2023 Q4 Economic Indicators

12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
January 2023	9.0	49.3		201.5
February 2023	9.2	48.0		201.0
March 2023	8.7	50.4	48.0 Q2 2023	183.7
April 2023	8.9	48.5		180.9
May 2023	8.9	51.0		202.4
June 2023	8.9	50.1	49.8 Q3 2023	197.3
July 2023	9.3	50.0		190.3
August 2023	9.2	48.1		178.0
September 2023	9.0	44.8	45.9 Q4 2023	182.5
October 2023	8.4	44.3		181.6
November 2023	8.5	45.4		181.5
December 2023	8.6	45.3	46 Q1 2024	186.6

The follow excerpt it taken from the "FMI 2024 North American Engineering and Construction Industry Overview, First Quarter Edition" – specifically the opening paragraph of the report.

"Best case assumptions for our forecast is for a recession in 2024, likely sometime during the first half of the year. These expectations are based on a range of predictive economic indicators, but especially the inverted yield curve. The duration of the economic contraction will depend on the U.S. policy response, but as with historical cycles, the impact on the construction industry will likely be longer lasting."

All the lead indicators presented in our Q4 2023 Economic Indicator continue to reflect a downward trend and support the statement made by FMI above. Additionally, what we are experiencing in the market only supports this story further.

- We have watched private bidding opportunities almost completely dry-up. We attribute this to current interest rates, owners' fear of a recession, and the sheer number of vacant office spaces available.
- With less private bidding opportunities we have had to jump into the public bid market which makes up just over 90% of our total bid opportunities. For the first two months of 2024, in both Columbus and Charlotte, we have seen an average of 6-8 general contractors per bid list, when a year ago at this time there were only 2-3 bidders per list.
- Our teams have also seen a wider geographic area of subcontractors bidding on projects. Previously our subcontract bidders were contained to the Columbus market. Now we are receiving bids from subcontractors we have never received bids from before, including out of state firms from West Virginia, Michigan, Indiana, and Illinois.
- Additionally, the sheer number of bids that we are receiving per subcontractor trade has more than doubled. Previously, we would receive 2-3 bids per trade category, and now we are receiving 6-7, the only exception being mechanical, electrical and plumbing. We are still only receiving 2-3 subcontractor bids in these skilled trade categories, and we assume that is because of a shortage in skilled labor in Columbus driven by the number of large, technical projects.

We plan to watch these trends very closely and will continue to report out on a quarterly basis.

Matthew Q. McClellan

CEO

DEFINITIONS AND BASE STANDARDS

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

Dodge Momentum Index - a unique 12-month leading indicator of construction spending for nonresidential building. Base measurement = 100

ABI December 2023: Architecture Firm Billings Remain Soft to End the Year

The Firm billings declined at firms in all regions of the country except the Midwest in December, where billings were essentially flat. Billings declined for all or nearly all months of 2023 at firms located in the West and Northeast. Firms in the South saw growth in the second quarter but otherwise declined. Only firms located in the Midwest reported increasing billings for most of the year, although conditions also softened there by late summer.

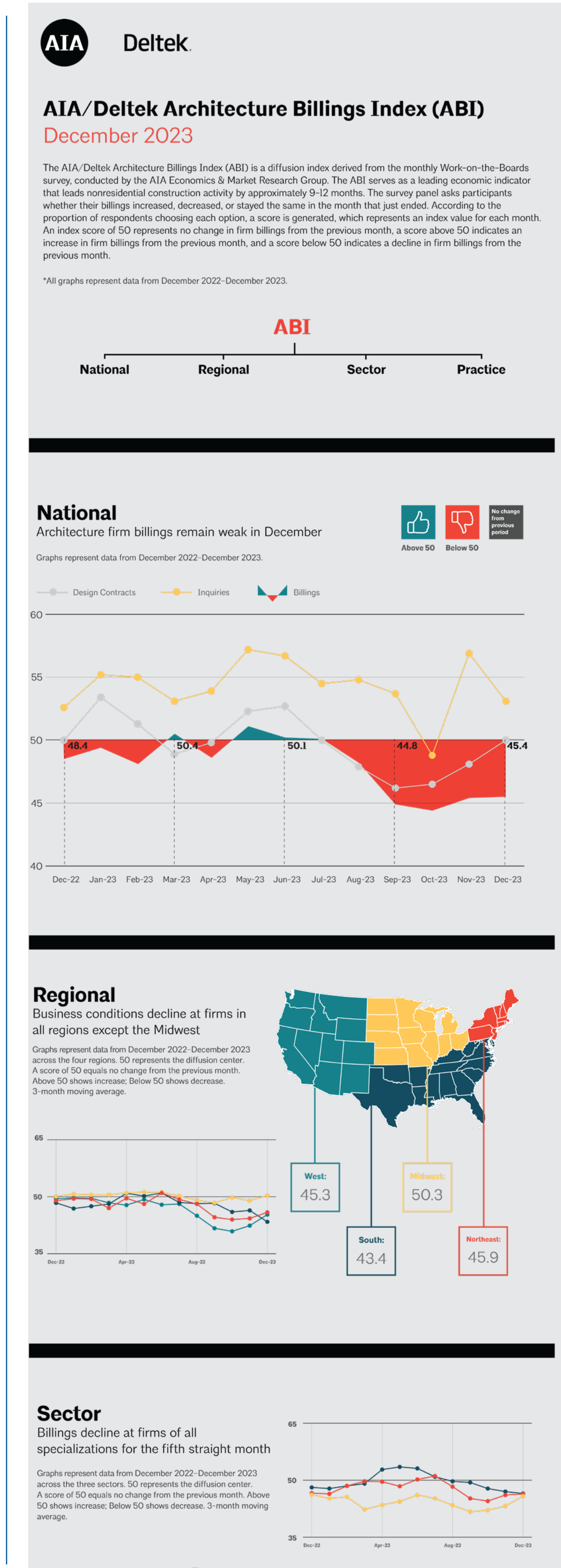
Majority of firm leaders report delayed projects over last six months

For this month's special practice questions, we asked firms about recent projects that have been delayed, stalled, and/or canceled. Overall, 86% of responding firm leaders reported that they have had significantly delayed projects at their firm over the past six months, 84% have had projects that are on hold/indefinitely stalled, and 64% have had projects that have been canceled or abandoned. Of firms with significantly delayed projects, nearly one third (31%) indicated that they have been increasing over the past six months, with just 12% reporting that they have been decreasing. More than one quarter (26%) of firms with projects on hold/indefinitely stalled reported that they have been increasing, with just 11% reporting them decreasing. And for firms with projects that have been canceled or abandoned, 19% reported that they have been increasing, while 17% reported that they have been decreasing.

Firm leaders pointed to a variety of factors contributing to recently stalled/delayed/canceled projects at their firm, with more than half (52%) indicating that construction budgets are insufficient for project as currently conceived, and 46% citing high interest rates. When asked to select the one most significant factor contributing to stalled/delayed/canceled projects at their firm, 21% of firm leaders selected insufficient construction budgets, 15% each selected financing problems and changing market conditions making clients nervous about proceeding, 14% selected contractor bids coming in too high or schedules too long, and 11% selected high interest rates. While rising material prices were selected as a contributing factor by 35% of respondents, just 3% selected as the most significant factor leading to projects being stalled/delayed/canceled.

What ABI December 2023 Work-on-the-Boards participants are saying

- *"Competition is fierce. Struggling to win new projects."—29-person firm in the Northeast, commercial/industrial specialization*
- *"With a large influx of population during the pandemic, Montana's cities generally have more demand than the building industry can service, but the escalation in construction costs is finally leveling off."—11-person firm in the West, mixed specialization*
- *"We work mainly in the Midwest and construction prices continue to escalate. When compounded with stingier bank lending and reduced return on investments, we see a slower new development market."—12-person firm in the Midwest, institutional specialization*
- *"Anxious and cautiously optimistic, while also ready to make draconian cuts across the board if projects do not get started in the first or second quarter."—39-person firm in the South, residential specialization*



AIA. (2024, January 24). ***ABI December 2023: Architecture firm billings remain soft to end the year***. Retrieved from aia.org: https://www.aia.org/resource-center/abi-december-2023-architecture-firm-billings-remain-soft-end-year

ABC's Construction Backlog Indicator Inches Higher in December, Contractor Confidence Improves

Associated Builders and Contractors reported that its Construction Backlog Indicator increased to 8.6 months in December from 8.5 months in November, according to an ABC member survey conducted Dec. 20 to Jan. 4. The reading is down 0.6 months from December 2022.

"Collectively, contractors experienced an uptick in optimism during the holiday season," said ABC Chief Economist Anirban Basu. "Credit conditions eased a bit during the last days of 2023 as the Federal Reserve indicated that its next set of moves will be to reduce borrowing costs. That may have rendered project financing a bit easier, translating into both improved backlog and more optimism regarding sales, employment and profit margins for the for the first half of 2024.

"Still, there remains cause for concern," said Basu. "Recent data indicate that wage pressures persist, which makes it more likely that interest rates, and therefore project financing costs, will remain higher for longer. Geopolitical instability appears to be on the rise, raising the probability of a major conflagration that could further impact supply chains and potentially cause steep increases in certain energy prices."

Basu, A. (2024, January 16). ***ABC's Construction Backlog Indicator Inches Higher in December, Contractor Confidence Improves.*** Retrieved from abc.org: https://www.abc.org/News-Media/News-Releases/abcs-construction-backlog-indicator-inches-higher-in-december-contractor-confidence-improves

Construction Backlog Indicator

Construction Backlog Indicator

	December 2023	November 2023	December 2022	1-Month Net Change	12-Month Net Change
Total	**8.6**	**8.5**	**9.2**	**0.1**	**-0.6**
Industry					
Commercial and institutional	9.1	8.6	9.4	0.5	-0.3
Heavy industrial	8.4	8.8	8.2	-0.4	0.2
Infrastructure	7.9	7.9	10.0	0.0	-2.1
Region					
Middle States	8.5	8.0	8.1	0.5	0.4
Northeast	8.0	8.0	8.9	0.0	-0.9
South	10.7	9.8	11.5	0.9	-0.8
West	6.6	7.4	7.2	-0.8	-0.6
Company Size					
<$30 Million	7.4	7.7	7.9	-0.3	-0.5
$30-$50 Million	11.1	9.4	13.1	1.7	-2.0
$50-$100 Million	12.3	12.0	11.1	0.3	1.2
>$100 Million	10.7	9.0	14.2	1.7	-3.5

Construction Confidence Indicator

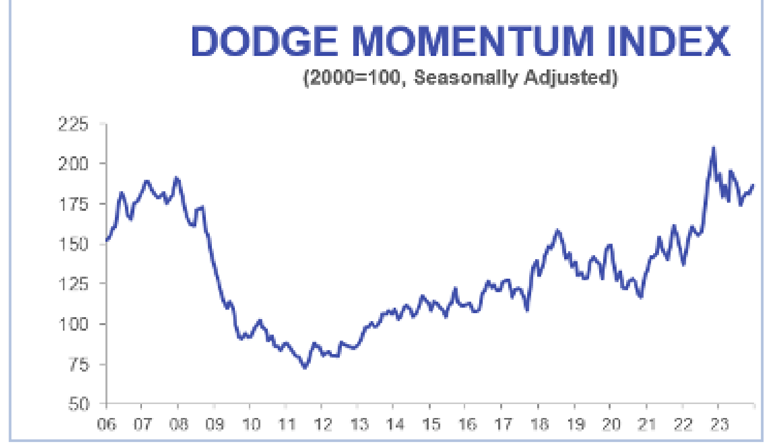
Construction Confidence Index

Response	December 2023	November 2023	December 2022
CCI Reading			
Sales	58.9	57.0	59.0
Profit margins	54.2	51.0	52.3
Staffing	61.6	59.9	60.9
Sales Expectations			
Up big	6.7%	5.1%	9.1%
Up small	47.4%	44.7%	44.6%
No change	23.9%	26.1%	24.6%
Down small	18.7%	21.4%	16.6%
Down big	3.4%	2.7%	5.1%
Profit Margin Expectations			
Up big	4.5%	2.3%	2.9%
Up small	32.8%	28.4%	36.0%
No change	40.3%	43.6%	35.4%
Down small	19.8%	22.2%	18.9%
Down big	2.6%	3.5%	6.9%
Staffing Level Expectations			
Up big	7.8%	2.3%	4.6%
Up small	43.7%	46.7%	50.9%
No change	37.3%	40.5%	31.4%
Down small	9.3%	9.3%	9.7%
Down big	1.9%	1.2%	3.4%

DODGE MOMENTUM INDEX
(2000=100, Seasonally Adjusted)

	Dec-23	Nov-23	% Change
Dodge Momentum Index	186.6	181.5	2.8%
Commercial Building	212.1	210.0	1.0%
Institutional Building	155.1	146.2	6.1%

Source: Dodge Construction Network



Dodge Momentum Index Improves 3% in December - Nonresidential Planning Activity Remains Robust Going into 2024

"The Dodge Momentum Index (DMI), issued by Dodge Construction Network, rose 3% in December to 186.6 (2000=100) from the revised November reading of 181.5. Over the month, commercial planning grew 1.0% and institutional planning improved 6.1%.

"The Momentum Index ended the year 11% below the November 2022 peak, ultimately stabilizing as the year progressed. Regardless, the DMI averaged a reading of 184.3 in 2023, hitting levels of activity that haven't been recorded since 2008," stated Sarah Martin, associate director of forecasting for Dodge Construction Network. "While ongoing labor and construction cost issues will persist in 2024, a substantive amount of projects are sitting in the planning queue and will support construction spending going into 2025."

"Hotel and data center planning drove growth in the commercial segment of the DMI over the month of December, while stronger healthcare and public building planning supported more momentum on the institutional side. Year over year, the DMI was 2% lower than in December 2022. The commercial segment was down 9% from year-ago levels, while the institutional segment was up 14% over the same time period.

"A total of 23 projects valued at $100 million or more entered planning in December, with six valued over $400 million. The largest commercial projects include the $500 million Universal Theme Park Kids Resort and Hotel in Frisco, Texas, and the $400 million Dog River Industrial Park in Mobile, Alabama. The largest institutional projects include two Mayo Clinic buildings, each valued at $400 million, in Rochester, Minnesota."

Dodge Construction Network. (2024, January 8). ***Dodge Momentum Index Improves 3% in December.*** Retrieved from construction.com: https://www.construction.com/company-news/dodge-momentum-index-improves-3-in-december/

Q1 2024 Non-Residential Construction Index

U.S. Key Takeaways

Total engineering and construction spending for the U.S. is forecast to end up 10%, a slightly slower pace than 12% in 2022. Gains in 2023 were primarily attributed to significant investments in nonresidential building and non-building structures.

Looking to 2024, FMI forecasts only a 2% increase in engineering and construction spending compared to 2023, due to anticipated corrections across residential and other private sector construction segments.

The highest growing segments in 2023 were manufacturing, multi-family residential, lodging, sewage and waste disposal, water supply, and conservation and development. Each of these segments are anticipated to recored annual growth rates exceeding 20% from 2022 levels.

Many segments are expected to grow between 10% and 20% in 2023. These segments include office, health care, educations, religious, public safety, amusement and recreation, transportation, power, and highway and street.

Single-family residential, the largest segments in the industry, will contract sharply in 2023 from 2022 levels.

The latest Non-Residential Construction Index score of 46.0 is nearly flat from the previous quarter. This is the7th quarter with a reading less than 50, indicating that participants remain cautious about the overall outlook in the first quarter of 2024. Economic & industry sentiment improved slightly. While there was some improvement in productivity, ongoing issues with labor and materials pricing as well as weakening expectations across private lodging, office and commercial segments are lightly going into 2024.

Daum , C., Strawberry, B., Bowman, J., & Beardall, E. (2024). *2024 North American Engineering and Construction Industry Overview - First Quarter Edition.*

Office: Up 10% *2023/2022 Comparison*

- *U.S. office vacancies are nearly 20%, the highest levels since the late 1970s, and occupancy levels are worse. New construction and renovation projects continue to be challenged due to inflationary pressures on materials and labor, tight lending, high interest rates and increases in insurance premiums. Last year, most of the deals that moved forward were led by developers with cash. Investors, however, have lost interest in office buildings, with sales down more than twice as much as other major property types.*
- *Sublease activity remains at historically high levels and contract flexibility is a key trend in the current leasing environment, with owners using shorter agreements coupled with extension options to attract interest. Tenants have generally downsized square footage but upgraded or maintained presence in the newest class-A space available.*
- *Forward-thinking companies are finding ways to re-purpose office space into apartments or data centers. Office to multifamily projects are proving to be particularly challenging, especially as rents have cooled.*

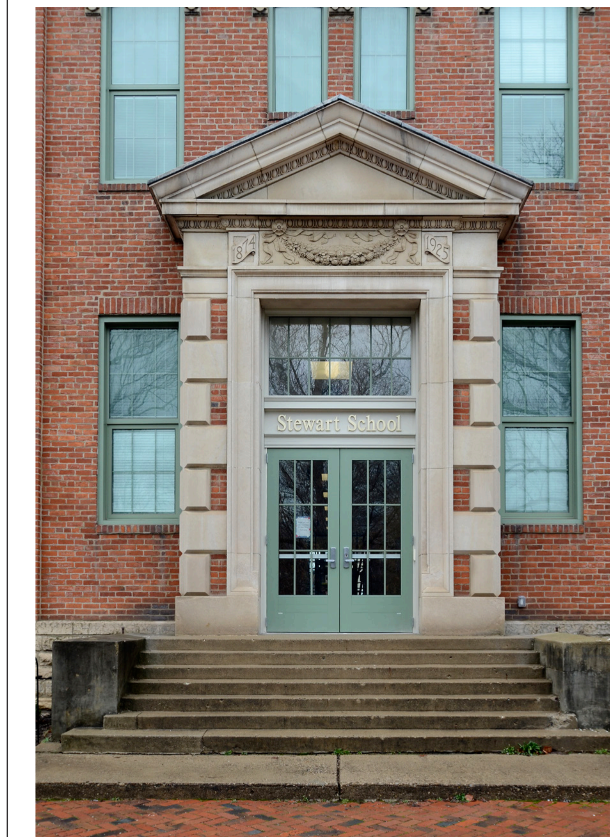
Commercial: Up 9% *2023/2022 Comparison*

- *The commercial sector is expected to contract in 2024 for the first time since 2019, largely driven by the warehouse sector, which now represents more than half of annual commercial construction put in place. Changes to Amazon's strategy, including delays and cancellations of fulfillment centers, will continue to impact the sector. Additionally, there will likely be a decline in retail construction as multifamily and mixed-use development begins to slow*
- *Consumer retail spending remained strong in 2023 while commercial property valuations continued to slide due to rising rates, limited access to capital, store closures and bankruptcies. Even with industry consolidation and closures, traditional retail is experiencing a shortage of available space, with national vacancy rates at more than 4% late 2023.*
- *Recent large-scale retail industry bankruptcies (e.g., Rite Aid, Bed Bath & Beyond, Party City) have created newly available space for lease and renovation opportunities in support of new business concepts. Big-box retail continues to consolidate and invest in e-commerce.*

Healthcare: Up 15% *2023/2022 Comparison*

- *Investment in hospitals and medical offices will remain strong in 2024. Private specialty care continues to be challenged, but public funding in specialty care facilities is expanding. Labor constraints and increased operational costs are likely to impact owners' strategic decisions over the next two to three years.*
- *Health care systems are expected to receive more than $64 billion in funding through the Inflation Reduction Act (IRA). By providing incentives for owners to reduce their carbon footprints, IRA funding will help stabilize construction spending in health care. Renewable energy updates and other renovations around sustainability initiatives will bring increased awareness to capacity and maintenance needs across older facilities.*
- *National health expenditures, comprised of medical-related purchases of facilities, equipment and noncommercial medical research, grew nearly 3% in 2021 and more than 4% in 2022, accounting for approximately 18% and 17% of gross domestic product (GDP), respectively. This share will continue to remain elevated over the forecast period as technology expands and the U.S. population continues to age. Health care spending for those older than 65 was more than five times that of those under 18 years old, and approximately two and a half times more than the working-age (15- to 64-year-old) population.*

Educational: Up 18% *2023/2022 Comparison*



- *Online and hybrid enrollment is outpacing in-person learning across higher education facilities, especially across community colleges. Institutions are quickly investing in the infrastructure needed to embrace this trend and re main competitive, including modernizing networks, data storage and computing power. In similar fashion, many of the largest and most prestigious higher education owners are investing heavily in data centers and computing power to support and protect their research programs.*
- *Like federal funding in health care, schools eligible for tax credits through the IRA are making significant investments toward sustainability and clean energy systems. Renewable energy solutions are some of the more common energy-saving solutions to receive funding. We expect spending from higher education entities into building renovations (HVAC, lighting and building envelope), clean energy (solar panels and wind farms) and car-charging stations.*
- *Much of this federal investment highlights the needs of aging educational buildings. On average, environmental conditions and monitoring ranked among the top priorities when updating or renovating facilities. Local bond measures will be the primary driver for increasing K-12 construction activities over the forecast period.*

Manufacturing: Up 78% 2023/2022 Comparison

- *The IIJA, CHIPS and Science Act, and IRA combined to spur record private sector investment in manufacturing, exceeding $200 billion in construction in 2023, or nearly triple the annual spending levels recorded in the 2010s. Further, 2023 spending growth is expected to end the year at nearly double any previous highs since the early 1960s.*

- *The government's infusion of grants, loans and tax incentives focuses on U.S. manufacturing capabilities in semiconductors, electric vehicles and batteries, clean energy products and technologies, biomanufacturing and all of the various components and materials that support these products and systems. Since the passage of the IRA, companies announced more than 220 manufacturing projects, representing nearly $650 billion in planned project activity. Semiconductor manufacturing is the largest industry, accounting for one-third, or $230 billion, in planned investment.*

- *According to recent Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) readings, without current government incentives, the manufacturing industry would be near historic lows due to weak orders and backlogs caused by contracting employment, prices and inventory levels. The index shows 14 months of industry contraction. Further, there is growing concern that construction labor shortages and supply chain complexities will continue to strain available national resources across competing planned investments in infrastructure and power.*

Multifamily Residential: Up 21% 2023/2022 Comparison

- *Affordability factors in the single-family home market supported a large wave of multifamily units in development, which peaked at more than 1 million units mid-2023. Development plans became increasingly challenged at the end of the year due to rising interest rates, stagnant rental rates and tightened lending conditions. Planned units fell slightly in late 2023 but remain at record levels.*

- *While starts and construction investment are likely to fall in 2024 and 2025, long-term multifamily development is expected to outperform single-family as major cities continue to see an influx of people due to employers embracing hybrid work. We also expect new developments further away from city centers in suburb or exurb markets as infrastructure continues to improve and expand.*

- *Across 47 of the 50 largest metros, buying a house is at least 60% more expensive than renting. This also doesn't account for the cost of general maintenance for a single-family home. The cost to rent is expected to grow 2.5% to 3.5% in 2024, aligned with historic averages. As rents continue to stabilize, homeowner expectations around rental prices will become more aligned with the market and eventually will be reflected in headline inflation. Affordable housing initiatives that support low-cost options from developers will be in the spotlight this election cycle, especially in areas where there has been a rise in homelessness.*

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