

A large yellow tower crane is lifting a massive, rectangular concrete slab from a construction site. The slab is suspended by several thick cables. In the background, a large, dark concrete wall is under construction. Several construction workers in high-visibility vests and hard hats are standing on the ground, observing the process. The sky is clear and blue. The overall scene is a busy construction site.

Construction Delivery Outlook

Q2 2024

LGE | DESIGNBUILD

Insights Into Today's Trends

As we delve into the intricacies of the construction sector, it's evident that there are notable improvements in both cost management and project schedules. This positive trend signifies a favorable environment for our endeavors, fostering efficiency and enhancing overall project outcomes.

One key aspect of our analysis reveals a reassuring stability in crucial construction materials such as structural steel, lumber, and concrete. The absence of significant issues in these essential materials bodes well for our projects, allowing for smoother execution and minimized disruptions.

Furthermore, the report sheds light on the robust activity observed in terms of volume of contracts and the emergence of new sites. Despite the challenges posed by the evolving market dynamics, there is a palpable sense of momentum as businesses forge ahead with their development initiatives.

We are particularly encouraged by the leveled market conditions and the forward momentum observed across various sectors. With capital being deployed and debt placed on significant developments, there is a sense of optimism prevailing in the industry, underpinning our confidence in the future outlook.

Anticipated rate cuts, coupled with the easing of supply chain pressures, further bolster the prospects of construction activities in the upcoming quarters. These developments pave the way for a more conducive environment, fostering growth and innovation within the construction landscape.

– Blake Wells
Vice President of Preconstruction

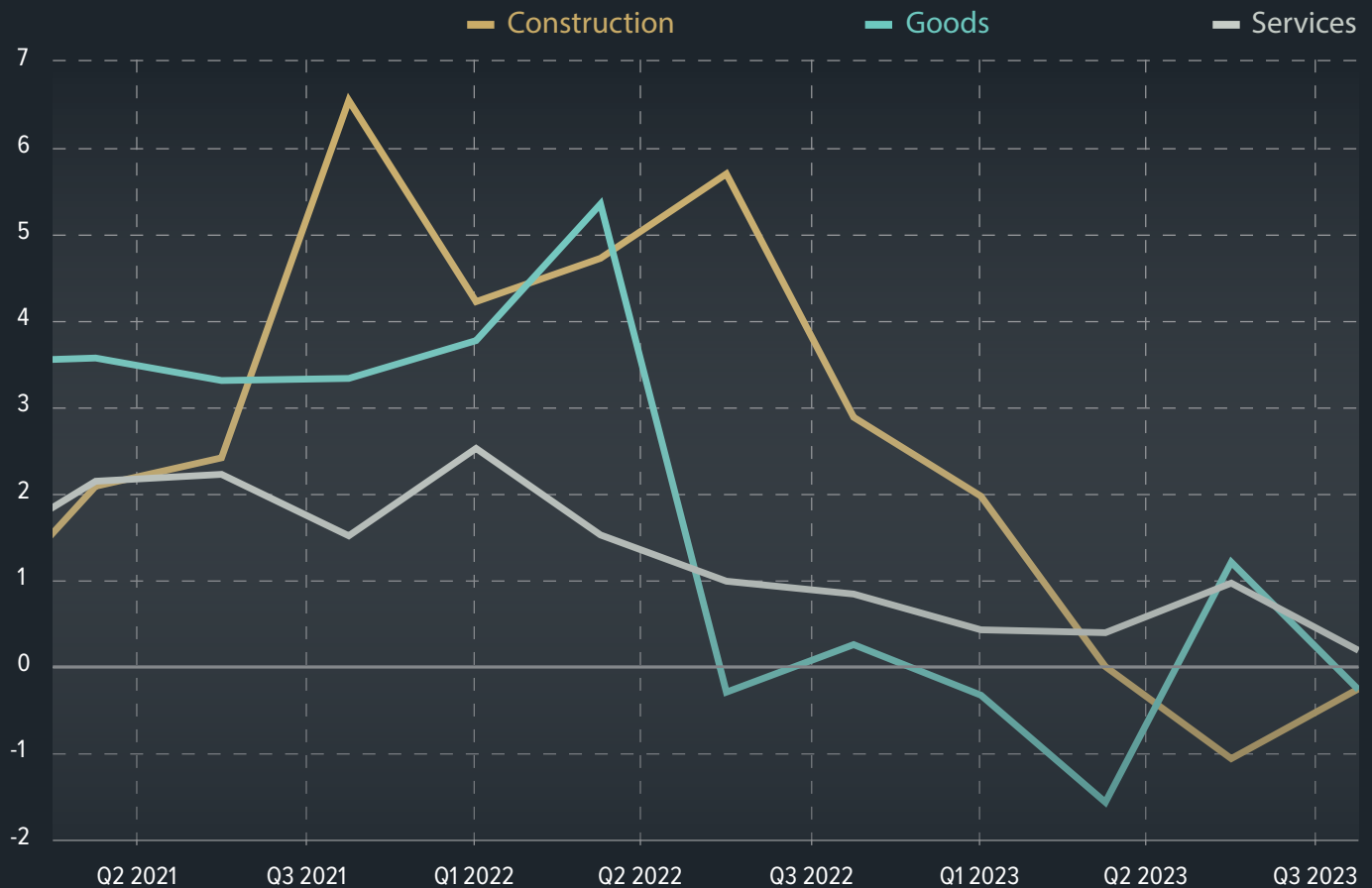
We acknowledge the dynamic nature of the market. The information contained in this report is using the most up-to-date data available as of the first quarter of 2024.

The 'Why' Behind Cost and Duration

Our mission is to provide you with the latest insights into market trends and conditions. This report is a valuable resource, offering comprehensive data that not only answers the 'Why' behind current market conditions but also outlines their impact and proactive strategies to prepare for the future. With a particular focus on the design and construction sectors, this report equips us with the knowledge needed to enter the market with confidence and readiness in Dallas and Phoenix.

FINAL DEMAND CONSTRUCTION

PRODUCER PRICE INDEX



Percent change in Producer Price Indexes for final demand, January 2021 to November 2023.

Demand for our Core Markets

DALLAS

Construction in Dallas-Fort Worth is primarily focused on industrial and multifamily properties, with recent declines in industrial construction following a peak in mid-2022. However, there's optimism on the horizon as over 15.6 million square feet of leased industrial space is set for completion soon, particularly in Kaufman, Denton, and Collin counties. Despite challenges, such as rising construction costs, the market remains buoyant, with projects like Inland Logistics Center and Cold Summit Dallas II meeting the growing demand, especially for cold storage. This suggests a promising future for construction in the region.

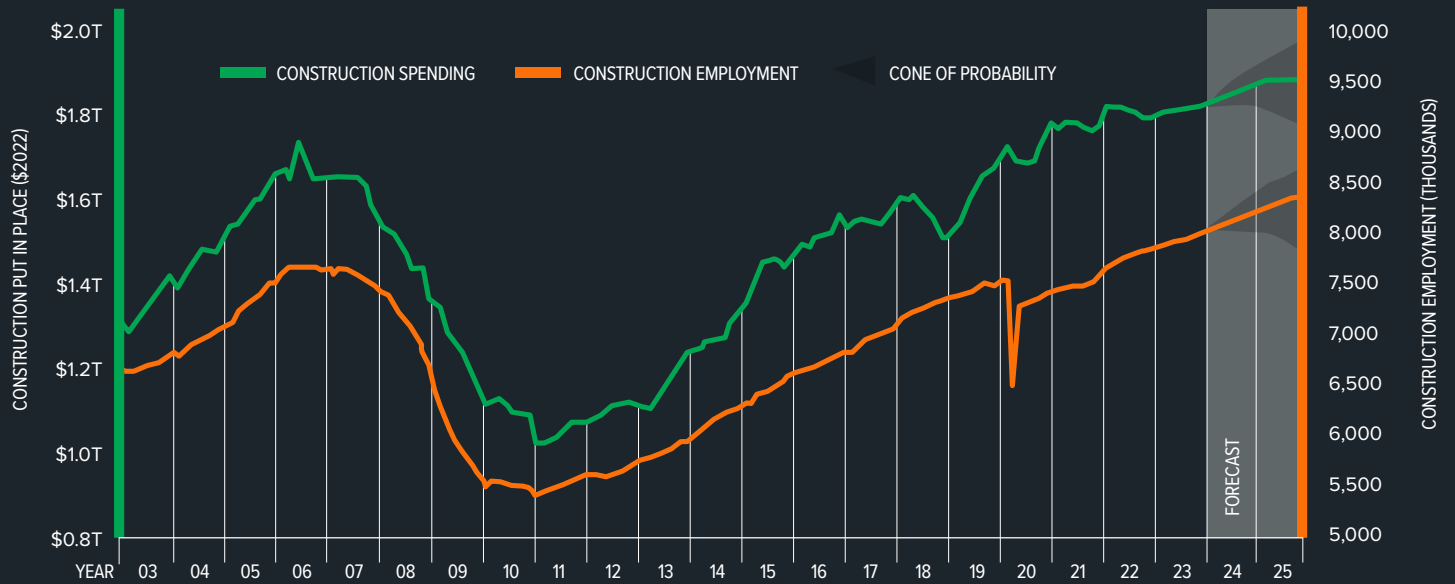


PHOENIX

Recent developments in the Phoenix metro area, including the establishment of data centers and semiconductor fabs, have drawn the attention of industry experts. With this quarter's Construction Index on the rise Phoenix is further increasing demand. The area's stable climate, with minimal natural disaster risks, is particularly advantageous for industries like semiconductors that rely on consistent operations. Furthermore, Phoenix's business-friendly environment, marked by low utility costs and streamlined regulations, attracts various corporations seeking to establish a presence. This growth momentum is expected to continue, further fueling economic expansion and attracting additional businesses to the region.

CONSTRUCTION SPENDING AND EMPLOYMENT FORECAST

HIGH, BASE AND LOW SCENARIOS



\$1 billion in additional construction spending creates 3,500 new jobs. In 2024, the construction industry needs to attract 501,000 new workers.



Demand by Product Type

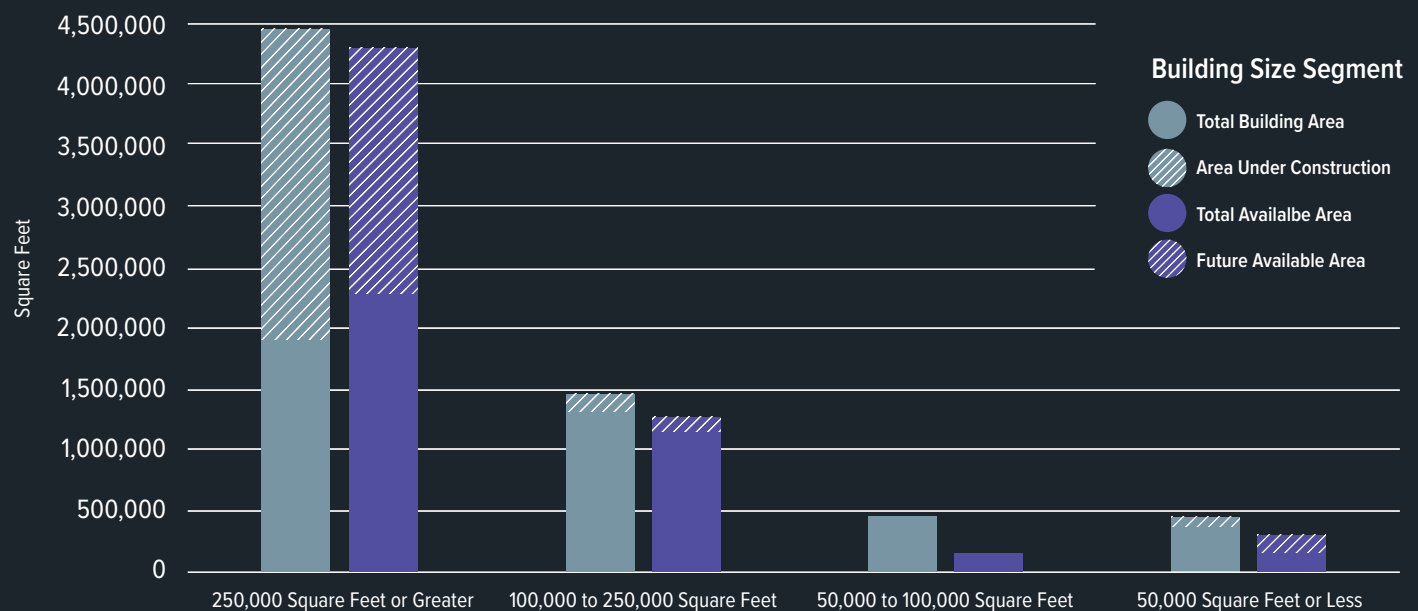
DALLAS INDUSTRIAL

The Dallas-Fort Worth industrial market, while still strong, no longer leads the nation in development activity as deliveries have surpassed new construction starts for three consecutive quarters. Record-breaking quarterly (17.5 million sq. ft.) and annual (62.3 million sq. ft.) deliveries have increased the total vacancy rate to 10%, though properties delivered before 2022 are more competitive with a direct vacancy rate of 3.7%. Demand remains robust, with owner-user sales rising in the latter half of 2023 and leasing activity (11.6 million sq. ft.) remaining above pre-pandemic quarterly averages. Notably, manufacturing facilities are in high demand, with four of the year's largest leases being for such properties, reflecting the growing trend of near- and onshoring efforts.

PHOENIX INDUSTRIAL

While the industrial construction market across the nation takes a breather, Phoenix maintains its lead in terms of supply pipeline for the sector. According to the February 2024 National Industrial Report from Yardi-Matrix, Phoenix has nearly 41.6 million square feet (MSF) of industrial stock under construction, accounting for 10.9% of the national total. When considering both under construction and planned space, Phoenix's share rises to 28.7%.

CONSTRUCTION ACTIVITY FOCUSED ON BIG BOX SPEC BUILDINGS





DALLAS OFFICE

The Dallas-Fort Worth area is becoming a financial services hub, with significant job growth in the sector over the past two decades. This trend is driven by both relocations and expansions of financial firms, with the region's specialization in financial activities exceeding the national average by 50%. The construction market for office space in Dallas is thriving, particularly fueled by demand from financial services companies, with notable projects underway such as Wells Fargo and Goldman Sachs contributing to the office construction pipeline.

PHOENIX OFFICE

Phoenix experienced a slowdown in construction activity towards the end of last year, yet office investment surged, positioning the city among the top markets in gateway metros. As of November, Phoenix had 1 million square feet of office space under construction across 19 properties, trailing behind other metros like Charlotte, Houston, Nashville, and Atlanta. However, investments in the Phoenix area increased notably since the start of the fourth quarter, with \$587 million worth of office space changing hands, making it one of the top 20 U.S. metros by active office loan volumes, with over \$14.9 billion as of October 2023.

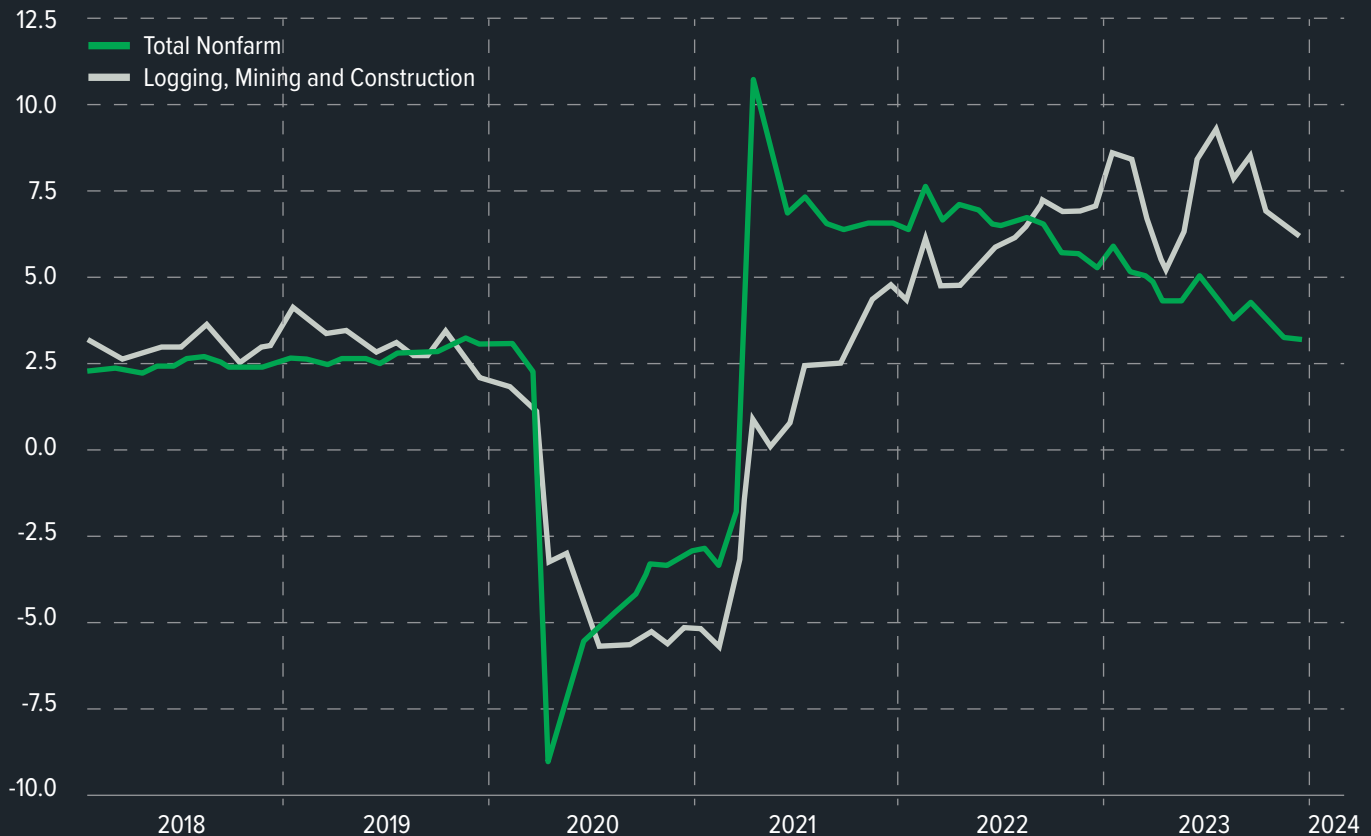
Construction Labor

DALLAS AND PHOENIX

In January, despite signs of potential softening, the construction industry continued to experience high demand for workers, with many contractors planning to expand their staff in the coming months. Meanwhile, in February 2024, Arizona's seasonally adjusted unemployment rate decreased to 4.1% while the national rate rose to 3.9%. Arizona also saw a gain of 16,300 jobs across seven major sectors. Similarly, in Dallas-Fort Worth, construction employment has surged to become the highest among major markets nationwide, adding 14,800 jobs over the past year and outpacing overall employment growth. Despite concerns about labor availability and elevated construction costs, the sector has maintained steady growth, surpassing the 2.5% average annual growth rate and remaining resilient even amidst significant interest rate hikes.

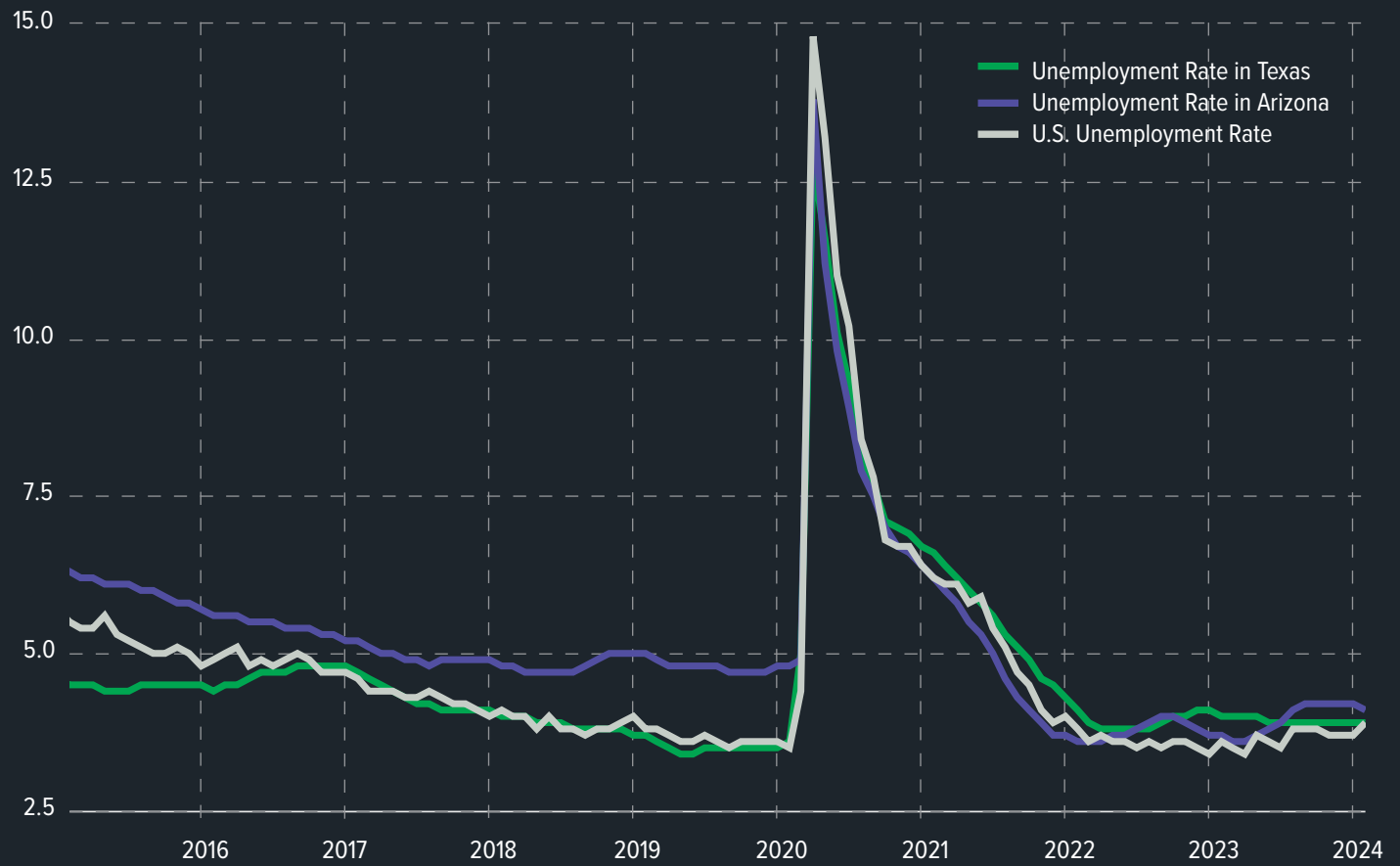
CONSTRUCTION JOB GROWTH

PERCENT CHANGE



TEXAS, ARIZONA & U.S. UNEMPLOYMENT RATE

PERCENT CHANGE



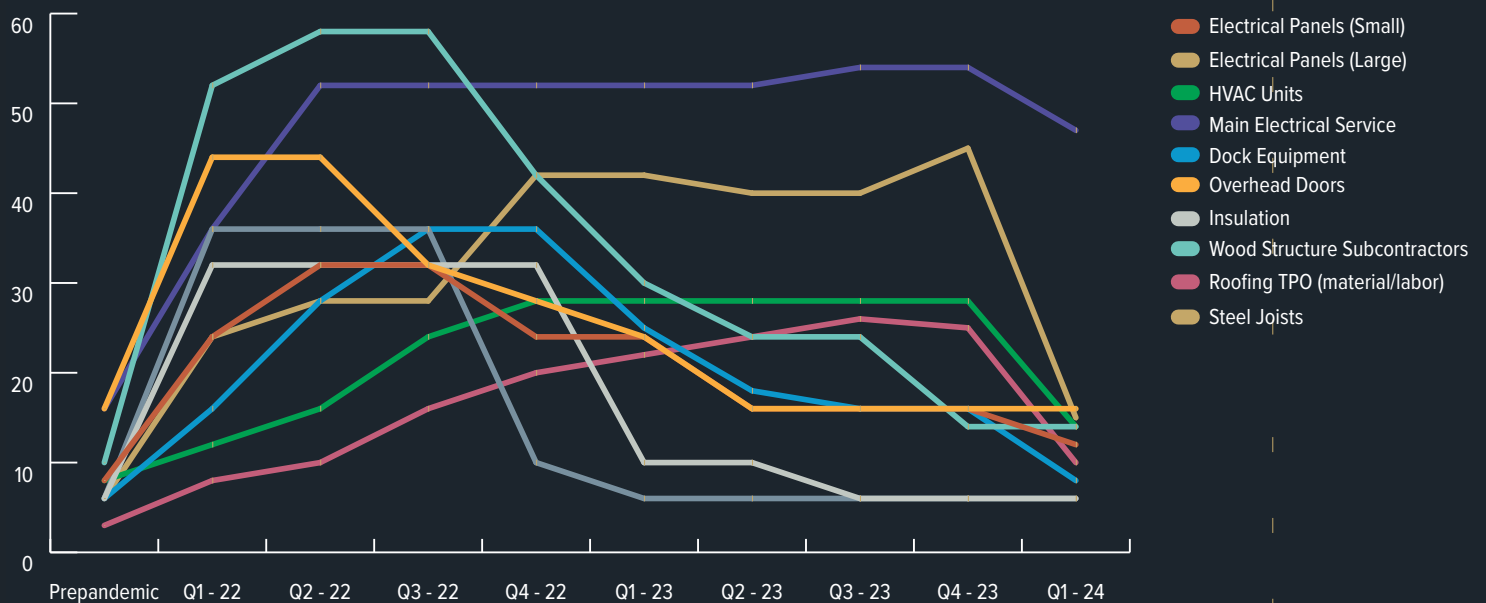
Supply Chain

Companies are noticing improvements in their supply chains, either because disruptions are decreasing or they're finding ways to work around previous delays. The Federal Reserve Bank of New York saw a decline in supply chain pressures, but still cautioned that issues might persist. Contractors are also experiencing some relief, although lead time problems persist in certain materials exemplified by Delta Air Lines' reduced profit outlook due to plane delivery delays.

Supply chain disruptions have contributed significantly to inflation by limiting product availability and driving up material prices. The recent easing of these pressures has helped mitigate price increases, although many products haven't returned to pre-pandemic prices. This positive trend has led to discussions of a "soft landing," with the Federal Reserve considering halting rate increases and possibly lowering rates in 2024, potentially boosting construction activity.

MATERIAL LEAD TIMES

QUARTERLY INCREASE/DECREASE IN WEEKS



PROCUREMENT PAIN POINTS:

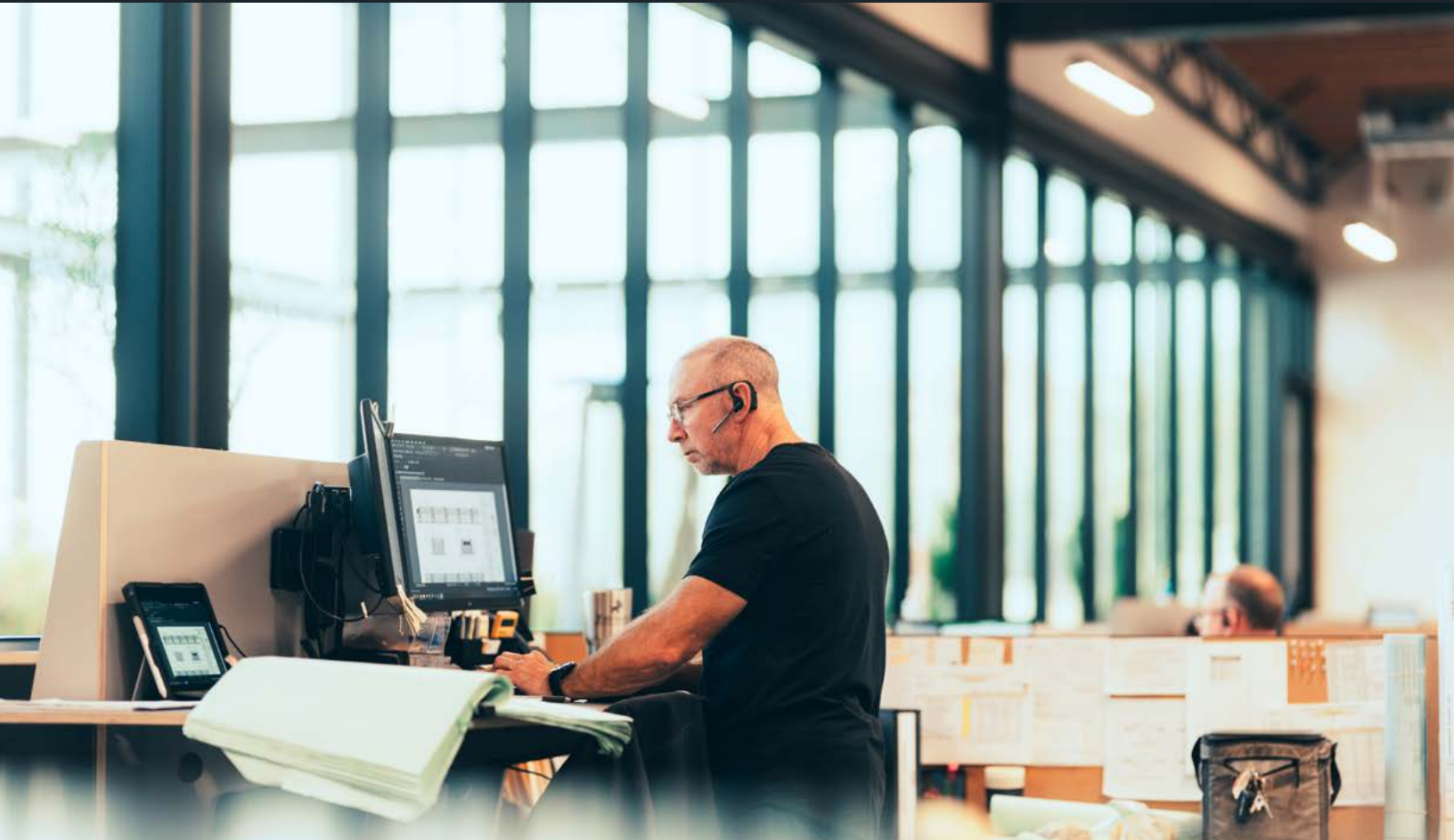
HVAC Units: Shortages have been reported of copper and electrical components, such as motors and compressors, which are specific to the units that use them. There is also a shortage of microchips that are components in high-efficiency systems and furnaces, and resins used in the evaporator coil pans are scarce, creating longer lead times.

Electrical: High demand in commodity electronic components, including automotive, consumer goods, and IoT, has strained supply, leading to increased competition. During the peak of the COVID pandemic, homebound consumers boosted personal electronics sales. However, the competitive landscape eased in 2023, and data suggests a potential downturn in electronic equipment and chip demand in 2024.

Drywells: In the Phoenix market, subcontractors focusing on Drywell installations are encountering challenges in meeting demand across the entire valley. There is a scarcity of subcontractors specifically catering to drywell installation in this region. Intriguingly, it appears that the timing of drywell installation is more influenced by the availability of materials rather than the availability of manpower.

Material Costs

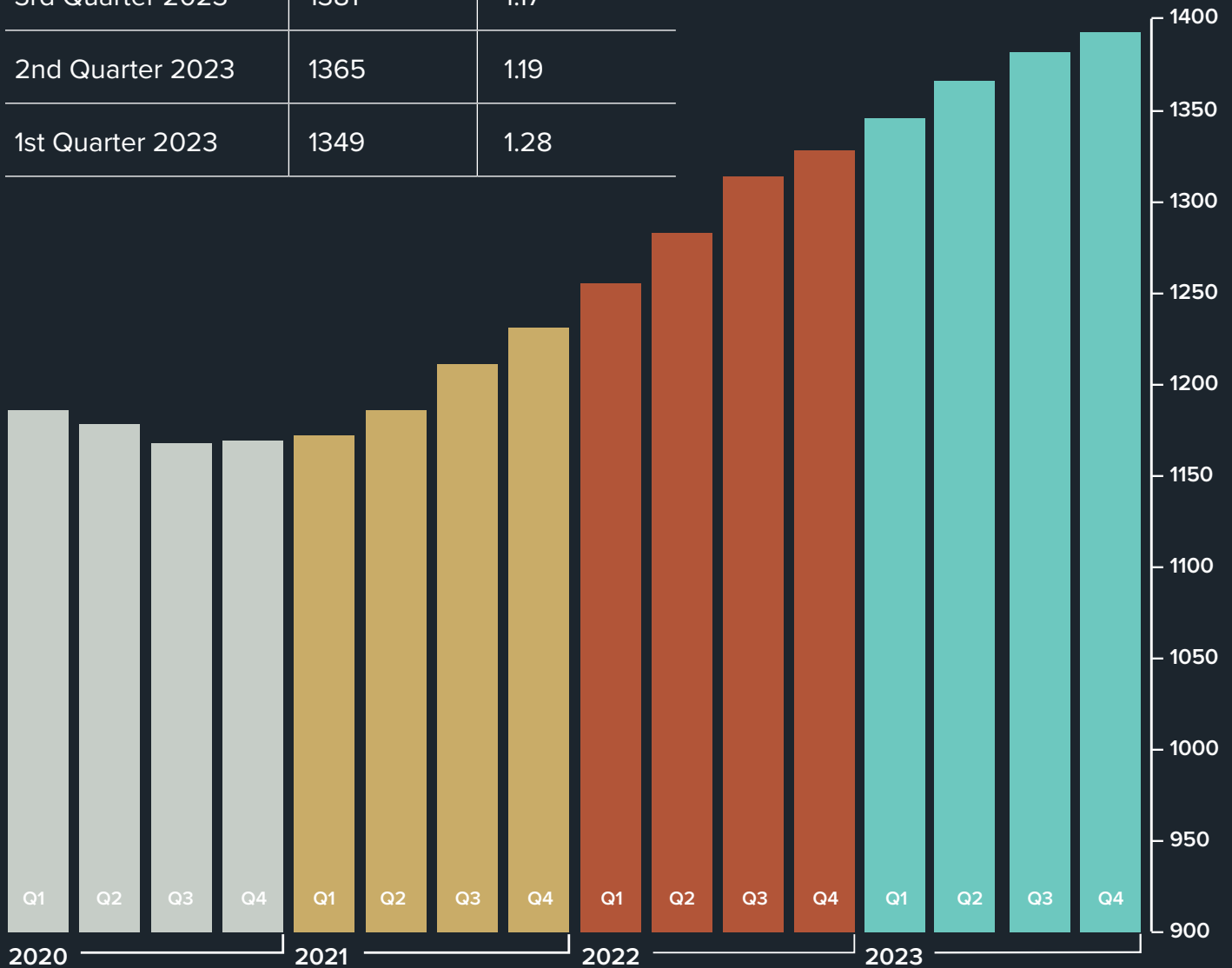
The construction industry is seeing a positive shift towards stability in material pricing in 2024, providing a more predictable environment compared to previous years. Despite ongoing challenges in specific product categories, such as drywall, which has experienced consistent price declines, there is diversity in material dynamics. Various commodities like structural steel, framing lumber, copper electric wire, and concrete block are facing unique challenges and influences. Looking ahead, industry experts anticipate continued stability but stress the importance of resilience and preparedness in project planning, considering potential localized cost increases driven by factors like mega projects, labor shortages, and geopolitical events. Adaptability and foresight are crucial for navigating the dynamic landscape of construction material pricing trends.



CONSTRUCTION COST ESCALATION BY QUARTER

TURNER BUILDING COST INDEX

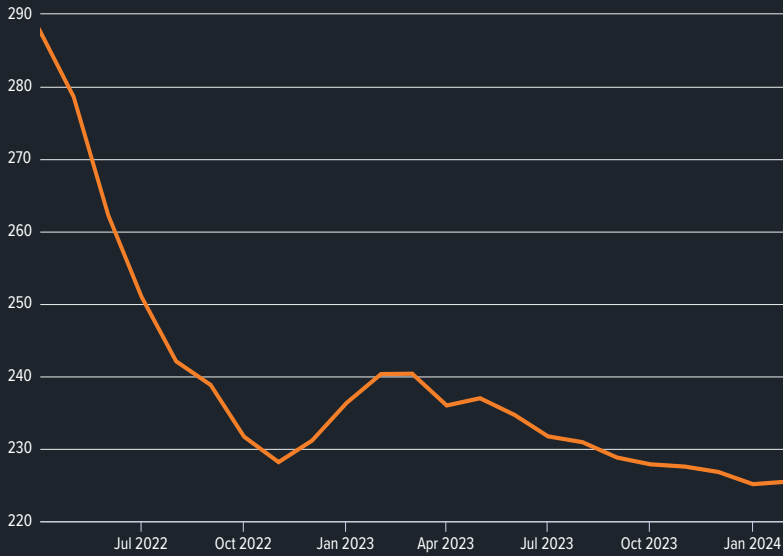
Quarter	Index	% Change
4th Quarter 2023	1395	1.01
3rd Quarter 2023	1381	1.17
2nd Quarter 2023	1365	1.19
1st Quarter 2023	1349	1.28



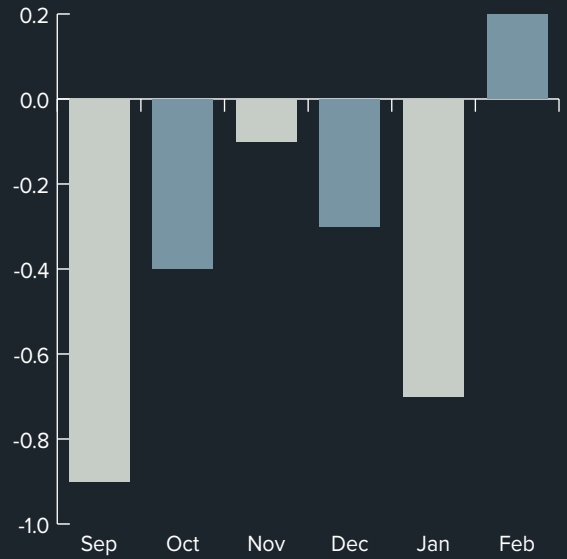
The Cost Index is determined by several factors considered on a nationwide basis, including labor rates and productivity, material prices, as well as the competitive condition of the marketplace.

CONSTRUCTION MATERIALS PRICE MOVEMENT

ALUMINUM MILL SHAPES

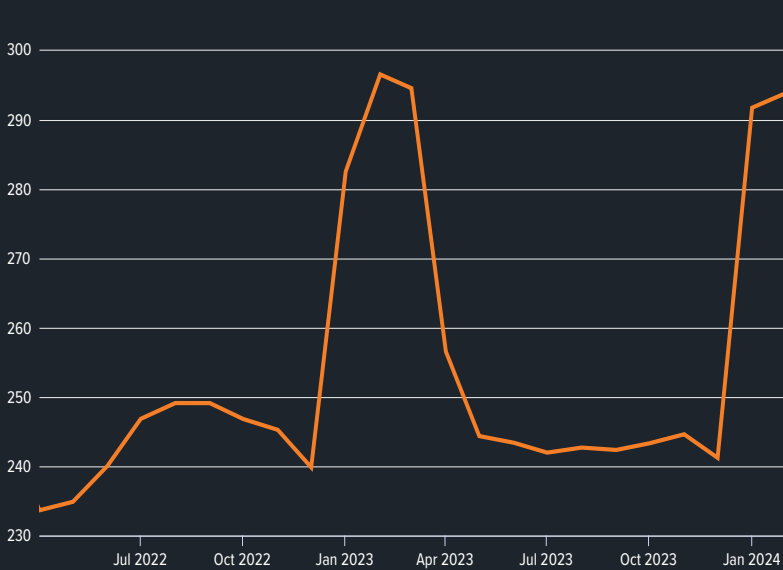


Price Index, Year-Over-Year

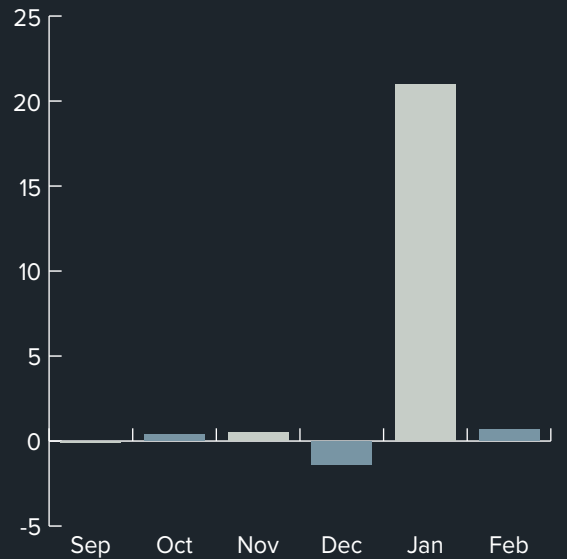


Percent Change, Monthly

ASPHALT & TAR PAVING MIXTURE

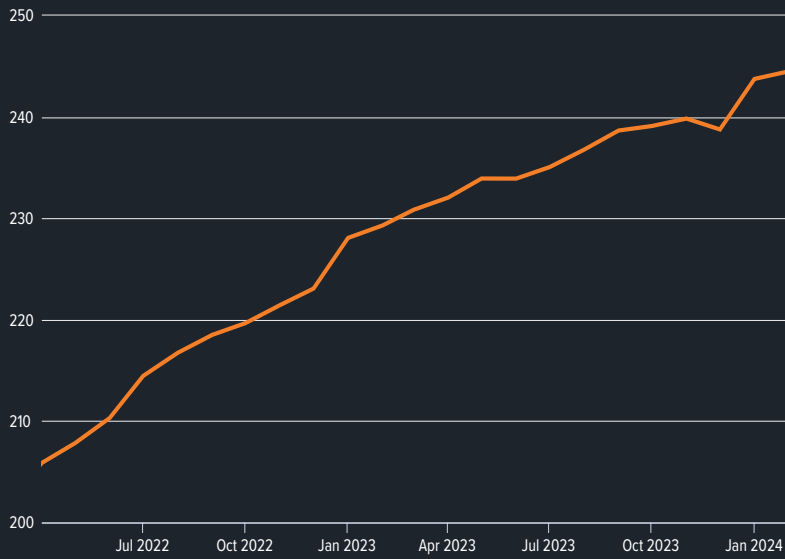


Price Index, Year-Over-Year

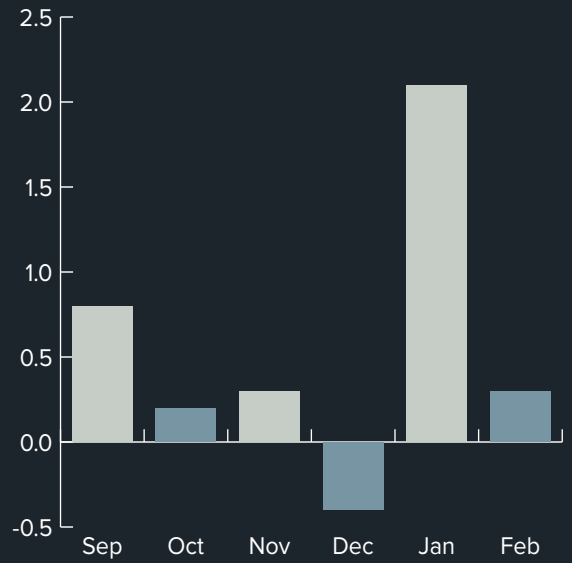


Percent Change, Monthly

CONCRETE

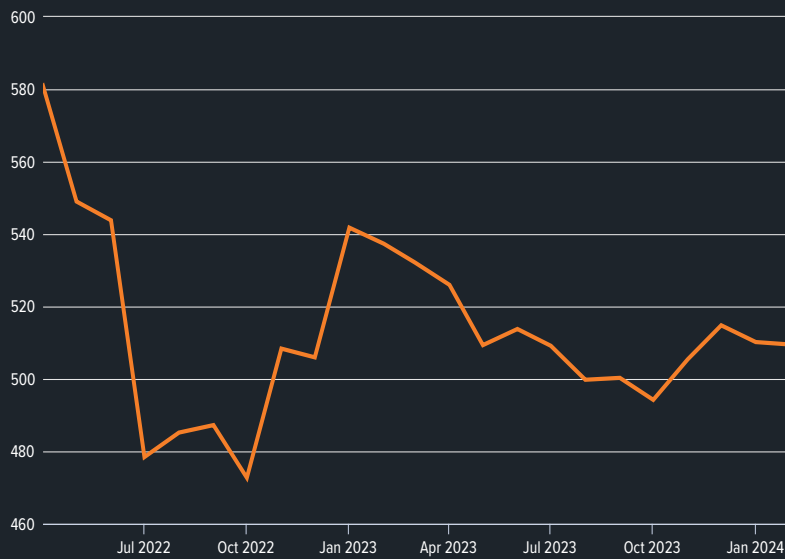


Price Index, Year-Over-Year

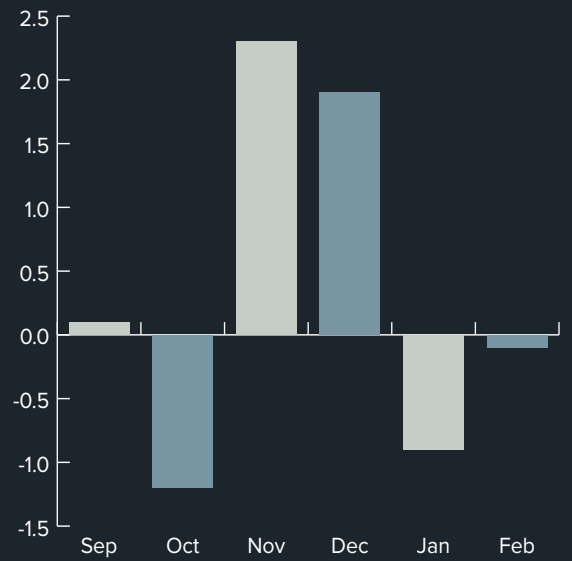


Percent Change, Monthly

COPPER

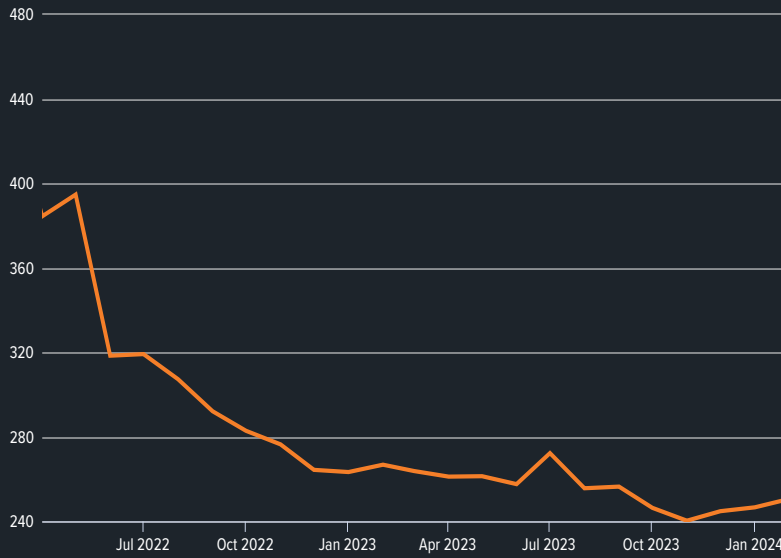


Price Index, Year-Over-Year

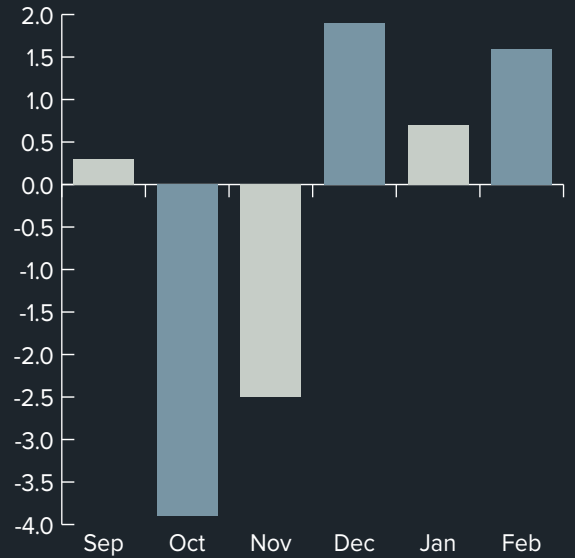


Percent Change, Monthly

LUMBER

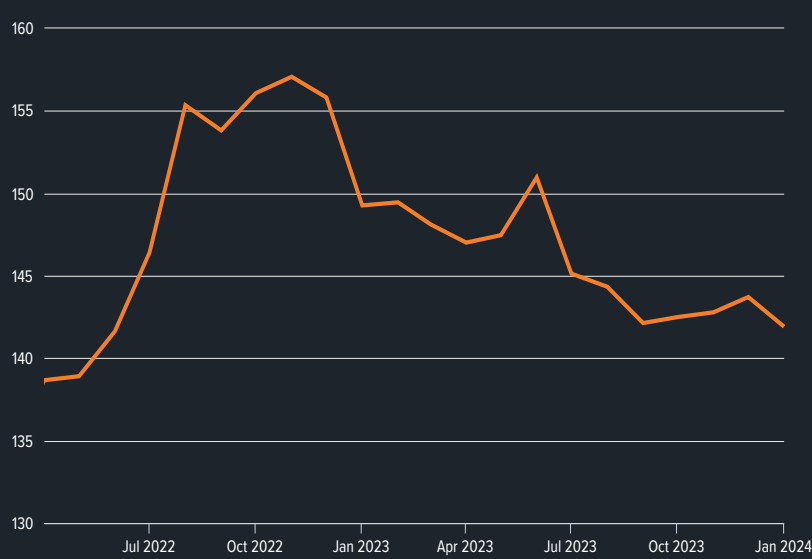


Price Index, Year-Over-Year

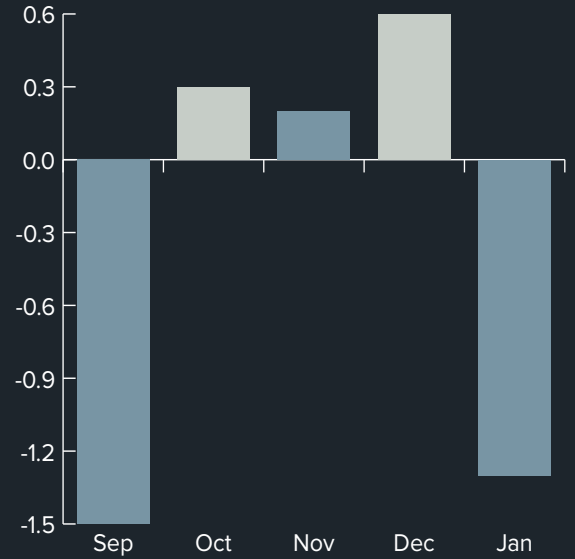


Percent Change, Monthly

FLAT GLASS

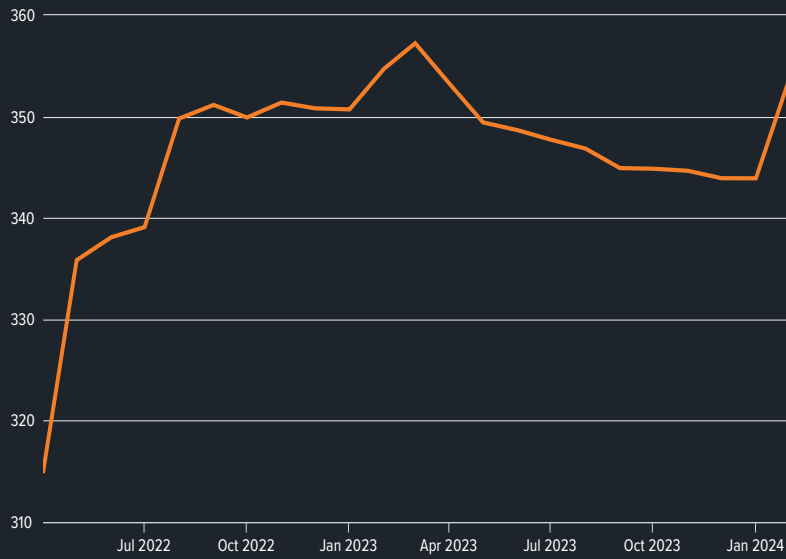


Price Index, Year-Over-Year

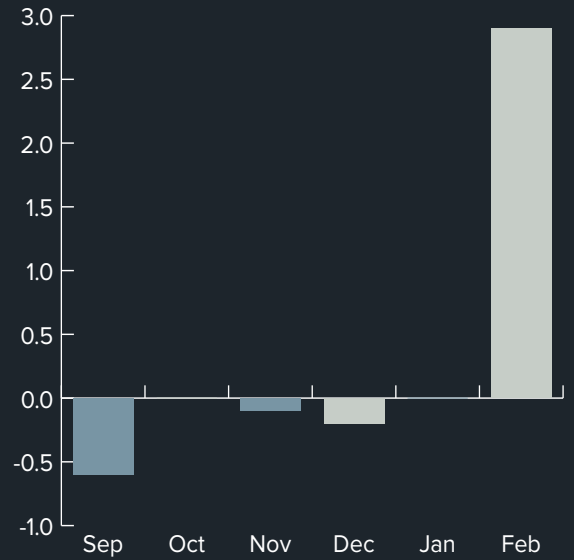


Percent Change, Monthly

GYPSUM

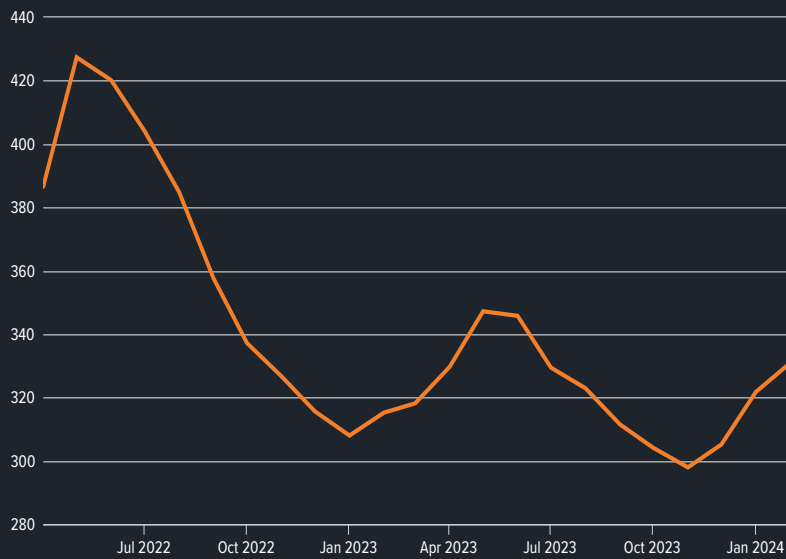


Price Index, Year-Over-Year

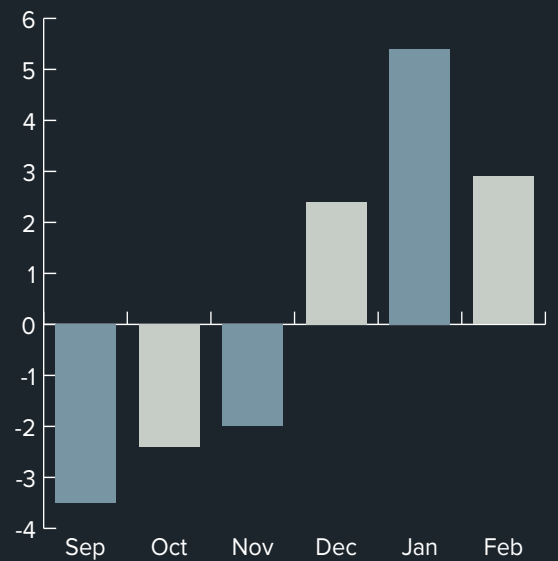


Percent Change, Monthly

STEEL MILL PRODUCTS



Price Index, Year-Over-Year



Percent Change, Monthly

Design Expectations

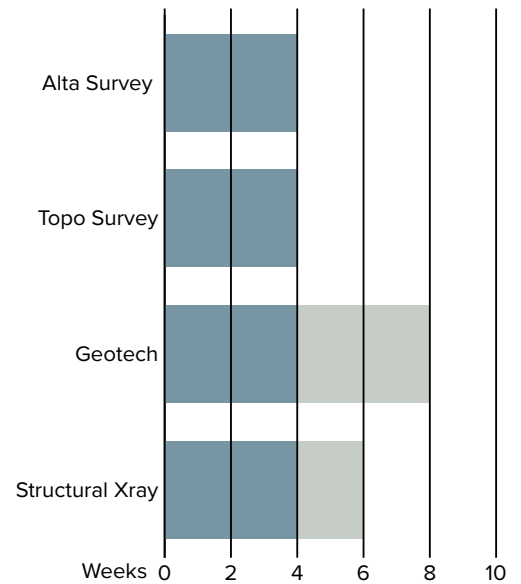
The continued effects of labor issues, supply chain problems, and material volatility are being felt by more than just the construction team. Our architectural team is tasked with conceptual design, preliminary pricing, entitlements, construction documents, and construction administration through completion. 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

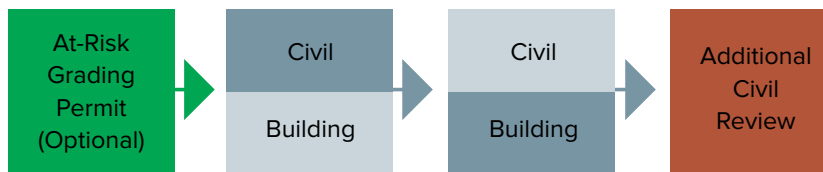


*Does not apply to all municipalities.

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.





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:

CONCEPTUAL DESIGN

Initial concepts take shape as LGE defines the project vision.

BUDGET & COST CONTROL

With conceptual designs and proposal approval, LGE ensures adherence to budgets.

PLAN & PERMIT APPROVAL

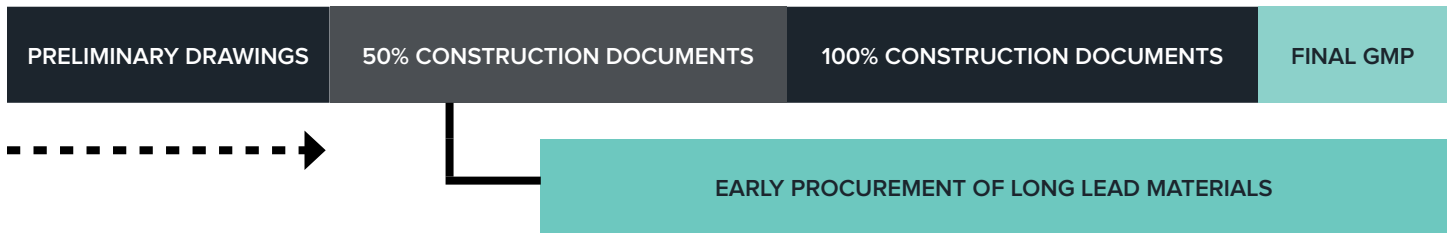
Coordinating required documents for permit approval prior to construction.

CONSTRUCTION ADMINISTRATION

During construction, LGE manages tasks related to on-site activity.

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:



Final Thought

"In conclusion, the current landscape of the construction sector paints a promising picture. With evident improvements in cost management and project schedules, coupled with reassuring stability in crucial materials, we stand on solid ground for our endeavors. This positive trajectory not only fosters efficiency but also holds the promise of enhanced project outcomes."

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

30
Years of
Design
Build

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LGE Design Build, AZ

1200 N 52ND STREET
PHOENIX, AZ 85008
www.lgedesignbuild.com
480.966.4001

LGE Design Build, TX

1280 LEVEE ST
DALLAS, TX 75207
www.lgedesignbuild.com
469.498.0998

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