2024 Construction Spending Update

November 1 Data Release

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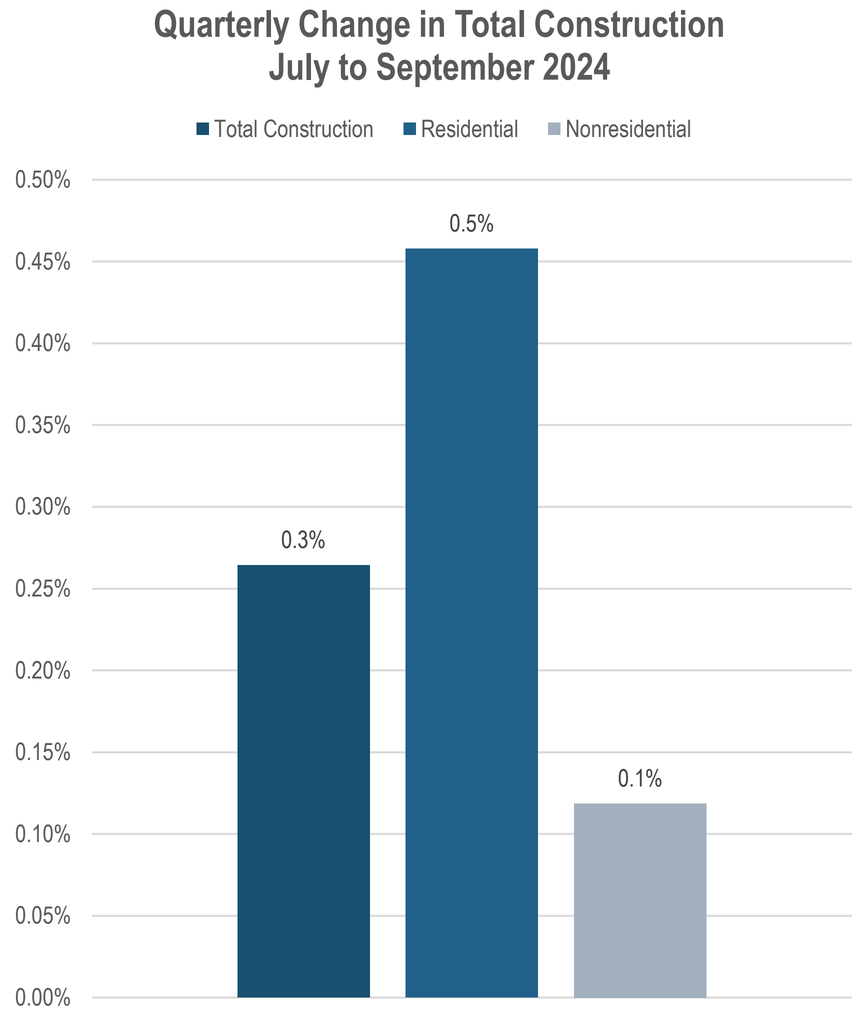
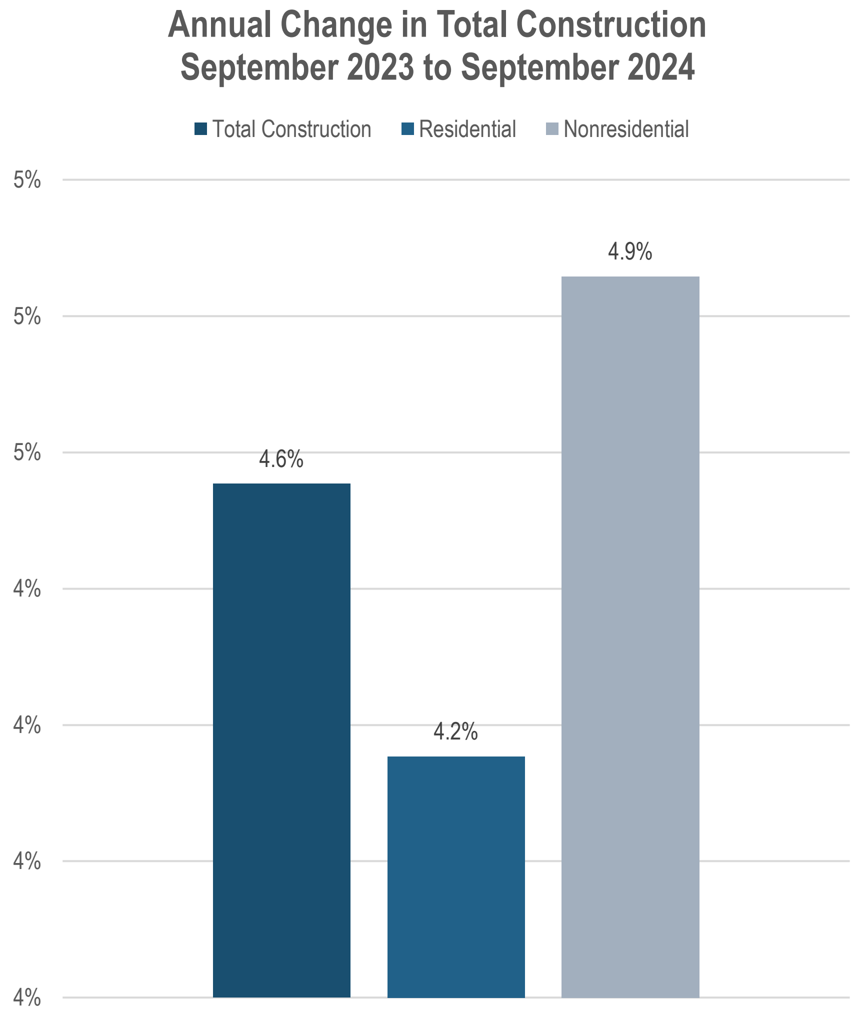
Advisory Group

Overall Construction Spending





- While overall construction showed slow declines over the first half of the year, this trend reversed in Q3 with slight increases across both Residential and Nonresidential segments.
- Residential construction increased 0.5% in Q3 after a 1% decline in Q2.
- Nonresidential construction grew 0.1% this quarter after a 0.4% decline over the previous quarter.
- On an annual basis, construction spending is up a healthy 4.6% since September 2023.

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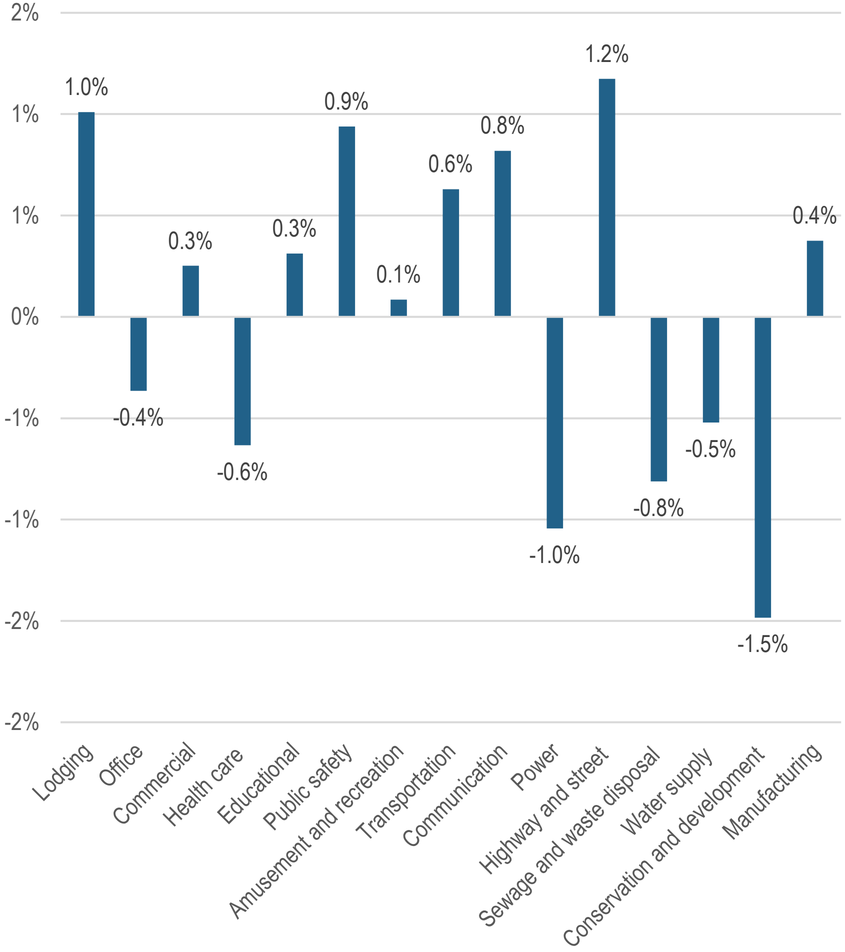
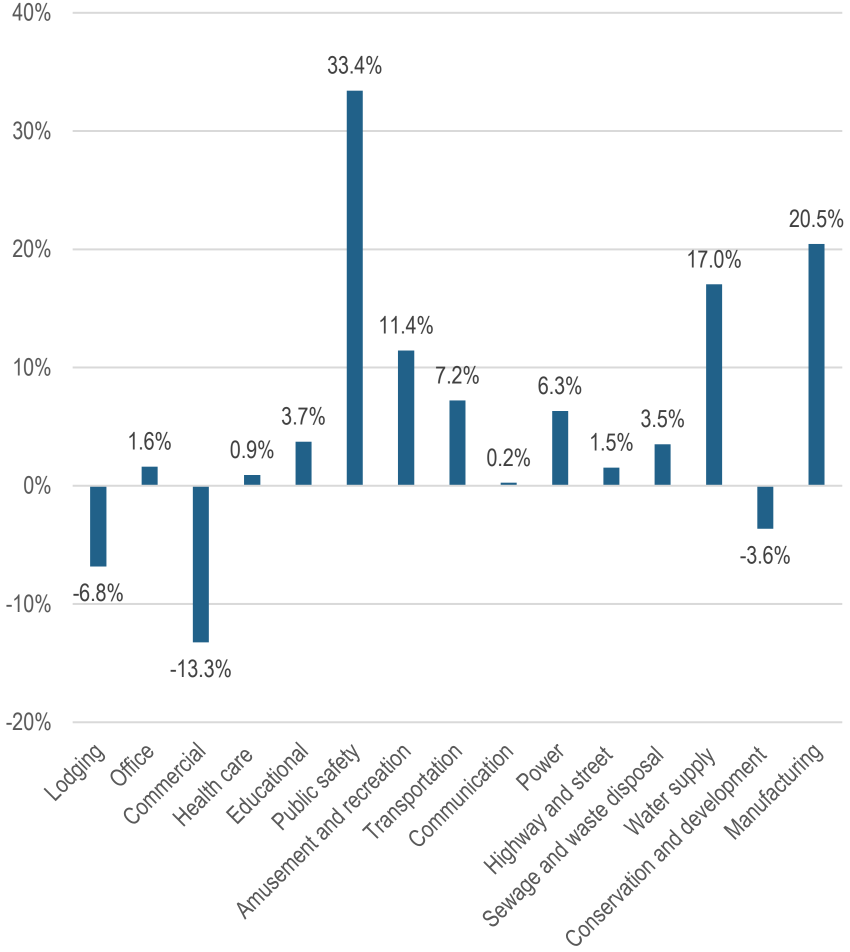
Source: census.gov

Nonresidential Construction

Quarterly Change in Construction Put in Place
July to September 2024



Annual Change in Construction Put in Place
September 2023 to September 2024



- On an annual basis, project-to-project Nonresidential segments are positive; Public Safety, Water Supply, and Manufacturing lead the way. Negative segments are limited to Lodging and Commercial.
- Quarterly numbers are generally more positive than they were in Q2. Office and Healthcare were down a bit along with Power and Water/Wastewater. Healthcare has been relatively flat for the last year so the quarterly slowing may be project-to-project variation rather than a trend. The top-level Office number shows a flat market as well, but this number includes Datacenter. When Datacenter is split out a clear trend is apparent (see next slide).
- Manufacturing is in a period of long-term growth, reaching levels three times historical norms, and continues to show growth.

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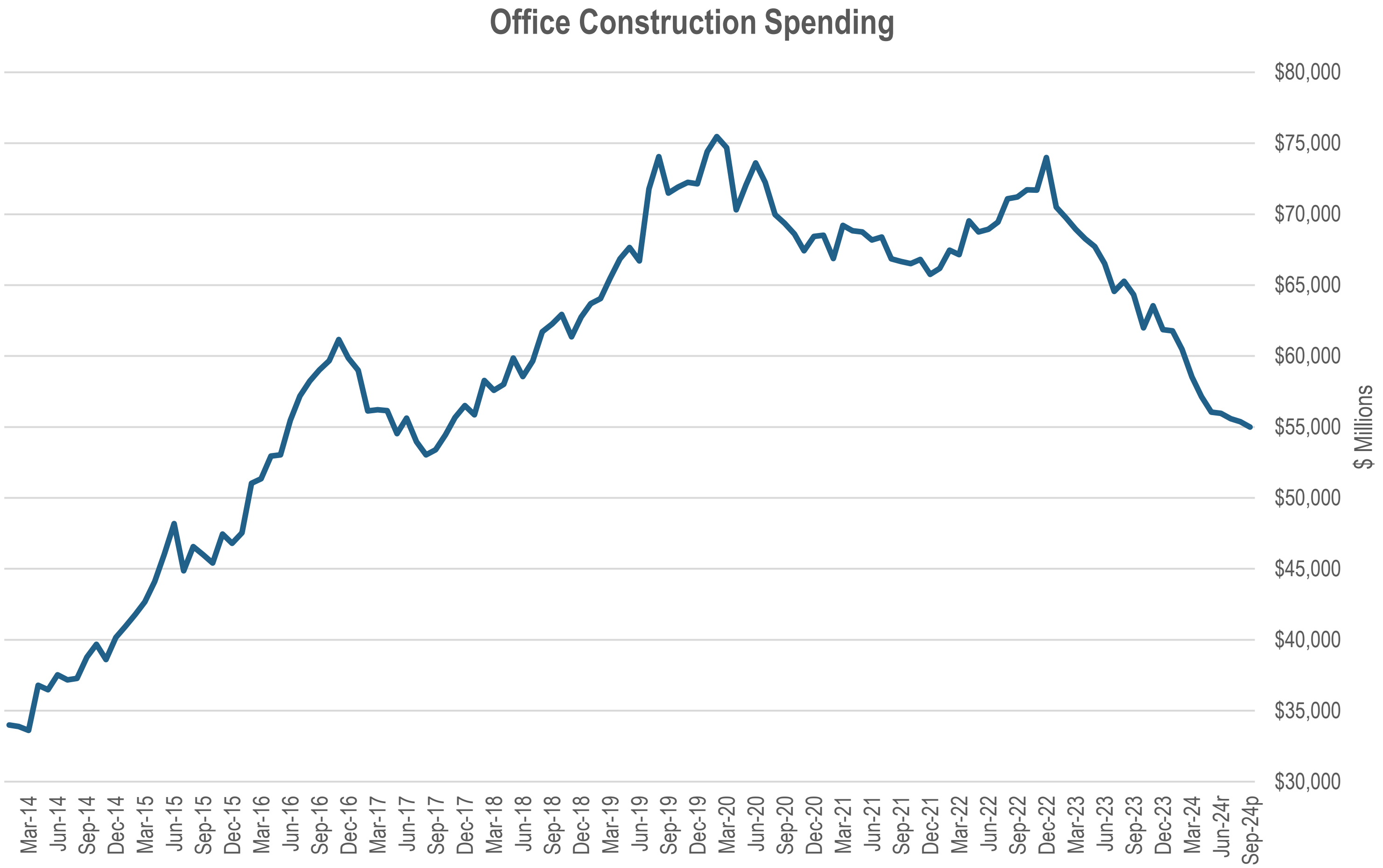
Source: census.gov

Office Construction is in a Period of Consistent Decline

- As a bit of a historical relic, the Census Bureau includes Datacenter spending as part of Office construction spending. This began when the "Datacenter" was often the closet where companies hid their servers and IT staff. This grouping did not really distort the data until recently, as Datacenters accounted for less than 10% of Office spending as recent as February 2020. Today Datacenter spending is 34% of Office spending. As a result, the top line Office construction spending number (up 1.6% over the last year) does not tell an accurate story of what is happening in the Office construction market.
- The real story can be seen to the right when Datacenter construction is removed. The Office market peaked in March 2020 at a record $75 billion annually. This fell to $65 billion annually due to Covid, but then bounced back to $74 billion in December 2022.
- Since then, the market has contracted significantly. It is currently at $55 billion annually, down 27% from its peak.



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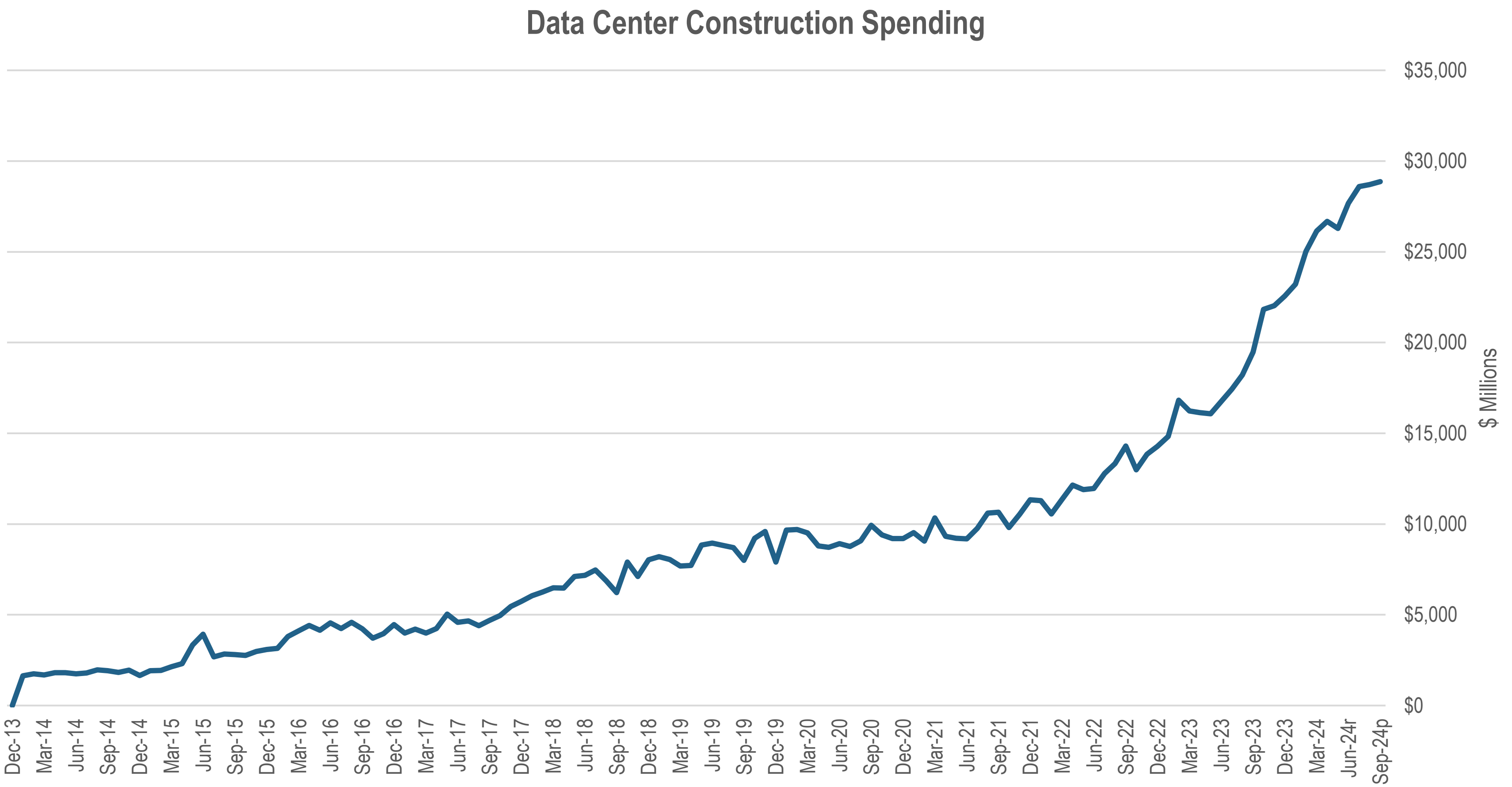
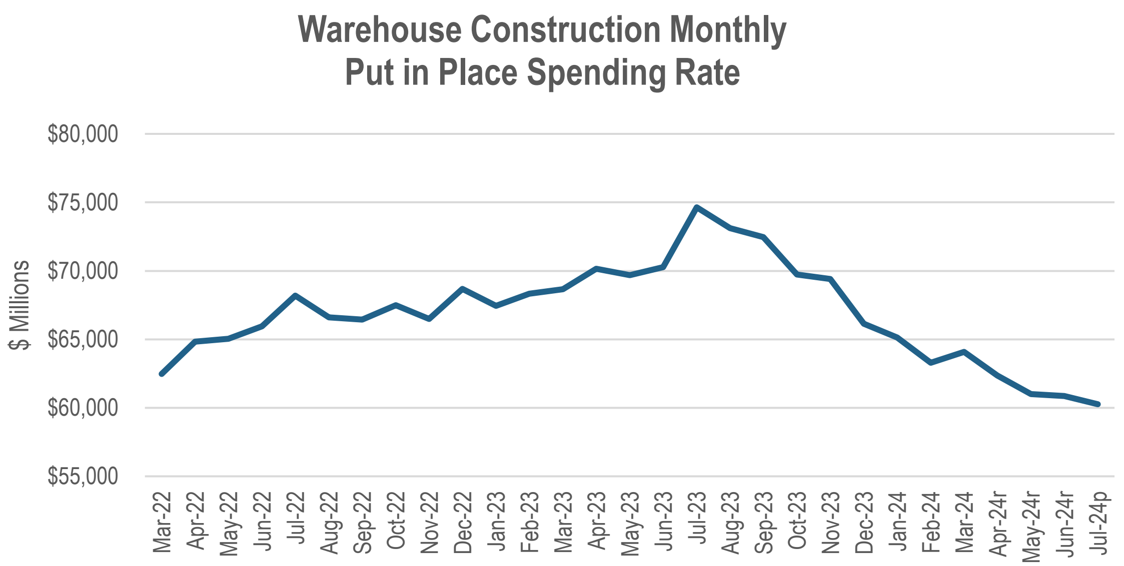
Datacenter construction has only accelerated over the last year and is one of the fastest growing construction segments.

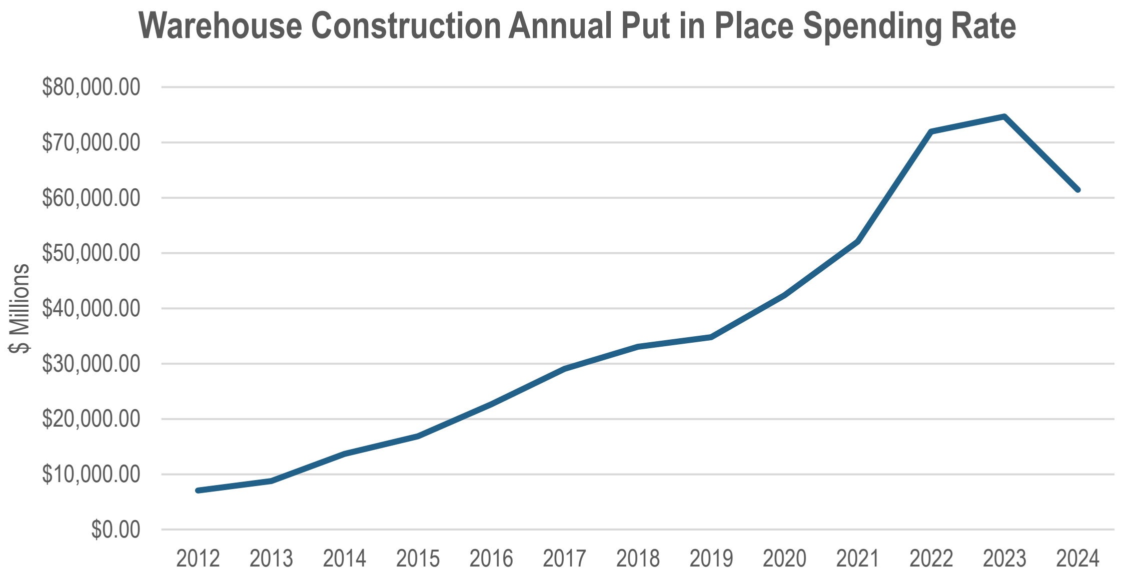


- From 2016 through the end of 2021, Datacenter construction grew from $5 billion annually to $10 billion.
- Beginning in 2022 and accelerating in 2023, this spending has grown to $29 billion annually.
- Long-term drivers of this market remain positive, and growth will likely continue. It would not be surprising to see the value of Datacenter spending match the value of Office spending within the next three to five years.
- For perspective, the current $296 billion annual spend on Datacenters is now greater than the $27 billion annual spend on Hospitals.

Warehouse construction continues to be down from its recent peak, in what we expect to be a two-year slowdown.

- Warehouse construction has been the major driver of Commercial construction and a primary driver of overall growth in Nonresidential construction over the last decade.
- Over the last year we have seen a decline from $75 billion annually to $60 billion annually. Several contractors in this market have indicated to us that they see the market as overbuilt in the short-term, though long-term prospects remain strong.
- Growth in e-commerce is the largest underlying driver of this spend. That growth is projected to be 8% to 9% through 2029. As a result, we would expect further declines in Warehouse to be limited, with growth resuming by 2026.





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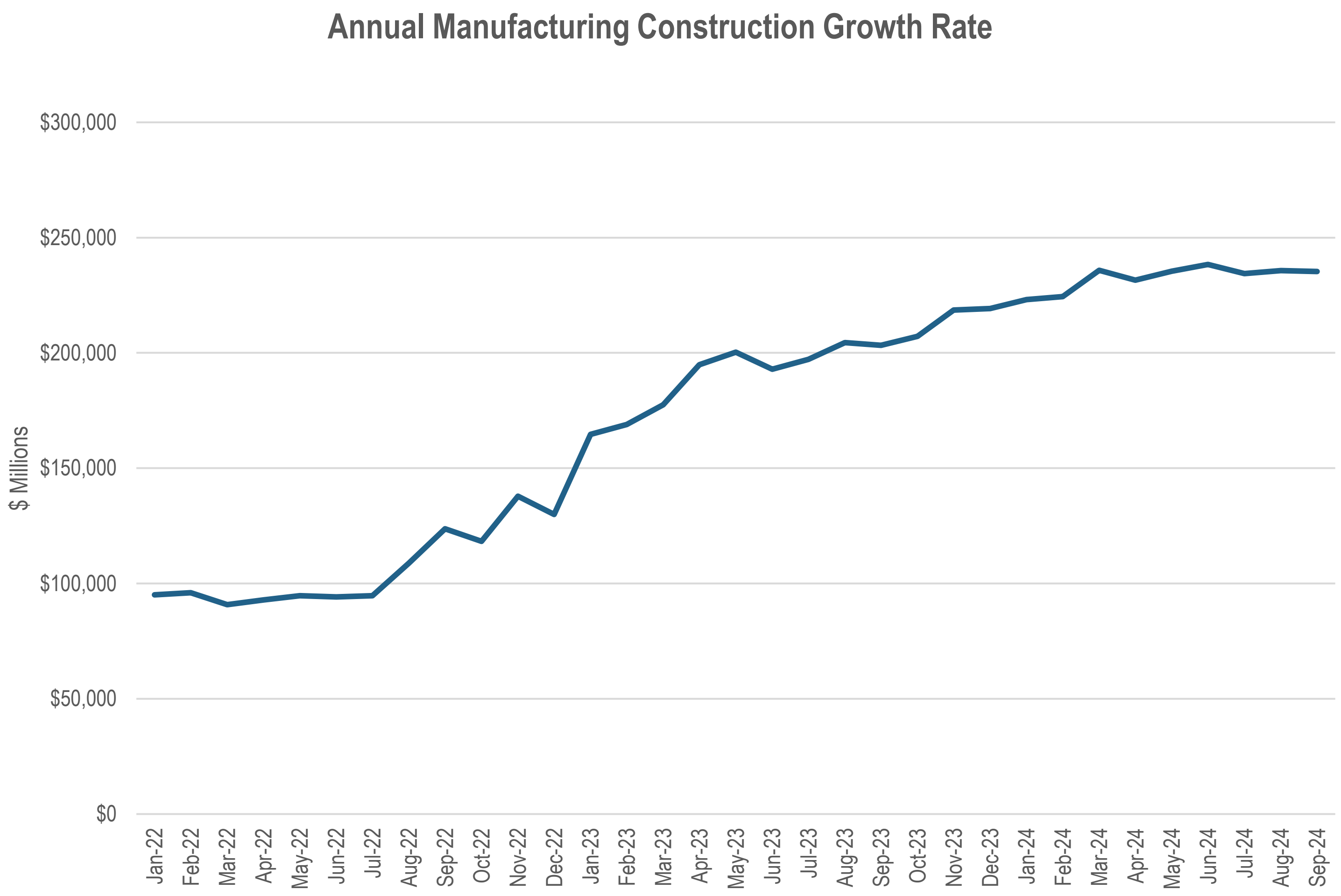
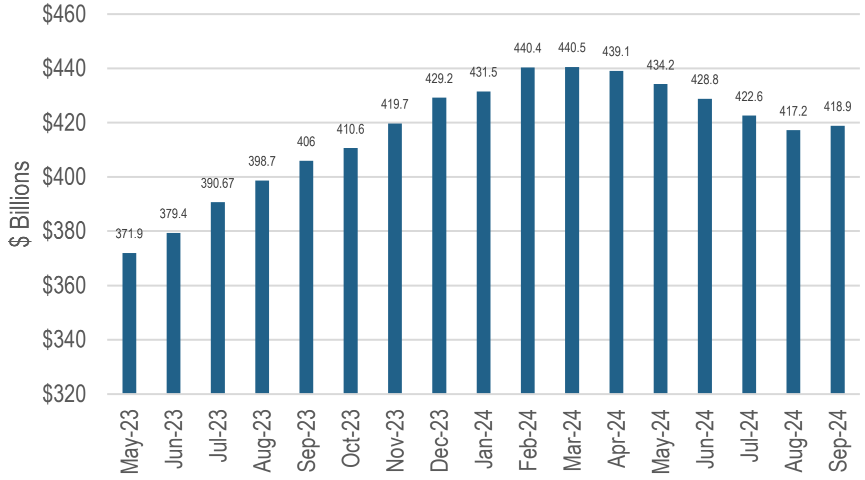
Manufacturing Construction



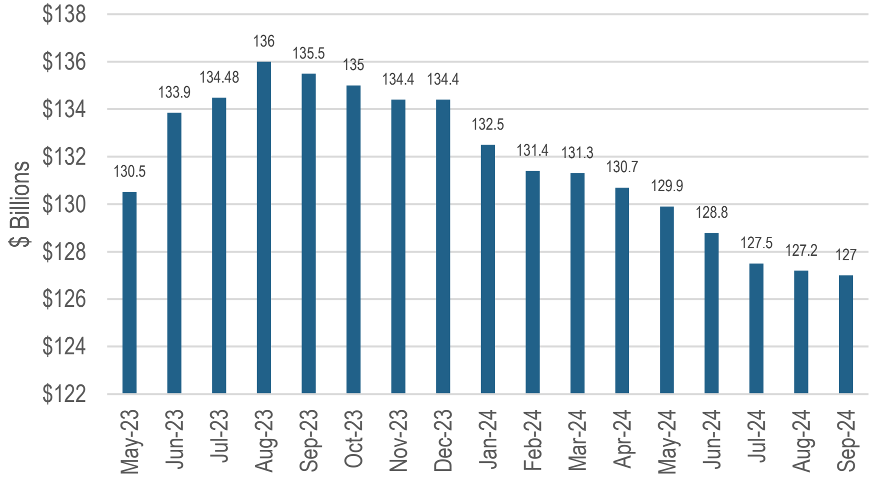
- Manufacturing construction continues to maintain record levels of spending which are three times the levels seen during the previous decade.
- Driven by multi-year mega-projects, these high levels of spending should continue for at least another year or two.
- The change in administration adds some uncertainty to this market beyond 2026. The Chips Act and the Inflation Reduction Act are major drivers of spend. As an example, Speaker Johnson recently indicated a desire to repeal the Chips Act but immediately walked back this statement when Republican members of Congress pushed back.
- The large projects driven by this legislation are spread across the nation, including many Republican-led states. It will likely be difficult to gather the congressional support to drastically reduce the government incentives supporting this spending.

Residential Construction

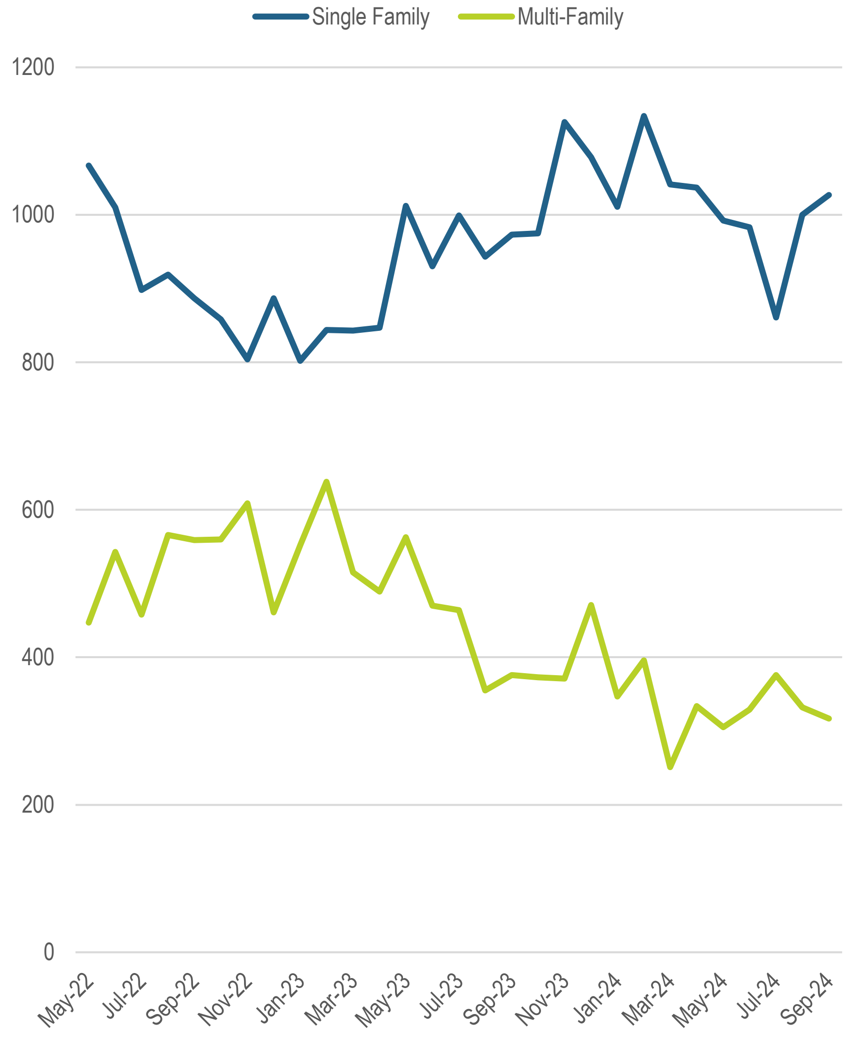
Single Family Construction Put in Place



Multi-Family Construction Put in Place



Annual Housing Start Rate by Month



- We saw some declines in Single Family construction through spring and summer 2024, though it stayed above 2023 levels. Both starts and spending moved up in September. This may indicate the period of contraction is over, though we will need a few months of data to validate that. From a historical perspective, the level of spending and rate of starts indicate a healthy market.
- Multi-family construction continues to be at levels we would associate with a typical cyclical downturn for that market. Assuming interest rates continue to fall, we may see an upturn in this market. This would not likely occur until late 2025.

Leading Indicators: AIA

July 2024

August 2024

September 2024

- The Architectural Billings Index, which was declining, has stabilized over the last two months at a level indicating a modest decline in billings.
- The Design Contract Index, though still negative, has improved over the last three months and is now very close to even.

November 2024 Overall Observations

- At the midpoint of the year, it appeared that the overall construction market would see a modest decline in 2024. The uptick in spending over the last quarter now makes it more likely we will see a flat construction market in 2024.
- The Architectural Billings Index points to a flat to slowly declining Nonresidential construction market for the first part of 2025, though improvements in the Design Contract Index may indicate growth for later in 2025.
- It will take some time for any potential legislative changes driven by the new administration to alter current construction trends. As a result, we would expect the strong markets such as Manufacturing, Highway/Street, and Public Safety to continue to support the overall Nonresidential construction market and prevent any significant spending decline in 2025.
- In the Residential space, there was an uptick in Single Family in September, perhaps due to early signs of lowering interest rates. It will be a few months before it becomes clear if this is a trend. Multi-family remains in a downturn which will likely continue through at least the first half of 2025, as it will take longer for falling interest rates to result in construction activity in that market.