



Commercial Real Estate’s Positive Economic Contributions Despite Spending Decline

Study: Commercial Real Estate Development and Construction annually contribute \$231 billion to GDP; down from 2007 contribution of \$549 billion

January 17, 2012, Washington, D.C. – Commercial real estate development and construction is a perpetual and valuable economic engine, with spending and directly related outlays generating a significant financial impact despite slowed growth and the nation’s economic strain, says a new report issued by the NAIOP Research Foundation.

The compounded economic impact of commercial development and construction spending reached \$231.7 billion in 2010:

- \$120.2 billion in hard costs (actual construction costs)
- \$111.5 billion in soft costs (architecture, engineering, marketing, legal, management), site development and tenant improvements
- \$1.86 billion in building operations (maintenance, repair, custodial services, utilities and management)

Total construction spending fell in 2010 for a fourth consecutive year, reflecting both the length and depth of the economic contraction of the national economy. Construction hard costs took the biggest hit, with spending for office, industrial, warehouse and retail totaling \$41.7 billion – down 53.2 percent from 2007. A total of 228.4 million square feet of building space was added to the inventory – a decrease of 72.8 percent compared to 2007.

Commercial construction spending, employment and personal earnings in a 2010 vs. 2007 (the peak) comparison:

	2010	2007
Commercial Construction Spending Totals (includes direct spending and related economic impacts)	\$231.7 billion	\$548.7 billion
Employment Totals	1.76 million jobs	4.89 million jobs
Personal Earnings Totals	\$70.1 billion	\$170.1 billion

Report data shows that building (both commercial and residential) and non-building (roads, bridges, etc.) construction spending in 2010 totaled \$803.6 billion and accounted for 5.5 percent of the Gross Domestic Product (GDP), well off its high in 2007 when spending totaled \$1.16 trillion and accounted directly for 8.5 percent of the GDP.

“This decline in construction spending has resulted in a noticeable effect on the nation’s economy, and it has negatively impacted the ability for some communities to emerge from the recession,” said Thomas J. Bisacquino, NAIOP president and CEO. “A healthy real estate economy is vital to a prosperous U.S.”

economy, and the report shows that the national economy will remain muted until commercial and residential construction and development return to normal levels. It's critical that lawmakers develop economic policies that will strengthen the economy and create jobs."

The data and analysis are detailed in *"The Contribution of Office, Industrial and Retail Development and Construction to the U.S. Economy"* a report authored by Dr. Stephen S. Fuller, director of the Center for Regional Analysis at George Mason University, and funded by the NAIOP Research Foundation.

Industry Prepared for Employment Growth

Commercial development is on the leading edge of the eventual economic upturn and will be prepared to meet companies' expansion needs as employment grows. Using standard jobs-per-square foot estimates, the new space developed in 2010 has the capacity to house 559,200 jobs with an annual payroll of \$23.5 billion.

The potential productive value of this new building space represents a significant annual contribution to the local, state and national economies. In addition to the significant contribution to GDP and job and income growth nationwide that constructing 228.4 million square feet of new building space represents, these buildings continue to provide economic benefits to their economies after construction is completed. These economic impacts include outlays required to maintain and operate these buildings and the value of the work done in them.

- The operating outlays associated with the office, warehouse and retail space built in 2010 are estimated to total \$731.8 million annually.
- This direct spending for building operations adds 1.86 billion to GDP, supports 13,114 new jobs and generates \$543.8 million in new personal earnings.
- These operating outlays are annual and recur yearly over the life span of the building.

State Rankings

The 10 states with the largest construction values (hard costs only) accounted for 56.1 percent of the construction outlays in the United States, while the top 20 states accounted for 79.4 percent. The most populous states and those with the largest or best performing economies tended to rank highest by value of construction outlays, although there were variations depending on building type.

Top 10 States by Construction Value, 2010

Ranking	Office	Industrial	Warehouse	Retail	All Categories
1	New York	Texas	Texas	Texas	New York
2	California	Georgia	Illinois	Florida	Texas
3	Washington, D.C.	Missouri	Florida	California	California
4	Texas	Ohio	Ohio	New York	Florida
5	North Carolina	Michigan	California	Pennsylvania	Georgia
6	Oregon	New York	New York	Illinois	Ohio
7	Florida	Pennsylvania	Indiana	Georgia	North Carolina
8	Maryland	Tennessee	North Carolina	Ohio	Missouri
9	Missouri	Louisiana	Utah	Virginia	Pennsylvania
10	Washington State	Minnesota	Louisiana	North Carolina	Illinois

Sources: McGraw-Hill Construction Analytics, GMU Center for Regional Analysis

About the Report

This report enables the commercial real estate industry to quantify the numbers that demonstrate its considerable and sustained contribution to the U.S. economy. With this data, public, state and local governments can learn the ways that commercial development makes a positive and lasting contribution to their communities, including:

- Supporting the creation of jobs;
- Generating personal earnings, and;
- Promoting new spending activity across the breadth of the economy.

The report was produced using data provided by the Bureau of Economic Analysis, U.S. Department of Commerce, U.S. Census Bureau, McGraw Hill Construction and a NAIOP member survey. The NAIOP Research Foundation published three previous editions of this report in 2006, 2008 and 2009.

To access a copy of the report, please contact Kathryn Hamilton, NAIOP vice president for marketing and communications, at (703) 904-7100 or hamilton@naiop.org.

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*** Note to Editors: Please note that the official/legal name of the association is NAIOP.**

If additional information is needed, the association can be called **NAIOP, the Commercial Real Estate Development Association**. The former name (National Association of Industrial and Office Properties) is no longer accurate and was changed in January 2009. For further details, please see the NAIOP press room: <http://www.naiop.org/naiop>

About the NAIOP Research Foundation: The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide these individuals and organizations with the highest level of research information on how real properties, especially office, industrial, retail and mixed-use properties, impact and benefit communities throughout North America. For more information on how to contribute or for complimentary research reports, visit www.naiopr.org.

About NAIOP: NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAIOP comprises 15,000 members in North America. NAIOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit www.naiop.org.

MEDIA CONTACT:

Kathryn Hamilton
(703) 904-7100, ext. 165
hamilton@naiop.org