



# Dodge Construction Network Year End Report



# Introduction

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The past year has presented exciting opportunities for the construction industry, but also a unique set of challenges as the world navigates bigger uncertainties. Dodge Construction Network summarizes the key trends and insights gained across the construction landscape, while also giving insight into what to expect in 2023.

For many industries, construction included, 2022 was clouded with economic uncertainty. Driven by lingering pandemic aftershocks, rising interest rates, inflation, and global supply chain disruption, Q4 showed potential for bleak economic conditions. However, construction has largely managed to maintain momentum due to significant investments from the U.S government in the form of the Infrastructure Investments and Jobs Act (IIJA), Inflation Reduction Act (IRA) and CHIPS and Science Act.

While these investments represented a much needed boost to construction's economic outlook, shifting priorities in the industry are also leading to new solutions contributing to a promising future. Among these priorities are a groundswell of support for the adoption of digital transformation and a surge in proactive approaches to sustainability; both contribute to a resilient construction sector heading into 2023.

## Key points:

- Manufacturing, life sciences, data centers, healthcare infrastructure and multifamily stood out as key winners
- Comparatively, single family, office, and K-12 construction languished, showing slow progress
- The rise in sustainable construction and the rapid adoption of innovative technologies to drive efficiency remain leading trends heading into 2023

## Challenges of 2022

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Inflation and the corresponding rise in interest rates proved to be a much “stickier” challenge to navigate than anticipated in 2022. First, construction starts forecasted in dollar value continue to show robust growth; however “real” activity (inflation-adjusted dollars or square footage) is showing much more modest growth. Though projections may seem healthy on the surface, they must be tempered by the reality that inflation is impacting the true bottom line.

Second, the Federal Reserve raised rates in a very aggressive fashion throughout the year to beat inflation, creating significant distress in single family starts. This, coupled with the appropriations delay of the initial IIJA to start the year, resulted in further uncertainty and delays at the state and local levels.

In addition to these challenges, continued supply chain woes have contributed to projects taking longer than normal to break ground. There have been improvements in education, healthcare and environmental project timelines, but the life cycle for office and hotel projects continues to elongate. Regardless of the label, the economy is on track to significantly slow, unemployment rates will increase, and for parts of the construction sector, it will feel like a recession.

## Highlights of 2022

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There is, however, good news that the industry can rally around. The CHIPS and Science Act and the IRA, both passed this year, will provide a significant boost to manufacturing and renewable construction for several years. Combined with the IIJA funds approved in 2021, these investments may power the entire sector.

As IIJA funds trickled down to the project level, there was a significant uptick in construction starts in Q3 2022. This provided an early look at how the rollout of these types of investments are likely to impact construction in 2023. Despite challenges with rising materials costs stemming as far back as 2020, recent data suggests material price inflation is easing, and this has the potential to flow through to bid prices in the new year.

2022 was a peak year for warehouses construction and market moves by a major company will show an impact on this sector moving forward. Construction tied to emerging segments however appear to have a brighter economic outlook in the near term, and top year-to-date commercial projects through September of 2022 have reflected that the construction of data centers is leading the charge.

## Standout Verticals

The manufacturing vertical received a significant boost thanks to new chip, electric vehicle and additional manufacturing plant construction. Manufacturing is slated to nearly triple this year in dollar value as a result. Square footage for manufacturing is on track to reach the highest level of activity in 24 years. Funding from the CHIPS and Science Act, as well as the IRA, will provide the legs for this development to continue over the next decade.

Multifamily construction represents another stand out vertical in 2022, largely due to rising interest rates burdening the single family market. This marks an abrupt shift from 2021 when single family housing starts showed remarkable resilience during the pandemic, fueled by historically low mortgage rates. As prices lowered demand for single family starts in 2022, the demand for multifamily buildings rose significantly. As a result multifamily starts have exceeded expectations — activity has been strongest in urban areas after two years of pandemic related declines. Due to these factors, multifamily starts have reached the highest levels recorded since the mid 1980s.

## The Leading Priorities of 2022

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One of the upsides of a challenging economic environment is the way it tends to act as an impetus for innovation. There has been no shortage of that throughout 2022. Efforts to drive efficiency are joining priorities to transform the construction industry into a proactive and innovative sector focused not only on efficiency, safety and growth, but also sustainability. Our research findings discovered construction owners as catalysts for change in both technology and sustainability. Growing technological sophistication and the influence of factors like ESG commitments are pushing owners to the forefront of sustainability and helping to drive the industry's technology forward.

Sustainability has been a major theme and priority for the construction industry during 2022 as concern over the need to act more quickly to deal with climate change increases. For the building sector, this has two main elements:

The first relates to finding strategies to see a bigger and more immediate impact on reducing the carbon footprint of the building sector, with an emphasis on embodied carbon and electrification of energy sources.

The second stems from increasing recognition that climate change is happening now and embracing resilience as a necessity that warrants an ongoing approach. Civil contractors in particular regarded investments in this area in the infrastructure bill to be inadequate, a surprising finding from recent research from the *Civil Quarterly*.

## Looking Ahead

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At Dodge's 84th annual OUTLOOK event, Chief Economist Richard Branch shared key insights to paint a picture of the 2023 economic landscape. As slowing economic growth and concerns about the length of the current economic downturn impact business decision makers in the space, U.S. construction starts may remain unchanged in 2023 at \$1.08 trillion. Although the U.S economy is anticipated to avoid a technical recession, many areas of the construction sector can expect to feel elements of a recession.

As we close out the year, a complete picture of the economic data gathered through the DMI and Construction Starts – available in January 2023 – will enable us to reflect on the full picture of the construction economy of 2022, though it is unlikely that the final months will provide a significant shift in the current economic trends.

As the construction sector braces for an economic downturn heading into the new year, the industry is tasked with managing increased lead times and increasing costs from material prices to labor and these challenges are sure to place pressure on profit margins.

Fortunately, many owners, developers and contractors are beginning to rethink their workforce strategies, focus on innovation, and invest in technology designed to drive efficiency and productivity to navigate the challenging climate ahead.

Construction is at a pivotal moment surrounded with opportunities to innovate and reimagine its trajectory with new practices that impact the bottom line and contribute to positive societal changes. Despite the clouds on the horizon, the future of construction remains bright.