MARKET OUTLOOK

Q2 2023 CONSTRUCTION TRENDS

UNPREDICTABLE FUNDAMENTALS CREATES CAUTIOUS OPTIMISM AROUND COMMERCIAL CONSTRUCTION IN 2023

The national commercial construction sector in 2023 is expected to face a range of challenges that may impact project timelines and construction costs. Experts and organizations across the country cautiously anticipate the outlook of commercial construction in 2023, citing concerns over unpredictable fundamentals such as supply chain disruptions, escalating materials costs and workforce shortages.

Total construction is expected to contract by 3.2% due to economic uncertainty, leading stakeholders to be reluctant in initiating new projects as credit tightens in certain markets (Cumming). Furthermore, commercial construction is projected to contract by 5.6% with a further decline of 7.5% in 2024 These declines reflect the cautious stance of stakeholders amidst economic uncertainties, emphasizing the need for strategic measures to navigate these challenges.

TOTAL CONSTRUCTION MARKET VOLUME BY SECTOR (X $1M, NOMINALIZED 2012$)

		2017	2018	2019	2020	2021	2022	2023	2024
Total Increase	YOY %	0.99%	-0.16%	0.76%	5.22%	-0.51%	-4.91%	-3.29%	2.63%
Residential	YOY %	8.00%	-1.38%	-4.86%	13.28%	12.66%	1.59%	-8.23%	4.71%
Commercial	YOY %	3.40%	1.89%	0.36%	-0.77%	-11.12%	-9.60%	-5.64%	-7.51%
Manufacturing	YOY %	-13.30%	1.96%	5.72%	-9.59%	-0.86%	5.55%	4.59%	-5.39%
Healthcare	YOY %	5.00%	-3.12%	1.79%	2.50%	-4.49%	-8.48%	-6.51%	1.94%
Education	YOY %	2.90%	0.55%	2.49%	-0.72%	-15.26%	-16.98%	-0.72%	4.61%
Other Structure	YOY %	5.70%	1.32%	1.34%	7.43%	-13.23%	-13.66%	-3.04%	1.43%
Infrastructure	YOY %	-8.90%	1.04%	8.35%	1.54%	-7.99%	-11.76%	7.05%	5.04%

Forecasted

SUPPLY CHAIN

Supply chain disruptions have emerged as a key concern affecting the commercial construction market in 2023, primarily due to the long-term impacts of the Covid-19 pandemic and ongoing world events. These disruptions encompass reduced international manufacturing of materials and machinery. However, there is positive news on the horizon.

As of June 2023, global supply chains have been gradually normalizing, despite persisting issues over the past three years. The Federal Reserve Bank of New York's Q1-2023 data reveals a relieving trend in supply chain pressure with the Global Supply Chain Pressure Index experiencing a decrease from a January reading of 0.96 to -1.32 (Federal Reserve Bank). This reading in April 2023 represents the lowest level observed since 2009, indicating a substantial easing of pressure. These developments offer hope for improved efficiency and stability in global supply chains moving forward.

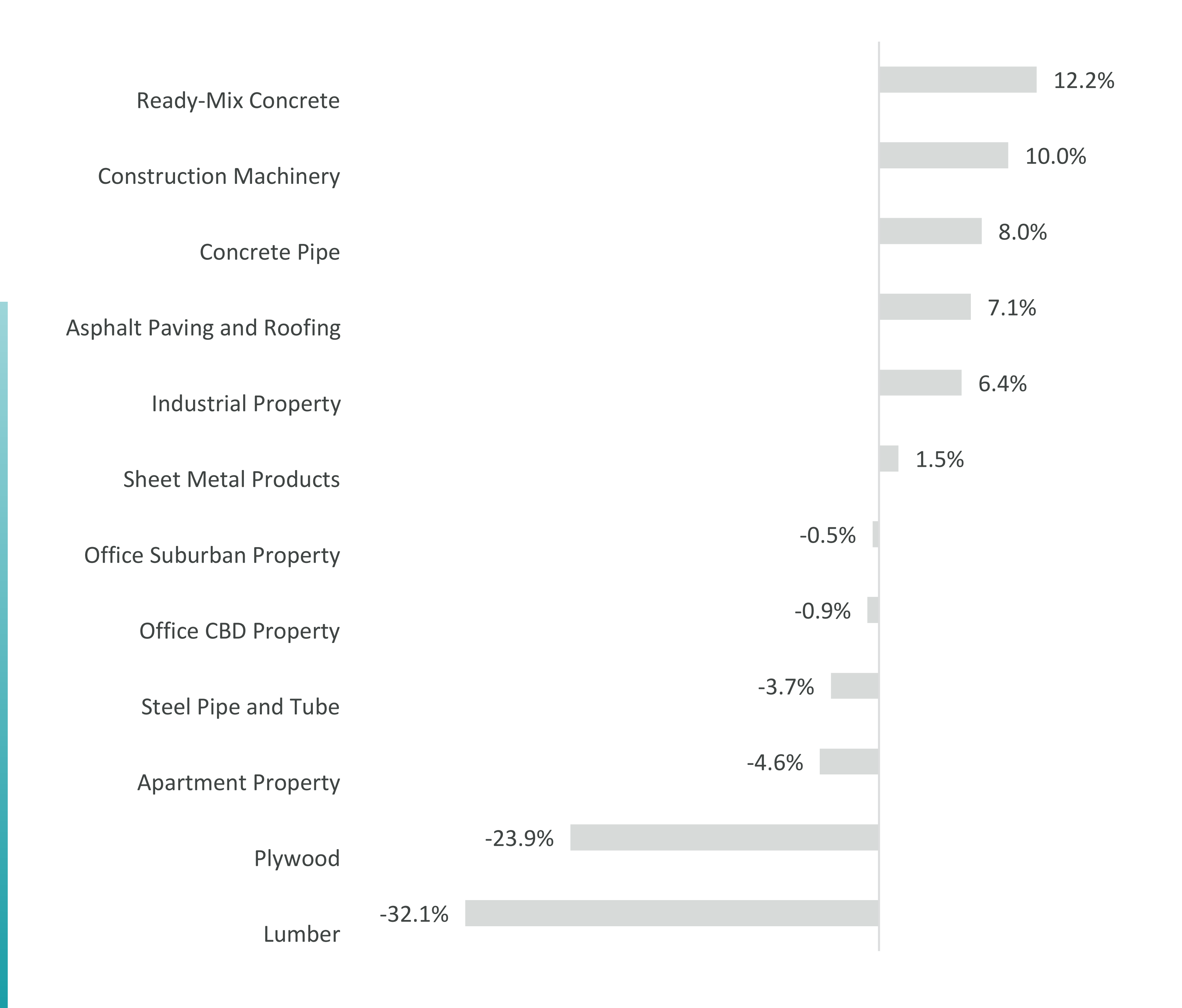
Considering global events is crucial when examining disruptions in the international supply chain. The ongoing Russia-Ukraine conflict has the potential to impact North European ports, rail and airfreight travel (JP Morgan). This could lead to limitations on the movement of materials, resulting in longer delivery times and increased export costs. Additionally, labor negotiations at the Port of Los Angeles, one of the largest ports globally, is going into its 10th month of negotiations regarding dockworker contracts and union representation (Wall Street Journal). Potential future impacts include port shutdowns and delays in standard processes, ultimately leading to reduced operations.

MATERIAL COST

Supply chain issues coupled with rising interest rates have increasedmaterial costs across the board, and subsequently, increased pressure. National organizations express their optimism regarding the future pricing trends of iron and steel, lumber and plywood, expecting these materials to maintain their current prices or potentially even witness a continued favorable downward trajectory.

The National Commercial Property Prices Index has experienced a continuous decline across all property types for six consecutive months. This downward trend in pricing, not witnessed since the aftermath of the global financial crisis in late 2010, has been particularly pronounced in the apartment sector, which saw a significant decline of 4.6% compared to the previous year (MSCI). Additionally, office space in central business districts (CBDs) also recorded a decline of 0.9% from the previous year.

YOY PERCENT CHANGE IN CONSTRUCTION MATERIALS COST



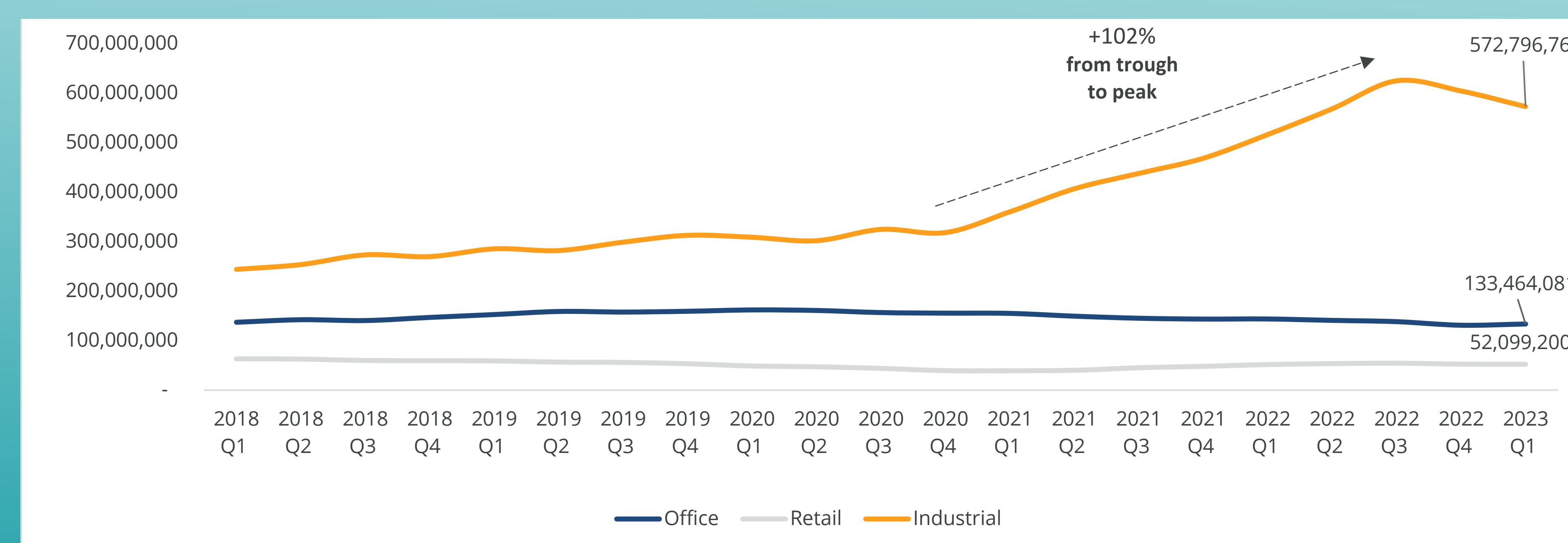
WORKFORCE

The commercial construction sector is currently experiencing significant workforce shortages in skilled labor, which is having a notable impact on the industry. Despite a remarkable 28% growth in employment within the sector since 2013, with its highest quarter-over-quarter growth of 2.1% in Q1-2023, the demand for workers continues to outpace the increased employment levels. The industry has been experiencing difficulties in attracting and retaining skilled workers, including architects, engineers and construction workers. This shortage can be attributed to several factors, including an aging workforce, a decline in vocational training programs and competition from other industries (ABC).

NPR reported the percent of people applying to construction jobs has remained flat since 2020 while the industry demand increases (NPR). The Associated Builders and Contractors (ABC) reports that 1 in 4 construction workers are older than 55 and are retiring at a faster rate than younger workers are replacing them. This is catalyzed by the fact that the younger workforce seeks more flexible work environments like work from home instead of on-site work. The president and CEO of ABC states the construction industry would need to hire hundreds of thousands of skilled professionals to keep up with the demand and normal pace of hiring in 2023.

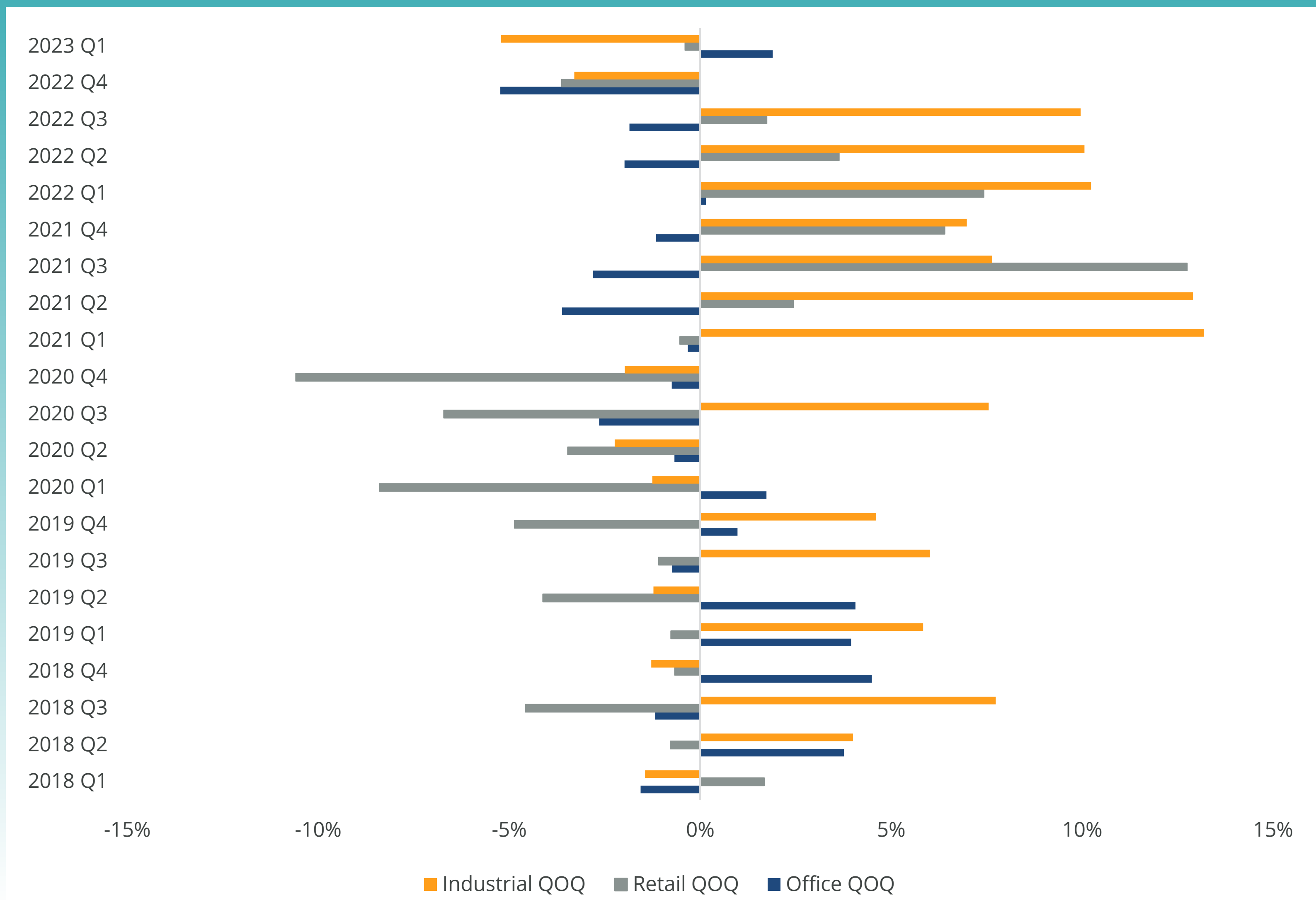
To mitigate this issue, industry stakeholders are exploring strategies such as increasing training programs, leveraging technology to improve productivity, investing in DEI programs and hiring talent from underserved communities including overseas to attract a broader talent pool (Cumming). According to a Cumming report, the Association of General Contractors called on the goverment to allow more companies to sponsor more foreign born employees and support increased technical education among their workers.

UNDER CONSTRUCTION S/FT



NATIONAL NEW CONSTRUCTION ANALYSIS

UNDER CONSTRUCTION QOQ GROWTH BY ASSET CLASS



The national industrial pipeline experienced a remarkable surge in under construction square footage from Q1-2020 to its peak in Q3-2022, registering a significant 102% increase. This historic growth can be attributed to the rising demand for warehouse and industrial space, fueled by the exponential increase in online shopping and consumer consumption. As consumers shifted their purchasing habits towards e-commerce, companies raced to meet the new demand, resulting in a surge of new logistics and flex developments. Since then, there has been a slight decline of 8% in under construction s/ft for industrial space. Despite this softening, the sector's construction activity remains at historically high levels, surpassing previous expectations.

In Q1-2023, the industrial construction landscape faced a potential shift due to concerns about an impending recession in the national market. Retailers and multi-national companies responded by halting large warehouse and distribution development projects. Notable examples include Target's withdrawal of plans for a 525,800 s/ft warehouse in the Boston area, and Amazon pausing on industrial expansions that would have resulted in 21 new projects (Costar). These project halts indicate a cautious approach by market players as they assess the potential economic impact and adapt their construction strategies accordingly.

The retail sector faces many challenges that impact construction trends. Economic headwinds, supply chain disruptions, rapidly changing consumer behaviors, labor issues and diminished consumption have created a complex environment for retailers (Deloitte). As a response, retail construction is projected to decline in 2023 and 2024. Retailers are shifting their focus towards improving profit margins and prioritizing store optimization rather than investing in new construction. The office construction market is expected to undergo a decline in the coming years due to several factors. Firstly, the market is saturated with leasable office space, leading to decreased demand for new office construction projects. Secondly, the national economic slow down has influenced companies' expansion plans, prompting them to reassess their office space requirements. Lastly, many national companies are expected to reduce or delay their office construction projects, diverting their focus towards optimizing existing spaces and exploring flexible work arrangements (RE Journals).

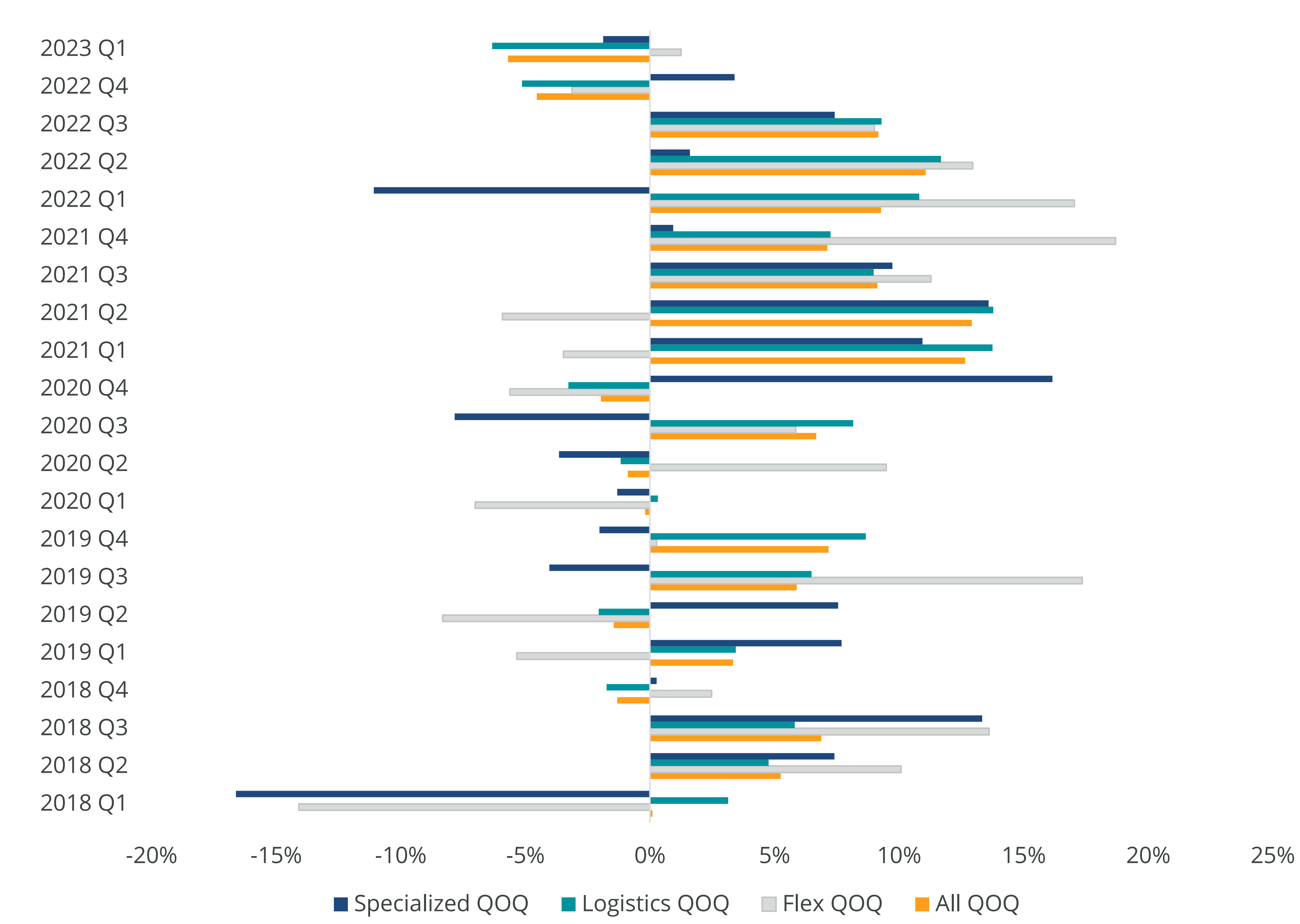
The commercial construction sector is expected to experience a decline in spending with an anticipated drop of 1.4% across all sectors, including industrial construction which has exhibited notable growth. Stakeholders are predicted to diversify their portfolios by shifting away from office spaces and towards mixed-use spaces (Cumming). The latest report from the AIA on their Architectural Billings Index reveals these April readings, (AIA). The billings recorded at 48.5 and design contracts scored 49.8 (an ABI score under 50 indicates a decline in firm billings). Although a backlog of orders currently fuels commercial construction throughout 2023, the market is projected to cool down in 2024 due to a decrease in economic activity (Construction Dive). AIA predicts that commercial construction will slow down to under 1% in 2024.

NATIONAL NEW CONSTRUCTION ANALYSIS

Despite the challenges posed by supply chain disruptions, increased material costs and workforce shortages, there are strategies that industry participants can employ to navigate the commercial construction sector in 2023.

Collaboration and communication among project stakeholders will be crucial to proactively identify and address supply chain issues. Adopting technology-driven solutions such as prefabrication, modular construction and automation can help mitigate material cost increases and alleviate dependency on traditional supply chains. Moreover, investing in training and development programs, promoting apprenticeships and fostering industry partnerships can help alleviate the workforce shortage and attract new talent to the construction sector.

INDUSTRIAL BY TYPE QOQ GROWTH



5 LARGEST UNDER CONSTRUCTION PROJECTS

The following tables present the top 5 largest under construction projects in the Southeast as of Q1 2023. These projects provide valuable insights into the development focus and specialization of each market.

Florida's under construction projects experienced a 25% increase from January to May compared to the same period last year.

FLORIDA

Address	Building name	Type of property	Class	RBA
8815 Lockheed martin blvd	Universal Epic Universe	Sports and entertainment	Class B	4,791,600
	Gas Worx	Multi-family	Class A	3,000,000
550 NW 24th street	Mana Wynwood-Residents	Multi-family	Class A	3,487,000
	Rithm At Uptown	Multi-family	Class A	1,627,000
1400 Channelside Dr	Gas Worx	Multi-family	Class A	3,000,000
444 Brickell Ave	One Brickell	Multi-family	Class A	2,000,000
2200 E fowler Ave	Rithm At Uptown	Multi-family	Class A	1,627,000

GEORGIA

Address	Building name	Type of property	Class	RBA
120 Saturn Parkway	InterstateWest	Industrial	Class A	2,000,000
5420 Tulane Road	Childrens Healthcare of Atlanta	Healthcare	Class A	1,900,000
0 TN-222 Highway	Building 3B	Distribution	Class A	1,500,815
	Facebook Data Center	Data	Class A	1,500,000
381 Davis Lake Road	Gardner Logistics Park	Industrial	Class A	1,438,962

LOUISIANA

Address	Building name	Type of property	Class	RBA
1665 corporate fullfillment center	Amazon Fullfillment center	Industrial	Class A	3,400,000
34471 Highway 30		Industrial	Class A	642,000
4436 Veterans Memorial Blvd	The Metro at clearview	Multi-family	Class A	592,000
68325 Highway 59		Industrial	Class A	543,000
Rivermark 185		Industrial	Class A	500,000

TENNESSEE

Address	Building name	Type of property	Class	RBA
120 Saturn Parkway	General Motors	Manufactoring	Class A	2,800,000
5420 Tulane Road	Stateline North, Building 1	Distribution	Class A	1,007,838
0 TN-222 Highway		Manufactoring	Class A	1,000,000
1432 Gateway Drive	Facebook Data Center	Data	Class A	982,000
1225 Richard Petty Way		Data	Class A	981,568

SOUTH CAROLINA

Address	Building name	Type of property	Class	RBA
0 fort prince blvd	Universal Epic Universe	Industrial	Class A	1,501,500
7755 Augusta Road	SunCap Enterprise 85 Industrial Park	Industrial	Class A	1,500,000
700 W Fairfield Road	MDT	Industrial	Class A	1,350,720
8100 Palmetto Commerce Parkway	Upstate Corporate Park Spec Building	Distribution	Class A	1,321,840
1120 E Mount Olive Road	Gas Worx	Multi-family	Class A	1,189,440

NORTH CAROLINA

Address	Building name	Type of property	Class	RBA
475 E Nc 152 Highway	Amazon Fullfillment center	Warehouse	Class A	1,412,980
34471 Highway 30		Warehouse	Class A	1,256,278
4436 Veterans Memorial Blvd	The Metro at clearview	Distribution	Class A	1,064,880
68325 Highway 59		Warehouse	Class A	1,050,560
Rivermark 185		Distribution	Class A	1,006,462

ALABAMA

Address	Building name	Type of property	Class	RBA
20 Old Highway	Huntsville Logistics Center	Industrial	Class A	1,261,980
7351 Old Tuscaloosa Highway		Retail	Class A	905,985
Highway 31	Amazon Receive Center	Distribution	Class A	650,000
6951 Joy Circle		Multi-family	Class A	510,056
23008 Perdido Beach Blvd	Phoenix Gulf Tower	Mult-family	Class B	500,000

MISSISSIPPI

Address	Building name	Type of property	Class	RBA
Progress Way	Legacy Park Building 5	Warehouse	Class A	1,150,763
0 Highway 302	Building A	Industrial	Class A	789,000
I-269 Industrial Park North Road	I-269 Industrial Park	Industrial	Class A	707,940
Interstate Blvd	Horn Lake 55 Business Center	Industrial	Class A	581,883
0 Cockrum Road	Cascades Olive Branch	Multi-family	Class A	300,000

ARKANSAS

Address	Building name	Type of property	Class	RBA
7103 Zeuber Road	South Port Commerce Center	Industrial	Class A	537,845
William J Clarke	Westrock Coffee	Industrial	Class A	530,000
12506 Vimy Ridge Road	Vilages at Whisper Valley	Multi-family	Class A	360,000
Walton Family Whole Health and Fitness		Sports & Entertainment	Class A	316,800
2700-2704 Champions Drive	Hutton Multi-family Development	Multi-family	Class A	313,500

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