Shopping Centers

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A Noisy Expansion

Tech Leads the Way

When Amazon announced that it was searching for a second headquarters, 238 communities across the continent scrambled to put together expansive applications. As of this writing, 20 finalists remain in the race, with a number offering billions of dollars in subsidies to a company founded by the world's wealthiest individual. At stake is a $5 billion facility that will employ 50,000 people, will substantially expand a region's local tax base, and position a community for leadership in global e-commerce. Among the finalists are predictable cities like Boston and Atlanta and arguably less obvious choices such as Indianapolis and Columbus, OH.

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But Amazon represents only one of a number of blockbuster real estate deals involving America's tech giants. Google, Facebook, Apple, and other tech giants are also pursing physical expansions, and while the pace of tech-related construction is unprecedented, the sector and its specialized physical needs have produced disproportionate levels of construction investment for over a decade.

More than Tech

The ongoing strength of the tech sector is becoming increasingly important. That's because for certain other segments of the economy are facing growing headwinds. There are few segments for which this is truer that for housing. With prices rising in the wake of shrinking for-sale inventory and with mortgage rates also edging higher, Americans are facing the worst housing affordability in about a decade.

Meanwhile, builders are wrestling with higher materials prices, including softwood lumber, the price of which expanded 20 percent over a recent 12-month period. Then there's the consumer, who has been stung in recent months by rising inflationary pressures. Should consumers respond by ramping down expenditures, growth in future quarters is unlikely to resemble anything like the 4.2 percent annualized GDP growth performance of the second quarter.

If We Could Only Turn Down the Volume

Like a good movie, it's tough to enjoy a healthy economy when the environment is noisy. For months, economists, business owners, and others have been unnerved by expanding skills shortages and the implications of those shortages for productivity, inflation, and interest rates. Then came the specter of tariffs, retaliatory tariffs, and fears of full-blown trade wars. Even more recently, there are growing concerns regarding the state of emerging markets like Turkey and Argentina.

Given this rising set of obstacles as well as the fact that many observers are concerned about what appear to be bubbly asset prices, many economists have begun to predict the onset of the next recession in 2020 or 2021. That said, there is little indication of recession presently.

Looking Ahead – It Won't Get Quieter

According to Census Bureau data, nonresidential construction spending expanded 4.2 percent from over a recent 12-month period. That isn't nearly what one might expect given the general performance of the U.S. economy. Many factors have served to constrain construction spending growth, including a lack of available workers and growing concerns regarding over-valued and over-built real estate markets in certain parts of the country.

Still, the near-term outlook remains quite positive. Business confidence is elevated and plentiful liquidity is flowing through the global banking system. These factors among others should keep contractors busy as we approach and enter 2019.

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