



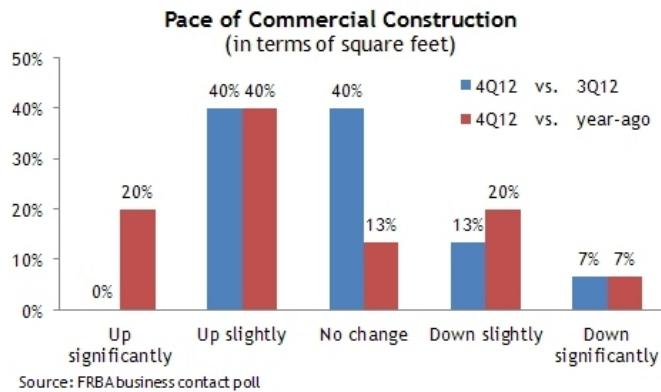
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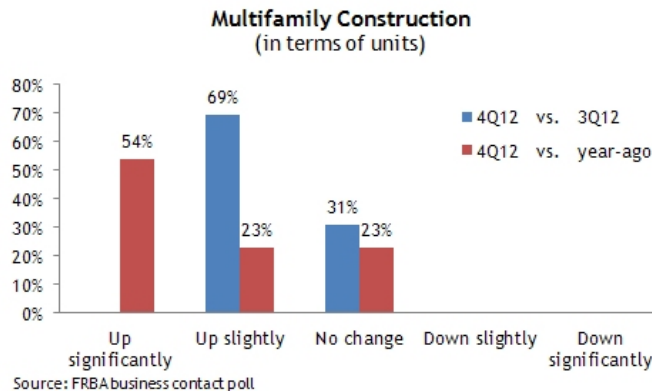
Southeast Commercial Construction Activity Continues to Gain Traction Slowly

Reports from District commercial contractors indicated that the pace of nonresidential construction activity improved modestly from the third to fourth quarter 2012 and was also ahead of the year-earlier level. Some contacts indicated that, despite a noticeable improvement, the overall level of construction activity was still low.



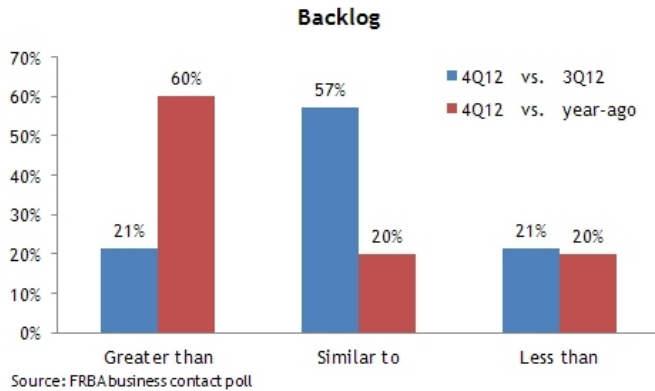
Several contacts noted that construction activity on data centers, high-tech and specialty office buildings, and higher education buildings had increased but that retail construction was still rather limited.

Contractors continued to report that apartment development was particularly strong. More than three-quarters noted that they saw more multifamily construction activity in the fourth quarter of 2012 than one year earlier, and nearly three-quarters noted that multifamily construction activity had increased modestly since the third quarter of 2012.

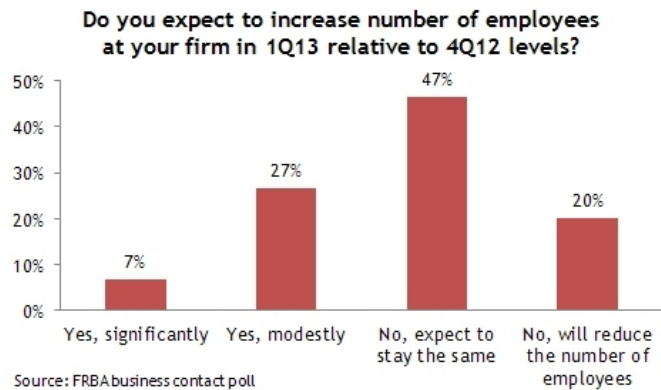


Interestingly, several business contacts noted that fewer specialty contractors are around and that margins for surviving subcontractors have been restored to prerecession levels after they've weathered several lean years. Given this development, contractors do not expect there to be much upward movement in margins going forward.

The pipeline for commercial construction at the end of the fourth quarter was greater than the year-earlier level, by most accounts. One contact's firm had a 20 percent higher backlog of work going into 2013 than it did going into 2012.

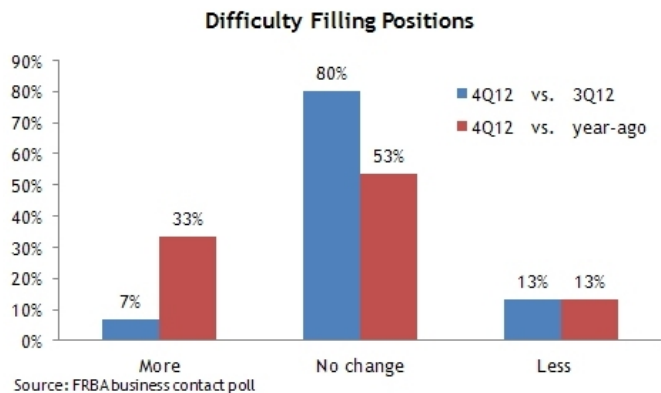


Several contacts noted that they have enough backlog to justify developing additional management teams, though nearly half of the business contacts polled indicated that they did not expect to increase their number of employees between the fourth quarter of 2012 and the first quarter of 2013.



Though one-third of all contacts indicated that they plan to increase hiring over the next three months, many definitely noted that some positions will be easier to fill than others. Several contacts pointed out that construction management skills are in short supply and that competition for these skilled laborers has driven up entry-level offers. One reason cited for this particular shortage is that academic institutions have not been turning out as many grads from construction programs. Outside of construction management, several contractors noted that some crafts are in short supply of laborers. Beyond these constraints, general construction labor remains quite plentiful.

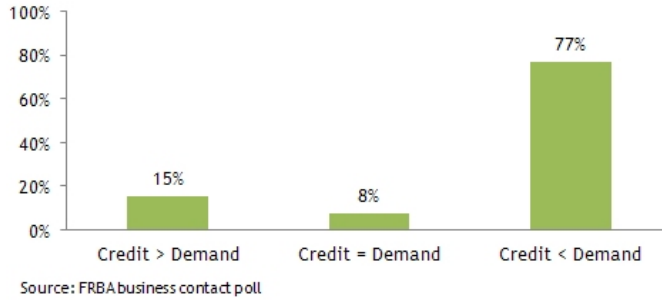
With that said, the majority of contacts noted that they have seen no change in the difficulty of filling positions.



Most contacts said that commercial construction development finance fell short of demand, though comments ran the spectrum.

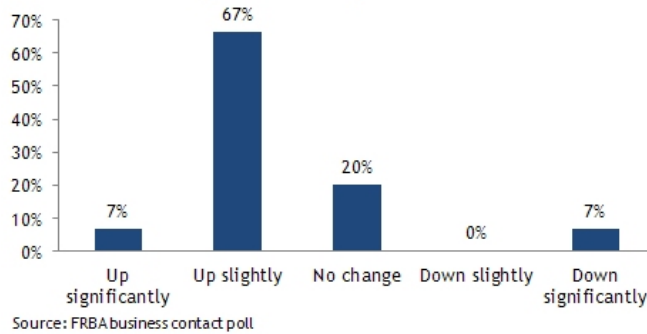
- A handful of contacts noted that accessing capital is not a problem for them because they fund projects with idle cash. The only reason they would seek financing for a project, they explained, would be as a strategic play to take advantage of cheap long-term debt.
- One contact indicated that its clients still prefer to avoid debt, but noted that banks have recently shown more of an appetite to finance construction projects.
- Another contact noted that access to capital was still very tight for most of the industry. The contact explained that construction management and contractors generally fall into one of two groups of firms. The first group survived the recession and remained current on their obligations. The banks are willing to lend to this group, but the group does not have any substantial need. The second group is just getting by and is anxious for cash flow. This group will not be able to secure a loan for the foreseeable future.

How available do you perceive commercial construction development finance to be in your market?



The outlook for 2013 remained positive, as most contacts expected commercial construction activity to be slightly ahead of 2012 levels.

What are your expectations for construction activity in 2013 compared with 2012?



Overall, business contacts continued to anticipate modest but slow improvements in District commercial real estate markets during 2013.



By Jessica Dill

and



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