MILES•McCLELLAN CONSTRUCTION

ECONOMIC INDICATORS

DEFINING TECHNICAL EXCELLENCE

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12-MONTH PERFORMANCE SUMMARY

TIM McCLELLAN
Executive Vice President

	ABC Backlog	AIA ABI	FMI NRCI	Core Inflation Rate	GDP	Single Family Housing Starts	Un-employment Rate
January 2018		54.7		1.80%		877,000	4.1%
February 2018		52.0		1.80%		900,000	4.1%
March 2018	8.8 mo. Q1 2018	51.0	60.4 Q1 2018	2.1%	2.3% Q1 2018	867,000	4.1%
April 2018		52.0		2.0%		936,000	3.9%
May 2018		52.0		2.2%		944,000	3.8%
June 2018	9.9 mo. Q2 2018	51.3	62.2 Q3 2018	2.3%	4.1% Q2 2018	858,000	4.0%
July 2018		50.7		2.4%		860,000	3.9%
August 2018		54.2		2.2%		879,000	3.9%
September 2018	9.0 mo. Q3 2018	51.1	57.4 Q3 2018	2.2%	3.5% Q3 2018	871,000	3.7%
October 2018		50.4		2.1%		864,000	3.7%
November 2018		54.7		2.2%		812,000	3.7%
December 2018	8.9 mo. Q4 2018	50.4	54.6 Q4 2018	2.2%	2.6% Q4 2018	758,000	3.9%

Performance Key:

- Good
- Average
- Poor

ABC Construction Backlog
Amount of commercial construction to be performed in coming months

AIA Architectural Billing Index - 50 or above indicates growth

FMI Non-Residential Construction Index - 50 or above indicates growth

Core Inflation Rate - Target is 2%

Gross Domestic Product - Healthy rate of growth is 2-3%

Housing Starts - Single Family - Declining trend indicates slowing economy

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ABC's Construction Backlog Indicator Steady in Q4 2018

"Though backlog has dipped slightly in the last quarter of 2018, it remains high by historic standards," said ABC Chief Economist Anirban Basu. "A number of factors contributed to the decline, including a surge in materials prices in early 2018, which likely hindered project planning and contract negotiations later in the year. Interest rates also rose during much of the year, potentially resulting in some projects being postponed or cancelled. It is also likely that the feverish market volatility during the fourth quarter of 2018 caused some investors to hold off until the financial marketplace stabilized, which it recently did.

"Backlog in the South expanded at a more rapid pace than in the other three regions during the final quarter of 2018," said Basu. "This is not altogether surprising—Southern markets like Atlanta; Orlando, Florida; Charlotte, North Carolina; Dallas; and Nashville, Tennessee, are growing significantly. This has much to do with rapid population growth, which naturally creates demand for additional infrastructure. By contrast, the Northeast is hampered by growing concerns regarding overbuilt commercial segments and the Middle States are collectively beginning to feel the effects of an auto production cycle that may have peaked."

Regional Highlights

- The **South's** backlog remains the highest the four regions, as has been the case since Q4 of 2014. This is attributable to surging economies in much of the south, including Orlando, Atlanta; Nashville and Dallas.
- Backlog in the **Northeast** fell by exactly one month from Q3 of 2018 to Q4. There appears to be growing concern that certain segments of commercial real estate are becoming overbuilt, including in the New York, Boston and Washington metropolitan areas.
- Backlog in the **Middle States** remained between 7-8 months during the entirety of 2018. Still, there has been a gradual pullback in backlog, with the most recent report representing the lowest level of backlog in three years. The Middle States also remain associated with the lowest level of backlog among any region. There is evidence that the auto production and sales cycle has peaked, which has a disproportionate impact on the Middle States.
- Backlog in the **West** declined on a monthly basis, which could be attributable to the wildfires that ravaged California in November 2018. Regional backlog remains approximately 2 months higher than during Q4 of 2017 as markets like Phoenix; Los Angeles; San Jose, California; Portland, Oregon; and Seattle continue to experience growth.

Industry Highlights

Backlog in the **commercial/institutional** segment declined by roughly a tenth of a month during the fourth quarter of 2018 and is down 10.2% on a year-over-year basis. Commercial valuations are no longer rising rapidly in much of the nation as capital has become more expensive and global investors appear to have become more defensive. That said, the fourth quarter reading of 9.04 months is well above the industry's historical average.

Backlog in the **heavy industrial** category increased modestly during the fourth quarter of 2018, rising by 0.08 months on a monthly basis. On a yearly basis, the category's reading increased by an impressive 2.65 months. With capacity utilization rising markedly over the past two years, it is conceivable that backlog in this category will continue to head higher.

Backlog in the **infrastructure** category increased by a scant 0.07 months during Q4 and declined significantly during the past year. The lack of faster backlog growth in this category is somewhat surprising, but the combination of ultra-low interest rates and recovering state and local government finances prompted a surge in contracting activity in late 2016 and 2017. In 2018, there was significant growth in infrastructure spending in water, transportation, education and other primarily public-financed categories.

Basu, A. (2019, Feb. 19). ***ABC's Construction Backlog Indicator Steady in Q4 2018***. Retrieved from abc.org: https://www.abc.org/News-Media/News-Releases/entryid/16046/Default

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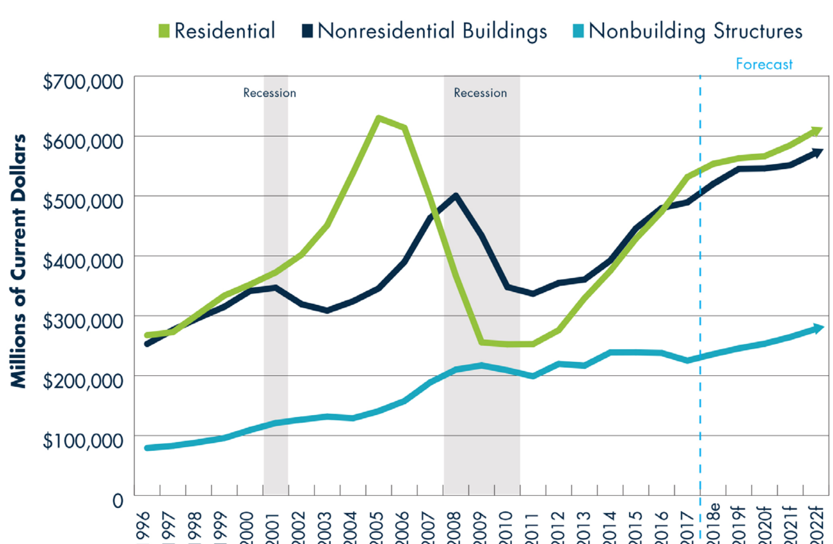
2019 U.S. Construction Outlook

KEY TAKEWAYS

- Total engineering and construction spending for the U.S. is forecast to end up 5% higher in 2018 compared to 2017.
- Spending growth in 2018 has been predominantly led by transportation and select private nonresidential segments. The top-three-performing segments in 2018 include nonresidential transportation (+16%), lodging (+14%) and office (+11%). The bottom-three performing segments include religious (-2%), multifamily residential (+1%) and health care (+1 %).
- Looking ahead to 2019, FMI forecasts a 3% increase in spending levels over 2018.
- Primary growth segments in 2019 are expected to include office, educational, public safety, transportation, conservation and development, and manufacturing – all with forecast growth rates of 5% or more. Most other segments will likely grow by roughly the rate of inflation and therefore be considered stable. Multifamily, lodging and religious are three segments expected to experience decline through 2019.
- East and West Coast markets are expected to outperform other regions across the country. Through 2019, FMI forecasts the top-three-performing Census divisions will include the Middle Atlantic (+5%), Pacific (+5%) and the South Atlantic (+4%).

Total Construction Put in Place
Estimated for the United States



Daum, C., Bowman, J., & Strawberry, B. (2019, January). 2*019 FMI Overview*. Retrieved from fminet.com: https://www.fminet.com/wp-content/uploads/2019/01/2019_Overview.pdf

CONSTRUCTION PUT-IN-PLACE

Multifamily Residential: STABLE 1%
U.S. multifamily construction plateaued toward the end of 2018, with declining investment expected through 2019 - 2020. Recent tax legislation disincentivizing home-ownership, rising mortgage rates, millennial buying preferences & practices, & a growing need for affordable housing will continue to uphold multifamily demand long-term.

Office: UP 11%
Moving into 2019, demand for office space continues to outpace current supply in select markets. While urban office construction activity has been stable through the end of 2018, suburban & rural area project activity has progressively slowed.

Commercial: STABLE 2%
Storefront infrastructure, including shopping centers and malls, will continue to moderate through 2019, while investment in warehouse and distribution logistics centers will continue to expand.

Healthcare: STABLE 1%
Demographic shifts indicate a need for more medical office space. Increased modular construction within health care is anticipated as the means to streamline projects and reduce project costs.

Education: UP 6%
A recent Perkins Eastman study suggests K-12 modernization projects offer the greatest impact on a student's ability to learn & the faculty's ability to teach. Also, more than half of U.S. K-12 public schools need renovation or modernization investment at an estimated cost of nearly $200 billion.

Manufacturing: STABLE 2%
2017's tax reform, which brought down the U.S. corporate tax rate & encourages repatriation of revenues to the U.S., is expected to continue fueling a rise in manufacturing plant investment. However, the impacts on expansion are likely to subside in the coming years.

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ABI December 2018: The Year Ends with Slow Billings Growth

"The pace of billings growth at architecture firms slowed modestly to end 2018, with AIA's Architecture Billings Index (ABI) score declining from 54.7 in November to 50.4 in December (any score over 50 indicates billings growth). But despite flat billings in December, firm billings increased every month of the year in 2018. And while concern about a potential economic slowdown looms for 2019, firms are not yet seeing any clear signs of it in their project workloads. Inquiries into new projects and the value of new design contracts both continued to grow steadily in December, while backlogs at firms continued to lengthen. In fact, they reached an average of 6.4 months, the strongest they have been since the collection of backlog data began on a quarterly basis in 2010.

"Architecture firm billings also strengthened at firms located in the Northeast and Midwest in December, with firms in the Midwest reporting particularly strong conditions. Business conditions softened for the third consecutive month at firms located in both the South and the West, but the decline remained relatively minimal. Billings also flattened at firms with a residential specialization in December, but strengthened at firms with commercial/industrial and institutional specializations.

"Construction employment had strong growth in December for a total of 280,000 new positions added for the year, which is 30,000 more than were added in 2017. And architectural services employment continued to increase as well, adding 300 new positions in November (the most recent data available) to reach a total of 199,200 positions across the country, the highest employment level for the industry in a decade."

Key December ABI highlights:

- Regional Averages:
  South (49.4), West (49.2), Northeast (51.6), Midwest (56.3)
- Sector Index Breakdown:
  Institutional (53.1), Commercial/Industrial (51.2), Mixed Practice (50.2), Multi-Family Residential (49.8)
- Design Contracts Index: 52.1
- Project Inquiries Index: 55.6

The regional and sector categories are calculated as a 3-month moving average, whereas the national index, design contracts and inquiries are monthly numbers.

Over 40 years ago, Miles-McClellan Construction Company set the standard for client satisfaction: Delivering technical excellence to every client, every project, every time. Today, we continue to hold ourselves to this same standard. If we demand this much of ourselves, shouldn't you demand it too?

To learn more or discuss an upcoming project, contact us today

Call: 614-487-7744

Email: matt.mcclellan@mmbuildings.com

American Institute of Architects. (2019, Jauary). *ABI December 2018: The Year Ends with Slow Billings Growth*. Retrieved from aia.org: https://www.aia.org/pages/6099041-abi-december-2018-the-year-ends-with-slow-

Baker, K. (2019, January 23). *Architecture Billings Slow, but Close 2018 with Growing Demand*. Retrieved from aia.org: https://www.aia.org/press-releases/6099117-architecture-billings-slow-but-close-2018-

These projections are based on assumptions of fact which may not occur, and are speculative in nature. These projections have not been reviewed or approved by independent accountants or legal counsel or other advisors. Such assumptions are subject to variations that may arise in the future and which may be beyond the control of the corporation. Any change or variation in any of the assumptions would change the projected financial statements and analysis. No representation or warranty, express or implied, is intended as to the reasonableness or accuracy of these projections.

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