

Market Outlook Construction Forum Summary

November 10, 2023

Presenters

- Richard Vermeulen, Senior Principal, Vermeulens
- Blair Tennant, Principal, Vermeulens
- Carter Jenkins, Central Operations Manager, Amherst

Market Update, Vermeulens

- plateau phases observed in the price levels of the NYSE signify a withdrawal of capital from the system, resulting in sustained upward movements in prices
- growth recessions experienced in 2010 contrast with the present growth recession in that, during the former period, there was no issue of price inflation; inflation remained below the target at that time
- presently, inflation exceeds the target and requires moderation. The duration of inflation surpassing the target is anticipated to be prolonged compared to the previous growth recession due to elevated price levels and PCE
- currently, prices are exhibiting stability and are anticipated to undergo a more gradual decline compared to the rapid descent witnessed at the onset of the pandemic
- Gross Domestic Product (GDP) data display two adverse quarters at the commencement of the pandemic and again in early 2022. These instances coincided with the initiation of interest rate hikes and capital outflows, contributing to a deceleration in the financial markets
- given the expanding workforce, a monthly addition of at least 100,000 jobs is imperative to sustain workforce growth. Although job creation remains positive, it is noteworthy that the rate of increase is currently diminishing
- the October employment report reveals an addition of 150,000 jobs, with sustained growth observed in the construction sector
- since the onset of the pandemic, construction has expanded by 5%, representing the highest level of construction activity in the country to date, albeit with regional variations
- AIA billings reveal a consecutive 12-month decline, with a significant downturn observed since July. The persistence of declining billings over a six-month period is indicative of a potential extended 12-month decline in construction activity

Residential Construction Market, Amherst

- limited activity in the new-build sector, attributed to the surge in home upgrades during the pandemic; consequently, there is no longer a substantial backlog of homes
- builders using margins to buy down interest rates for buyers
- labor pool is currently pursuing a diminished demand, and those with a sustained and consistent project workflow hold a strategic advantage in negotiations
- with the recent easing in labor conditions, there is an increased receptiveness among individuals to offer volume discounts, especially when committing to substantial future business transactions, coinciding with the declining trend in interest rates
- suppliers are receptive to exploring new opportunities and engaging in negotiations. It is possible to secure a commitment from them for ongoing maintenance business over the next couple of years, accompanied by a predetermined price and guaranteed availability
- prioritizing the cultivation of strong vendor partnerships is essential for establishing a pricing baseline during the bidding process and for effectively monitoring commodity trends



Construction Market Outlook Forum

Richard Vermeulen, Senior Principal

Blair Tennant, Principal

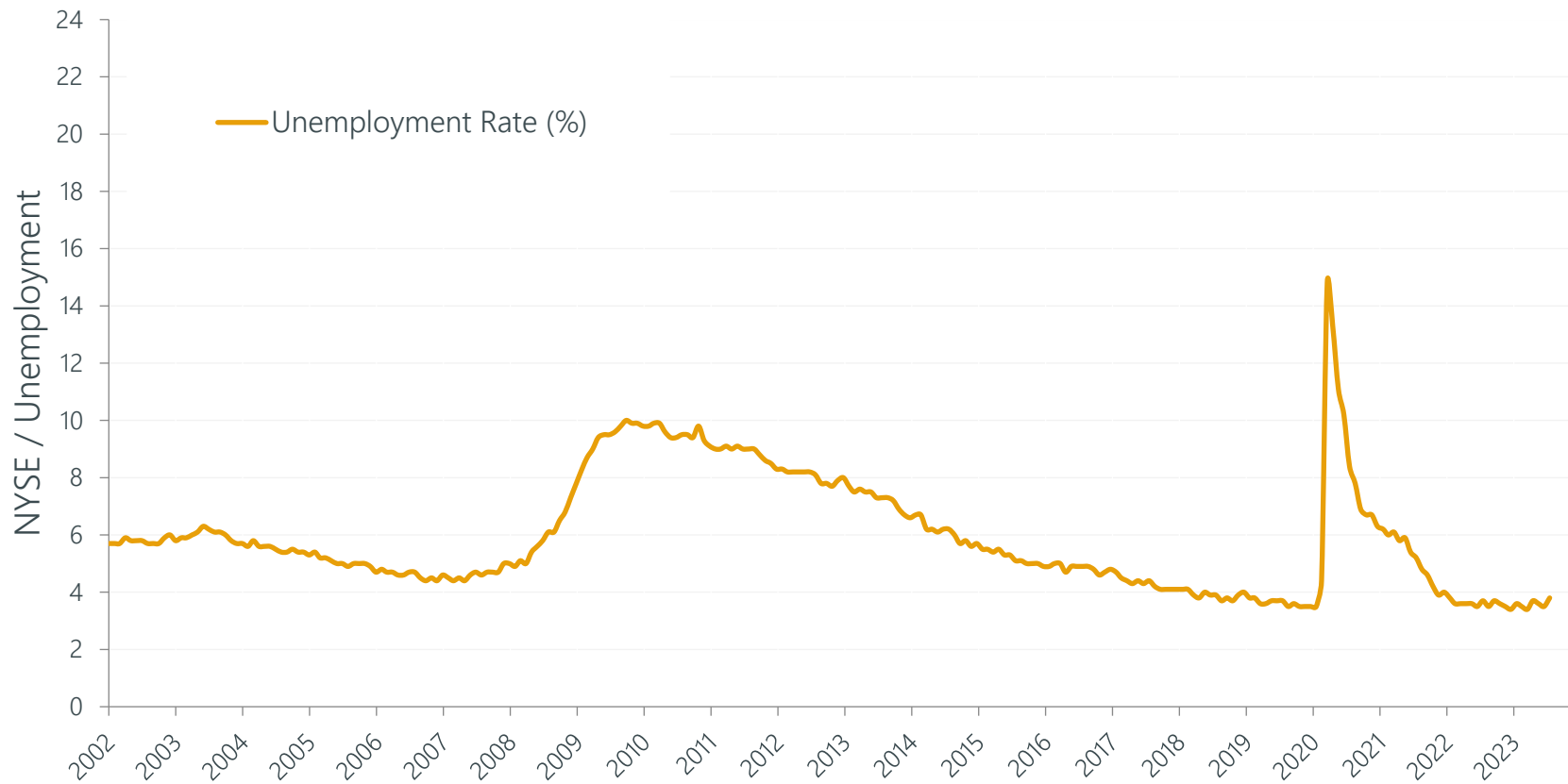
Carter Jenkins, Central Operations Manager, Amherst

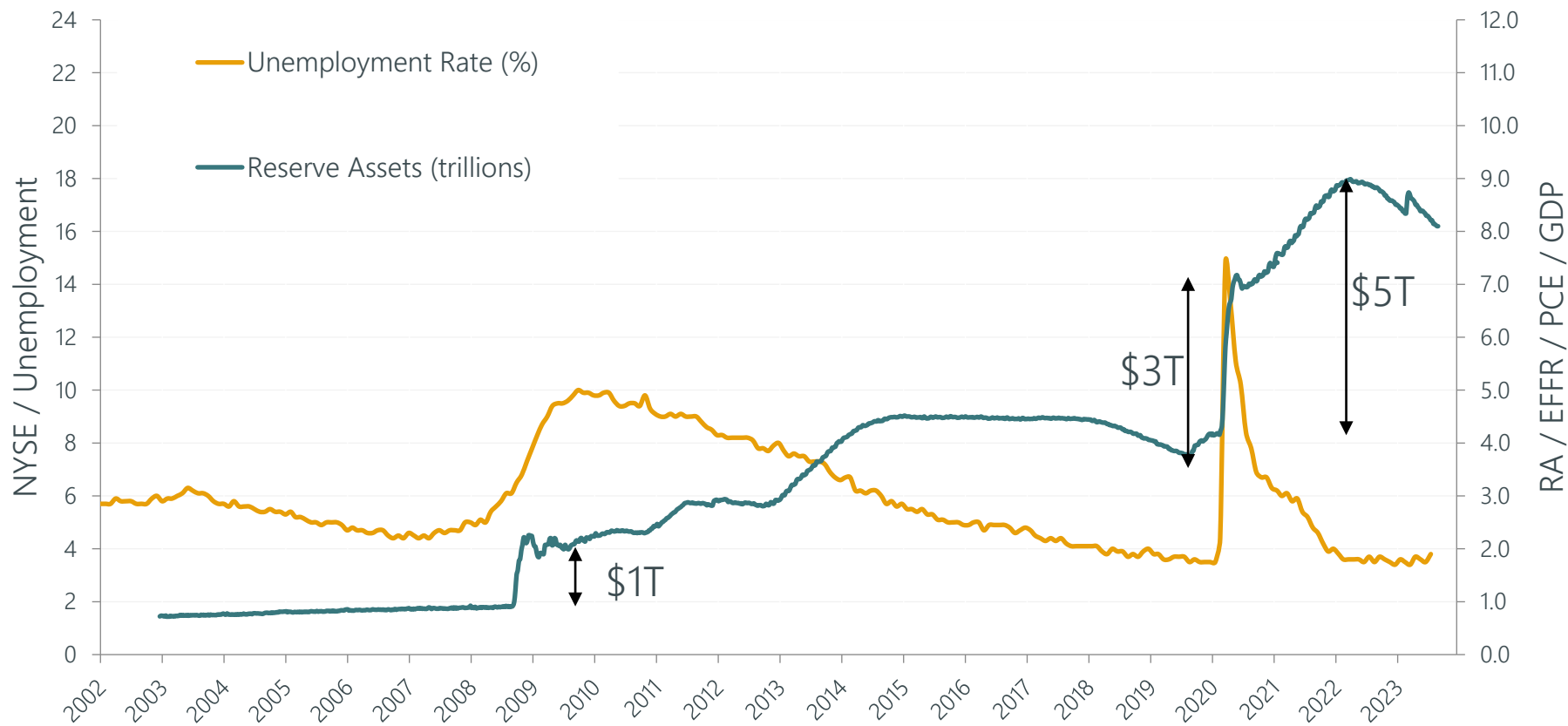
vermeulens.com

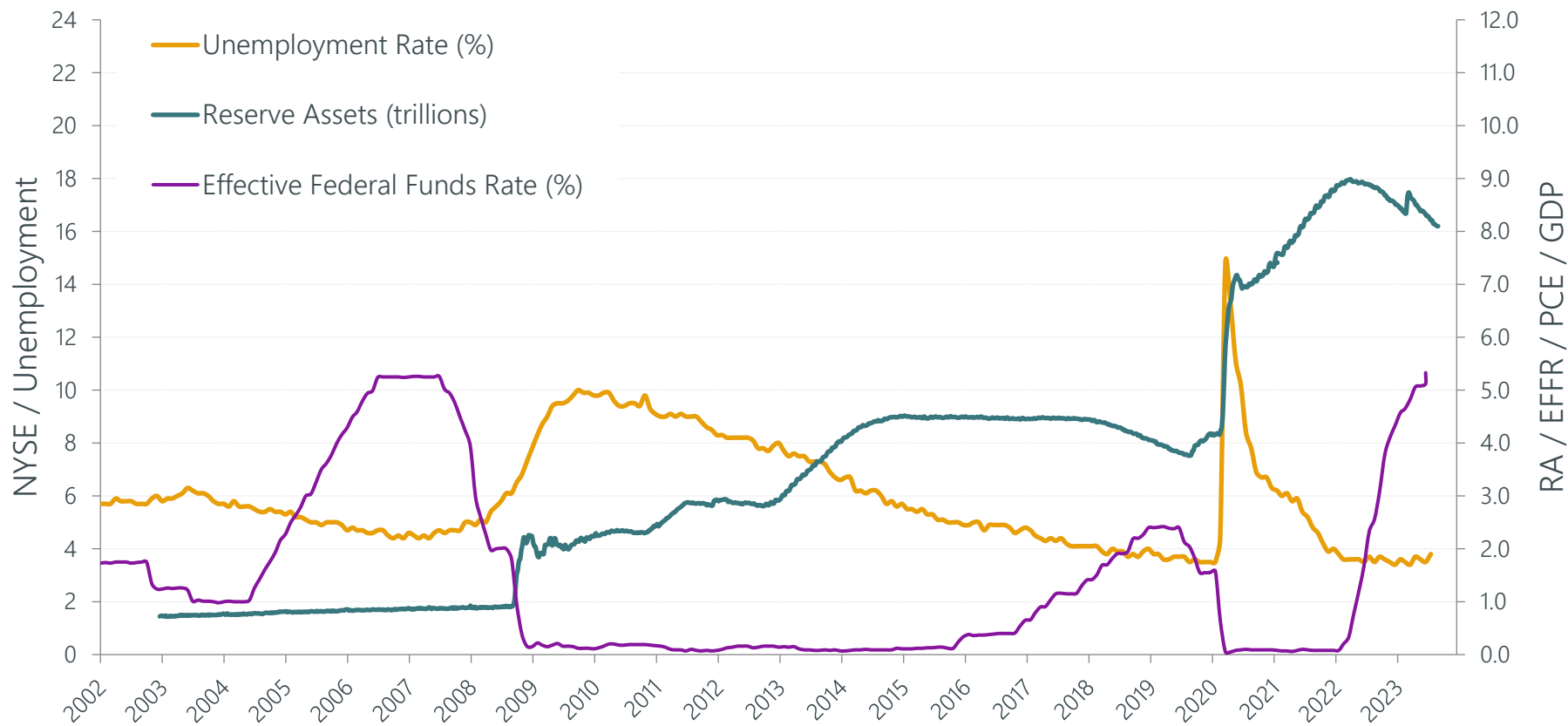
- interim questions and comments via chat
- slide deck, recording, summary: emailed and posted to vermeulens.com
- forums will follow quarter end
- 2023 Q4 will be February 2024

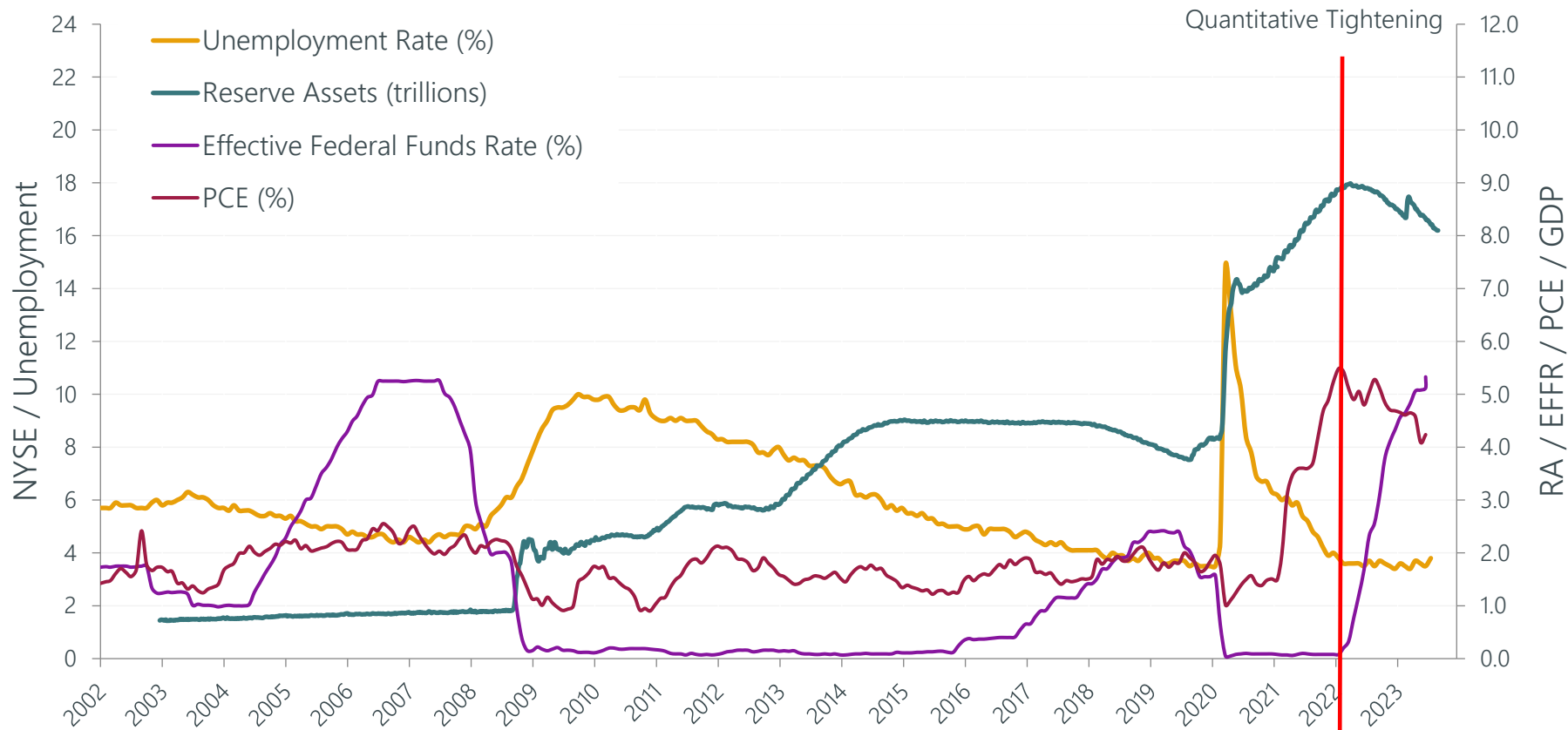
- ➔ Vermeulens' Market Outlook: Quarterly Report
- ➔ Residential Market Economics and Cost Trends

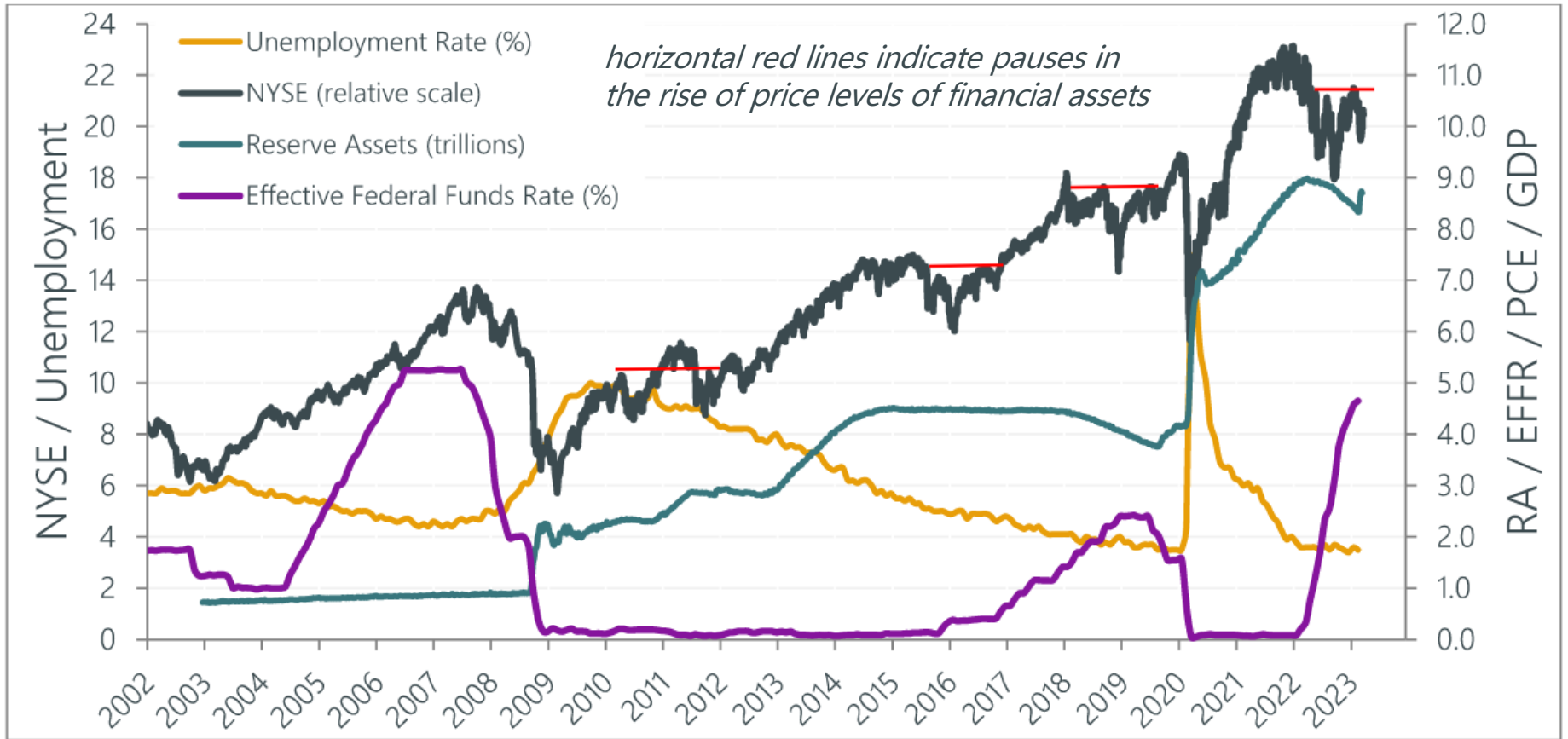
Market Update

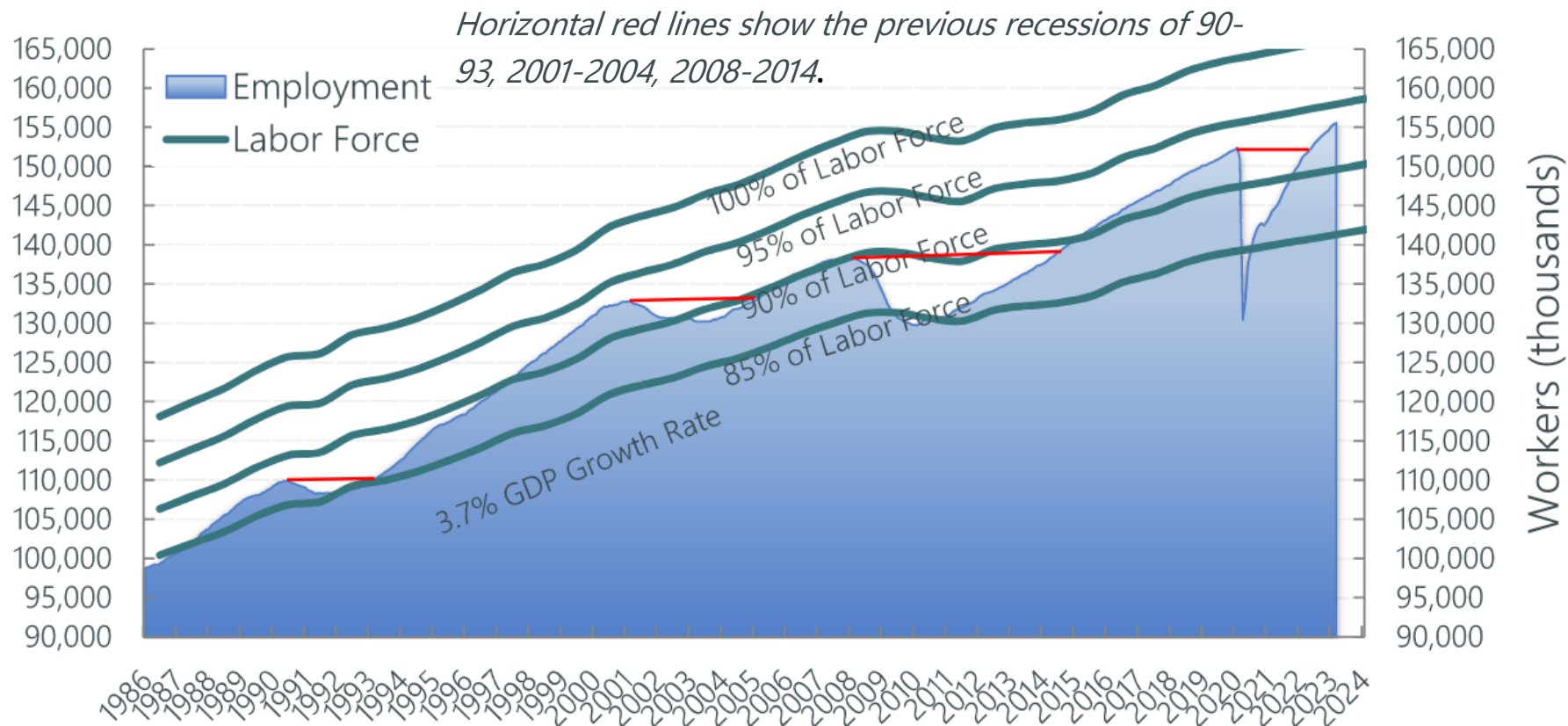


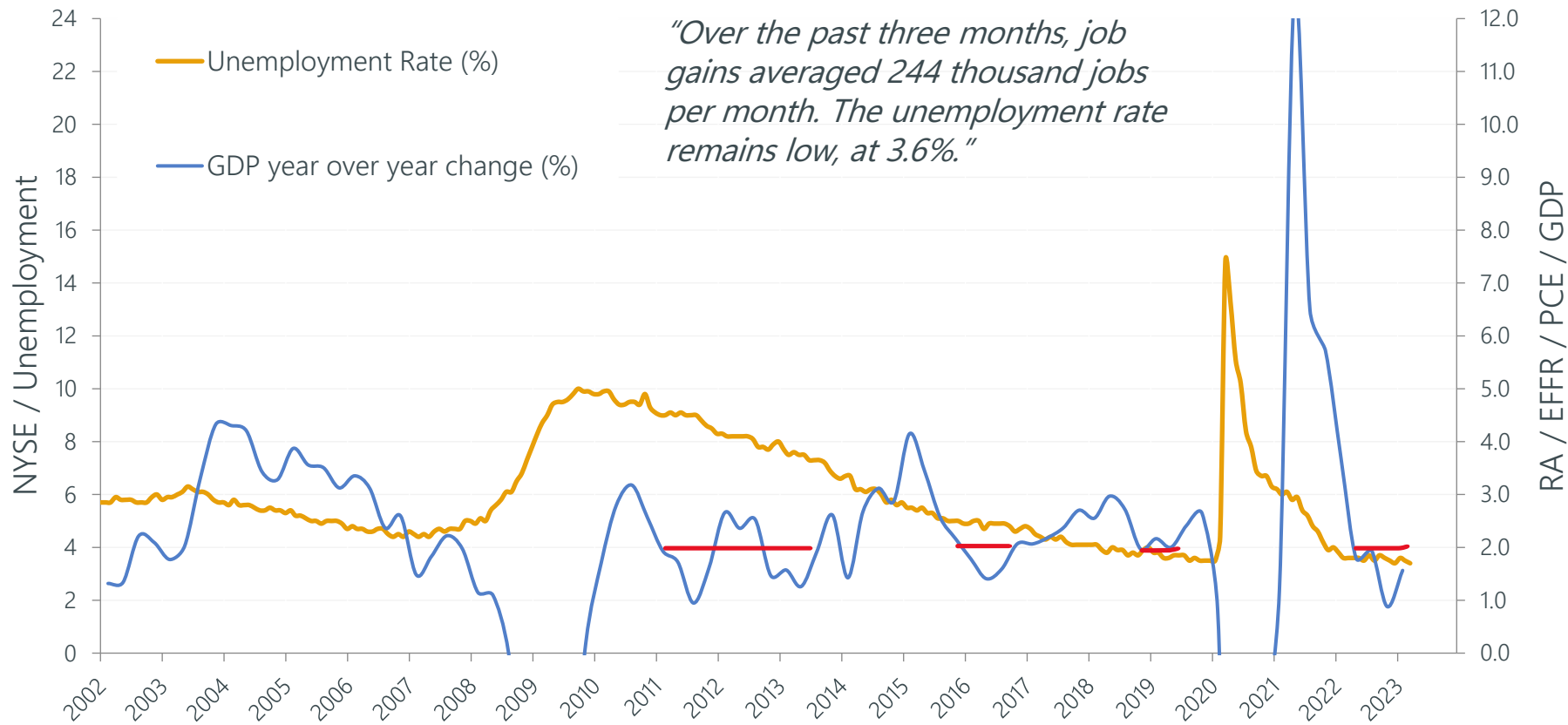


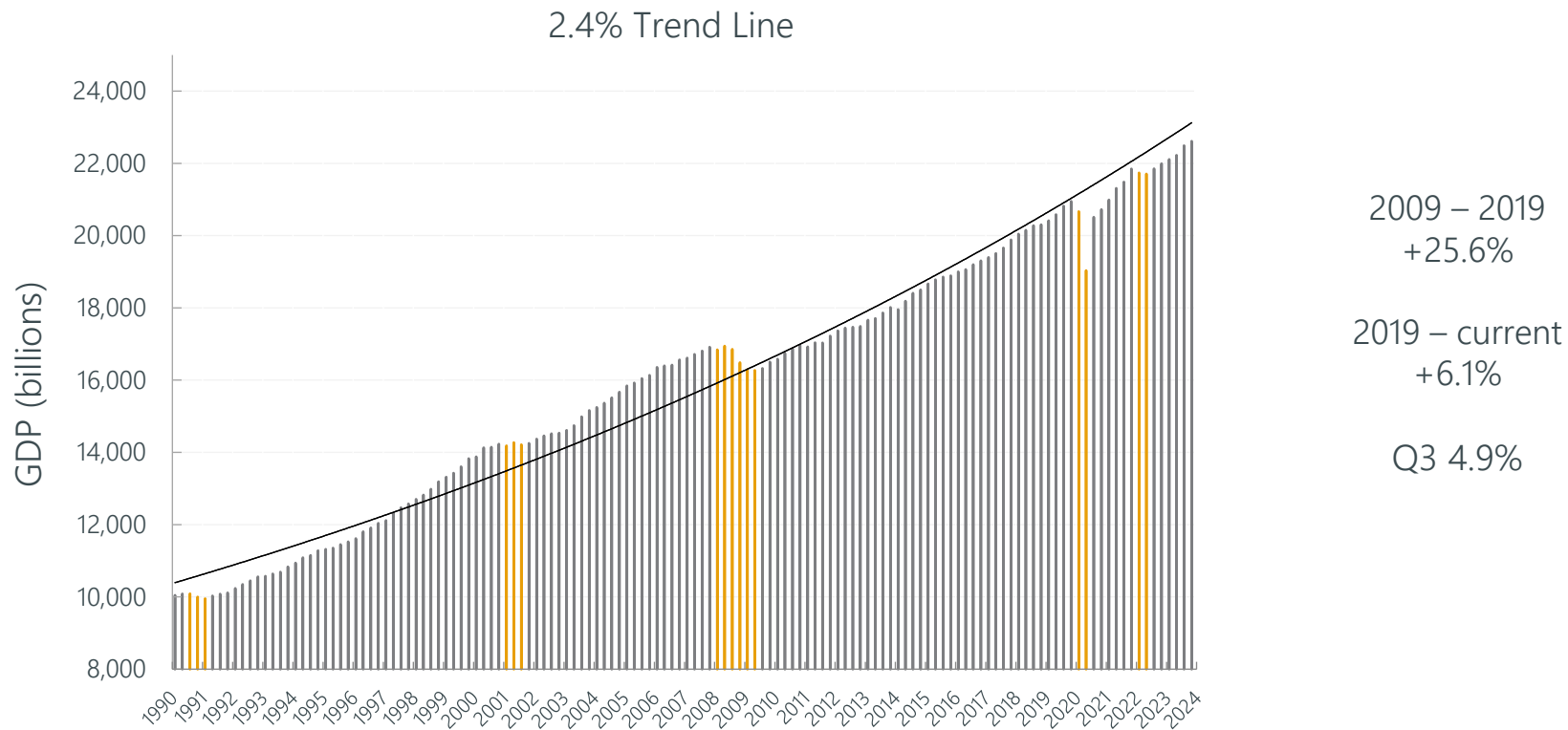


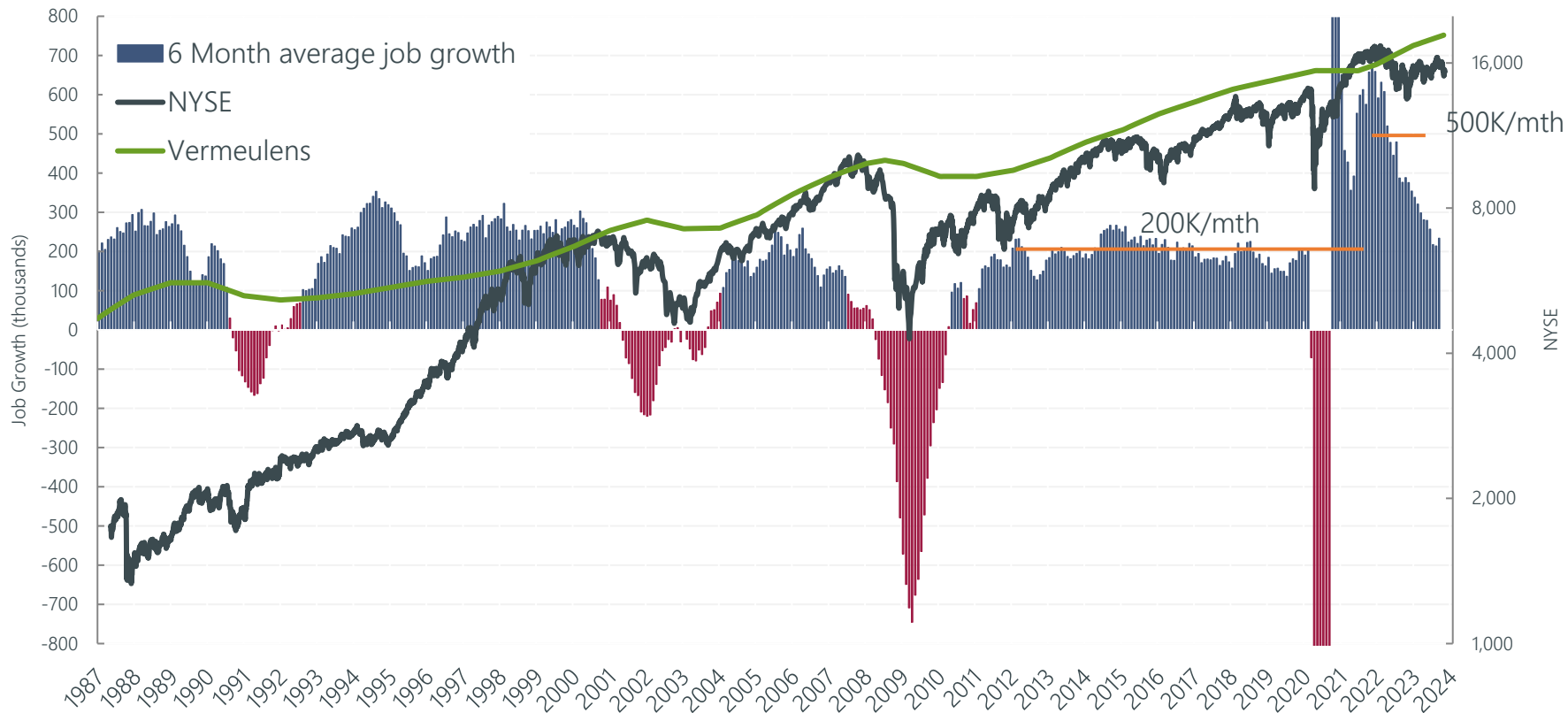


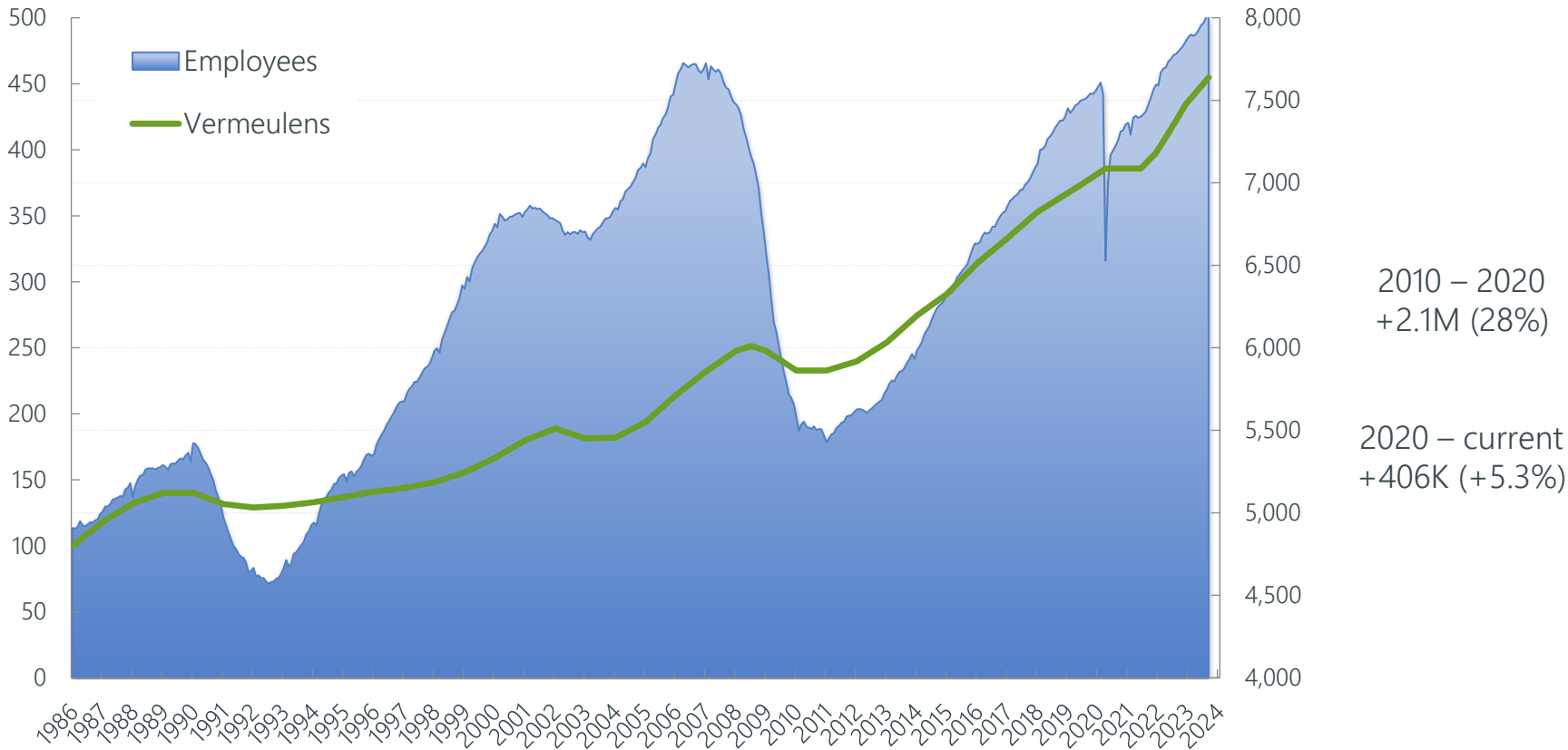


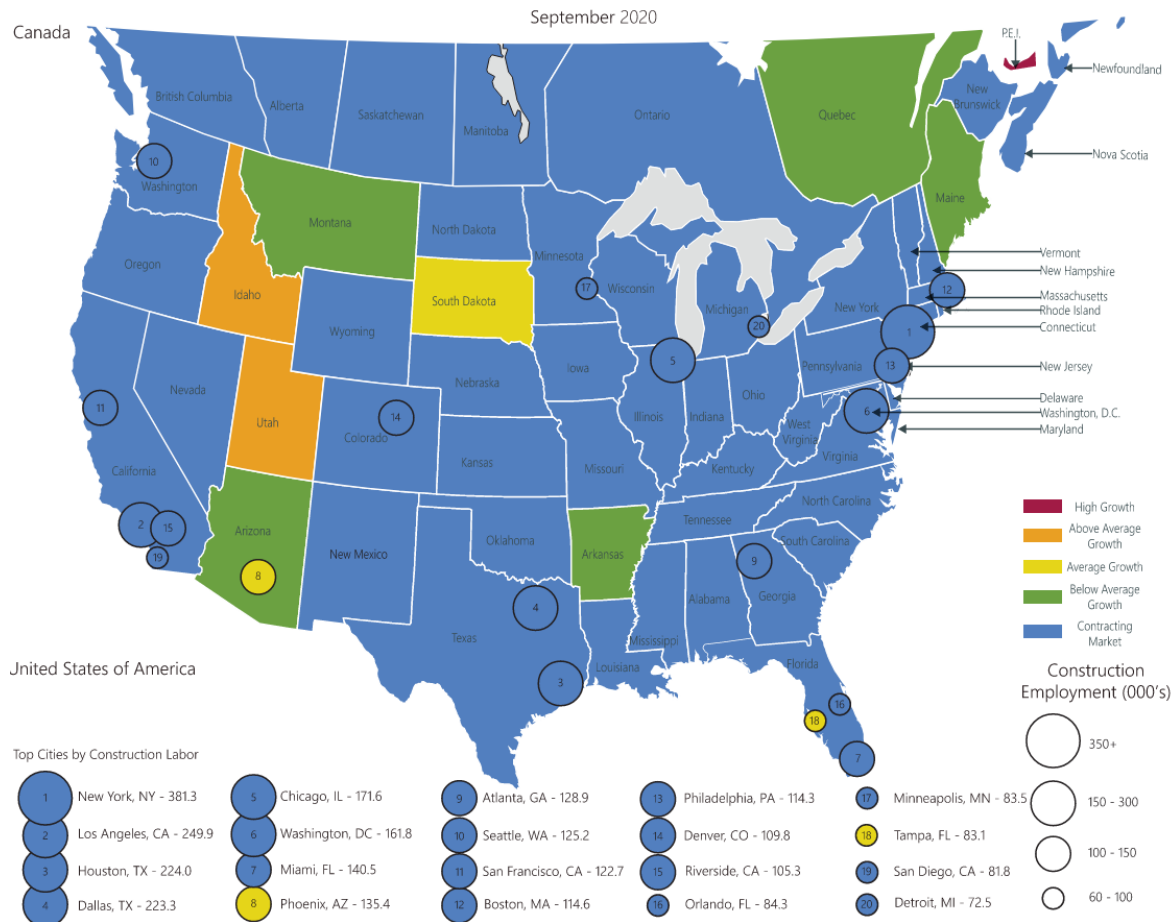


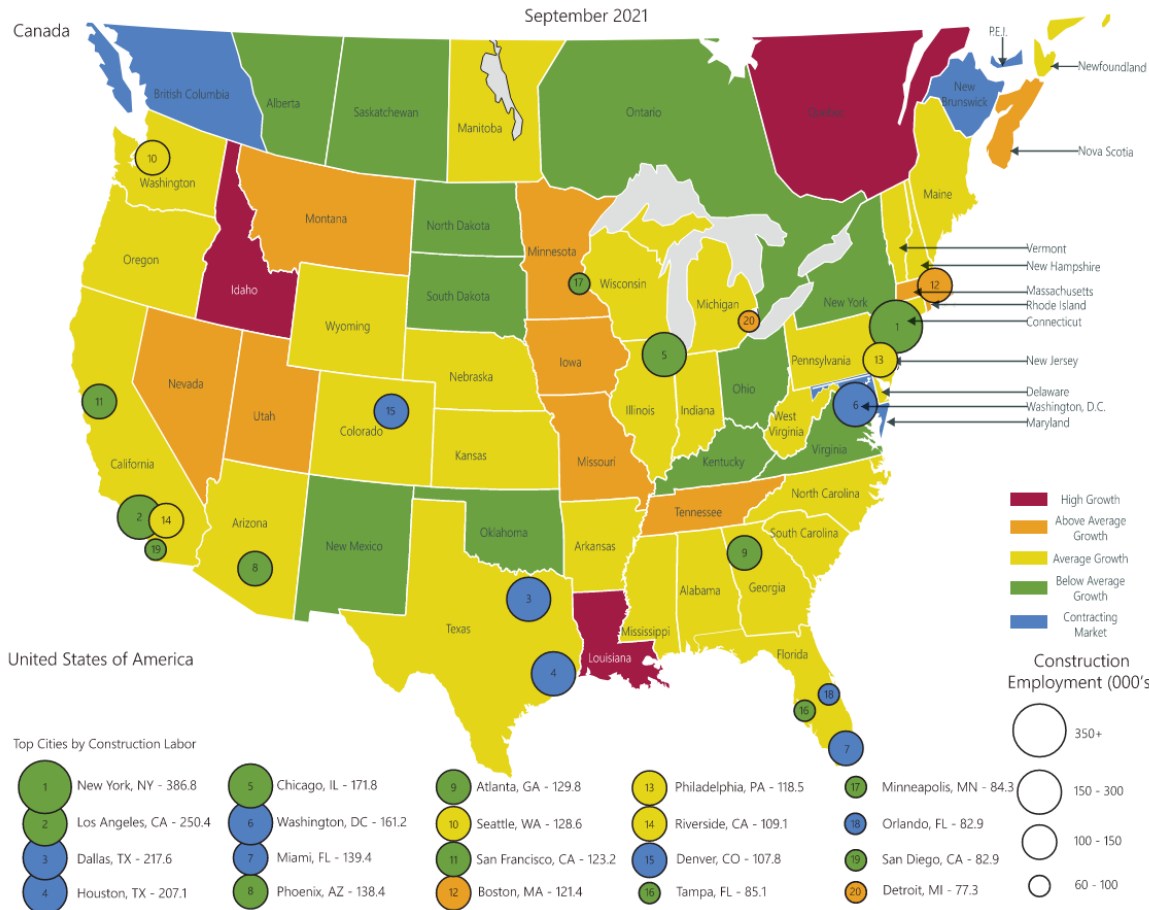


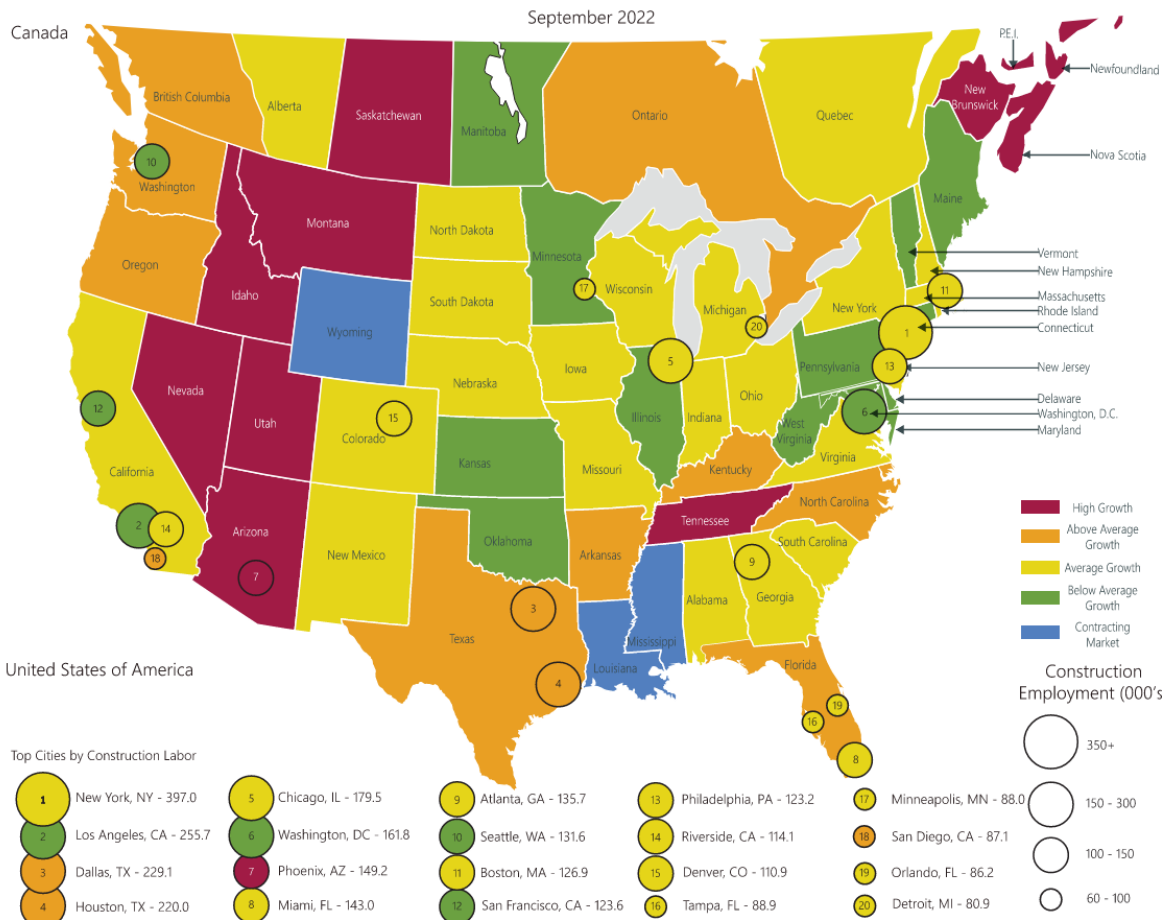


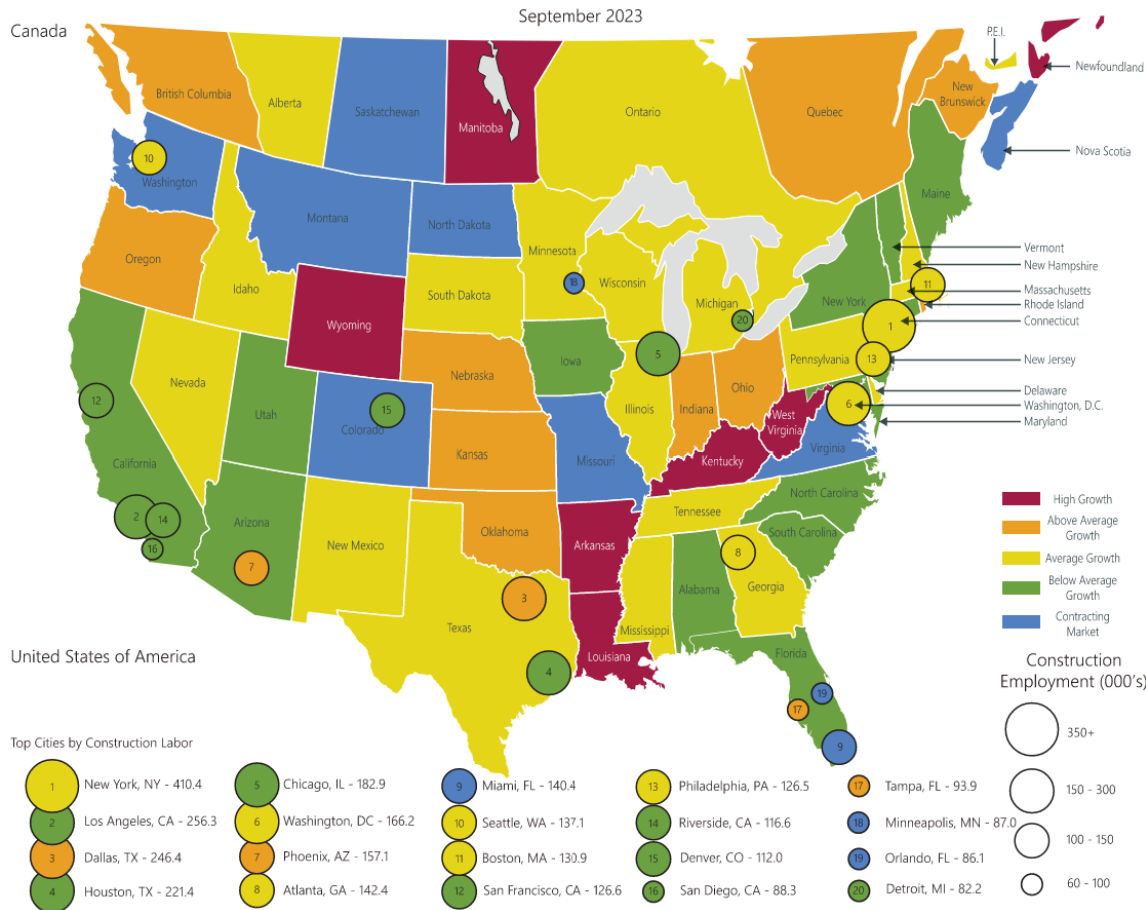


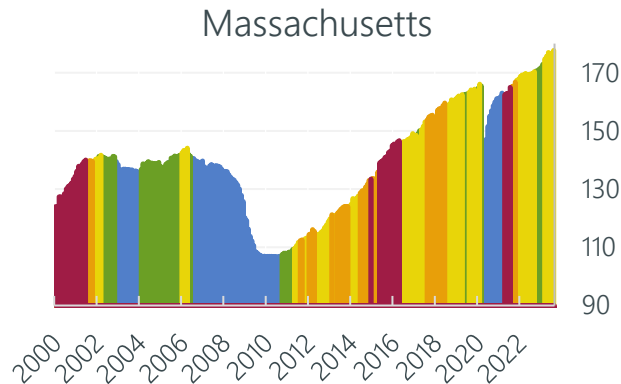
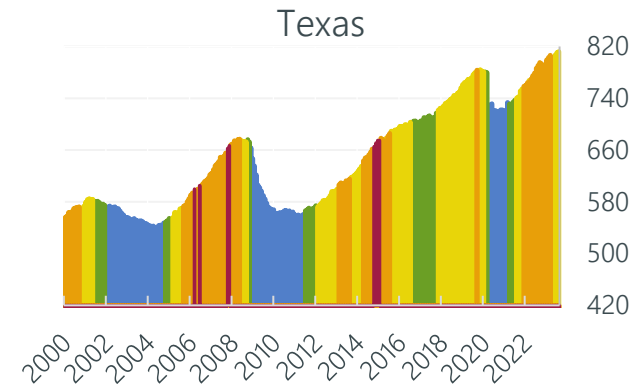






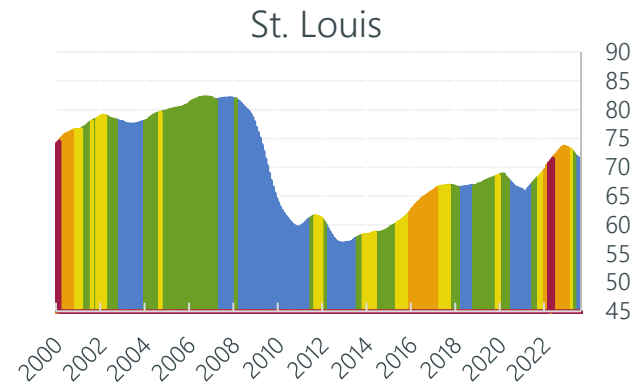
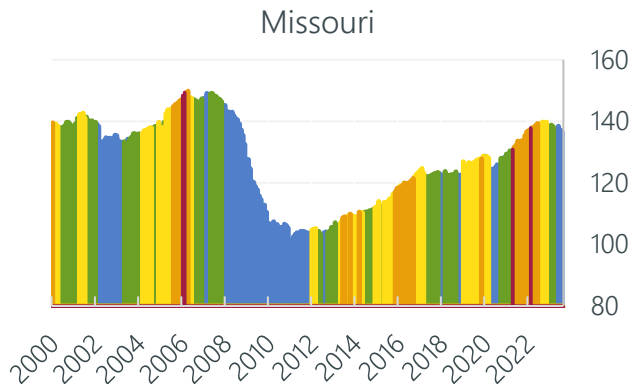


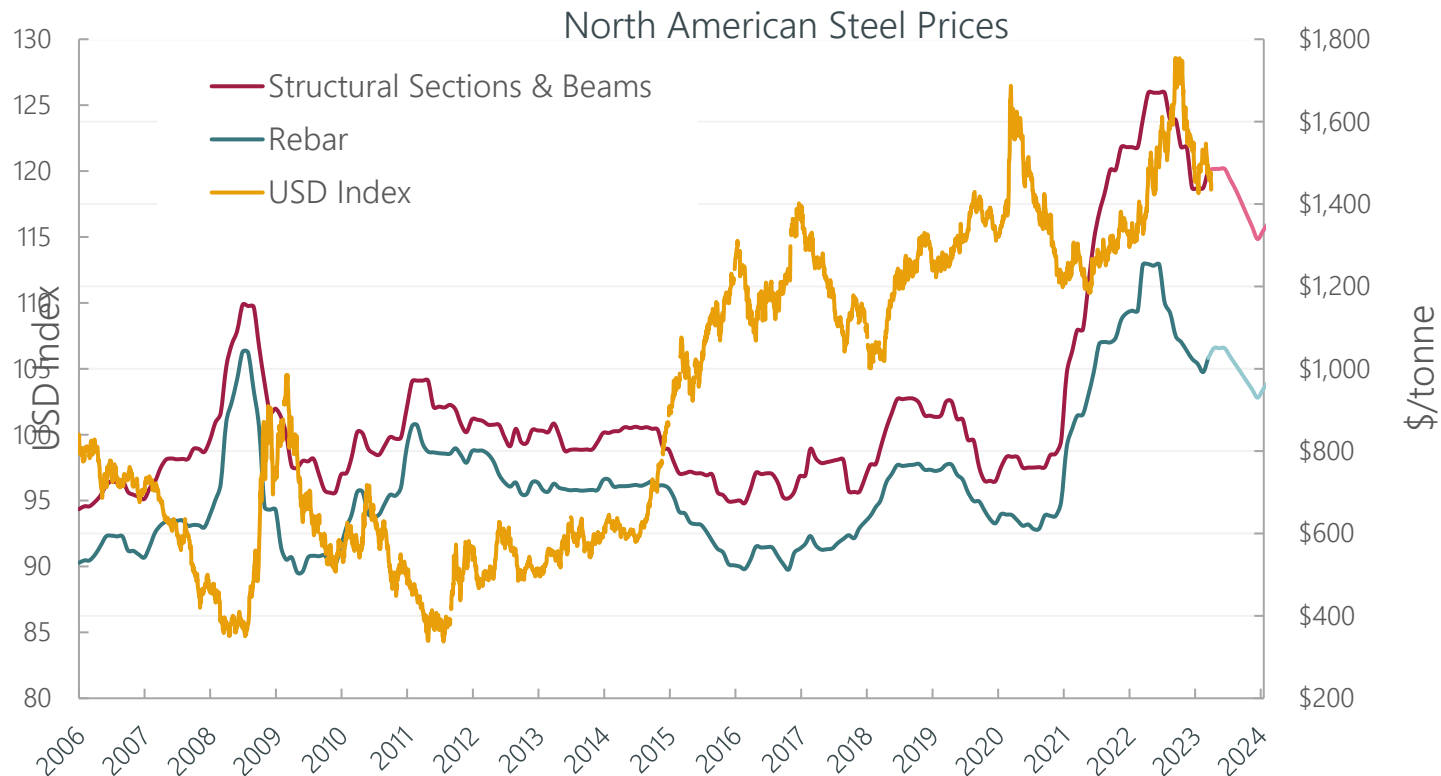


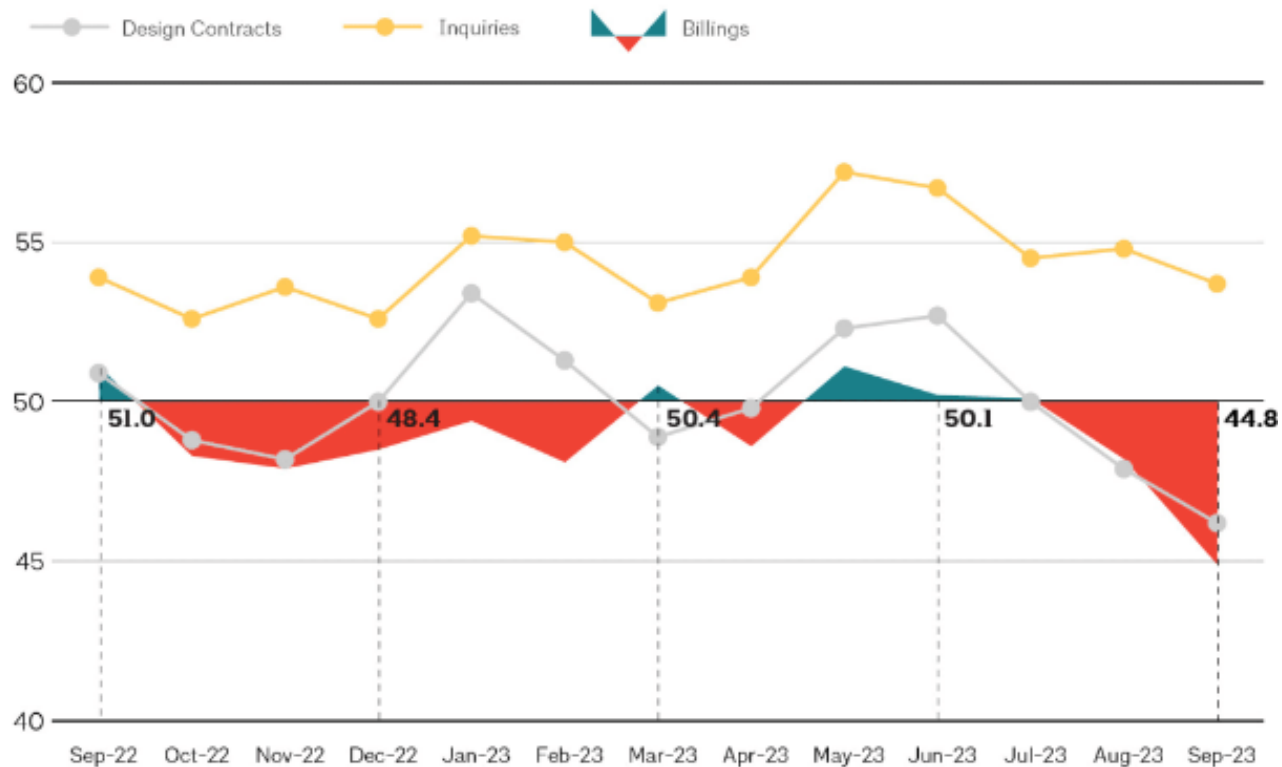


Year-Over-Year Growth

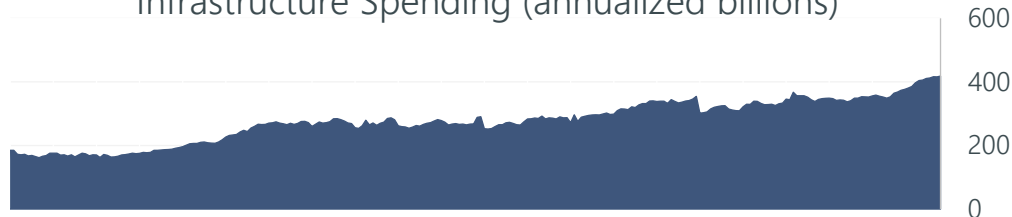
- High Growth
- Above Average Growth
- Average Growth
- Below Average Growth
- Contracting Market







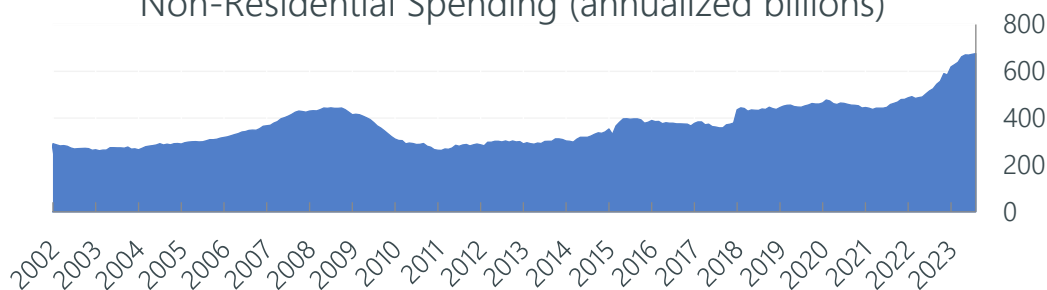
Infrastructure Spending (annualized billions)



Residential Spending (annualized billions)

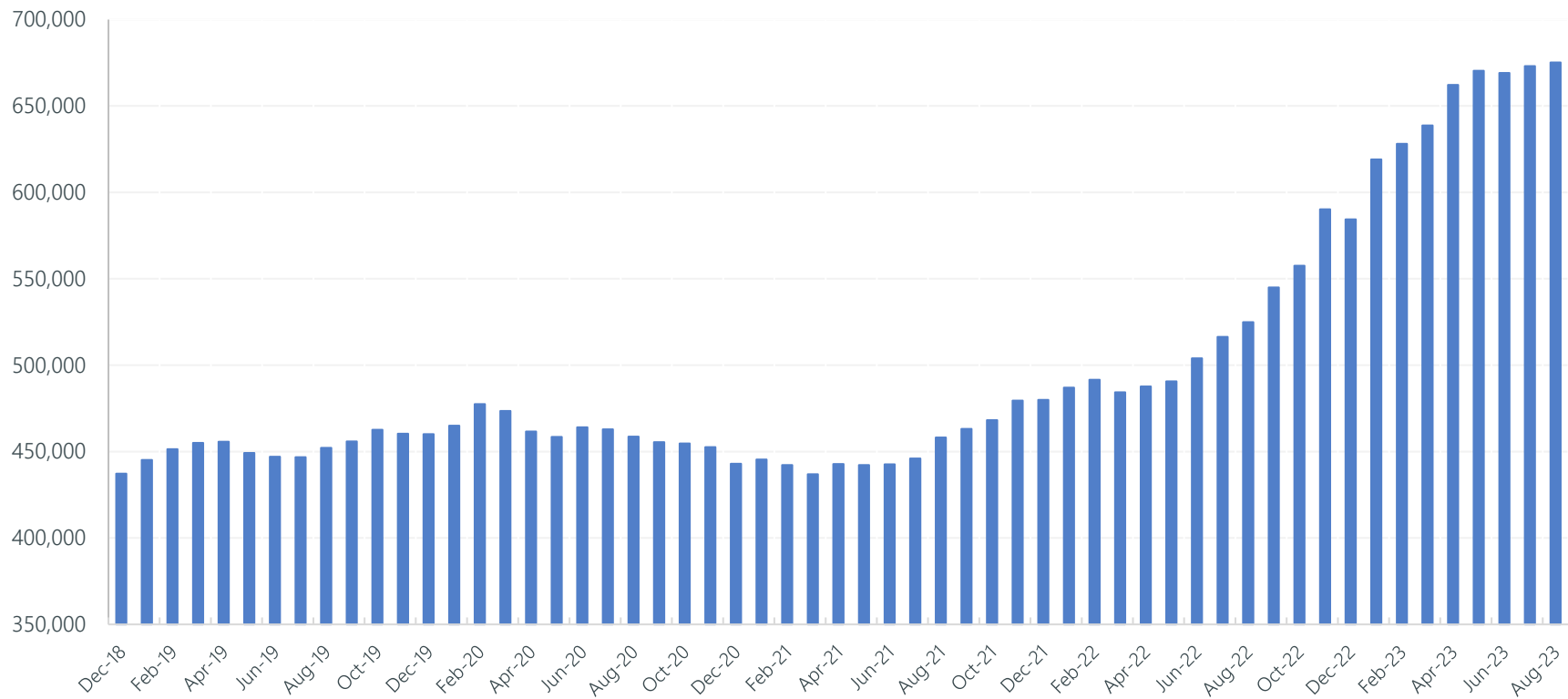


Non-Residential Spending (annualized billions)

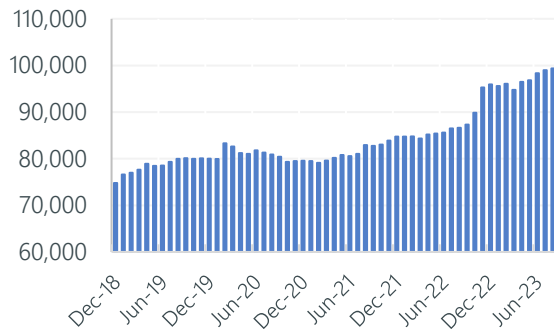


			Pre Pandemic
Infra	+0.5% Q3		+14%
Res	+2.2% Q3		+48%
Non Res	+35% yr/yr		+41%

Total Non-Residential Spending (\$millions)



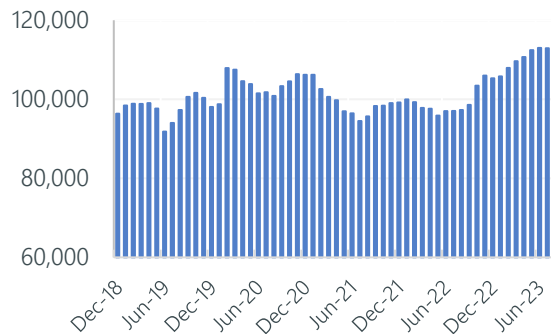
Office Spending (\$millions)



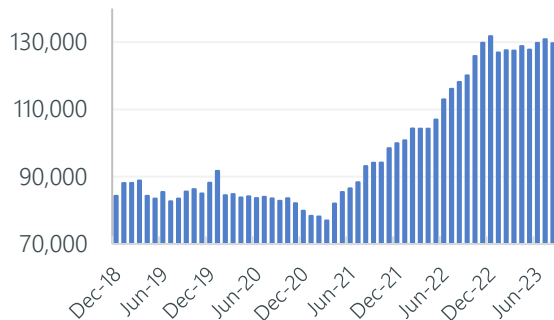
Health Care Spending (\$millions)



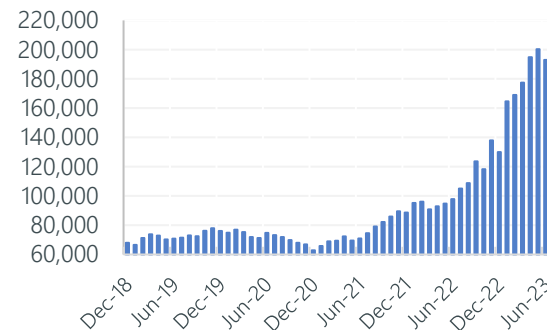
Educational Spending (\$millions)



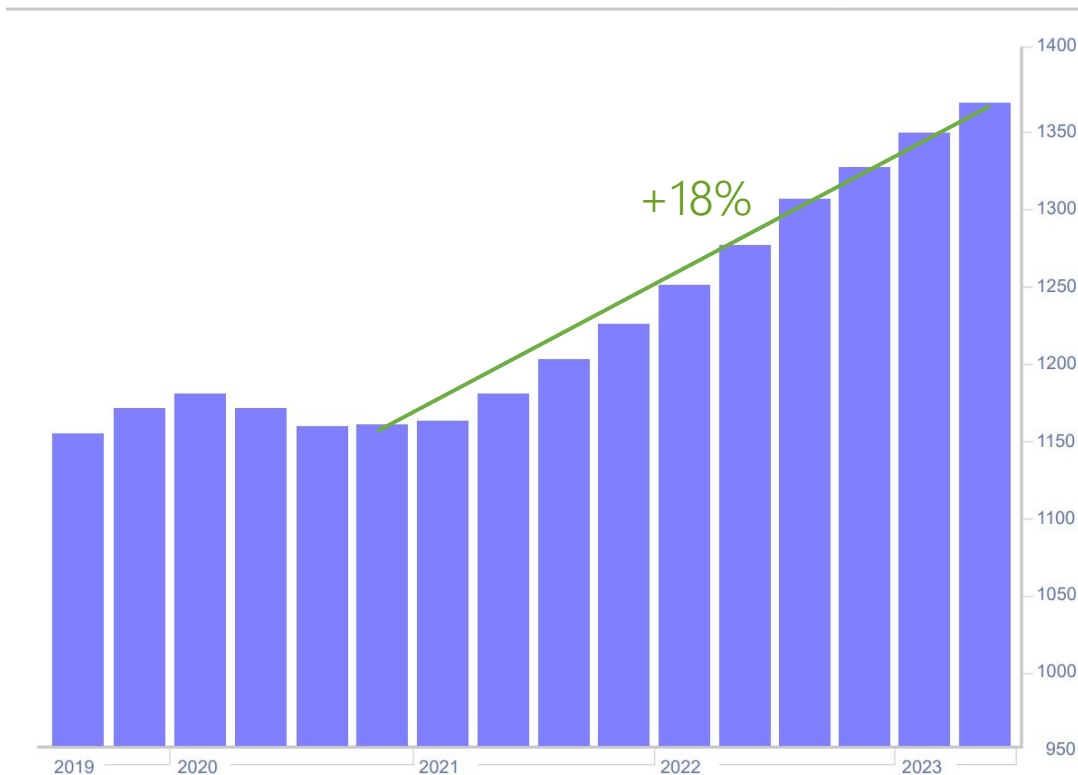
Commercial Spending (\$millions)



Manufacturing Spending (\$millions)



2023 Second Quarter Forecast

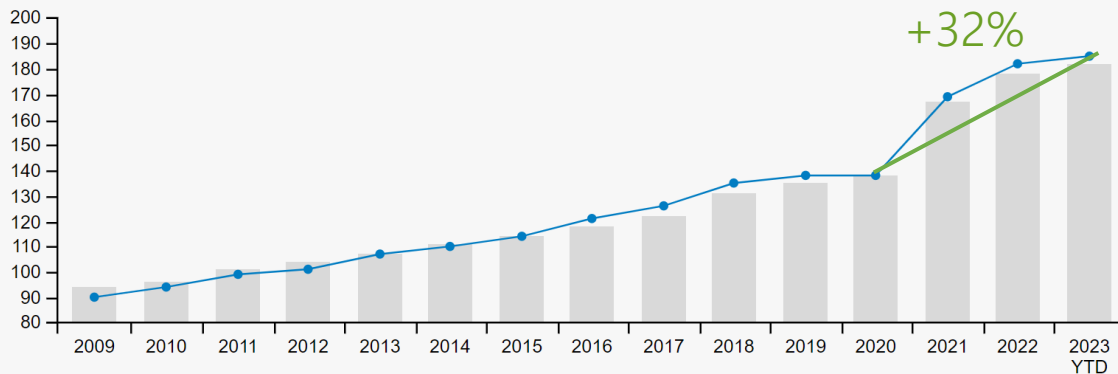


Turner

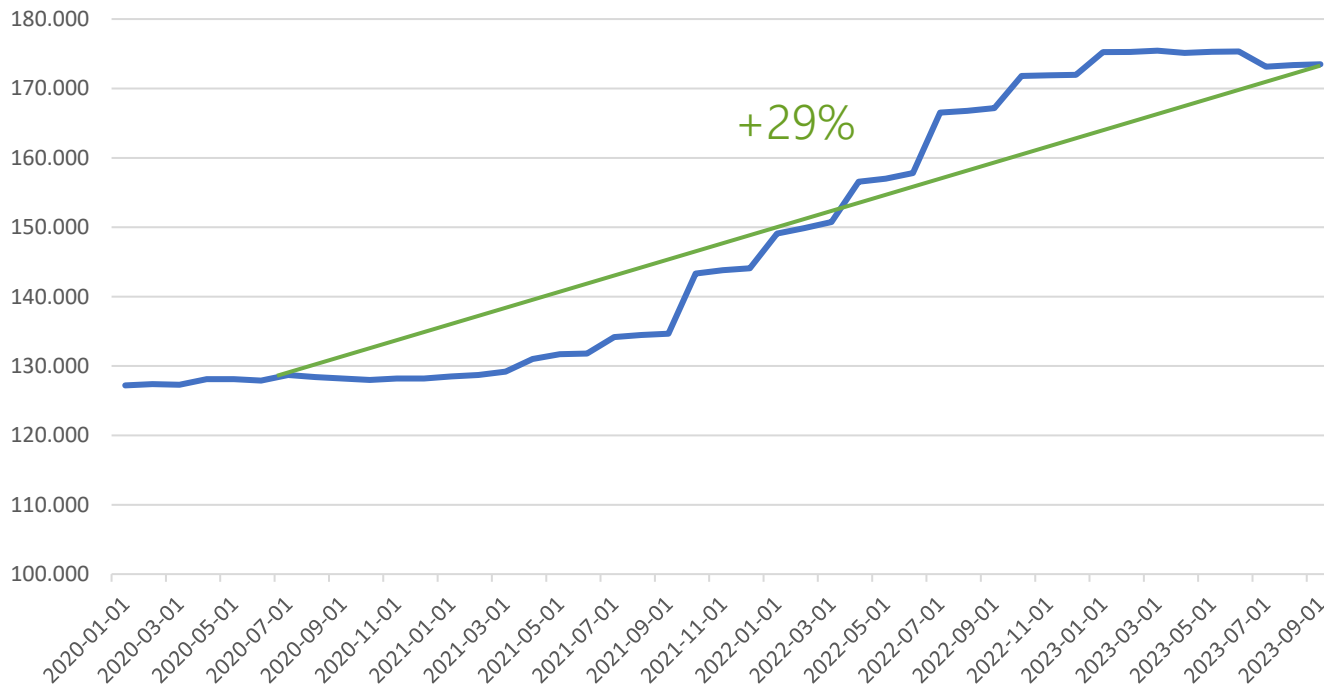
since 2020	18%
12 months	6.3%
Q3 2023	1.2%

CONSTRUCTION COST INDEX

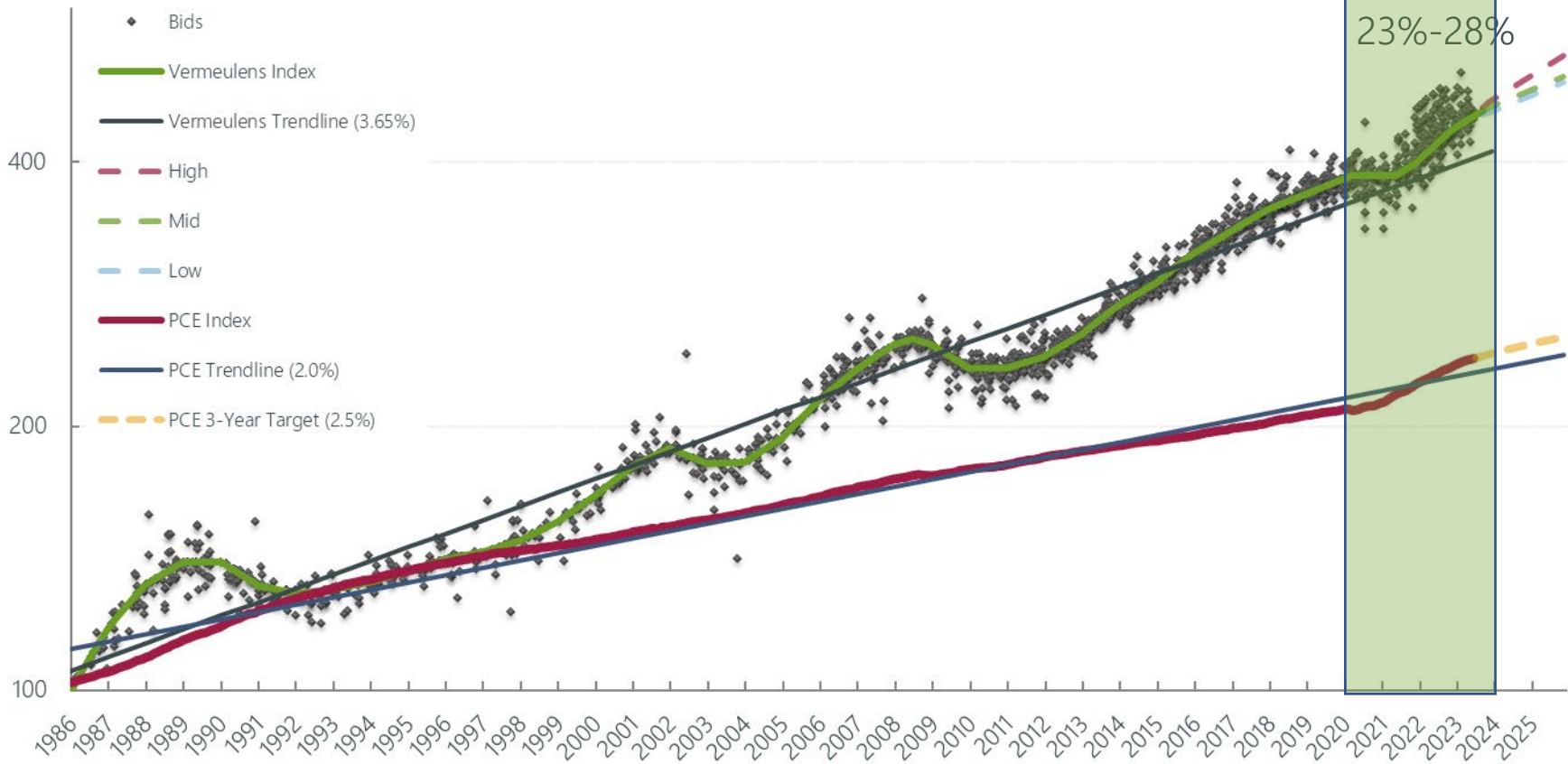
(JANUARY 2009 = 100)



since 2020	32%
12 Months	2.9%
Q3 2023	1.3%



since 2020	29%
12 months	3.8%
Q3 2023	-1%





since 2020	23%-28%
12 months	6.3%
Q3 2023	1.5%



since 2020	29%
12 months	3.8%
Q3 2023	-1%



since 2020	32%
12 months	2.9%
Q3 2023	1.3%



since 2020	18%
12 months	6.3%
Q3 2023	1.2%

- escalation flattening: -1% to 1.5% in Q3
- seeing unit cost reductions and aggressive bidding in some markets
- recommend 4% – 6% for 2024 (soft landing)
- recommend a bidding contingency of 0% – 5% for select projects and regions



CARTER JENKINS

Central Operations Manager (ASC)

- ☐ About Amherst
- ☐ Macro Economics
- ☐ Single Family Market
- ☐ Risk Mitigation and Cost Savings



Residential Housing Market



Demand
grounded to a
halt due to
costs and
interest rates



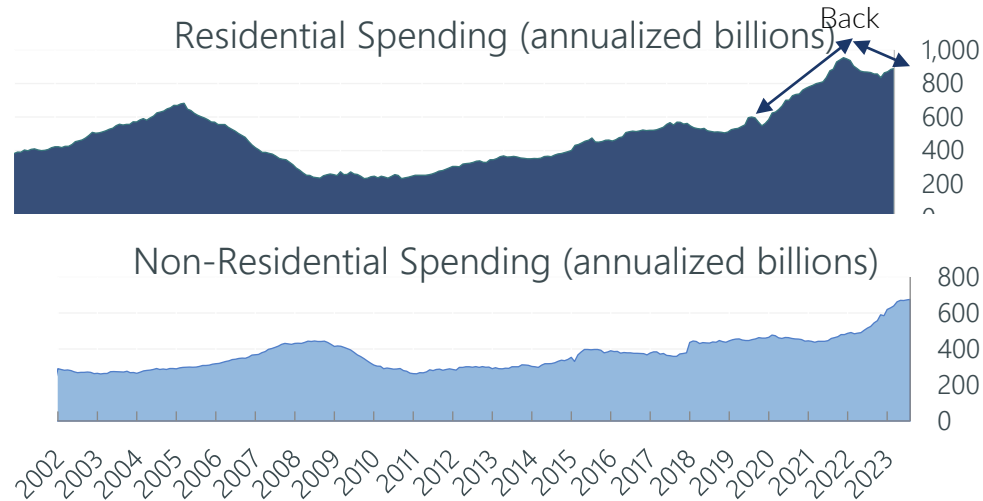
80% of
Homeowners
have
mortgages sub
5%, why buy @
8%



Major builders
buying down
interest rates
and offer 5%
to buyer



Residential Construction Backlog



- ☐ Backlogs Have Depleted
- ☐ Builders Using Margins To Buy Down Interest Rates For Buyers
- ☐ Labor Pool Chasing Lower Volume of Work = Price Reduction/Buying Power

Cost Mitigation

- ❑ Labor – Renegotiating Contracts To Pre-Covid Rates
- ❑ Suppliers – Negotiating With Exclusivity & Maintenance Contracts
- ❑ How Much Is The Milk – Dig Into The Details & Break Down The Costs



Residential Market Outlook

- ❑ Shortage Of Homes In The Millions
- ❑ Millennials Moving Into Single Family Housing
- ❑ Prefabricated Housing & Urban Infill Becoming A Viable Solution
- ❑ Short-Term Costs Constant – Hold Off Core Inflation
- ❑ Medium-Term – Costs Constant
- ❑ Long-Term – Expecting Increases To Be In Line with Core Inflation +3% to +4%



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Construction Market Outlook

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