecofriendly features
- Homelike atmosphere
- Local flavor
- Natural light
- Natural materials
- Outdoor access
- Sustainability

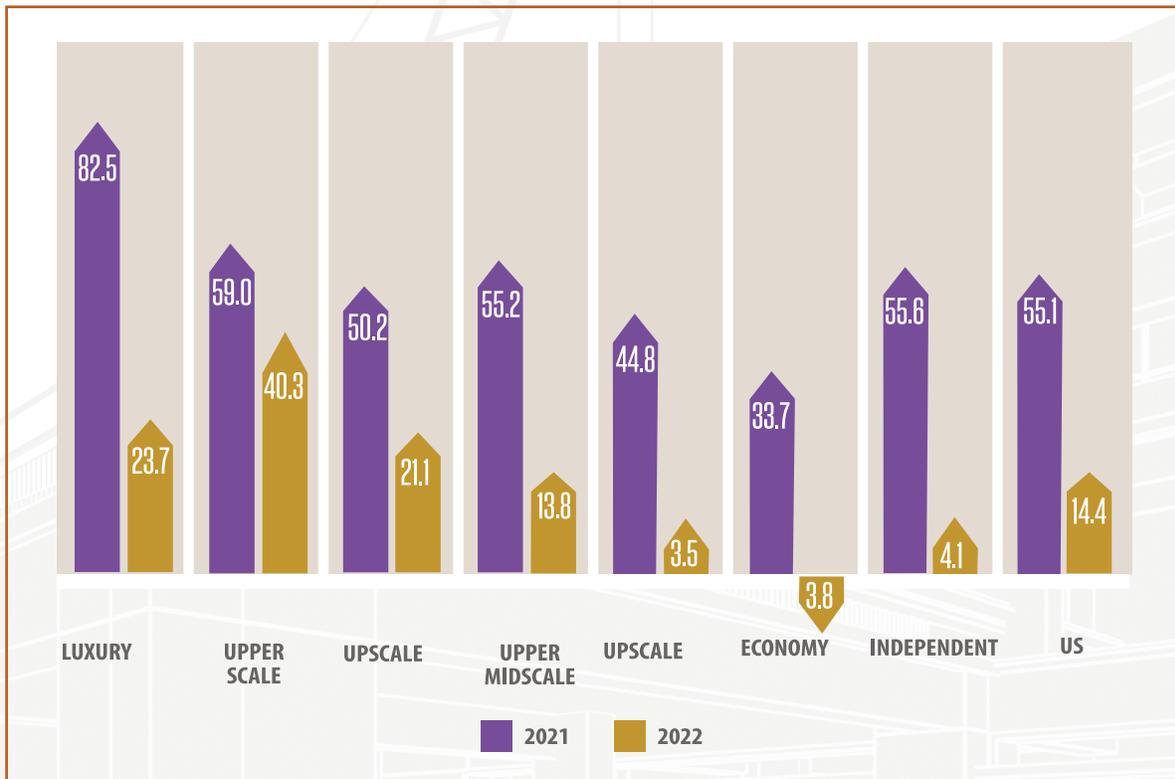
After taking big pandemic hits alongside the rest of the travel industry in 2020, the hotel sector improved in 2021. At this writing, CBRE is forecasting 2021 will close with a national occupancy rate of 54%, followed by 62% in 2022. But the commercial real estate services and investment firm doesn't expect a full recovery of revenue per available room (RevPAR) until 2024.

Pandemic-response design-build trends in 2022 and 2023 will help fuel that return.



2022

Hospitality



(Source: PwC, based on STR data)

To increase safety, more hotels will be using technology, primarily via smartphones, to reduce physical touchpoints, including everything from check-in and check-out to mobile keys and temperature controls. We'll also see more voice-activated technology and touchless features along with air purification and natural ventilation systems.



2022

Hospitality

The same décor themes from other sectors — those that soothe and calm — will also prevail in hotels, with earthy colors, rounded shapes, soft furniture and big windows to let in natural light. The sustainability trend also extends to the hospitality industry for cost savings and guest loyalty. So neutral woods, glass and green plants will trend to demonstrate the property's commitment to sustainability.

One of the areas where hotels diverge from other sectors resides in their locations. Travelers still will want unique experiences from city to city, so touches that bring local flavor — whether through cuisine and drinks, piped music, wallpaper patterns or local plants and florals — will continue to carry strong appeal. And look for more hotels to integrate into their designs a specific focal point that reflects its location to lure guests into taking selfies for social media.

Travelers still will want unique experiences from city to city, so look for touches of local flavor.



2022

Hospitality



Restaurants:

As a subset of the hospitality sector, restaurant design-build trends in 2022 will reflect changes generated by the pandemic, primarily around takeout. According to Forbes, digital ordering has increased from 10% to 28% since the pandemic, and restaurants are responding with increased curbside pickup areas and, somewhat surprisingly, drive-through windows even at high-end restaurants.

Virtual brands like Nextbite are also emerging. These virtual restaurants share kitchens, equipment, supplies and labor with traditional restaurants, which means more restaurants are devoting more space to back-of-the-house operations. That additional space also makes way for technology to increase productivity as the labor shortage continues.

Still, many patrons will continue to seek the in-restaurant dining experience. And that has restaurants looking at seating systems and configurations to accommodate social distancing between groups.



DESIGN & BUILD FOR THESE TRENDS:

Contactless systems

Cross-using space and supplies

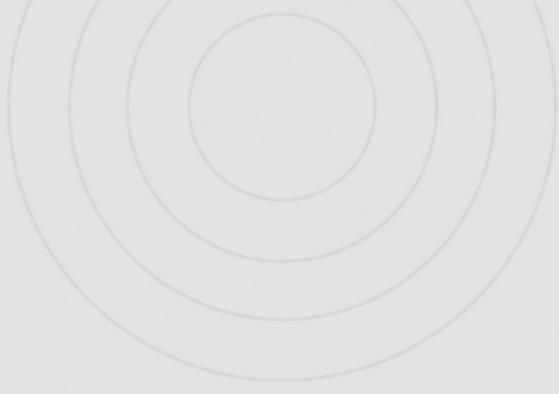
Curbside pickup and drive-through

Flexible seating that can accommodate social distancing

Increased space in back-of-house

Restaurant design-build trends will reflect changes generated by the pandemic, primarily around takeout.





RETAIL & GROCERY

Growth

14%

(Source: Dodge Data & Analytics)

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2022

Retail & Grocery

In 2021, Verizon, with global research company Morning Consult, combined its network data and a survey of 3,000 Americans to study how people adjusted to life one year into the COVID-19 pandemic. It found that almost two in three Americans shopped mostly in person before the pandemic. Today, that number is nearly half what it was, with 37% now saying they shop primarily in person. After nearly two years of living with the pandemic, shopping online now feels normal, so while in-person shopping is likely to see an uptick in coming years, it's unlikely to return to pre-pandemic levels.



(Source: PwC's Emerging Trends in Real Estate)



DESIGN & BUILD FOR THESE TRENDS:

- Artificial intelligence
- Contactless payments
- Distancing customers
- Experiential shopping
- Homelike environment
- Integrated online-offline shopping
- Sale and resale
- Self-checkout
- Social media focal points
- Specialist stores within big stores

The good news is that nearly half of consumers prefer to shop in-person at a physical store when given the chance because they "enjoy the experience," according to a Raydiant study reported in Chain Store Age. With numbers like that, it's clear that in-person shopping will be around for years to come.



2022

Retail & Grocery (Source: Deloitte)

Developers and owners will find the most promising retail construction opportunities in 2022 in neighborhood and community shopping centers. As more people migrate to suburban areas, demand for more brick-and-mortar retail is following them.

To encourage consumers to return to onsite shopping, retailers in 2022 will continue taking steps to help customers feel and stay safe. They'll continue to distance customers, including separating entrances and exits and incorporating more contactless payment options. They'll also design renovations and new facilities to help customers feel more at home in their stores. That means more natural lighting and décor that mimics home interior design colors and trends.

As it has for years, creating experiences will also be key to getting customers to put away their cell phones and visit retail stores. In its State of Consumer Behavior 2021 report, Retail Customer Experience found that if a retailer gives customers a positive experience or even a memory to walk away with, the likelihood of those shoppers returning increases to 90%.

In grocery, for example, stores will be wise to continue creating spaces for experiences such as tasting events and cooking demonstrations and classes. Likewise, tech stores can create spaces for consumers to experience virtual reality and test products, and cosmetics stores can offer makeup consultations and applications.

Keep in mind all of this comes with a new twist as social media-minded consumers fill retail stores. As with hospitality, creating a focal point for selfies can encourage customers to take out their phones again — this time to share your brand and your wares across platforms like Instagram, Snapchat and TikTok.

As more people migrate to suburban areas, demand for more brick-and-mortar retail is following them.





dbsg.com

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-build expertise to drive value for your project. Our design, preconstruction and construction services can help you create an investment poised to bring positive returns for years to come.

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