

Construction Market Recap

The recent bank failures could trigger a shift in appetite and structure of private financing for construction projects. Lenders may require more skin in the game which could leave Developers in a position of great uncertainty. Confirmation of financing with full clarity around the guarantors of the loan will help ensure undue shift of completion risk where the contractor is ultimately responsible for fulfillment of the loan obligation in addition to the physical completion of the project.

At the conclusion of 2022, there continues to be a mix of projections amongst the various construction sectors. The sectors with the most favorable and stable outlooks include:



Communication

Several new programs will be emerging in the communication space which will lead to increased spending. Expect an increase in construction demand for communication infrastructure in the near future. Hybrid working and learning will increase demand for flexible and fast networks.



Amusement and Recreation

Opportunities in amusement parks, casinos and meeting/performance centers will improve due to dissipating Covid-19 concerns. Large projects in this space will experience challenges due to the economic environment surrounding interest rates and other economic pressures including a weakened consumer purchasing power.



Multifamily Residential

In the near-term forecast, increasing mortgage rates will force more to rent, driving the need for affordable housing and rent caps. Simultaneously, rental price increases will continue to drive more development in multi-family and mixed-use properties.



Sewage and Waste Disposal

Much of the \$50 billion IIJA financing is made available through the Drinking Water State Revolving Funds, with approximately \$15 billion going towards replacing lead water lines. Wastewater restrictions continue to be a focal point, forcing more money into the physical development of infrastructure and data capture.



Highway & Street

Nearly \$400 billion of IIJA highway funds have been rolled out, making way for shovel-ready projects to fill out the next two years. America's aging bridges will be addressed over the coming years with these funds. The extreme cost increases over the past few years are expected to flatten.

Other Construction Segments

- Single-Family / Improvements
- Health Care
- Power

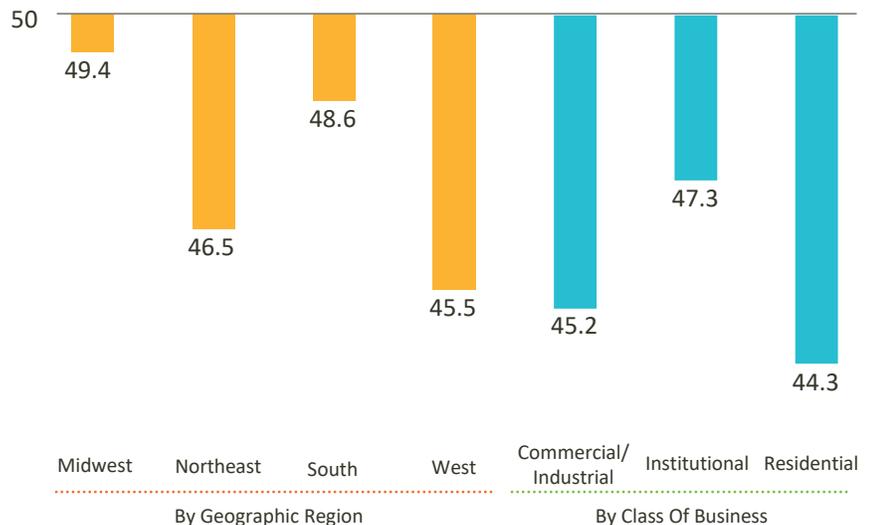
Key Construction Markets

Markets expecting the most construction activity over the next 5 years:



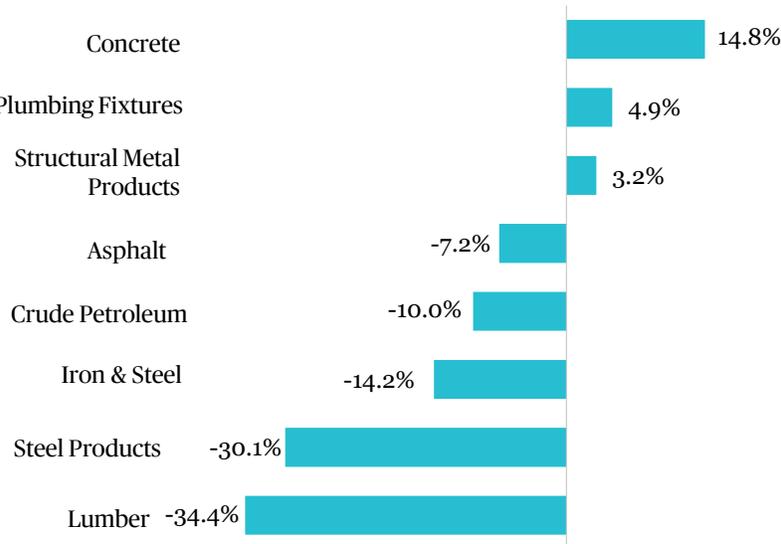
Architectural Billings Index

The Architectural Billings Index was 47.5 for the US as of December 2022. This is the first time the ABI declined for three consecutive months since December of 2020. For the second consecutive month in 2022, billings in all geographic regions and classes of business have declined. Billings remain softest in the West and Northeast regions, with readings of 45.5 and 46.5.



Materials Prices

Material prices continued to fluctuate with inflation as the year concluded. Some notable price changes to key construction materials year-over-year included:



Inflation, Bank Failures, Rising Interest Rates

Bank failures, inflation, interest rate hikes and craft labor shortages are the headline in our most recent economic review. With this culmination of economic stress, it is imperative to underwrite the financial health of your valued partners. This includes subcontractors, suppliers and even owners. Those dependent on bank debt for cash flow will have a more difficult time navigating the current environment. From increased costs to tighter lending requirements, these issues will surface for you or a firm you've come to rely on. A financial wellness check will allow you to forecast the weeks, months and year ahead while bringing to light potential pitfalls.

Despite the bleak outlook for the overall economy, many contractors have full backlogs and a strong pipeline. Robust spending in the public sector (IJA) as well as certain sectors on the private side, the construction economy remains strong. Transparent communication regarding the impact of these economic headwinds with all of your valued partners is a necessity in your approach to project, owner, subcontractor and/or supplier selection.

Employment Figures

Roughly **78%** of states have seen an increase in construction employment levels since December 2021. The largest percentage gains were in:

- 1 Rhode Island 17.3%
- 2 Nevada 13.4%
- 3 Nebraska 10.9%
- 4 Utah 10.4%
- 5 Tennessee 9.2%

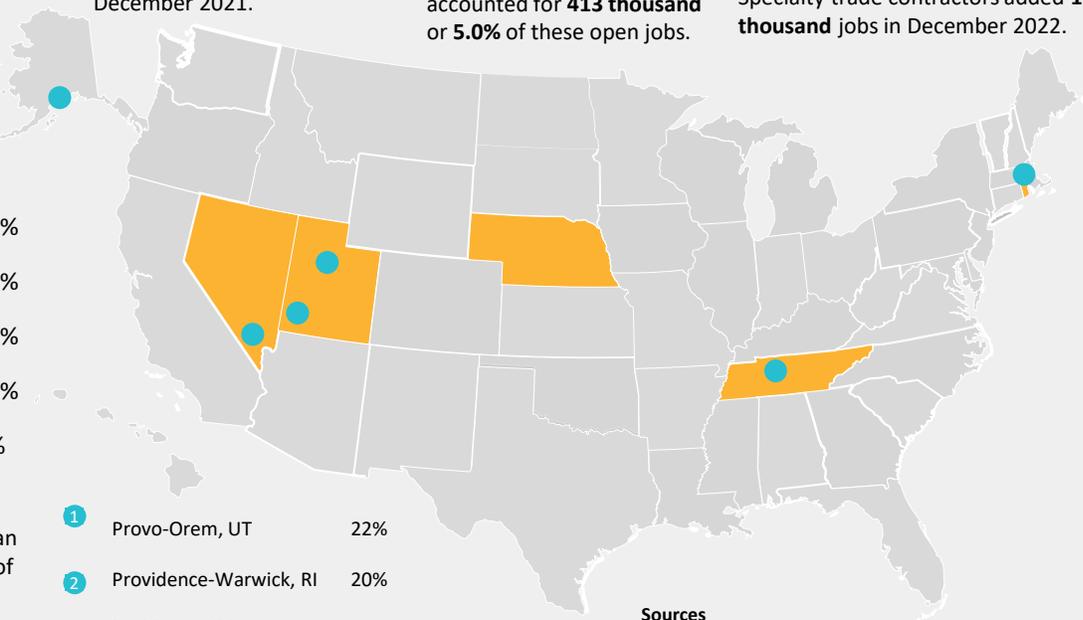
Similarly, **59%** of metropolitan areas have seen some level of increase from a year ago in December 2021. The largest percentage increases were in:

- 1 Provo-Orem, UT 22%
- 2 Providence-Warwick, RI 20%
- 3 Las Vegas, NV 16%
- 4 Knoxville, TN 16%
- 5 Anchorage, AK / St. George, UT 12%

As of December 2022, **82.4%** of able-bodied persons aged 25-54 are currently in the workforce, a marginal improvement from **81.9%** in December 2021.

At the end of December 2022, the number of job openings in the U.S had increased to **11.0 million**. The construction industry accounted for **413 thousand** or **5.0%** of these open jobs.

Nonfarm Payroll Employment increased by **223 thousand** in December 2022. Construction employment continued to trend up in December, adding **28 thousand** jobs. Specialty trade contractors added **17 thousand** jobs in December 2022.



Sources

US Bureau of Labor Statistics
US Chamber of Commerce
AIA Architectural Billings Index