

MARKET OUTLOOK

CONSTRUCTION TRENDS

AT A GLANCE

CONSTRUCTION REPORT



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The commercial construction industry has maintained its resilience throughout the year despite inflationary pressures, persistent supply chain issues and an uncertain geopolitical landscape. Costs related to materials and labor have retreated from their recent peaks, and most are trending downward. In this report, we explore the volatility of materials, the rising cost of energy and the factors that have had the biggest impact on project delays or stops.



—NICK SANFILIPPO

Senior Vice President, Project Management



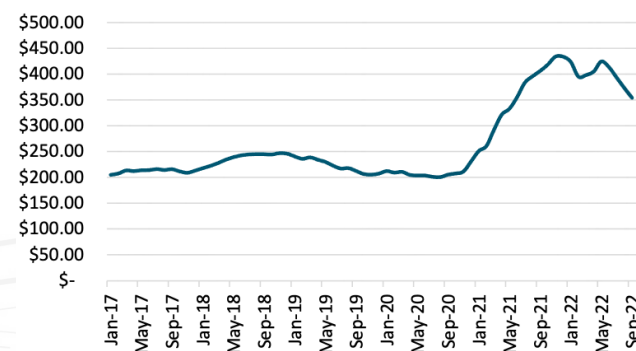
“Coming out of the past two years has allowed tenants, franchisees and franchisors to reinvent themselves in new ways. Turning those innovative ideas into reality and succeeding through successful projects is key. It also means that developers and investors can now bring projects to tenants that may have been overlooked.

This notion has contributed to an increase in adaptive reuse projects. With higher land costs and increased density, developers are taking a second look at existing facilities and thinking out of the box on redevelopment. In any metropolitan area, we are seeing 20th-century developments transform into 21st-century live, work and play environments.”

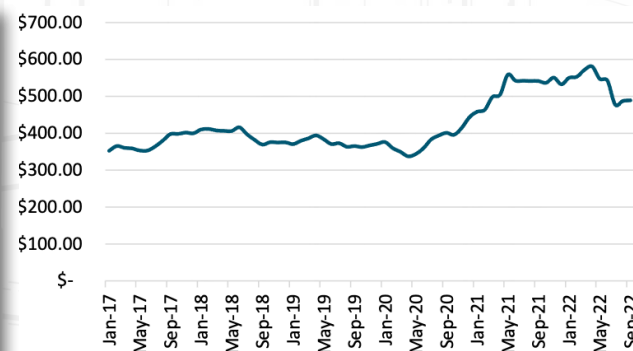
COMMERCIAL

CONSTRUCTION

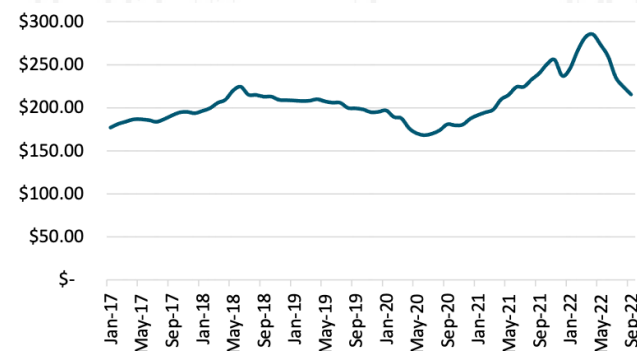
IRON PRICES



COPPER PRICES



ALUMINUM PRICES



STEEL PRICES



PRICES AS OF
11/01/2022

IRON

-5.05% MOM /
-10.28% YOY
\$353.72

COPPER

-0.37% MOM /
-9.66% YOY
\$489.26

ALUMINUM

-3.97% MOM /
-10.28% YOY
\$215.32

STEEL

13.24% MOM /
32.18% YOY
\$441.04

—ALEX OSTENDORF

Director, Project Management



Commercial construction relies heavily on the accessibility and affordability of certain raw materials. Steel, aluminum, iron and copper are amongst the most frequently used materials today. Although prices for most of these materials have come down from their recent peaks, prices remain elevated with respect to long-run averages. Expensive materials paired with supply chains in recovery and meeting demand for new development have become a challenge.

“Outparcel retail development with high visibility/walkability is in high demand. Notably, projects that follow a prototypical design have also been remarkably successful. Being able to re-create the same process repeatedly allows owners and operators to get ahead of supply chain issues and design revisions. Many QSR and retail build-outs follow this strategy and in turn allow for quicker, cost-efficient projects. Ultimately, we anticipate continued demand in all sectors of construction. Although costs, interest rates and land prices have increased, so has the demand for new developments, concepts and tenant locations. If demand stays strong, the construction industry will continue to prosper.”

LUMBER

PRICE INDEXES

HARDWOOD

DOWN -4.90% MOM /
UP 6.49% YOY

\$295.38

PLYWOOD

DOWN -4.79% MOM /
UP 20.05% YOY

\$313.61

SOFTWOOD

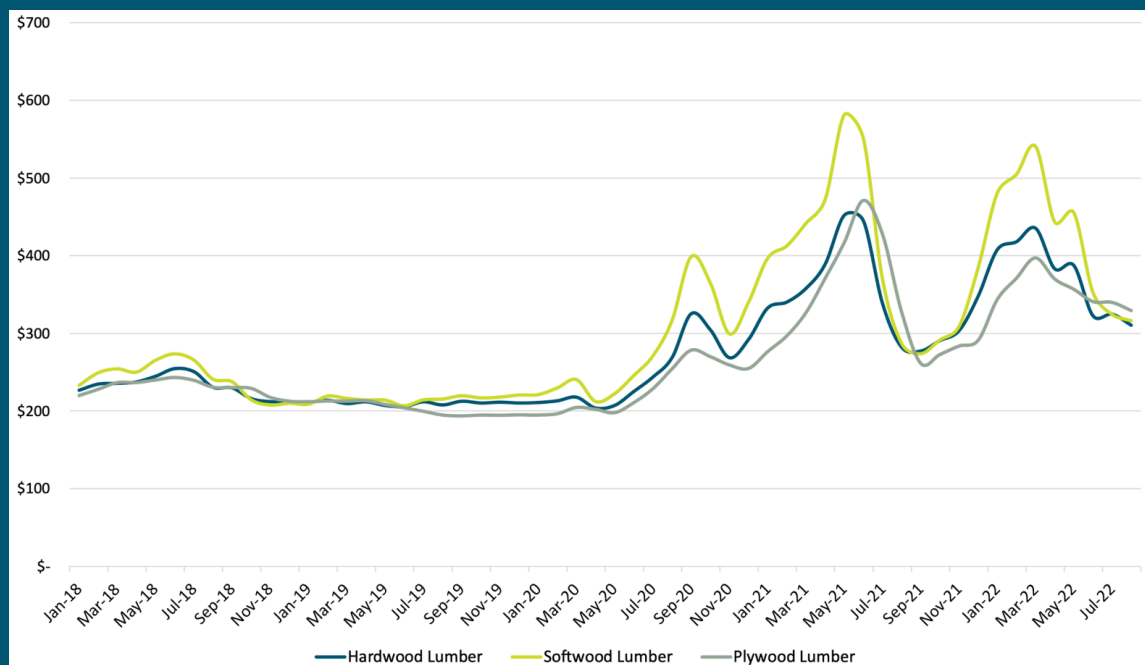
DOWN -1.24% MOM /
UP 14.06% YOY

\$312.37

PRICES AS OF

11/01/2022

LUMBER PRICE INDEXES



The persisting supply chain issues have created a “seesaw” effect in the pricing of lumber due to the volatile shifts in current delivery times. Shipping delays cause lumber prices to rise, and vice versa. With the influx in lumber prices, underwriting construction costs have become extremely difficult. Many developers have resorted to stockpiling lumber to avoid some of these issues; however, the industry is still trying to navigate this new landscape.



— **BEN MILLER**

Senior Director, Capital



As interest rates continue to increase, leverage points for construction deals continue to decrease to get the deals to pencil out and hit the required debt service ratios upon stabilization. There are still plenty of lenders in the market that are doing construction financing as long as the sponsors have strong liquidity and experience. We have been seeing lenders require at least 10%+ liquidity to the loan amount as a buffer to get these deals approved for either potential costs overruns or to right-size the loans, depending on where the rates are when they move into the permanent portion of their loan. These new underwriting standards have been causing many more projects to get delayed or tabled until there is more stability in the capital markets.

ENERGY

PRICES

**Prices as of 11/01/2022*

Oil Brent - \$91.57 per barrel (down -1.69% MOM / up 14.21% YOY)

Oil Crude - \$86.12 per barrel (down -3.49% MOM / up 10.58% YOY)

Heating Oil - \$4.12 per gallon (down -1.85% MOM / up 47.48% YOY)

Oil is one of the most critical commodities needed for construction since development today requires heavy machinery and considerable amounts of refined fuel. As Russia continues its campaign across Ukraine, Brent oil exports from Europe have fallen dramatically. Supply imbalances have forced the price of WTI oil to rapidly increase. Heating oil is intrinsically tied to the crude oil markets and has also experienced upward pricing pressure. It is unclear as to whether these prices will come back down to reasonable levels, but until then, we expect them to maintain their current trajectories.

ENERGY PRICES



—CASEY SIGGINS

Senior Director, Capital

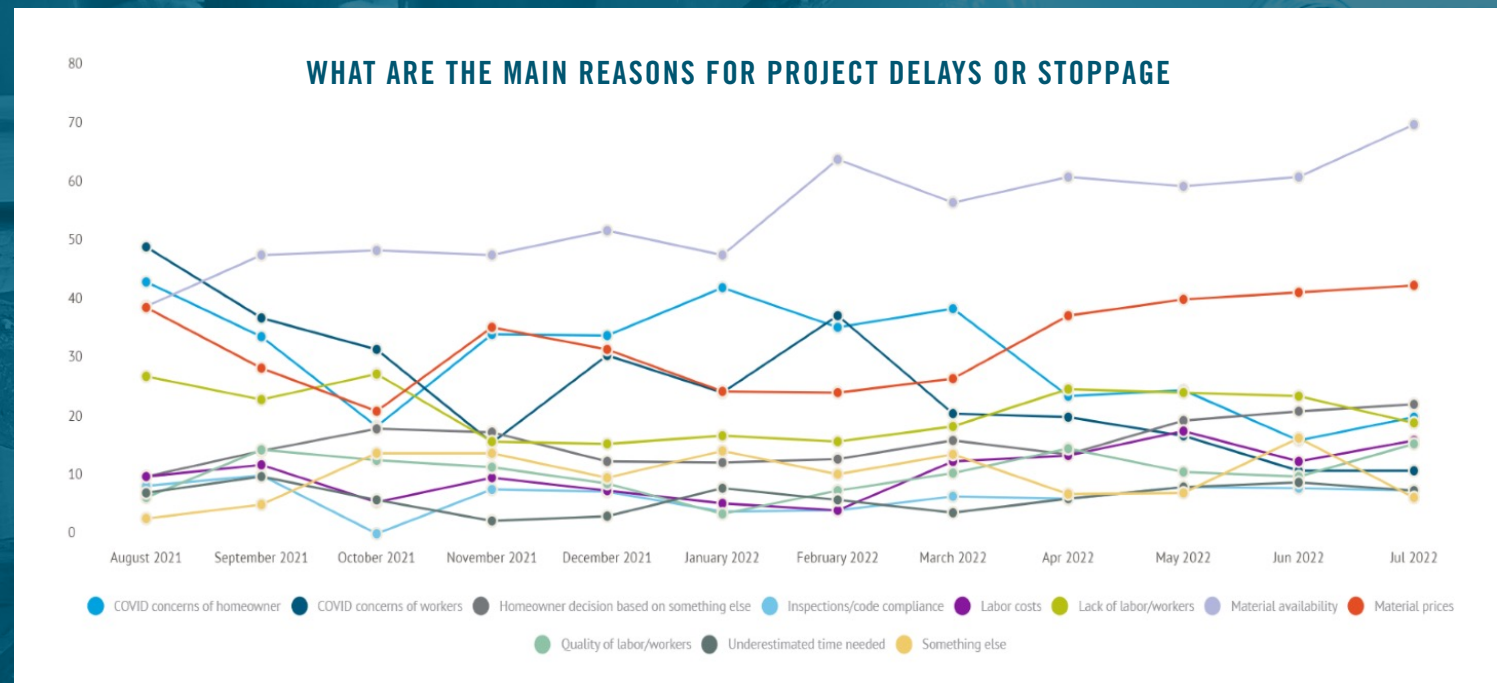


As interest rates continue to increase, supply & labor costs remain elevated, and future rental rate assumptions are being more closely scrutinized. The overall trend in the market has been lenders, both traditional and non-traditional, ultimately reducing their leverage points for new construction projects. As we see a fundamental shift in underwriting standards, projects are becoming increasingly difficult to “pencil-out” and hit the required debt service coverage metrics that are critical in obtaining construction financing. However, there is still ample supply of capital available in the market and capital sources have maintained a commitment to providing liquidity to the new construction market. As we approach 2023, we believe the projects that will receive the “green light” from lending sources most frequently will be those with project economics that work with very moderate rent-growth assumptions included and a well-capitalized, experienced development team attached to the project. We expect to see more conservative and restrictive liquidity covenants from traditional capital sources as well as an increase to required reserve accounts to hedge for cost-overruns and contingencies. Overall, the construction debt market will see a volume decrease in relation to the last 5 years, but the appetite for new construction is not going to go away like it did in '09-'10.

PROJECT DELAYS

The Home Improvement Research Institute has partnered with The Farnsworth Group to generate a monthly data tracker, where they consult professionals in the construction industry about what they're seeing in the marketplace. The report gives insight into delays, labor, materials and the types of issues that are currently impacting each of these factors. The below chart shows the material availability is by far the most impactful factor to construction delays. 71.3% of survey respondents said material availability is causing significant delays in project timelines, while 43.7% of those respondents said material pricing is the cause of delay. This data in conjunction with the data sets outlaid earlier in our report, concludes availability and pricing of building materials are having a serious impact on project timelines.

<https://www.hiri.org/>



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FOR MORE INFORMATION



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