



Construction Delivery Outlook

Q2 2023

LGE | DESIGNBUILD

What We're Seeing Now.

Our team at LGE is closely monitoring the economic uncertainty and changes in supply chain, material pricing, and inflation that our industry is facing.

In 2022, industrial square footage under construction saw a significant increase of 84.8%. While we expect a decline in industrial square footage nationally in 2023, it will remain well above pre-pandemic levels. As the nation's square footage under construction volume stabilizes from its unprecedented rise in 2022, we are seeing faster subcontractor scheduling and material procurement, leading to faster project delivery. We are also seeing some material costs beginning to level out or even trend downward, which is a positive development.

The construction industry continues to remain highly active across the nation, particularly in our core markets of Dallas and Phoenix. At LGE, we are dedicated to delivering cost-effective projects and innovative solutions, even amidst ever-changing market conditions. Our team remains focused on providing exceptional service and successful project outcomes, no matter the challenges we face.

— Blake Wells
Vice President of Preconstruction

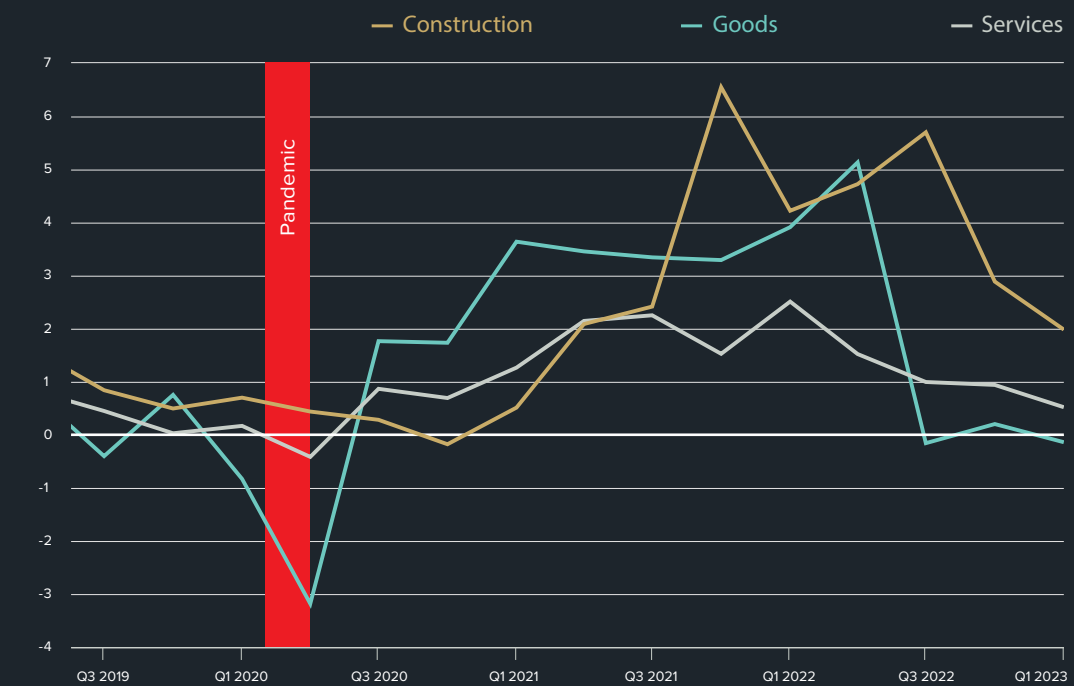
We realize the market is changing, unpredictably and rapidly. The information contained in this report is using the most up-to-date data available as of April 2023.

The 'Why' Behind Cost and Duration

We're here to ensure that you have the most up-to-date information about market trends and conditions. Within this report, you will find data that clarifies the 'Why', including the most current market conditions, the observed impact of these conditions, and proactive measures we can take to be fully prepared for what's to come. This report focuses on the design and construction industries through the most recent data, so that together, we can enter the market better equipped and more confident.

PRODUCER PRICE INDEX

FINAL DEMAND CONSTRUCTION



Percent change in Producer Price Indexes for final demand, January 2019 to October 2022

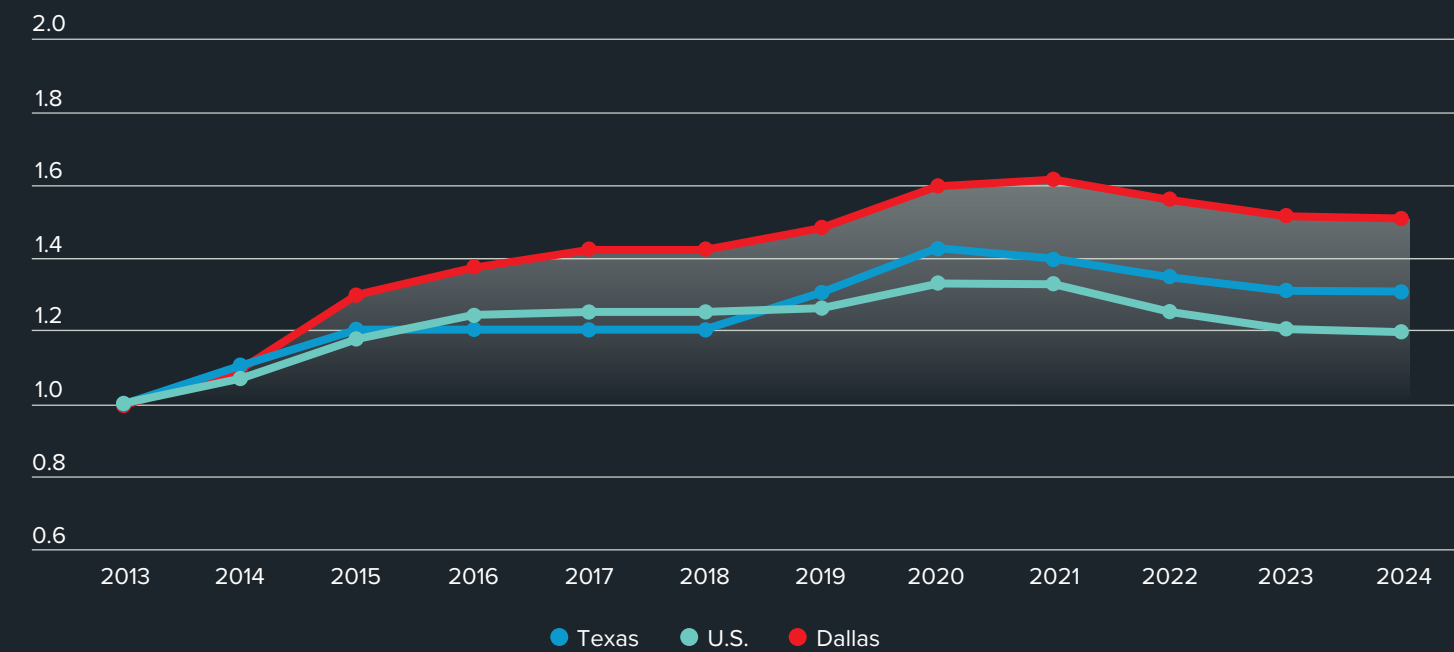
Demand for our Core Markets

DALLAS:

Our analysis shows that the construction market in Dallas has demonstrated stability and is expected to maintain this trend throughout the decade. It is anticipated that the market may have reached its highest point in 2022, after which it is expected to level off by 2024. This could be due to the completion of pandemic-related construction projects that have been ongoing for the past few years.

Both Dallas and Phoenix are well above the National construction spending index (charts below).

CONSTRUCTION SPENDING INDEX 2013-2023

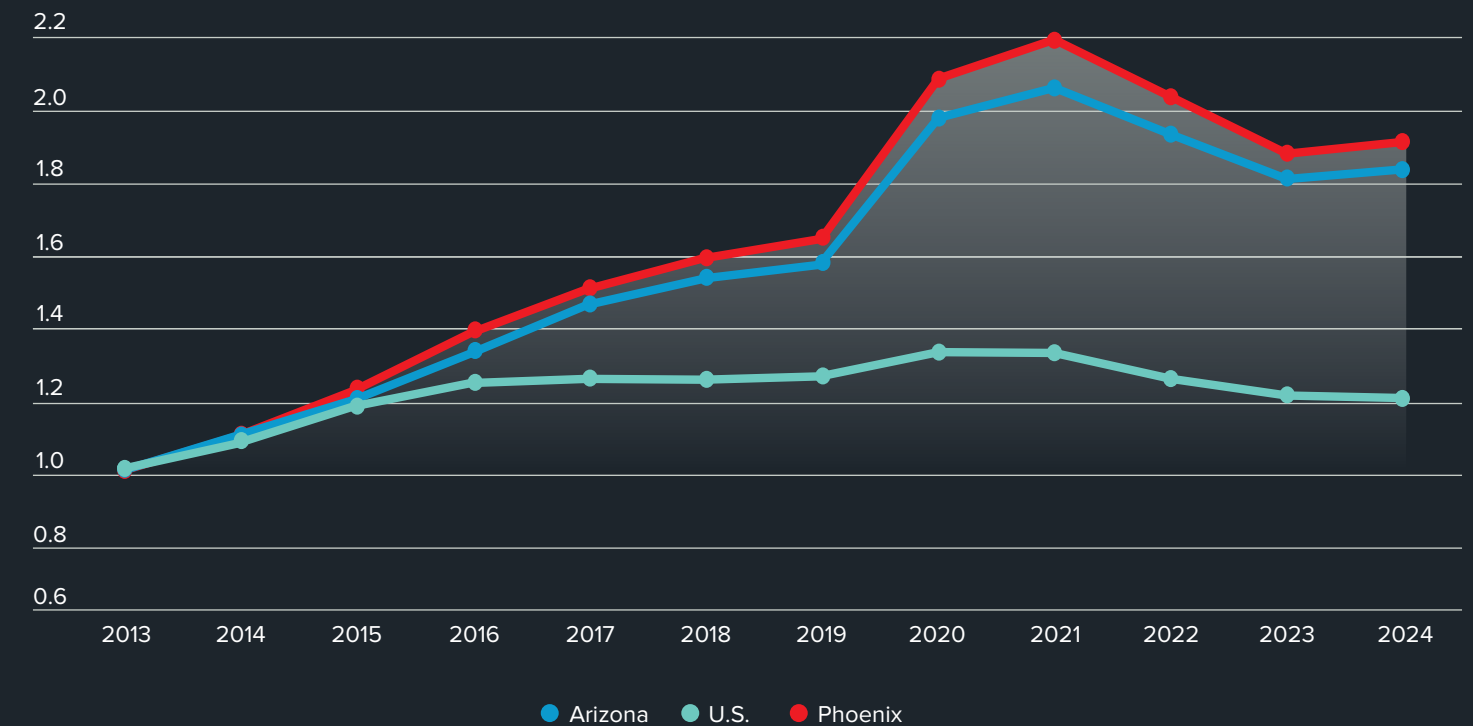


PHOENIX:

Phoenix has become an attractive destination for tech companies seeking to reduce expenses while retaining important staff members, thanks to its long-standing efforts to attract this sector. Throughout the pandemic, office rentals grew, with well-known tech companies among the largest investors. Although 2021 may have been the market's peak, the city's construction activity is expected to remain stable in 2023 and beyond, with construction spending averaging 20% higher than pre-pandemic levels.

"Currently, CBRE is tracking roughly 46.6 million sq. ft. of tenants in the market searching for industrial space. Phoenix remains a hot spot for local and out of market tenants looking to move into the market". - *Robust Construction Activity and Healthy Net Absorption Kicks off 2023, CBRE*

CONSTRUCTION SPENDING INDEX 2013-2023



Demand by Product Type

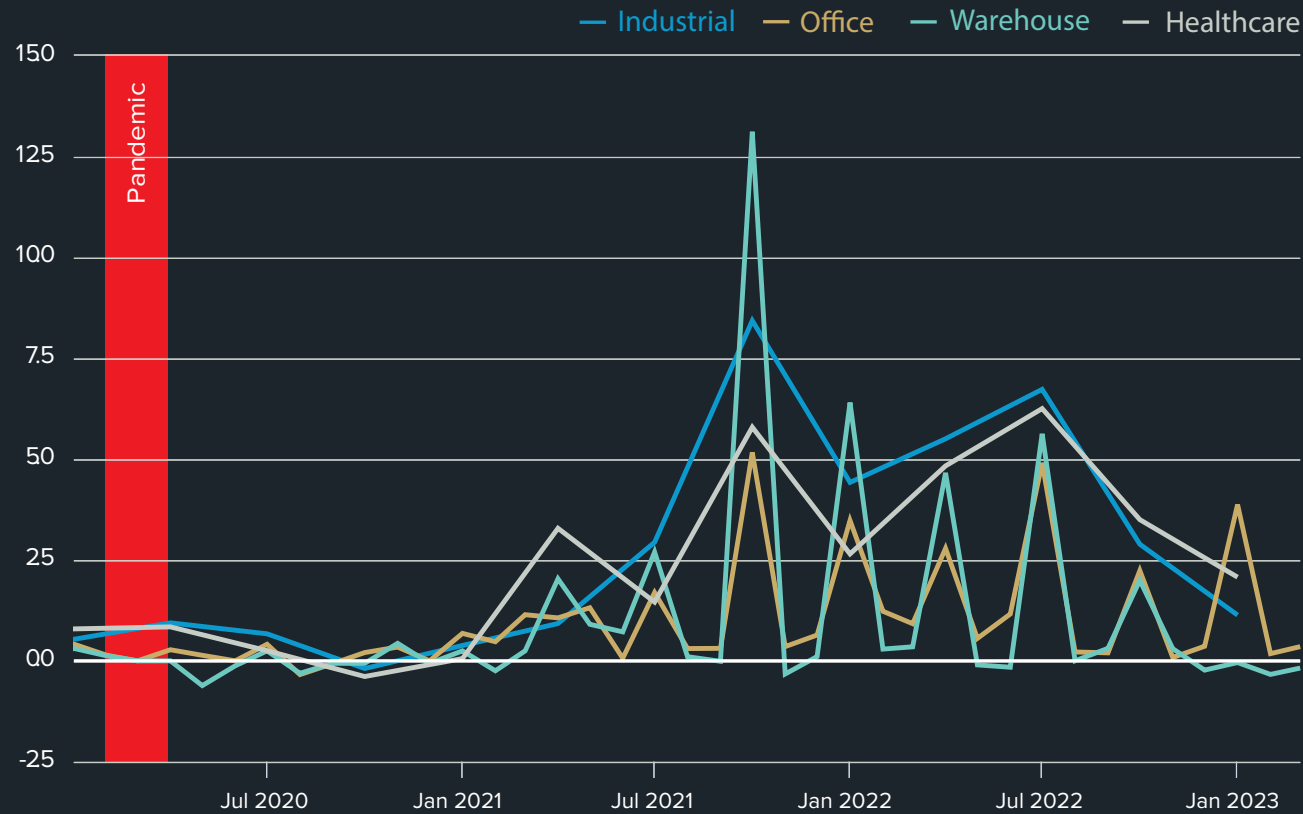
According to Construction Starts Forecast Report Q1 2023 national data, there are significant variations in the year-over-year percentage changes for type of structure in square feet millions for each category of construction in the US between 2022 and 2023. For residential construction, there was a decrease in activity of 2.6% in 2022 and a projected further decrease of 1.1% in 2023. This suggests a slowing down of growth or possibly a contraction in the residential construction market over the next year.

The commercial construction market including office space also saw a decrease in activity in 2022, with a year-over-year decline of 3.8%. However, there is a predicted rebound in 2023, with a increase of 0.8%.

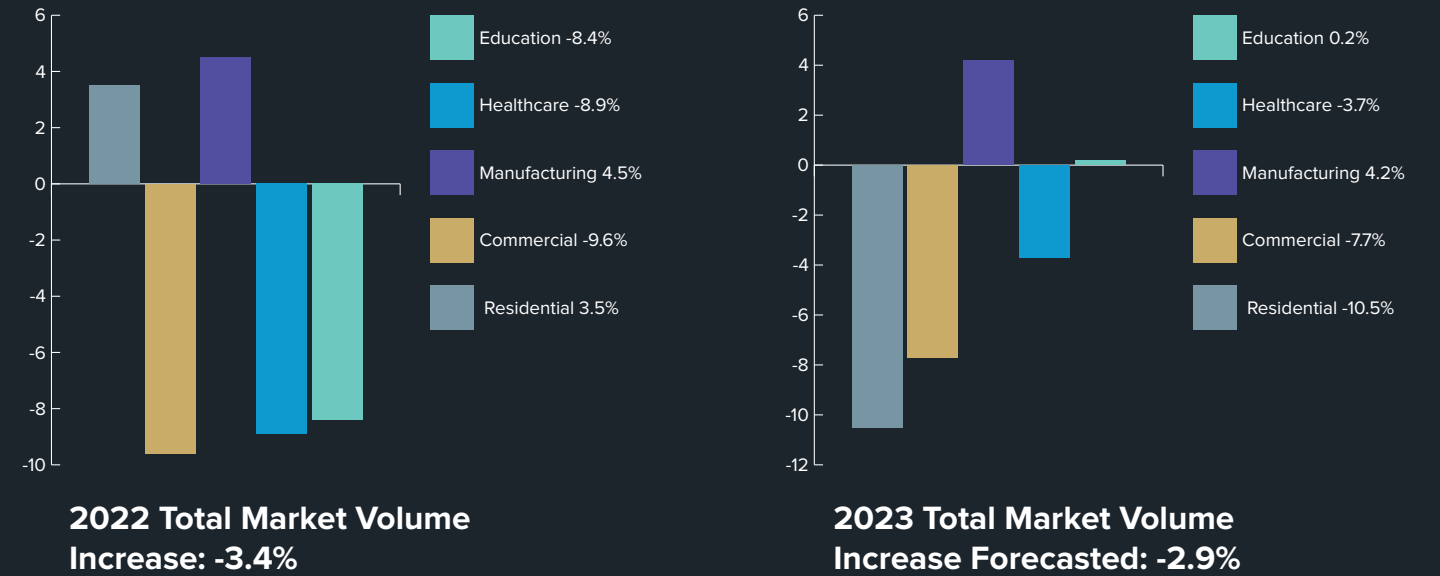
In contrast, the industrial construction market experienced an increase in activity in 2022, with a year-over-year growth of 84.8%. However, this is followed by a significant projected decline of 28.9% in 2023.

NEW BUILDING CONSTRUCTION

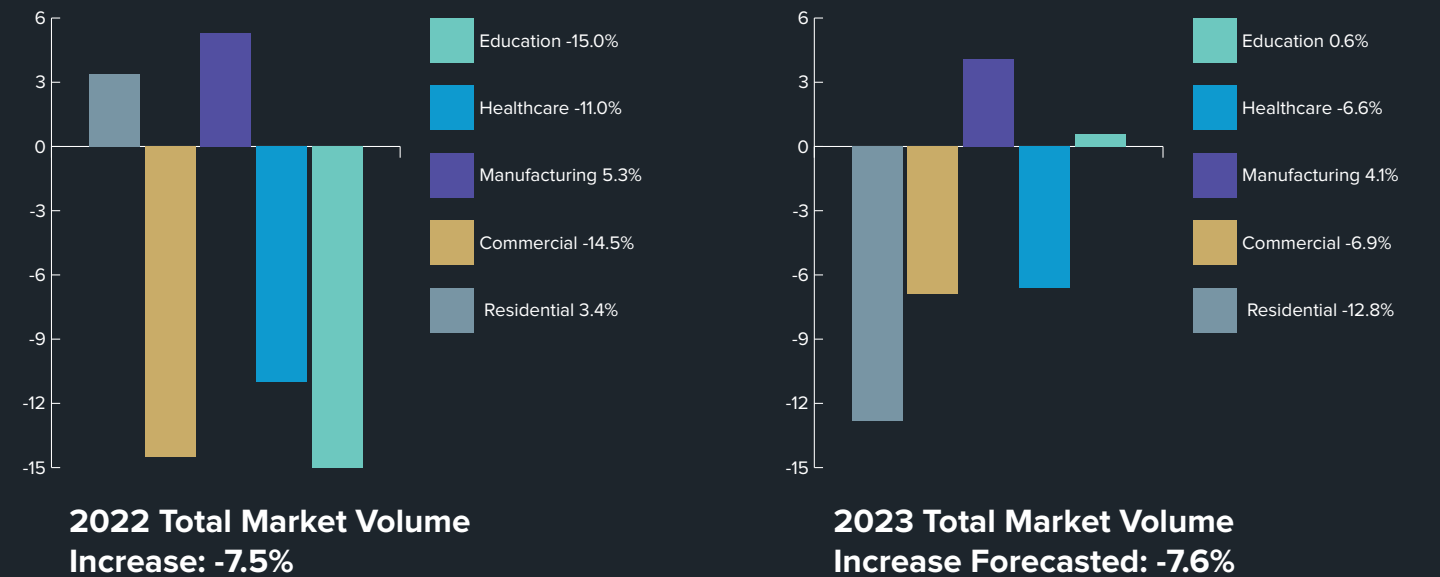
PERCENT CHANGE. QUARTERLY



DALLAS, TOTAL CONSTRUCTION MARKET VOLUME BY SECTOR

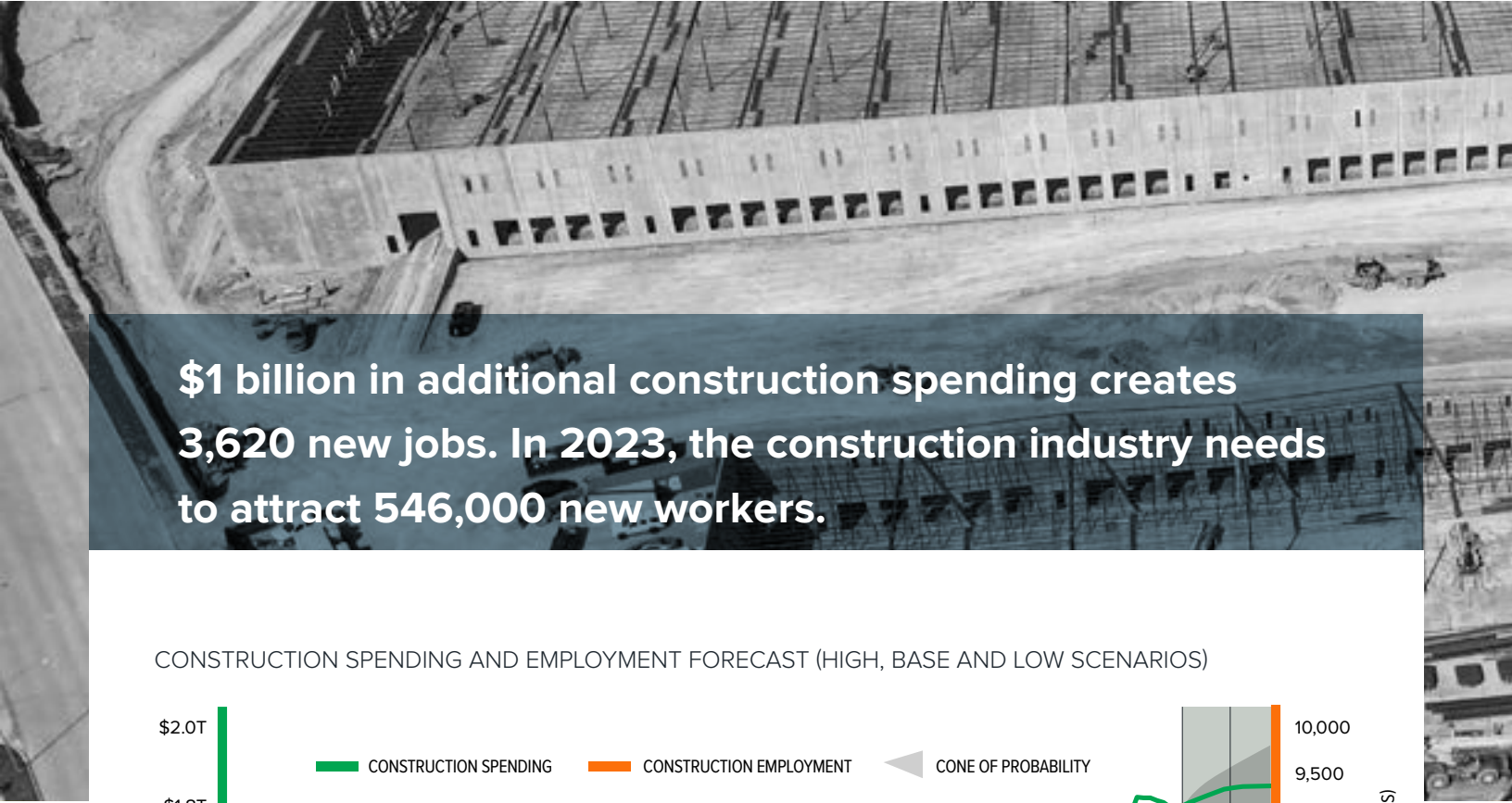


PHOENIX, TOTAL CONSTRUCTION MARKET VOLUME BY SECTOR



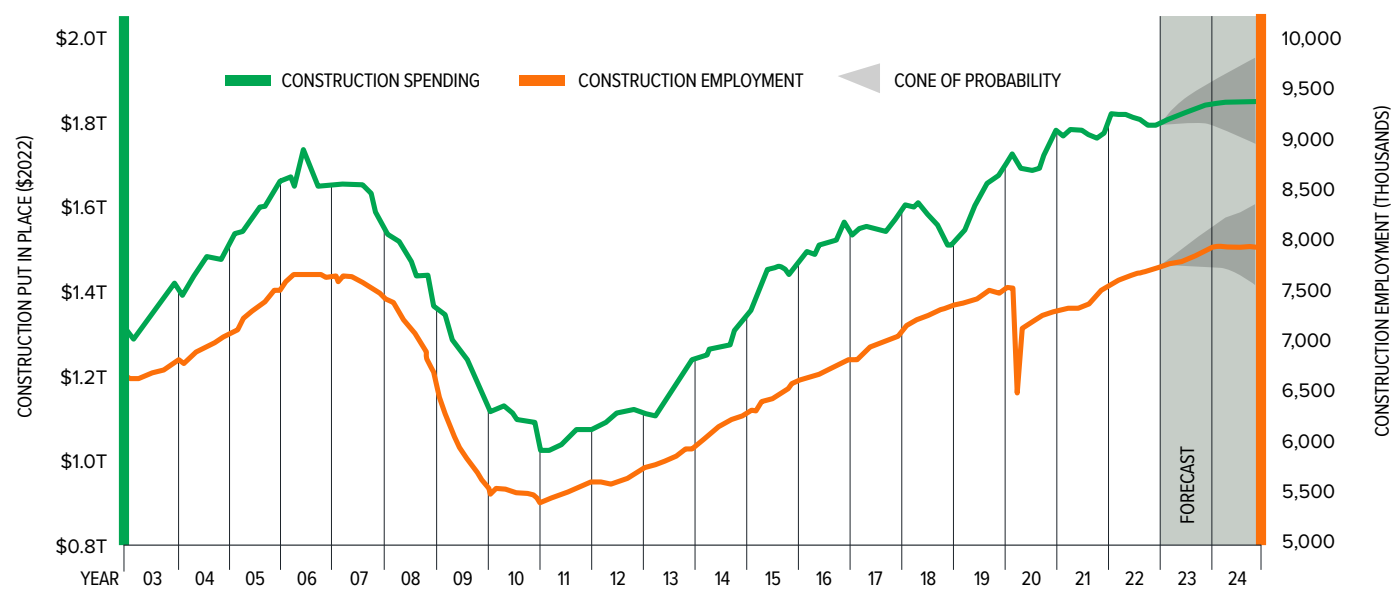
Construction Labor

The construction labor and skills shortage are not going to disappear anytime soon. Contractors continue to receive significant demand for mega-projects related to chip manufacturing plants and clean energy facilities, along with a shortage of younger workers entering the skilled trades.



\$1 billion in additional construction spending creates 3,620 new jobs. In 2023, the construction industry needs to attract 546,000 new workers.

CONSTRUCTION SPENDING AND EMPLOYMENT FORECAST (HIGH, BASE AND LOW SCENARIOS)



ARIZONA:

According to projections from the Arizona Office of Economic Opportunity, the construction employment sector in Arizona is expected to grow at an annual rate of 5.6% to 200,434 jobs by the second quarter of 2023. This leaves us with a hopeful outlook on this specific job sector.

INDUSTRY BY SECTOR	HISTORICAL							PROJECTED
	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2023 Q2
Construction	177,604	177,370	175,327	175,735	178,991	177,043	179,658	200,434
Annual % Change	7.2%	7.2%	5.0%	3.9%	3.9%	2.8%	2.0%	5.6%

TEXAS:

According to the Texas Employment Forecast, there will be a 2.8 percent increase in all jobs for the year 2023. This forecast projects a total of 385,000 new jobs to be added in the state of Texas this year. By the end of December 2023, overall employment is expected to reach 14.1 million.

SUBCONTRACTOR SCHEDULING LEAD TIMES:

	Q4 2022	April 2023
Grading/Paving	4-6 Weeks	Immediate
Concrete	3-4 Months	5-6 Weeks
Wood Structure	12-18 Months	4 Months
Roofing	8-9 Months	8-9 Months
Site Utilities	3-4 Weeks	Immediate

Supply Chain

Over the past six months, the number of suppliers experiencing difficulties in supplying the market has decreased significantly although not completely as freight and supply chain issues have improved. However, suppliers are now faced with the challenge of balancing softening demand, while also dealing with the effects of past price increases and maintaining competitiveness.

The major disrupters that chain leaders are still focusing on include transportation, production, raw material costs, as well as geopolitical uncertainties, and a lack of reliable transportation/shipping capacity.

Positively, 79% of supply chain leaders surveyed (Coupa Software, Feb 01, 2023) indicated their company plans to invest in agility and resiliency for their supply chain in 2023. The majority, 83% are already investing in digitizing their supply chain to reduce overall risk and avoid supply chain issues.



MATERIAL LEAD TIMES:

	Q4 2022	April 2023
Steel Joists	8-10 Months	2-4 Months
Roofing (TPO)	6-8 Months	5-6 Weeks
Wood Structure	4-5 Months	1 Month
Insulation	4-5 Months	1 Month
Doors/Frames/ Hardware	6-8 Weeks	3-4 Weeks
Overhead Doors	4-7 Months	6 Weeks

	Q4 2022	April 2023
Dock Equipment	4-7 Months	2-3 Months
SES (Electrical Switches)	14 Months	12 Months
Electrical Panels (Large)	5-7 Months	7-9 Months

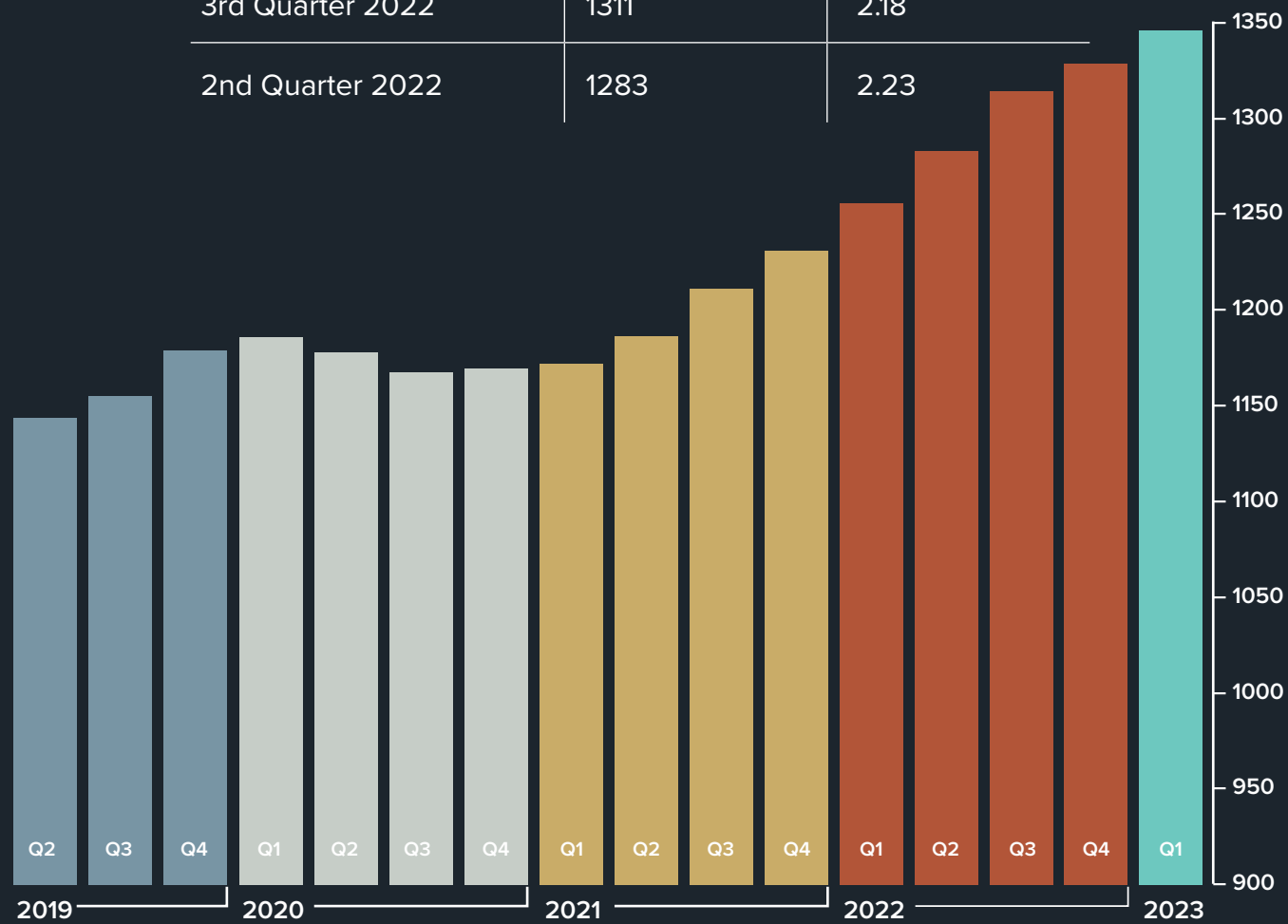
Material Costs

The construction industry is facing unpredictability in its supply chain and workforce shortages, affecting all aspects of the construction process from raw materials to transportation. The ongoing war in Ukraine has also led to supply barriers and increased export prices for materials like copper and aluminum. While some material prices are decreasing, they are not expected to return to pre-pandemic levels.

TURNER BUILDING COST INDEX

CONSTRUCTION COST ESCALATION BY QUARTER

Quarter	Index	% Change
1st Quarter 2023	1349	1.28
4th Quarter 2022	1332	1.60
3rd Quarter 2022	1311	2.18
2nd Quarter 2022	1283	2.23

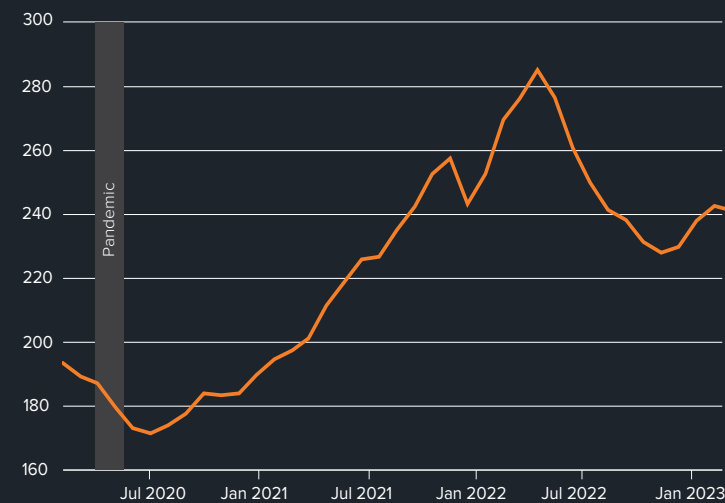


The Cost Index is determined by several factors considered on a nationwide basis, including labor rates and productivity, material prices, as well as the competitive condition of the marketplace.

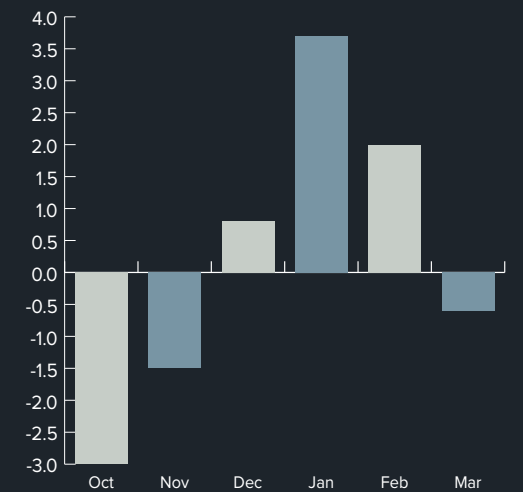
CONSTRUCTION MATERIALS PRICE MOVEMENT

Prices are generally trending downward in Q1 for lumber and structural/ miscellaneous steel, but they are not expected to return to pre-pandemic prices. Electrical and roofing are remaining high and not expected to change anytime soon even after some small relief. Gypsum has risen in price for 7 quarters a row but there are signs that it may stabilize in Q2.

ALUMINUM MILL SHAPES

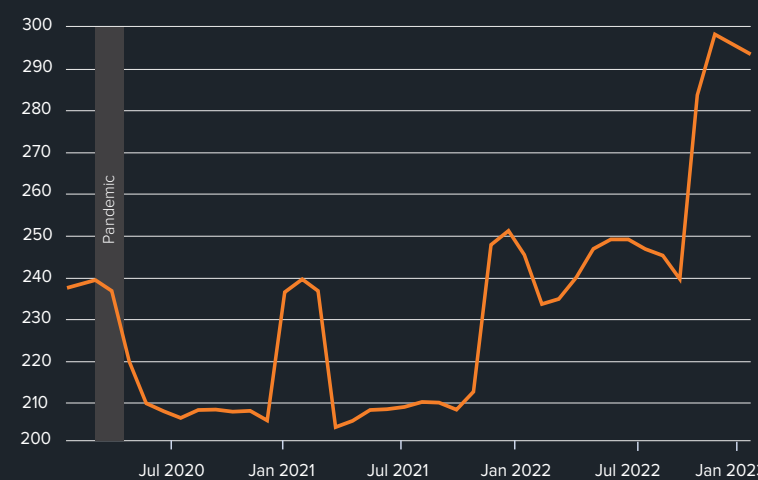


Price Index, Year-Over-Year

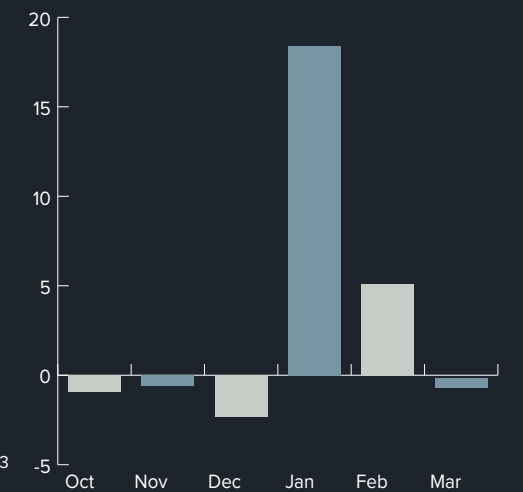


Percent Change, Monthly

ASPHALT & TAR PAVING MIXTURE

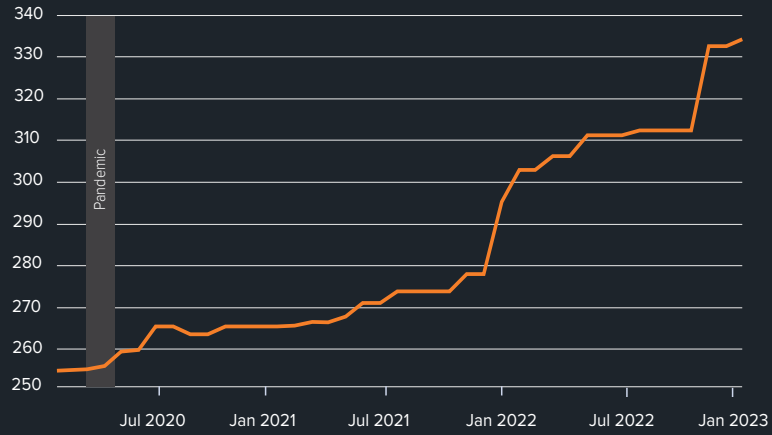


Price Index, Year-Over-Year

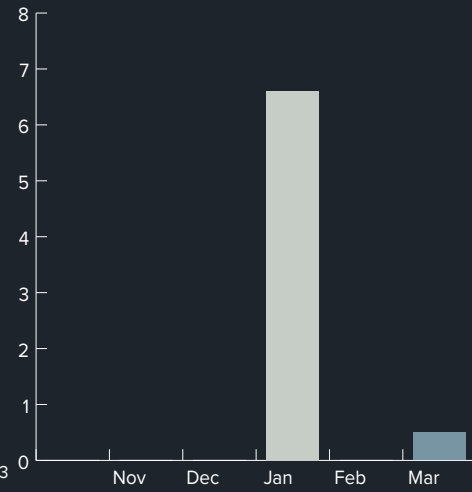


Percent Change, Monthly

CONCRETE

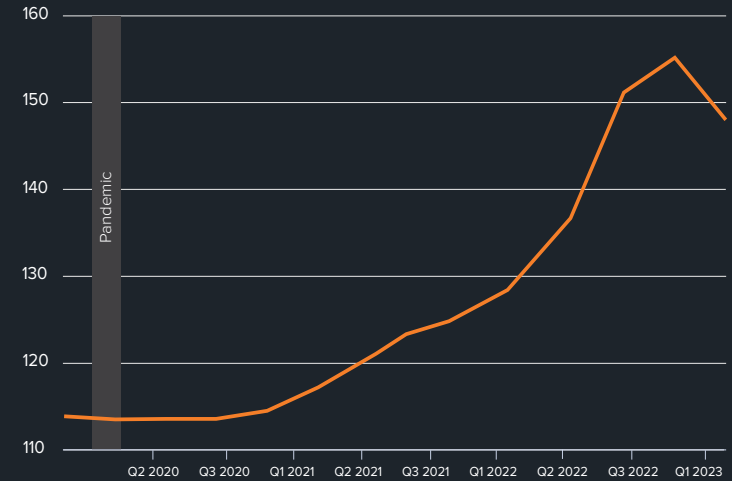


Price Index, Year-Over-Year



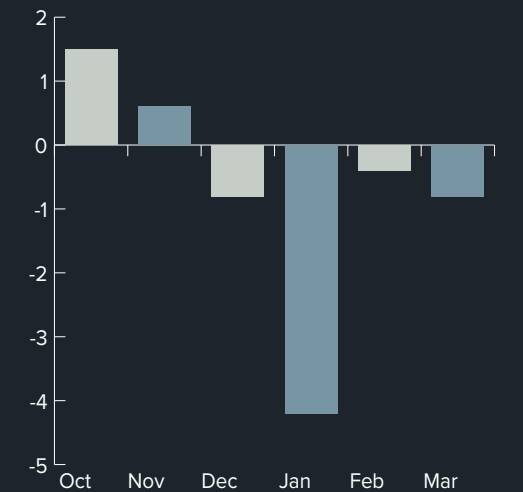
Percent Change, Monthly

FLAT GLASS



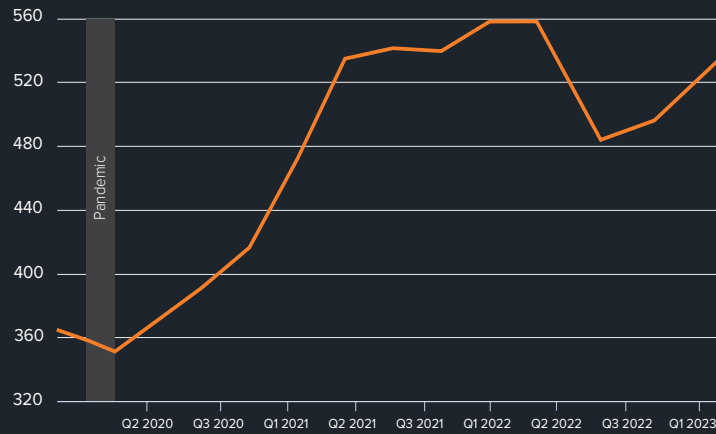
Price Index, Year-Over-Year

/ Material Costs

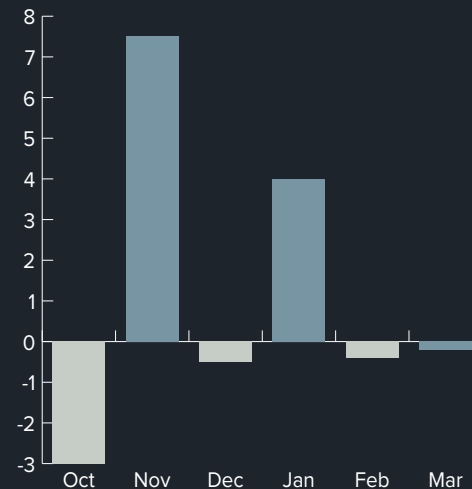


Percent Change, Monthly

COPPER

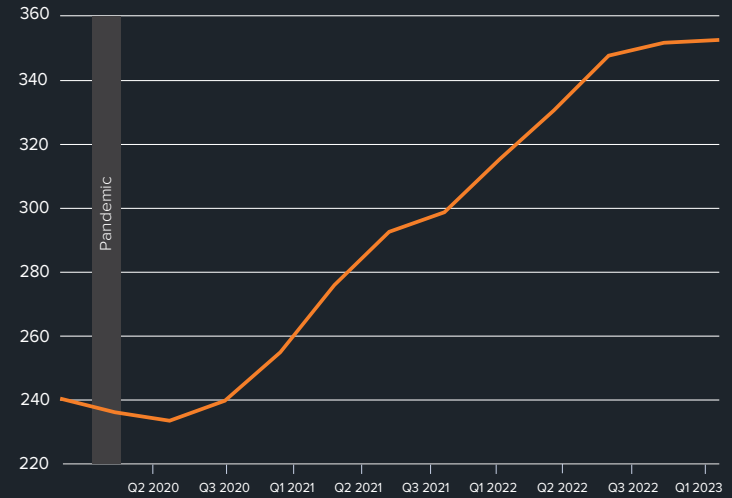


Price Index, Year-Over-Year

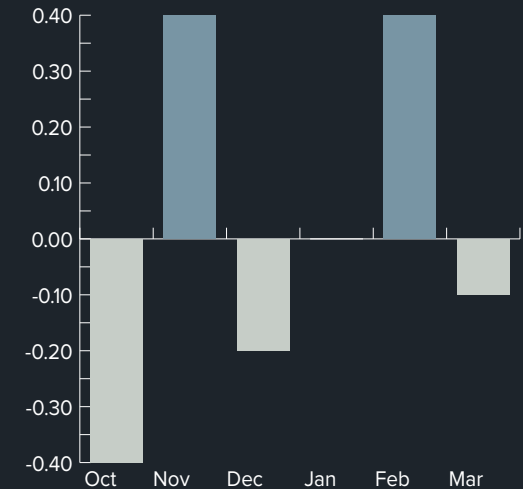


Percent Change, Monthly

GYPSUM

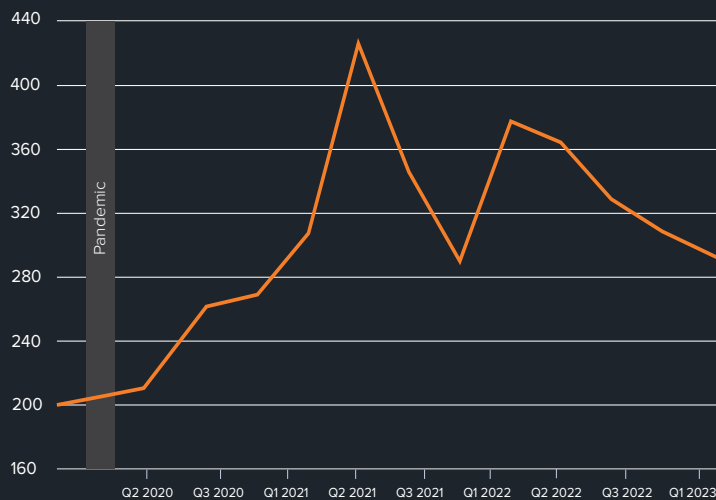


Price Index, Year-Over-Year

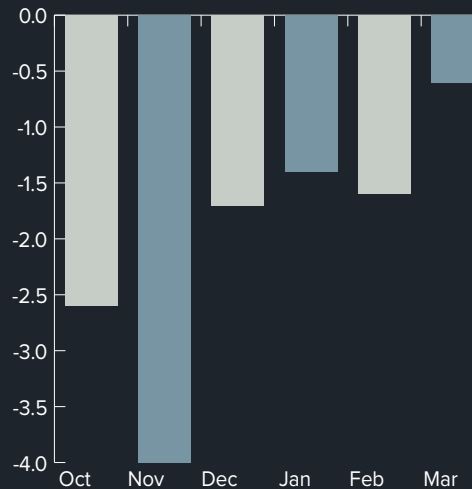


Percent Change, Monthly

LUMBER

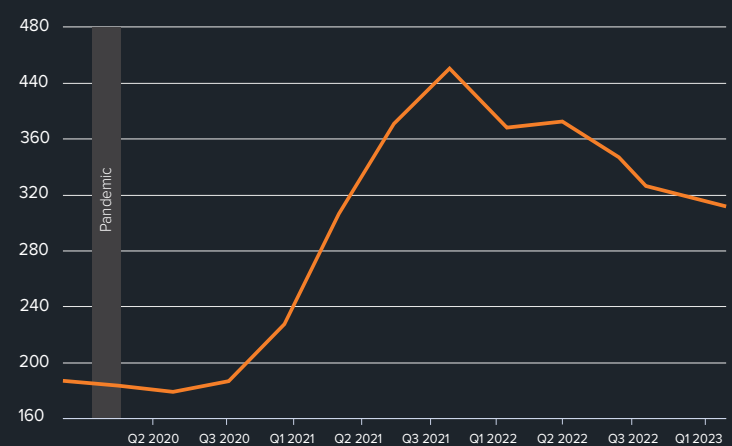


Price Index, Year-Over-Year

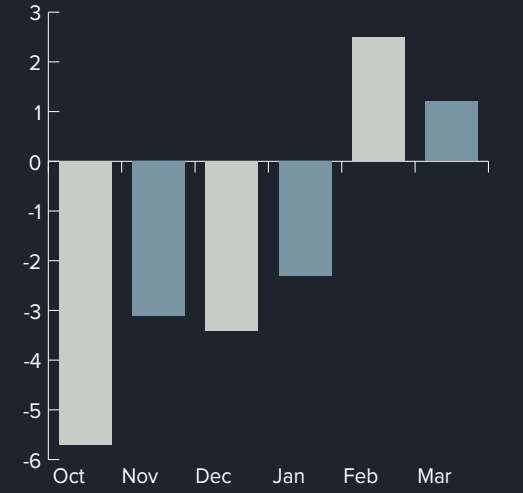


Percent Change, Monthly

STEEL MILL PRODUCTS



Price Index, Year-Over-Year



Percent Change, Monthly



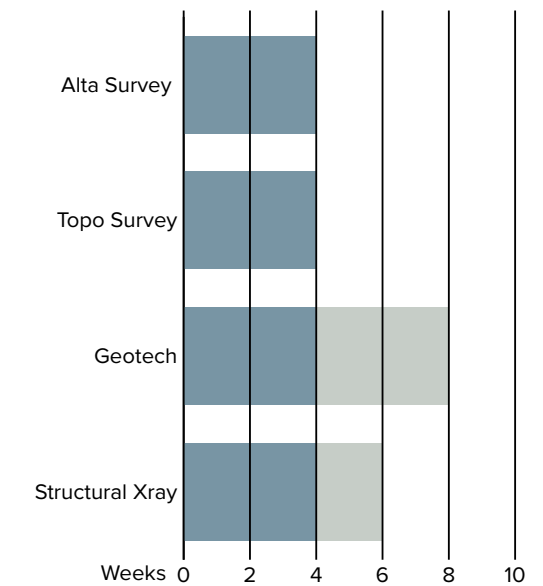
Design Expectations

The continued effects of labor issues, supply chain problems, and material volatility are being felt by more than just the construction team. Our architectural team is tasked with conceptual design, preliminary pricing, entitlements, construction documents, and construction administration through completion. Many of these steps are seeing long lead times because of heavily booked due diligence consultants, ever-changing design expectations from municipalities, as well as increasing entitlement and permit review durations.

Municipalities Design Expectations*

Design aesthetics are becoming more and more influenced by the desires of the municipalities' Design Review Boards (DRB). In many of our current markets, we have seen a greater desire to have new industrial projects look more like Class A office buildings. This is being accomplished through:

- Increased plane changes across facades
- Increased glazing amount and height
- Multiple materials and textures
- Increased landscape requirements
- Taller parapets, removing the ability to use screen walls

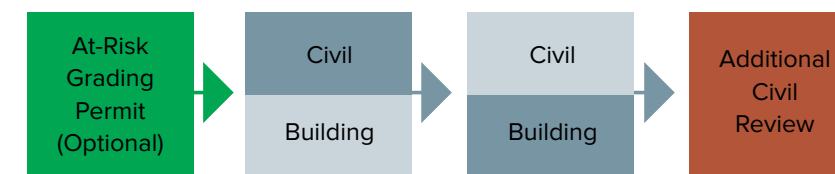


*Does not apply to all municipalities.

Entitlement and Permit Review Durations

Municipalities across the country are experiencing increased development demands, which is putting additional strain on their ability to meet the published review times. The expectation for timely reviews is no longer the reality.

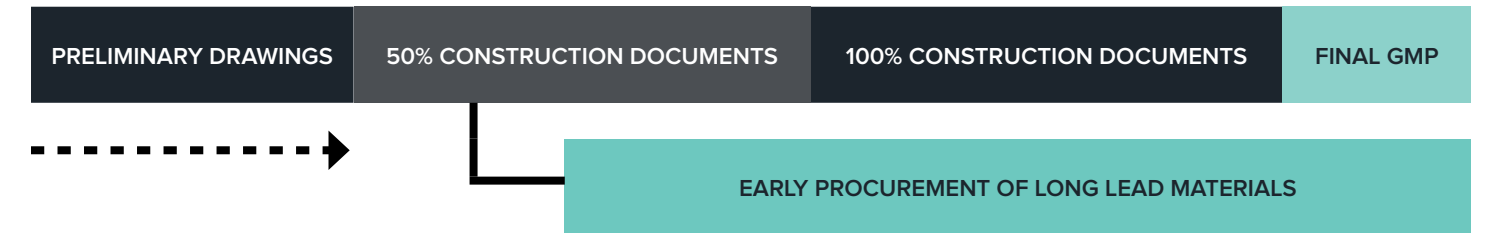
Some municipalities are seeing a 50 percent increase in review durations and certain ones are beginning to require an additional civil review, bringing the total to three. This is compounded by the already-existing two building permits required, which can be sought simultaneously with the civil reviews.





Since 1994, our design-build process has been outperforming the traditional construction approach. Typically, our process saves clients 2-4 months and continues to deliver despite the many challenges found in the market.

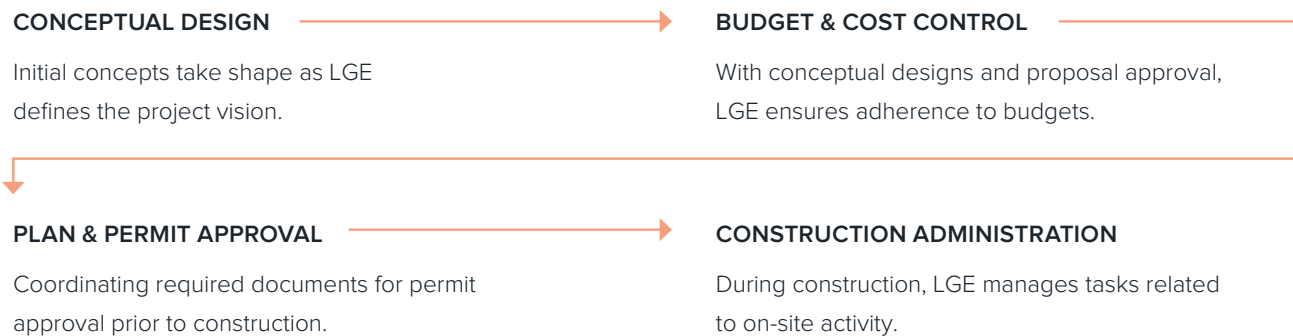
LGE DESIGN BUILD'S PROCESS:



Solutions and Strategies

Early collaboration of design and construction is the critical difference between design build and a traditional approach. Developers, engineers, architects, and subcontractors are interacting on a daily basis, using their insight to avoid future issues. We can avoid issues that have severely impacted other firms by sourcing project materials early, ensuring project budget adherence, and coordinating permits and approvals. Our process tackles these issues up-front, while defining the project vision with our architectural teams and clients.

DESIGN-BUILD PROCESS:



Final Thought

“As we look to the second quarter of the year, LGE Design Build remains optimistic about the construction outlook. While there will be ongoing challenges noted above, we are confident in our industries’ ability to adapt and overcome these obstacles. While we may see some fluctuation, we still anticipate that demand for construction services will remain strong. Relying on our design build methodology, our team is committed to delivering innovative and cost-effective construction solutions that meet the unique needs of the market. We are excited about the opportunities ahead and look forward to helping our clients bring their visions to life.”

– Grant Blunt, Vice President of Construction, LGE Design Build



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