

PARTNERS IN PROGRESS

ALL IN 2020

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CONTINUUM ADVISORY GROUP

STATE OF THE REGION
SOUTH / SOUTHWEST

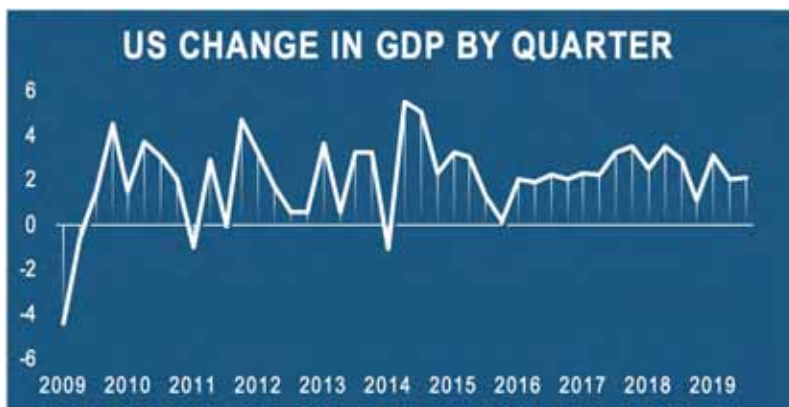


TRANSFORMING THE WORLDWIDE BUILDING AND CONSTRUCTION INDUSTRY
THROUGH REVOLUTIONARY INNOVATION



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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%.

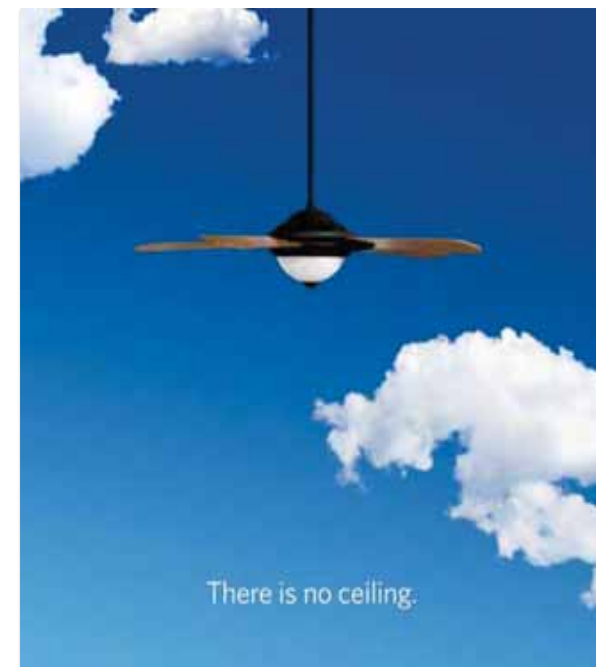
- Nonresidential construction has grown every year since 2011. The bottom in 2011 was 25% below the 2007 peak. Since then it has grown by 46% to be 10% above its previous peak in 2007. Through November 2019 non-res was up 3% on the year.

- 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.

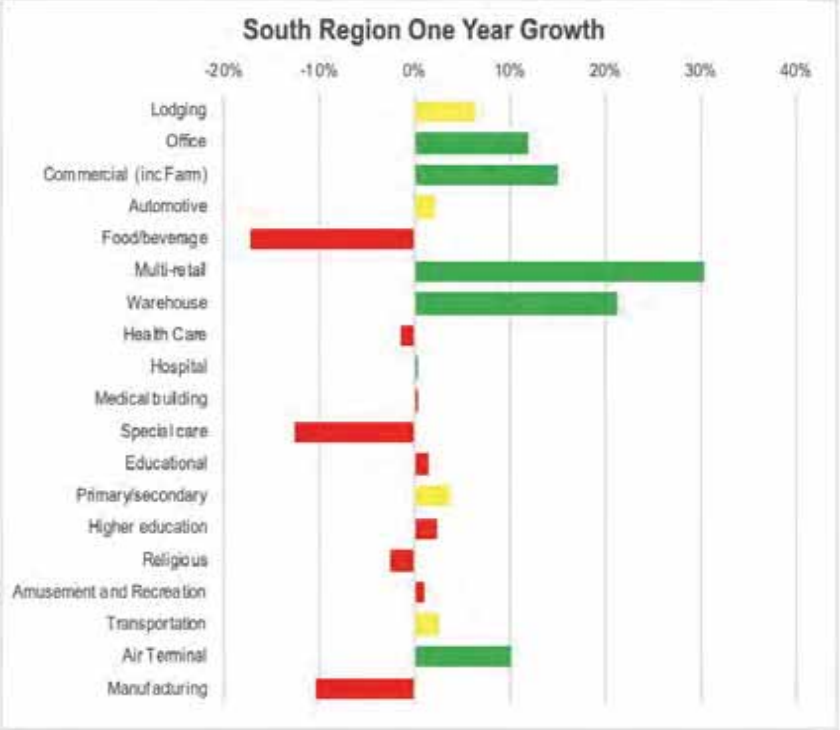
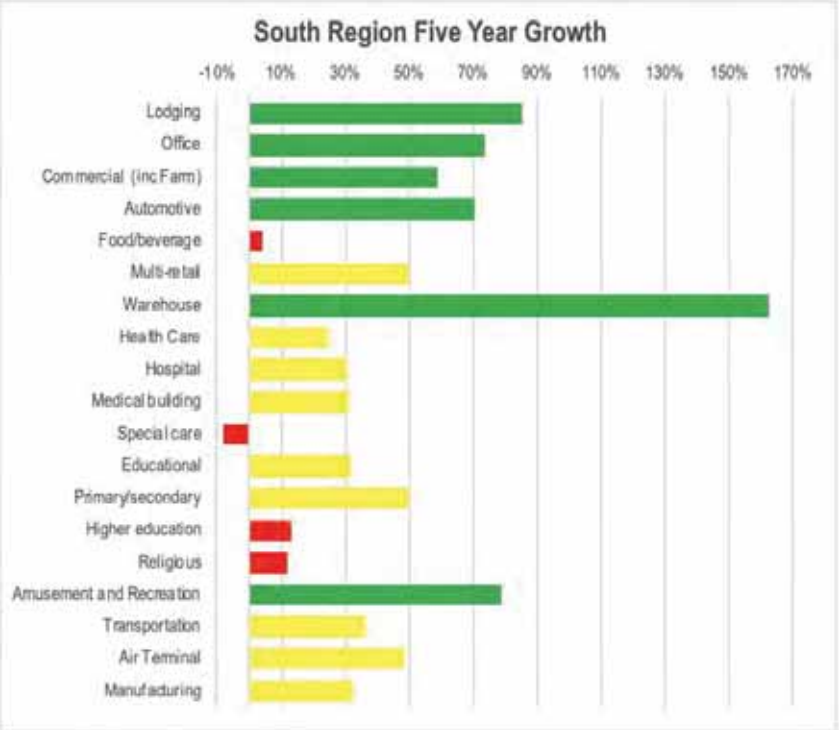
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- Of the eight contributors to the consensus forecast, six are relatively consistent with the consensus forecast. Differences include:
 - Moody's is significantly more optimistic calling for 3.4% growth in 2020 and 5.4% growth in 2021 with all sectors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

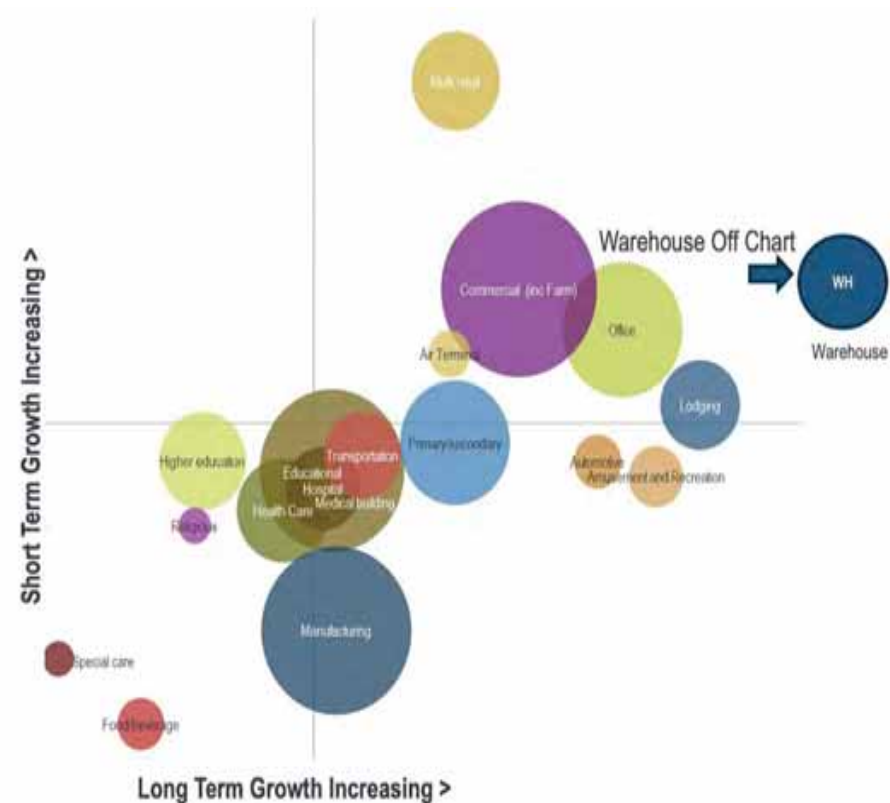
SOUTH/SOUTHWEST HISTORICAL PERFORMANCE

- Over the last five years total nonresidential construction put in place grew by 36%, well above the national figure of 27%. Spending was up 5% in 2018 vs. a national gain of 5%.



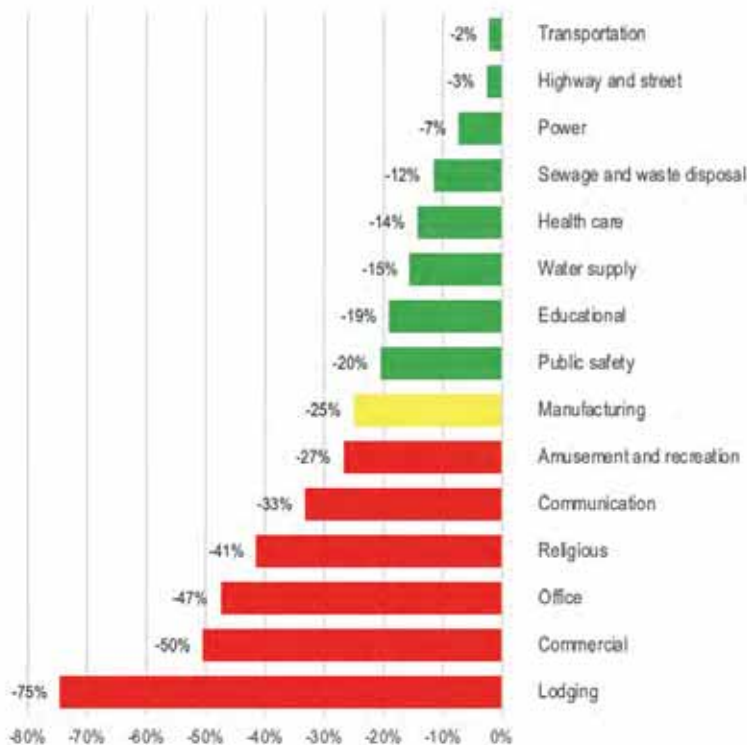
GROWTH TRENDS BY SEGMENT – SOUTH REGION

- Warehouse (\$14 billion annual market) has been the region's growth leader in the long-term and continues to perform well in the short-term.
- Office (\$25 billion), Lodging (\$11 billion) and Air Terminal (\$3 billion) have seen strong long-term and short-term growth.
- Primary/Secondary education (\$21 billion), Automotive (\$4 billion) and Amusement/Recreation (\$5 billion) have seen strong long-term growth with some slowing of growth in 2018.
- Multi-Retail (\$13 billion) has been surprisingly strong in the south. In other regions it has under performed the market.
- Manufacturing (\$38 billion) has seen modest growth over the last five years with a significant decline observed in 2018.
- Healthcare (\$14.8 billion) grew slightly below the regions average over the last five years with a more pronounced lack of growth in 2018 relative to the region.
- Food/Beverage (\$4 billion), Religious (\$2 billion) and Special Care (\$2 billion) have seen poor performance in the short and long-term.



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

% Decline During Last Recession



- Lodging, Office, Automotive, multi-retail and Amusement and Recreation have all been very strong markets in the south over the last five years that may do poorly during the next downturn.
- Education (specifically primary/secondary) and transportation (specifically air terminals) have done well and will likely hold up during the next downturn.
- Healthcare has seen slow growth but will likely maintain that slow growth in a future downturn relative to the current hot markets which will decline.
- 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.
- Higher Education has performed poorly relative to the region and may not be a good option in a downturn as 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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