
PARTNERS IN PROGRESS
ALL IN
2020
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STATE OF THE REGION MIDWEST

TRANSFORMING THE WORLDWIDE BUILDING AND CONSTRUCTION INDUSTRY THROUGH REVOLUTIONARY INNOVATION

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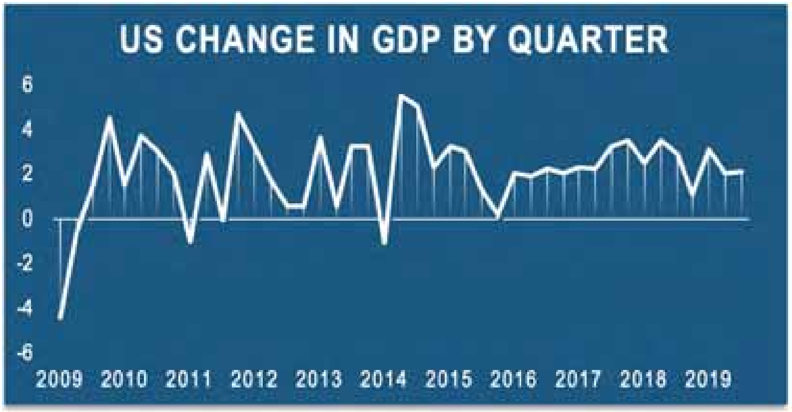
WHERE WE HAVE BEEN – LET THE GOOD TIMES ROLL



- 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:
  - Favorable interest rates with low inflation
  - Strengthening housing market
  - Strong job creation late in the business cycle
  - Trade Agreements with Mexico-Canada and China
- Risk to the economy include:
  - Weakening manufacturing
  - Declining business investment levels
  - International tensions
  - Election year

Cover of the annual report of a publicly traded home builder prior to the great recession – fact check, there was a ceiling.

AIA CONSENSUS FORECAST:
CAUTIOUS BUT OPTIMISTIC – DEEP DOWNTURN NOT EXPECTED

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

- 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.

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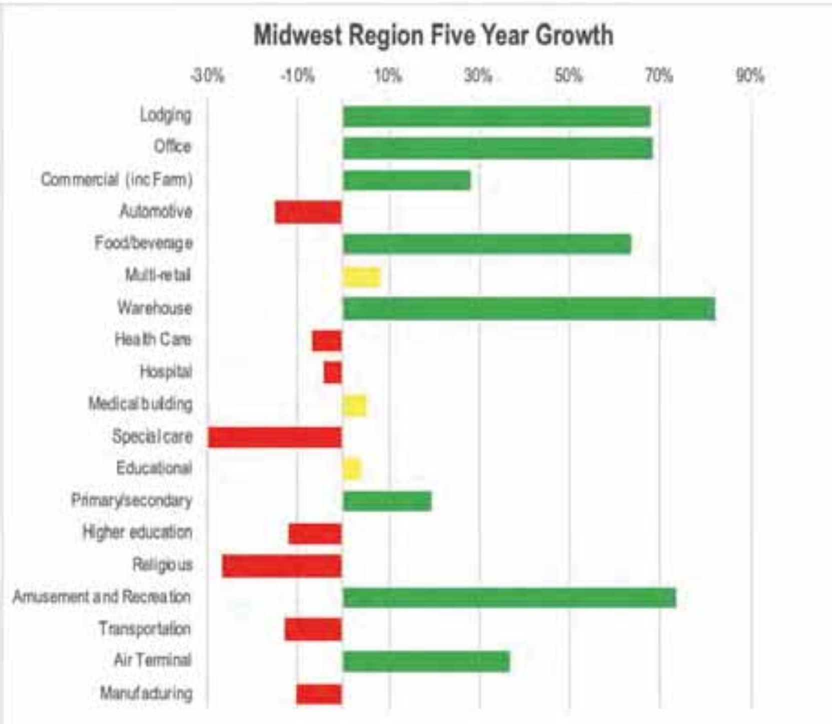
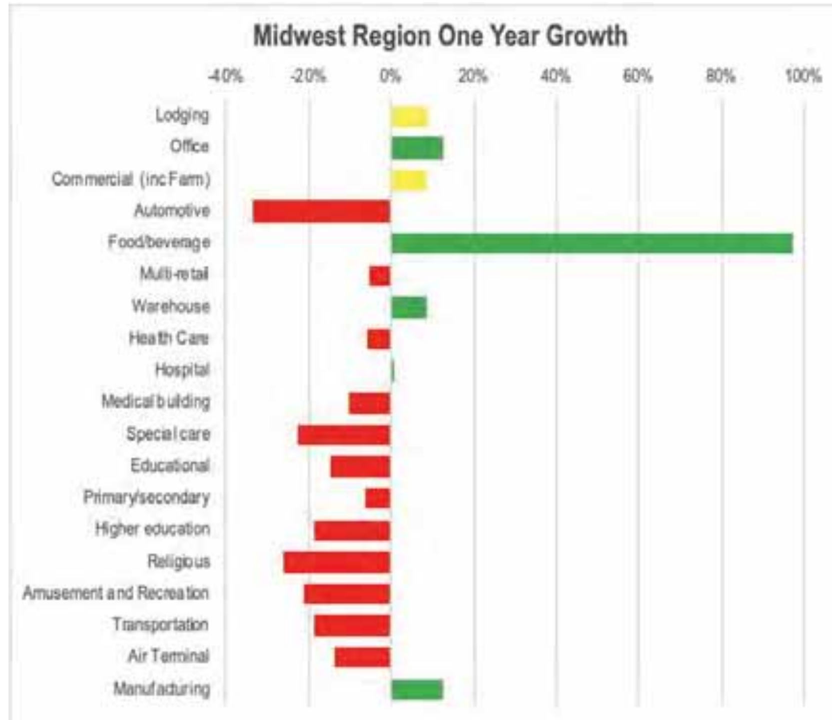
- Of the eight contributors to the consensus forecast, six are relatively consistent with the consensus forecast. Differences include:
  - Moody's is significantly more optimistic calling for 3.4% growth in 2020 and 5.4% growth in 2021 with all sectors growing in 2021. Note that Well Fargo is also bullish 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

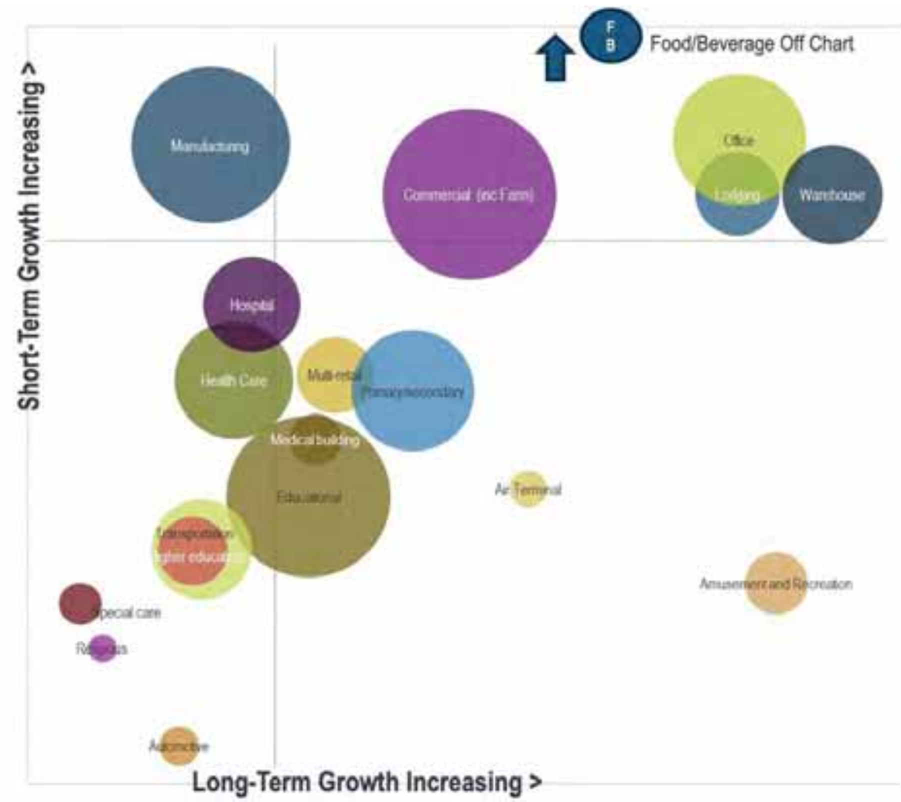
- Over the last five years total nonresidential construction put in place grew by 7%, well below the national figure of 27%. Spending was down 1% in 2018 vs. a national gain of 5%.





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.



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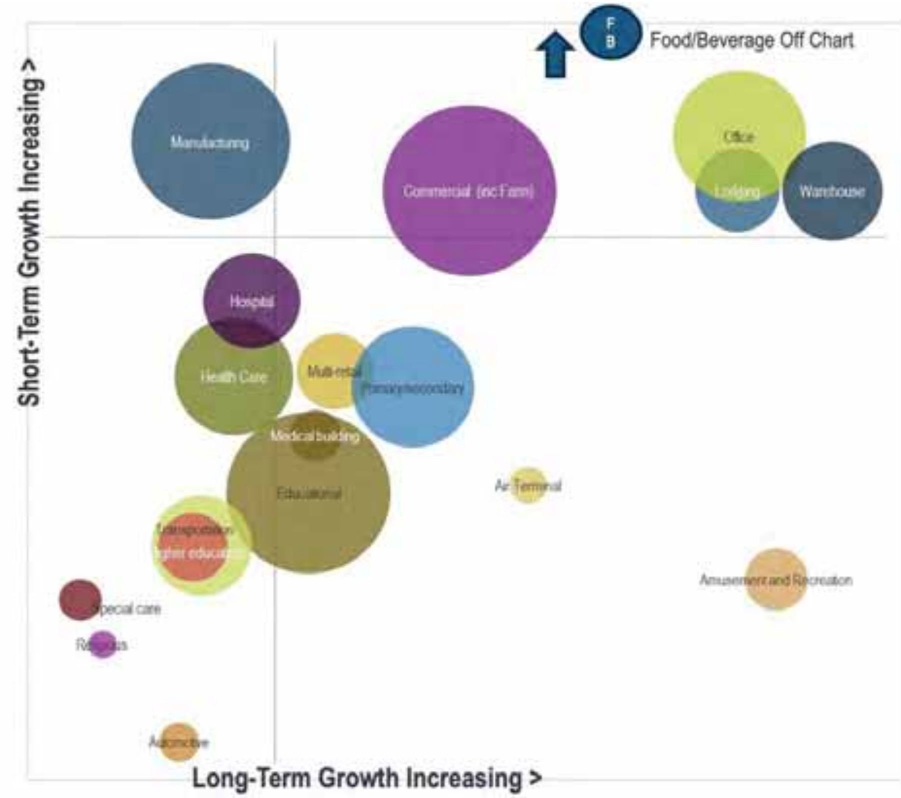
GROWTH TRENDS BY SEGMENT – MIDWEST REGION

- 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.



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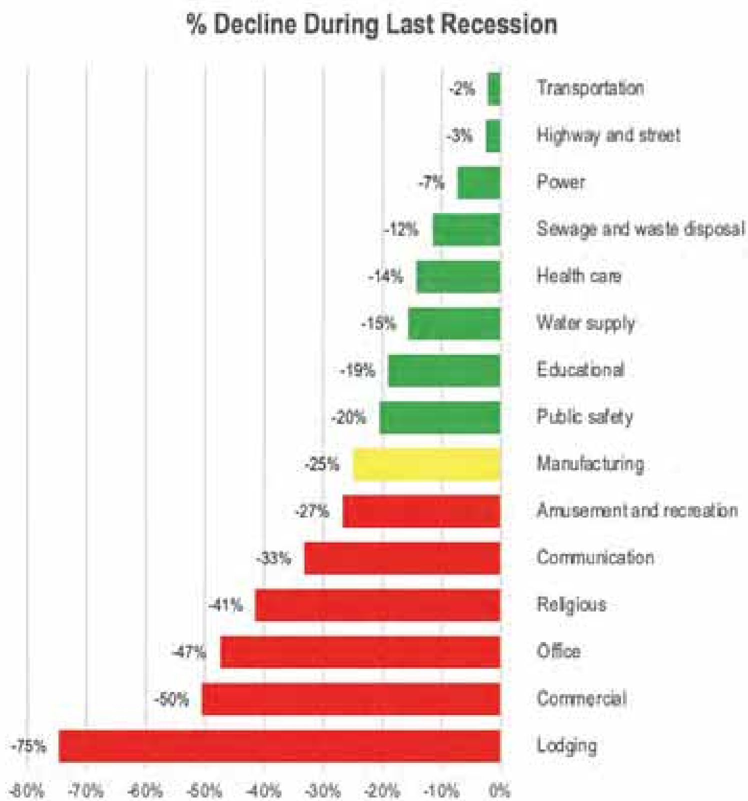
LESSONS FROM THE LAST DOWNTURN:
HOW ARE WE POSITIONED FOR THE NEXT?



- 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.

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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?

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THANK YOU

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