For the second year in a row, the commercial market bumped along, not gaining and not losing ground, even though the economy has improved and the fundamentals are more sound, at least for now. Overall, commercial flooring business was up an estimated 2.0% to $5.87 billion, according to Market Insights LLC.

Some market sectors have been strong and dynamic, while others have been sluggish and quiet. Cycles of demand, funding challenges, employment numbers, various trends in interior space design and the aging population have all impacted the different sectors in various ways.

This year is poised to be stronger than 2013, but it’s not expected to be a year of significant growth. The Architectural Billings Index, which is a fairly good indicator of what to expect nine months to a year from now, has been mixed so far this year, with readings above 50 for January and February followed by readings below 50 in March and April. However, design contracts jumped up in April.

Reed Construction Data, which tracks private, public and civil construction projects, paints a somewhat more optimistic picture. Following minimal growth last year (0.1% growth in non-residential buildings), Reed anticipates moderate growth this year and next, though at a slower rate than the residential market. State and local non-residential spending was down 1.5% last year; while federal non-residential spending was down 14.4%—and that’s the second year in a row that federal spending is down by double digits.

Economic conditions in the U.S. feel measurably more stable than they have in several years. Since the dotcom bubble burst at the turn of the century, the economy has been out of balance. It plunged for a couple of years, then rebounded straight into several years of reckless optimism, leading to a longer, deeper fall. Though the last couple of years have been somewhat subpar, a fundamental stability has redeveloped for the time being. But stability is a relative thing, as are “good” economic conditions—after all, everything from energy to the environment seems increasingly unpredictable. Nevertheless, the housing market is steadily improving and, if history is any guide, the commercial market will follow.

Energy is an increasingly volatile business, and experts anticipate even more volatility in the years ahead. However, the last year or so has been fairly quiet in terms of energy prices as well as prices for many critical polymers. The domestic extraction of shale oil and gas has played a role in keeping the market competitive, and its impact on manufacturing operating costs has been cited by some as a key motivation behind the wave of domestic manufacturing. But demand for energy is still rising at an alarming rate, particularly in Asia, as is demand for polymers derived from hydrocarbons like petroleum and natural gas. Refining capacities also directly impact the pricing of synthetic materials, driving prices up and down as bottlenecks come and go.

FLOORING CATEGORY UPDATE

The commercial market was up a couple of points last year, with similar low single-digit growth for the main categories—carpet, resilient and ceramic tile. The insignificant changes in marketshare between the flooring categories makes things seem a lot less dynamic than they are, because the action is within the categories. In the resilient category, for instance, LVT is taking share from VCT. And in carpet, broadloom is steadily losing share to carpet tile.

Carpet’s marketshare of commercial flooring is bigger than its residential marketshare. Overall, carpet commands a 44% share of the flooring market, with 68% share commercially and a 35%
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residentially. Residential carpet is almost entirely broadloom, but in the commercial sector carpet tile has taken over the market, it’s the soft surface of choice in almost every commercial segment.

Carpet tile has essentially taken the mid-market position and relegated broadloom to the higher and lower price points. The distinction is more clear at the lower end, where carpet tile’s lowest price points bump up against a swath of broadloom that still has a market in tenant improvement, mainstreet commercial and, most significantly, the guest room side of hospitality.

At the higher end of the market, the issue is not so much price as it is design and construction. In the public space side of hospitality, the large-scale designs of Axminster carpets, carpets using CYP (computer yarn placement) technology and even printed broadloom cannot be attained with carpet tile. In boardrooms and executive suites, broadloom at its most luxe with dense nylon or wool pile has a look and feel that is out of carpet tile’s reach.

However, the modularity of carpet tile resonates with the modern aesthetic and the digital, cellular, mutable framework of 21st century society. So a lot of those spaces that used to demand a more continuous, analog look are experimenting with new ideas, functional designs and flexible installations. It’s starting to happen in smaller boutique hotels. But in many of the executive boardrooms, those seats of power, tradition and luxury play a more fundamental role, and it’s in these sorts of applications that niche broadloom players may well find a safe haven from the encroachment of carpet tile.

All of the big mills participate in higher end broadloom, but these same mills have shifted much of their business to carpet tile in the last decade and that’s where they’re making their gains. And in terms of broadloom, they have the economies of scale to compete effectively with value-priced goods. But it helps shore up their brand identity to get their broadloom in those high-end applications, so they’re reluctant to abandon that market—even though it’s a shrinking piece of the pie that requires a lot of care and detail in order to compete effectively.

The only large mill that doesn’t participate at the lower end is The Dixie Group, whose commercial operations include Masland Contract, which focuses on the higher end of the market, and its recent acquisition, Atlas, which goes higher still. These are large businesses, with combined sales of about $130 million, and together they may end up with a leading position in the high-end broadloom market. Both mills still do more business in broadloom than carpet tile; in the case of Atlas, it’s heavily weighted toward broadloom. And both will undoubtedly grow their carpet tile programs, and target broader ranges of the market, but not necessarily at the expense of their broadloom programs.

The resilient category accounts for about 16% of total commercial flooring sales. Tile is bigger than sheet in the commercial market, accounting for over 72% of the category, and that’s LVT and VCT combined. Sheet goods are strongest in healthcare and education, with healthcare using a lot of homogeneous sheet in clinical settings. The growth of the healthcare market is helping keep the sheet category strong, because there are not a lot of products that can meet the performance requirements of, for instance, sterile applications.

LVT is making gains in every market sector. Its use in healthcare is growing—outside of sterile settings—and in just about every sector it’s replacing VCT in back office applications or
functional spaces like cafeterias, corridors and break rooms. LVT offers plenty of design appeal, but just as important is its maintenance profile, at least when competing against VCT. Luxury vinyl can be maintained with standard generic cleaners and its wearlayers are more durable. VCT on the other hand generally requires regular polishing and often sealing. A lot of product goes on the tiles to protect them and essentially keep them cleanable. LVT has higher vinyl content than VCT, which is about 85% limestone and binder.

The LVT industry is in the midst of a major expansion in domestic capacity, with several big players adding capacity or building new facilities. The key players are Mannington, Armstrong, Shaw, IVC US and Tarkett, and in the near future, Mohawk.

The other big commercial flooring category is ceramic tile, which accounts for 12.2% of the market. Much of the ceramic in the market is porcelain, which is made from finer materials into a stronger, less porous product—it doesn’t stain as easily and can tolerate greater extremes of moisture and temperature. The ceramic tile market has been very dynamic over the last few years, even as the European producers, which are the source for most design trends and technical innovations, took hard losses during the financial crisis and extended recession.

Though on a smaller scale than LVT, there’s also a wave of investment in domestic production in the ceramic tile industry. It includes new domestic producers like Del Conca, and expansions from existing players like Dal-Tile. And we’re hearing there’s more on the horizon. Imports are larger than domestic mill shipments, with lots of demand for high-end product from Italian and Spanish producers along with commodity tile mostly from China and Mexico.

Thin tiles, from 3mm to 6mm, are started to gain traction in the U.S. market, but it’s still mostly walls and cladding. The category is expected to grow, and firms like Crossville are taking the lead, but it will really gain steam when standards are developed for installation.

Hardwood and laminate are both niche products. Hardwood accounts for 2.3% of the commercial market and laminate adds another 1.2%. Hardwood is limited in terms of where it can be installed. It doesn’t perform well in high traffic areas in spaces with lots of spills. Laminate has similar problems with moisture. It handles scratches better than hardwood, but then again what does get scratched can’t be sanded out.

However, the look of hardwood is very much in demand. If specifiers decide to go faux, more often than not LVT is winning out over laminate—it can be specified in more places and it’s more durable. But there are some markets where wood can perform and where it is a traditional choice, like libraries, churches and museums. And acrylic impregnated woods can expand the range of hardwood toward higher performance environments.

COMMERCIAL SECTORS

The bulk of the commercial market is the corporate sector, from tenant improvement to owner-occupied spaces, and the sector was fairly flat last year. Most mills reported that the tenant improvement market is lagging behind. The corporate market seemed to be picking up steam in the second half of last year, but the impact of the harsh winter has at least for now made it hard to assess if it is strengthening. And that’s true for most of the commercial sectors; the winter was below expectations.

In general, projects are still leaning more heavily toward renovation over new construction than is typical in a robust market. One of the most active sectors is hospitality, and that mostly renovation projects. Hospitality business has continued to be strong into 2014.

In general, privately funded projects were stronger than those built with public funds. However, in terms of public funding, it’s not down everywhere. There are states and municipalities building schools and public projects. Most mills reported K-12 business was down, but some reported enough activity to register a little growth. Higher education, by contrast, was significantly stronger last year.

Healthcare slowed a bit but now appears to be picking up steam. The broad category, including acute care, medical office buildings and senior living, is in the midst of long-term, large-scale growth as a population larger than the entire United Kingdom moves into retirement in the next 20 years.

The acute care sector was sluggish last year, and many believe that much of this was due to all of the wrangling over the Affordable Care Act, that people took a wait-and-see attitude. And even after the political battle was over, there was confusion surrounding the implications of the new system. Manufacturers report that this year acute care business is coming back.

The senior living sector has been a bright spot for every kind of manufacturer, because the sector is a microcosm of society as a whole. The bigger senior living centers, like continuing care retirement communities, include every kind of residential and commercial sector—independent living, assisted living, retail and entertainment centers, sports and fitness, the corporate offices one would expect from large firms, hospitality décor in common spaces, residential styling in living quarters, nursing homes for the infirm with acute care products, and even education facilities. Every type of flooring goes into senior living.

The retail sector has started to improve, though not all of it. It looks like the higher end of retail, like the more upscale clothing stores, is where the activity is, and that’s also where the remodeling is occurring. The sector, which has been sluggish for years, is poised for more growth, assuming that there continues to be positive movement with employment and further stability in the U.S. and global economy.