PARTNERS IN PROGRESS
ALL IN 2020
CONTINUUM ADVISORY GROUP

STATE OF THE REGION
SOUTH / SOUTHWEST
TRANSFORMING THE WORLDWIDE BUILDING AND CONSTRUCTION INDUSTRY THROUGH REVOLUTIONARY INNOVATION
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:
  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>
</tr>
</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

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
</tr>
</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>

- 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?

- 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 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

Clark Ellis
Principal
CEllis@ContinuumAG.com
919.345.0873
@ClarkEllis
linkedin.com/in/clarkellis

Nate Scott
Principal
NScott@ContinuumAG.com
303.522.1465
@NateScott6
linkedin.com/in/nathan-scott
PARTNERS IN PROGRESS
ALL IN 2020