



## SouthPoint

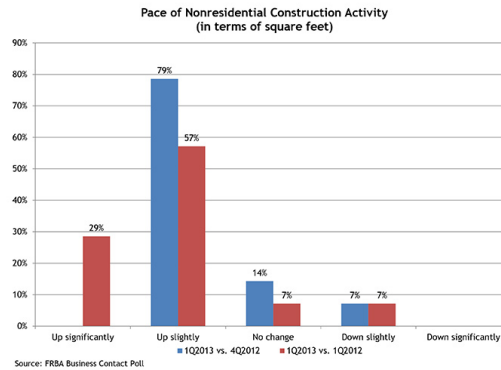
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04/04/2013

### Commercial Real Estate Gains Traction

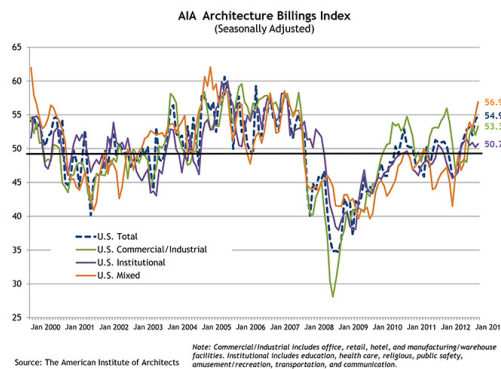
The commercial construction market is warming up, according to participants in our latest commercial construction business contact poll and recent conversations with REIN ([Regional Economic Information Network](#)) business contacts in this sector. Our commercial construction poll surveys southeastern builders and lenders on a quarterly basis to keep us informed on changing conditions relating to activity, backlog, labor and material costs, hiring, availability of capital, and future expectations. In this *SouthPoint* post, we're highlighting the poll results and comments from conversations with other business contacts that I found to be most telling.

Survey participants indicated that nonresidential construction activity, measured in square feet, is up slightly on both a quarter-over-quarter and a year-over-year basis (see the chart).



[\(enlarge\)](#)

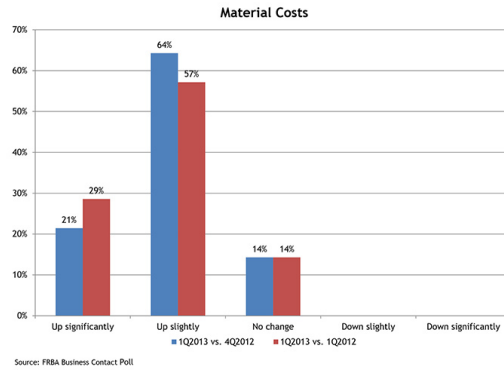
To elaborate on that observation, conversations with business contacts revealed that shelved plans are now being revisited, confidence is improving, and some degree of pent-up demand is being released. This renewed interest in commercial construction is reflected in the American Institute of Architects' architecture billings index, which many analysts view as a leading indicator of future nonresidential construction activity. All categories—total, commercial/industrial, institutional, and mixed—have index scores above 50, signaling an increase in billings now and likely an increase in construction activity six months from now (see the chart).



[\(enlarge\)](#)

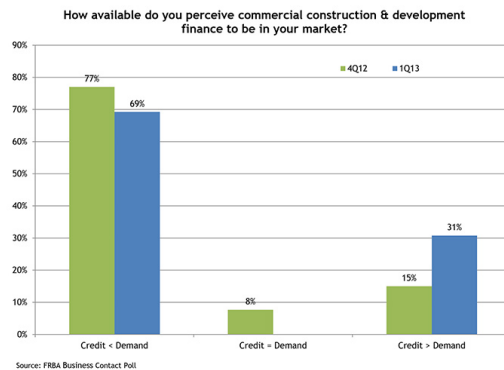
Interestingly, conversations with several business contacts indicated that margins on recent bids have been extremely narrow. They suggested that this narrowness is driven, at least in part, by increased competition and fee compression. Several noted that they expect margins to increase as construction activity picks up.

Most survey participants indicated that there has been a slight increase in construction material costs, a finding that was supported by conversations with business contacts (see the chart).



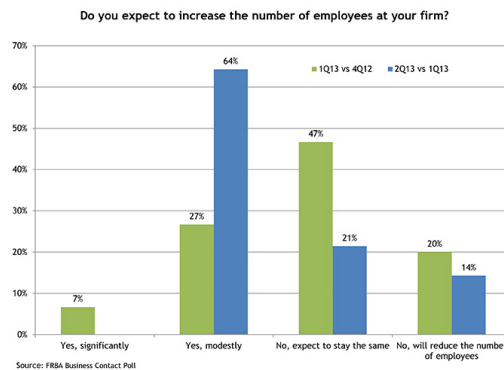
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The majority of survey participants indicated that the amount of available credit fell short of demand, though more participants indicated that the amount of available credit exceeded demand than did so in our previous poll (see the chart). A handful of comments, both in the survey and from discussions with business contacts, stressed that financing is available for the right type of projects that bring the appropriate amount of equity to the table and have sponsors with proven track records. Conversations with business contacts also revealed that private equity is returning to the market and serves as an alternate source of capital.



[\(enlarge\)](#)

Commercial contractors expressed a willingness to add modestly to their employment levels over the next several months, a willingness that was not present at the end of last year, the survey revealed (see the chart). Conversations with business contacts echoed this sentiment. While some still have some propensity to move talent around the company or maximize efficiencies with technology (or both), more business contacts have begun to indicate that it now makes sense to add new employees.



[\(enlarge\)](#)

Overall, our survey and conversations with business contacts showed that 2013 is off to a solid start, and commercial real estate markets should continue to improve as the year progresses.



By Jessica Dill, a senior economic research analyst in the Atlanta Fed's research department

April 4, 2013 in [Construction, Economic Growth and Development, Employment, Housing, Real Estate, Southeast](#) | [Permalink](#)

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