PARTNERS IN PROGRESS

ALL IN 2020
TRANSFORMING THE WORLDWIDE BUILDING AND CONSTRUCTION INDUSTRY THROUGH REVOLUTIONARY INNOVATION
The US Economy is in the midst of its longest expansion in history (127 months). The previous longest expansion was 120 months in the 1990s.

Unemployment peaked in 2009 at 10%, fell below 5% in 2016, and is currently at a cycle low of 3.5%.

Nonresidential construction has grown every year since 2011. The bottom in 2011 was 25% below the 2007 peak. Since then it has grown by 46% to be 10% above its previous peak in 2007. Through November 2019 non-res was up 3% on the year.

Residential has grown since 2010 where it bottomed down 60% from peak. Since then it has increased by 116% though it is still 13% below its 2005 peak.
FORECAST: WE WILL SLOW DOWN – WHEN?

• We are currently in the longest economic expansion in US History. 127 months with average growth of 2.3% and employment growth of 1.1%. 2019 saw GDP growth of 2.3% below 2018’s 2.9%.
• The fed forecast growth at 2.0% in 2020, 1.9% in 2021 and 1.8% in 2022.
• Economic forecasters feel the risk of a national economic recession have diminished.
  • Positives for the economy include:
    o Favorable interest rates with low inflation
    o Strengthening housing market
    o Strong job creation late in the business cycle
    o Trade Agreements with Mexico-Canada and China
  • Risk to the economy include:
    o Weakening manufacturing
    o Declining business investment levels
    o International tensions
    o Election year
AIA CONSENSUS FORECAST:
CAUTIOUS BUT OPTIMISTIC – DEEP DOWNTURN NOT EXPECTED

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Nonresidential Total</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Commercial Total</td>
<td>0.6</td>
<td>-0.2</td>
</tr>
<tr>
<td>Office</td>
<td>3.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Retail and Other Commercial</td>
<td>-1.3</td>
<td>-0.9</td>
</tr>
<tr>
<td>Hotel</td>
<td>-0.7</td>
<td>-1.0</td>
</tr>
<tr>
<td>Industrial Total</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Institutional Total</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Health</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Education</td>
<td>3.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Religious</td>
<td>-1.9</td>
<td>-1.9</td>
</tr>
<tr>
<td>Public Safety</td>
<td>7.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Amusement and Recreation</td>
<td>-1.8</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

- Overall forecasters believe the growth of nonresidential construction will slow in 2020 and further slow in 2021. For reference, nonresidential construction grew 3.7% in 2018 and should grow around 2.5% in 2019.
- From a segment perspective, poorly performing segments such as retail and religious will continue to underperform.
- Hotel and Amusement/Recreation have performed well over the last five years but have slowed in 2019. These segments are forecast to slow further over the next two years.
AIA CONSENSUS FORECAST: Cautious But Optimistic – Deep Downturn Not Expected

- Of the eight contributors to the consensus forecast, six are relatively consistent with the consensus forecast. Differences include:
  - Moody's is significantly more optimistic calling for 3.4% growth in 2020 and 5.4% growth in 2021 with all sectors growing in 2021. Note that Wells Fargo is also bullish calling for 2.8% growth in 2020 and 3.6% growth in 2021.
  - Dodge is more pessimistic calling for 1.1% growth in 2020 with a decline of 5.9% in 2021 and all sectors declining in 2021.
  - Three of the eight forecasters are forecasting a drop in nonresidential construction in 2021 – Dodge -5.9%, FMI -0.2% and ABC -0.9%.

- The AIA billings and design contract index flipped between positive and negative for the first 3 quarters of 2019 indicating potential for a slowing market. The last quarter of 2019 saw both billings and design contracts turn consistently positive for October, November and December. This indicates risk of a broad downturn in 2020 is significantly reduced.
MIDWEST HISTORICAL PERFORMANCE

- Over the last five years total nonresidential construction put in place grew by 7%, well below the national figure of 27%. Spending was down 1% in 2018 vs. a national gain of 5%.
GROWTH TRENDS BY SEGMENT - MIDWEST REGION

- Warehouse ($6 billion annual market) has been the region’s growth leader in the long-term and continues to perform well in the short-term.
- Office ($11 billion), Lodging ($4 billion) have seen strong long-term and short-term growth.
- Food/Beverage ($2 billion) has seen strong long and short-term growth in the Midwest. This market has generally underperformed in the West and South but is doing well in the Midwest and Northeast.
- Manufacturing ($15 billion) declined over the last five years with a turnaround observed in 2018.
- Primary/Secondary education ($9 billion), Amusement/Recreation ($2 billion) and Air Terminal ($1 billion) have seen strong long-term growth with significant slowing in 2018.
- Multi-Retail ($4 billion) grew at a rate equivalent to the overall region in the last five years a significant decline seen in 2018.
GROWTH TRENDS BY SEGMENT – MIDWEST REGION

- Healthcare ($8.5 billion) has consistently underperformed the region in the long and short term with the market shrinking over multiple years.
- Higher education ($6 billion) has seen significant declines in both the long and short term.
LESSONS FROM THE LAST DOWNTURN: HOW ARE WE POSITIONED FOR THE NEXT?

- Lodging, Office, Food/Beverage and Amusement and Recreation have all been very strong markets in the Midwest over the last five years that may do poorly during the next downturn.
- Warehouse has been strong and would typically decline during a downturn but may hold up better during a future recession due to ongoing e-commerce trends.
- Education (specifically primary/secondary) has seen ok performance and will likely hold up during the next downturn.
- The Midwest Healthcare construction market has been in slow decline despite overall economic growth. It will likely remain stable or slowly declining regardless of overall economic trends.
- Higher Education has performed poorly relative to the region and may not be a good option in a downturn has it has tended to be previously.
DISCUSSION

- What are the opportunities in the Market? What are we missing out on?

- What are the challenges in the market? What keeps you up at night?
THANK YOU

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