

# APARTMENT ADVISORY

JUNE 2019

Apartment construction has trended upward since the cycle began in 2010, but developers aren't just building more of the same product. Rather than building in the remote suburban sprawl, builders have shifted focus toward taller, urbanized, infill locations with higher density. This is not only changing the product mix in the market, but also significantly lengthening construction time lines.

Additionally, that 2018 average time to complete was up three months from 2017.

Why is construction taking longer? Several reasons. One is that new product is becoming taller and denser than in years past.

## Shifting Product Mix

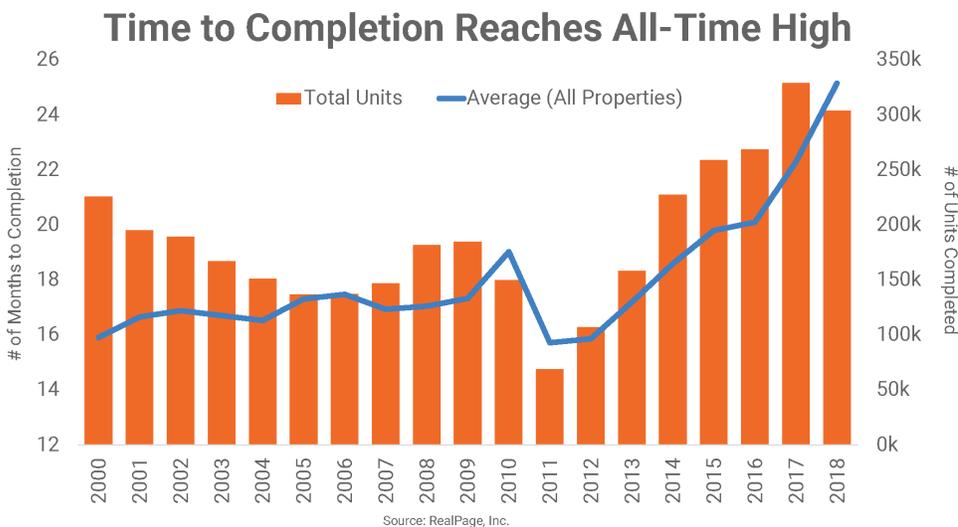
Prerecession, about three out of every four new apartments built was a low-rise property of three

and high-rise product has grown dramatically over the cycle. About 45% of the nearly 350,000 units set to complete this year are between four and six stories tall. Another 25% are high-rises of seven or more stories.

This shift is significant because as projects get taller, their construction time lines lengthen. Low-rise properties see the quickest turnaround - 23 months in 2018. Mid-rise product took 25 months to complete in 2018, on average, while high-rise properties approached 30 months. Having significantly more mid- and high-rise product under construction than low-rise product with a quicker turnaround increases the average time to complete overall.

But shifting composition of new product is not the only reason that the nation's average construction time line is growing. Breaking out construction time lines by low-rise, mid-rise and high-rise property types reveals all types of properties are taking longer than ever to build.

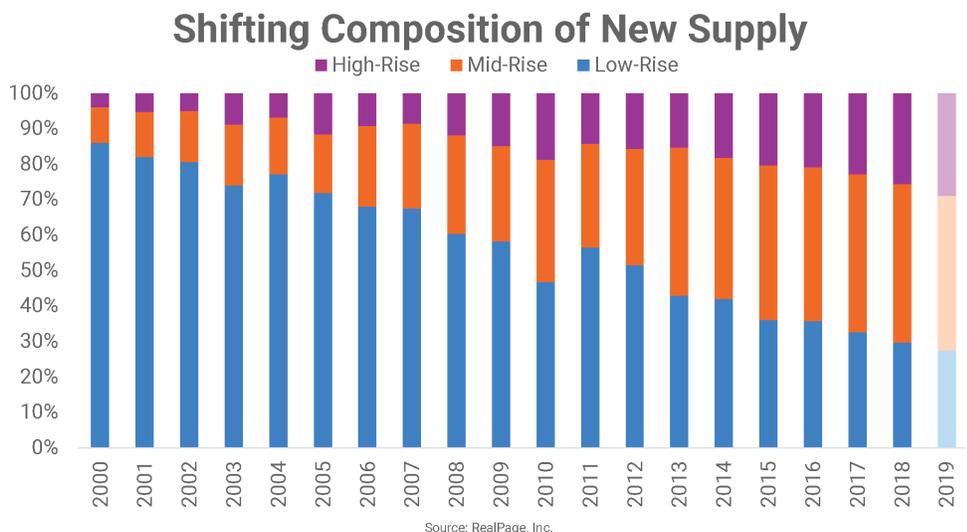
Prerecession, low-rise properties took about 16 months to complete, on average, while mid-rises took about 19 months. Their high-rise counterparts took longer at 21 months, but were still relatively



Since the current cycle began, apartment construction has been taking longer and longer each year. In 2018, the average time between a project breaking ground and completing was longer than at any point we've seen in history. And perhaps even more staggering than record-long completion times is just how exaggerated the construction time line has become since before the recession.

Completion times between 2000 and 2009 were remarkably stable. On average, properties were completing in about 17 months during those 10 years. By 2018, however, construction was taking about 25 months to complete for all property types - up seven months from 2010, the onset of the current cycle.

or fewer floors. Today, only about 30% of product scheduled to deliver in 2019 in the 150 largest U.S. apartment markets is low-rise. Conversely, the share of mid-rise



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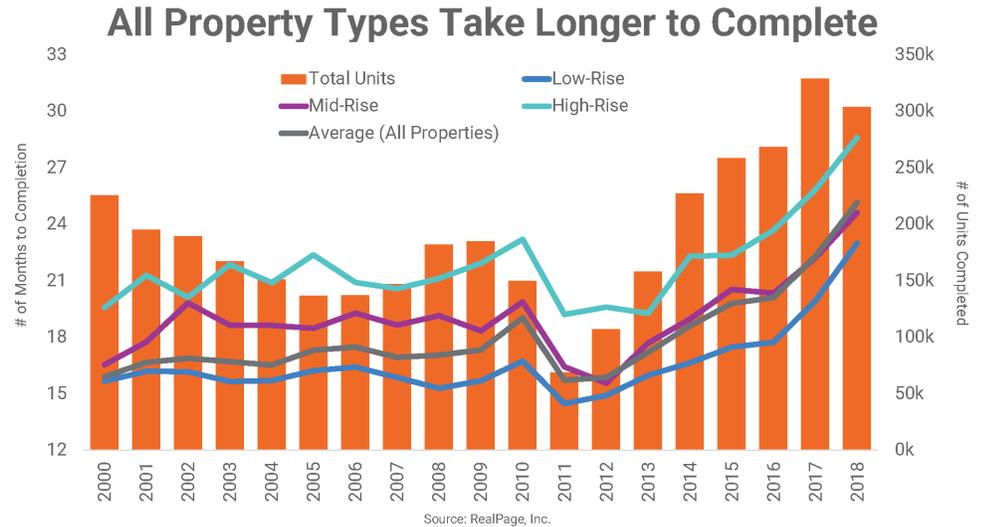
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modest completion times by today's standards. Construction time lines now are seven months longer for low-rises, six months longer for mid-rises and 10 months longer in high-rises.

## Skilled Labor Shortages

Lengthening construction time lines across product types indicates that there are other reasons why construction time lines overall are getting longer, other than simply a shifting product mix. One such reason is a shortage of skilled labor. Indeed, the number of construction workers is still shy of its prerecession peak, according to the Bureau of Labor Statistics (BLS). In fact, laborers who are involved in the construction of buildings and specialty trade contractors such as plumbers and electricians are both down from their prerecession peak levels by 11% and 6%, respectively.

Total construction employment at the prerecession peak (roughly 7.7 million in 2006) surpasses the total construction labor force in 2018 by roughly 5%, or 400,000 workers. In short, there just aren't as many people in the construction labor pool - and especially in the two



Average Months to Complete	Low-Rise	Mid-Rise	High-Rise
Prerecession Avg.	16	19	21
2018	23	25	31

subsectors tied most closely to housing construction.

It is true that the overall construction industry's 2006 number is perhaps a bit inflated considering the prerecession bulge in single-family home deliveries. That year, nearly 1.4 million new single-family homes were built, compared to just over 800,000 in 2017, the latest year for

which data is available from the U.S. Census Bureau.

In contrast, the total number of apartments under construction at the end of 2018 (415,000) was nearly two and a half times higher than the roughly 175,000 in 2006. As of May 2019, more than 425,000 apartment units were underway.

Labor shortages are unlikely to ease soon. Though most construction firms plan to add staff in 2019, the vast majority are worried about finding available workers to fill those positions, according to recent survey from the Associated General Contractors of America. Demographic and economic trends are stifling employment growth in the industry, the survey says, as the existing workforce ages and few young people choose to enter the field. In turn, labor shortages have driven up construction costs, as companies raise salaries and increase spending on training and education to compete for available workers.

## Composition of Construction Labor



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