

Saylor Consulting Group

Market Trends 2021



Summary

- National Economy
- Materials
- California Economy
- Bay Area Economy
- Growth Sectors/Current Projects
- Bidding Climate
- Escalation Projections
- Delivery Methods

Economic Forecast: Quick Recovery Likely

- Global
 - 2020 GDP growth at -3.5% IMF
 - 2021 projected at 5.5% IMF
- U.S.:
 - 2020 GDP growth at -3.5%
 - 2020 forecasted at 5.1%
 - 2020 unemployment finished at 6.3%, up 2.8% year over year
 - Personal savings doubled in 2020, indicating pent up demand that will fuel economy in 2021 as the economy opens up

U.S. GDP decreased 3.5% in 2020

Real GDP: Percent change from preceding quarter

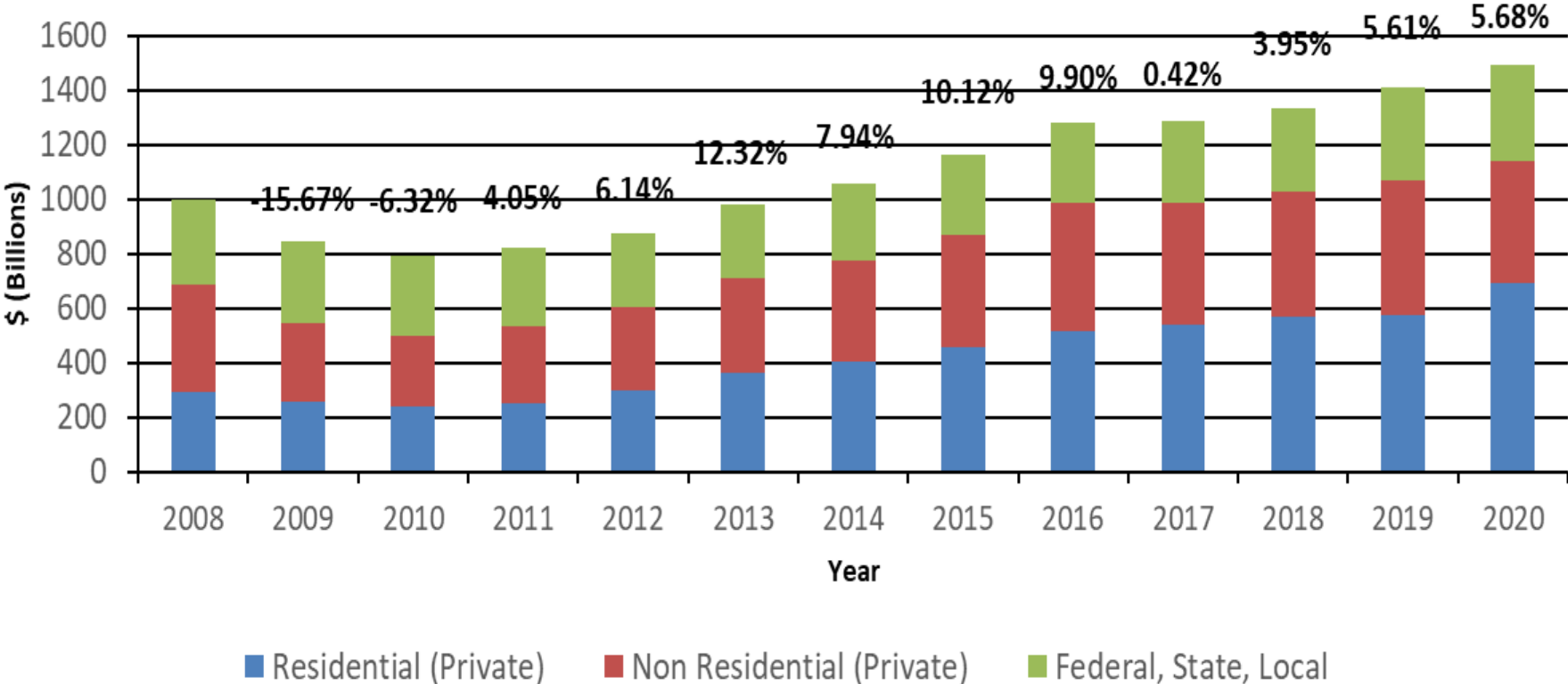


U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

2020 National Construction Spending +5.7%, but Non Residential Starts down 25%

Construction Put In Place (U.S. Census Bureau)



Source: US Census Bureau



2021 Construction Market: Positive Indications

- Unemployment down to 6.3% from 14%
- Consumer goods spending steady, services down but expected to recover in 2021 as economy opens
- Federal funds lending rate down from high of 2.5% to .09% currently, fueling construction growth
- Wage growth up 4% YOY
- 2019 Home price appreciation 9.1% in 2020, Zillow forecast 10% in 2021
- **Likely Covid stimulus bill will fuel public construction, consumer spending**

2021 Construction Market: Uncertainties

- Starts down 14% in 2020, projected to increase by 4% in 2021
- State tax revenue down \$125 Billion
- 47% loss in office leasing volume, total occupancy losses of 84 million square feet, vacancy rate up to 17%
- Falling rents in urban cores will likely depress multifamily sector in those areas

2020: The Year in Review

- 2020 U.S. construction starts decreased 14%
 - Single family up 3%
 - Multi family down 14%
 - Commercial down 23%
 - Institutional down 18%
 - Public works down 9%
 - Utilities down 43%

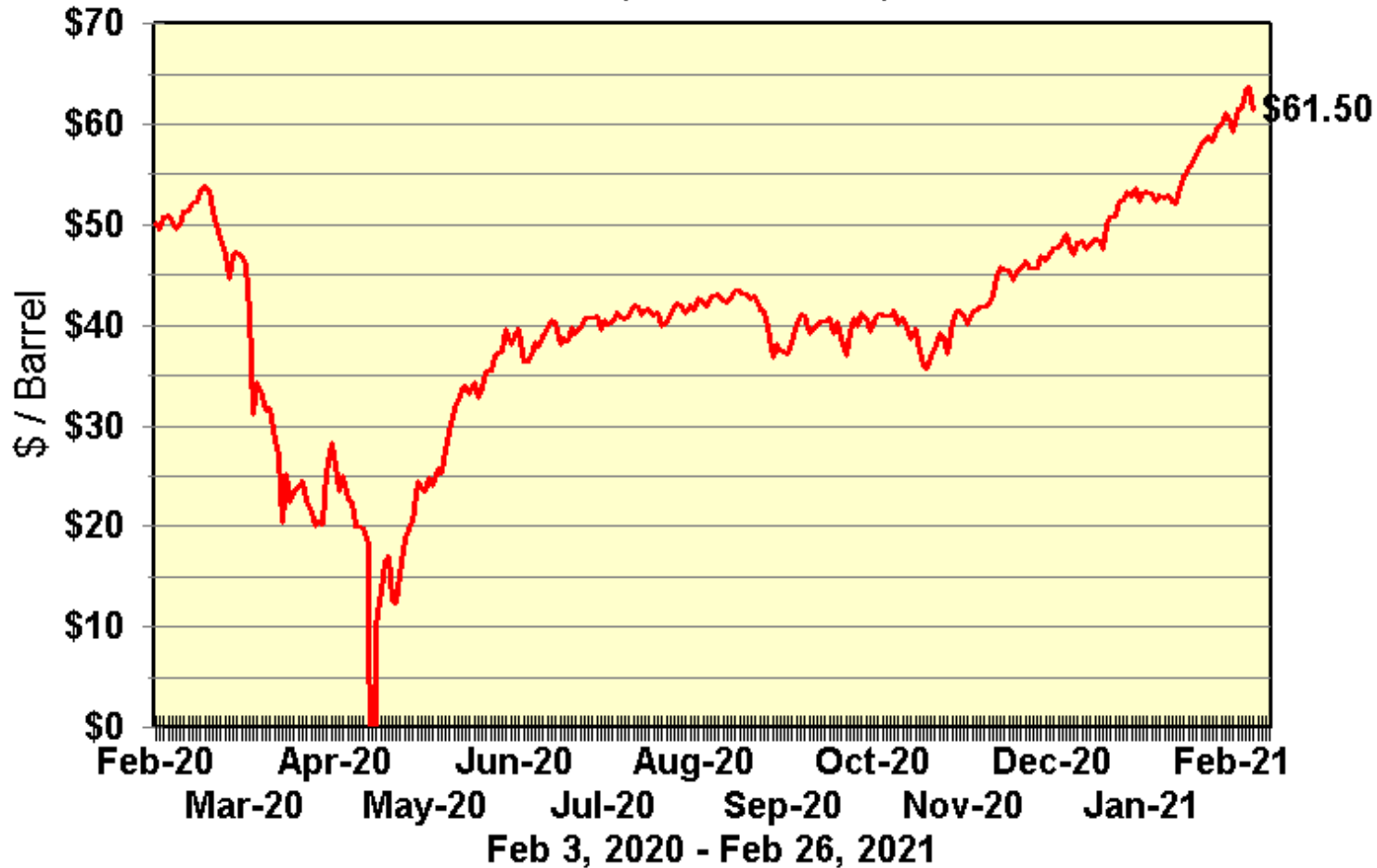
2021: National Forecast

- 2021 U.S. growth in construction starts projected to increase 4%
 - Single family up 7%
 - Multi family down 1%
 - Commercial up 5%
 - Institutional up 1%
 - Public works 0%
 - Utilities up 35%



MATERIALS

NYMEX Crude Oil Futures Close (Front Month)



Feb 3, 2020 - Feb 26, 2021

— Close

WTRG Economics © 2021

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Oil Prices up 23%% from Feb 2020

Wild Spikes in Lumber Due to Supply Chain Problems and Higher than Expected Residential Starts

Lumber price per thousand board feet

Random Lengths Framing Lumber Composite Price

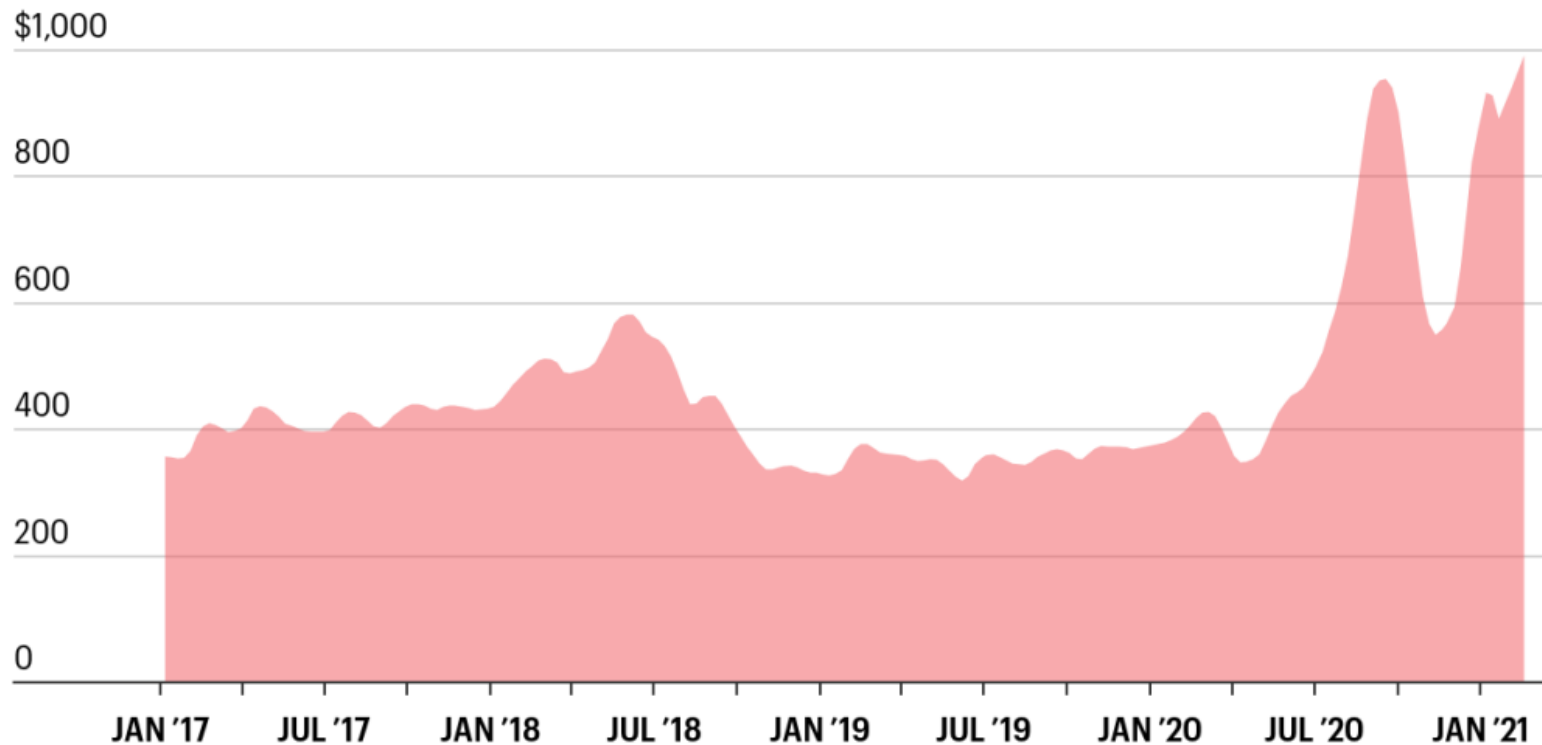


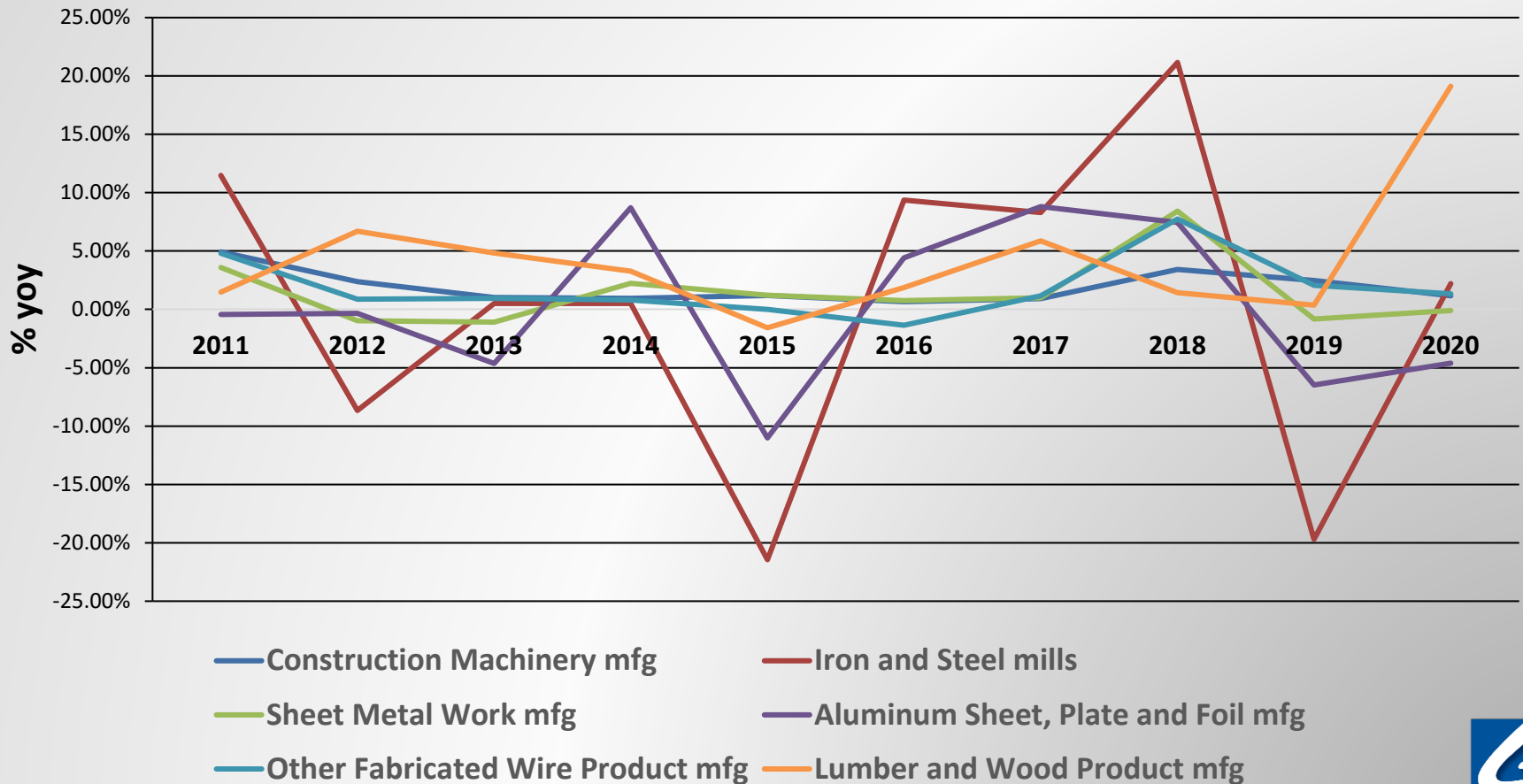
CHART: LANCE LAMBERT • SOURCE: RANDOM LENGTHS

FORTUNE



Materials Escalation Muted (with the exception of lumber)

Producer Price Index, Select Components
2011-2020



Source: US Census Bureau

Saylor Q4 2020 Index Shows Materials Escalation at 4.1%, Driven by Lumber

Material/Labor and Subcontract Indices-Selected Items*

12/30/2020

Materials/ Labor Index		9/30/2020	12/30/2020	Month Over Month %	Quarter Over Quarter %	Year Over Year %
Materials (23 Materials)	Unit					
Aluminum Sheet 36"*96"	Cwt	194.77	199.83	0.55%	2.60%	-8.00%
Ashpalt Felt, 4 squares	Roll	26.40	27.02	0.70%	2.35%	2.35%
Block, Concrete 8x8x16	Ea	1.89	1.88	-0.19%	-0.57%	3.35%
Brick, Standard Modular	M	380.02	381.79	0.12%	0.46%	1.62%
Cement, Portland	Ton	118.18	118.13	-0.01%	-0.05%	1.60%
Concrete, Readymix 3000 PSI	Cy	111.48	110.17	-0.32%	-1.17%	0.16%
Copper Pipe, 1/2" type L	Mlf	1,562.76	1728.27	3.18%	10.59%	14.44%
Glass, 1/4"	Sf	7.09	7.10	0.04%	0.11%	0.72%
Gypsum Wall Board, 1/2" 4x8	Msf	329.59	285.47	-2.81%	-13.38%	-5.87%
Insulation, Fiberglass batts, r13	Msf	386.20	390.54	0.21%	1.12%	2.78%
Insulation, rigid, 1", poly iso	Msf	558.73	571.01	0.48%	2.20%	3.87%
Lath, Metal, 3.4#, Galvanized	Csy	318.44	313.43	-0.41%	-1.57%	-8.80%
Lumber, framing, 2x4, 2x6	Mbf	732.02	610.61	-5.64%	-16.59%	40.44%
Mason's Lime, 50# bags	Ton	258.02	258.06	0.00%	0.02%	1.96%
PG 64 liquid bulk shipped	Ton	522.80	484.78	-2.84%	-7.27%	-11.08%
Pipe, 8" c-900 PVC water	Lf	9.39	10.48	3.14%	11.63%	12.55%
Pipe, Reinforced Concrete, 24"	Lf	32.51	33.27	0.70%	2.33%	5.76%
Plywood 19/32" 4x8 CD exterior T+G	Msf	1,038.44	847.20	-4.79%	-18.42%	64.48%
Steel sheets, Stainless, 304, 4x8, cold rolled	Cwt	137.24	139.22	0.39%	1.44%	-7.72%
Steel, Reinforcing	Cwt	46.35	45.57	-0.22%	-1.69%	-5.51%
Steel, Structural Shapes	Cwt	51.50	51.23	-0.18%	-0.53%	-10.05%
Coal Tar Pitch, modified	Ton	560.00	550.99	-1.13%	-1.61%	-4.86%
Titanium Dioxide pigment	Cwt	143.30	142.87	-0.06%	-0.30%	0.42%
Total Average Material Increase (%)				-0.39%	-1.23%	4.11%



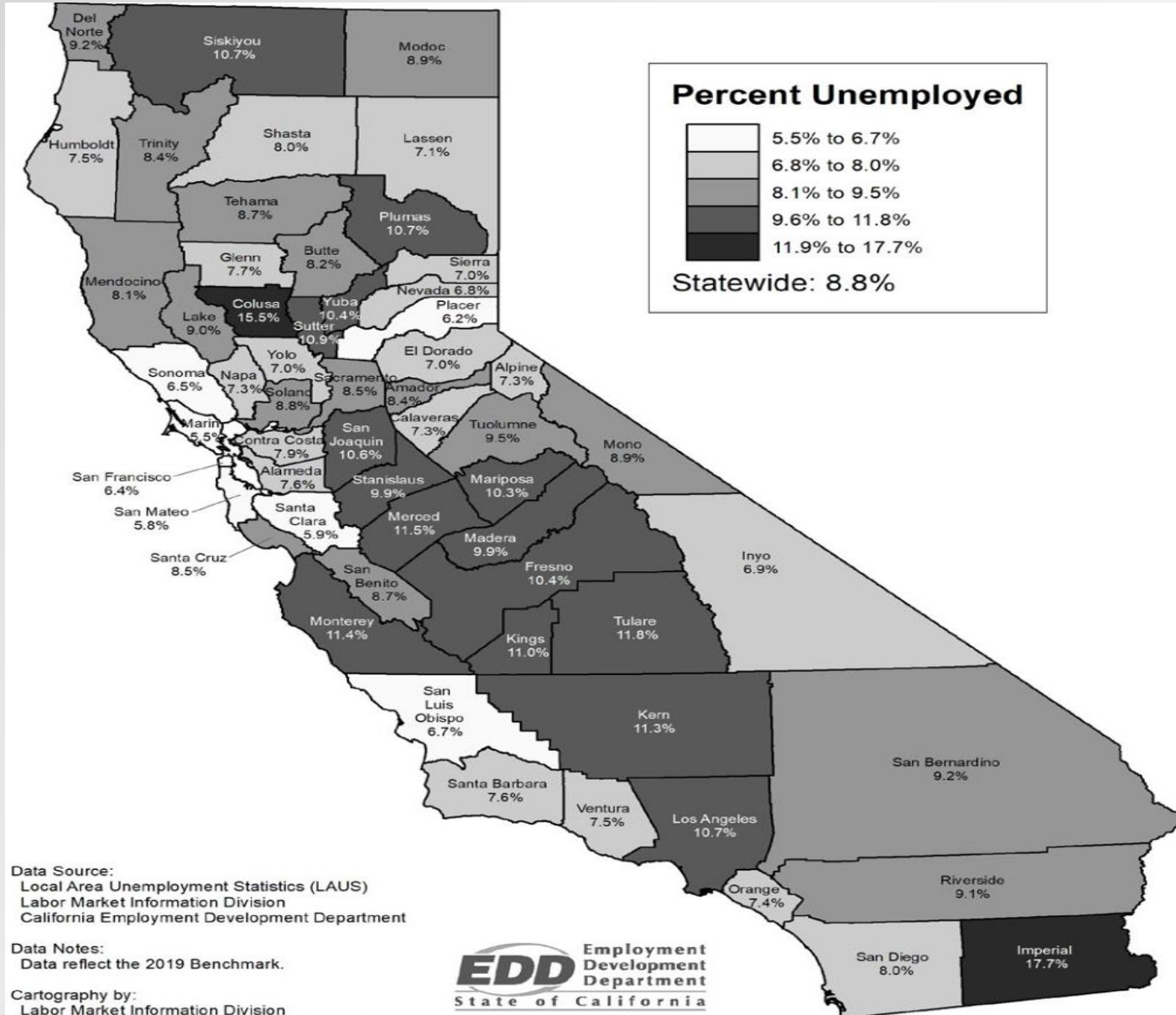
CALIFORNIA CONSTRUCTION ECONOMY

Figure 1**General Fund Condition Under Administration's Estimates***(In Millions)*

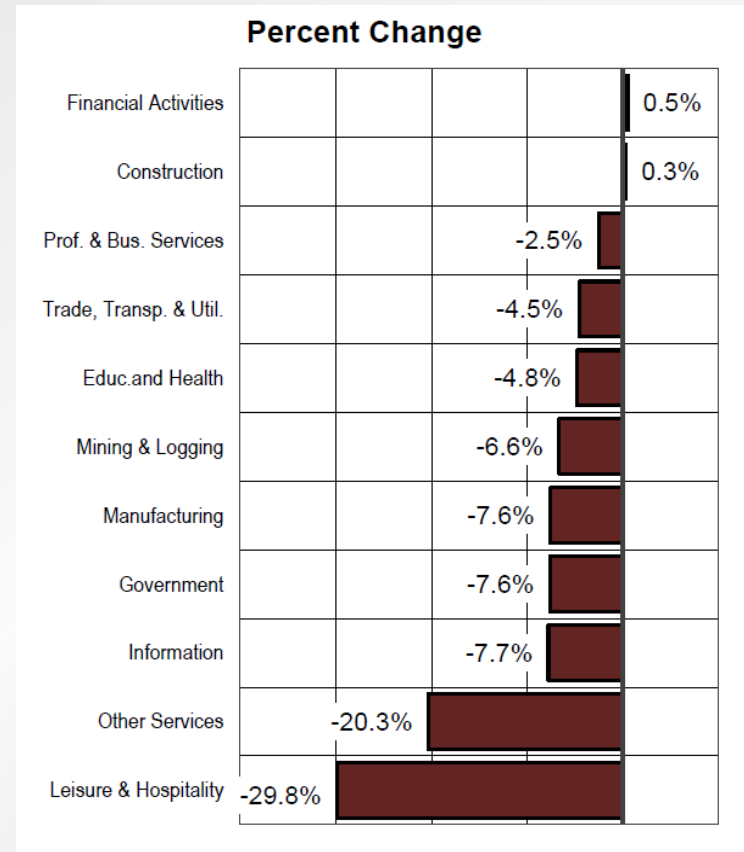
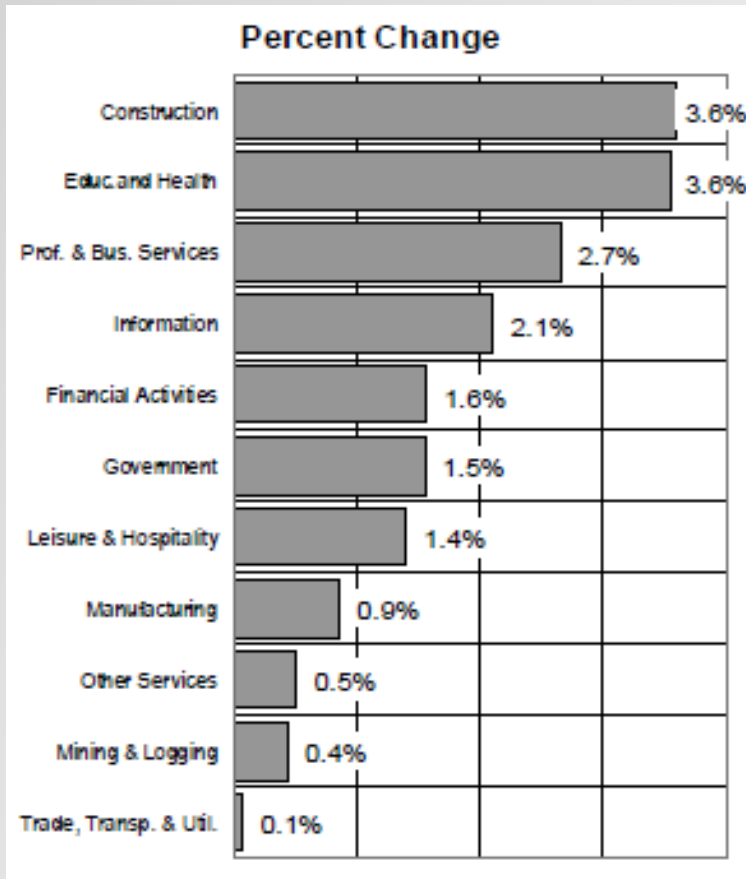
	2018-19 Revised	2019-20 Revised	2020-21 Proposed
Prior-year fund balance	\$10,979	\$8,497	\$5,234
Revenues and transfers	139,379	146,486	151,635
Expenditures	141,861	149,749	153,083
Ending fund balance	\$8,497	\$5,234	\$3,785
Encumbrances	2,145	2,145	2,145
SFEU balance	6,352	3,089	1,640
Reserves			
BSA	\$13,968	\$16,018	\$17,977
SFEU	6,352	3,089	1,640
Safety net	900	900	900
Total Reserves	\$21,220	\$20,007	\$20,517

SFEU = Special Fund for Economic Uncertainties (discretionary reserve) and
 BSA = Budget Stabilization Account (rainy day fund).

**Expected Tax Receipts Increased 3.4%,
 Rainy Day Fund Intact**



**California Unemployment 8.8%;
Bay Area 6.4%; Sacramento 8.5%**



Construction Job Growth: 2019: 3.6% 2020: .3%



Bay Area Construction Economy

Home Prices in Urban Cores Cool (San Francisco down 2.7%)

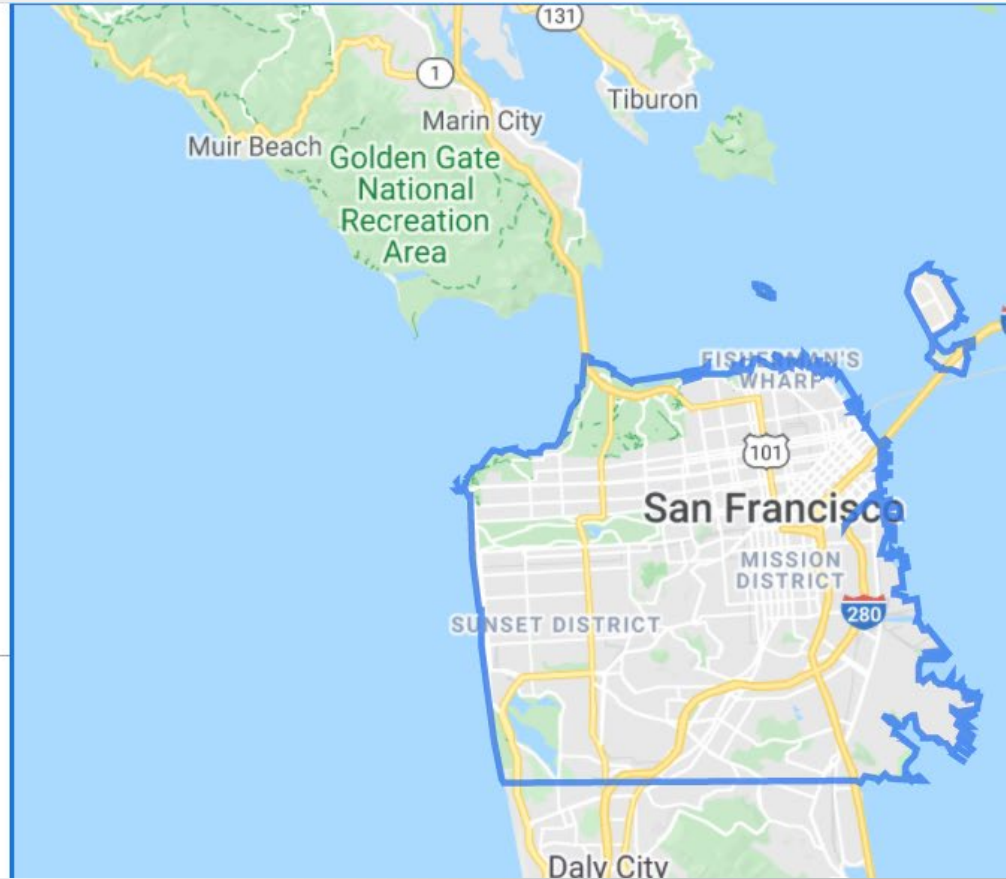
ZILLOW HOME VALUE INDEX ?

\$1,400,444

-2.7% 1-year change



The typical home value of homes in San Francisco is \$1,400,444. This value is seasonally adjusted and only includes the middle price tier of homes. San Francisco home values have declined -2.7% over the past year.



While Appreciation in Suburban Areas Skyrockets (Sacramento +12.5%)

Sacramento Home Values

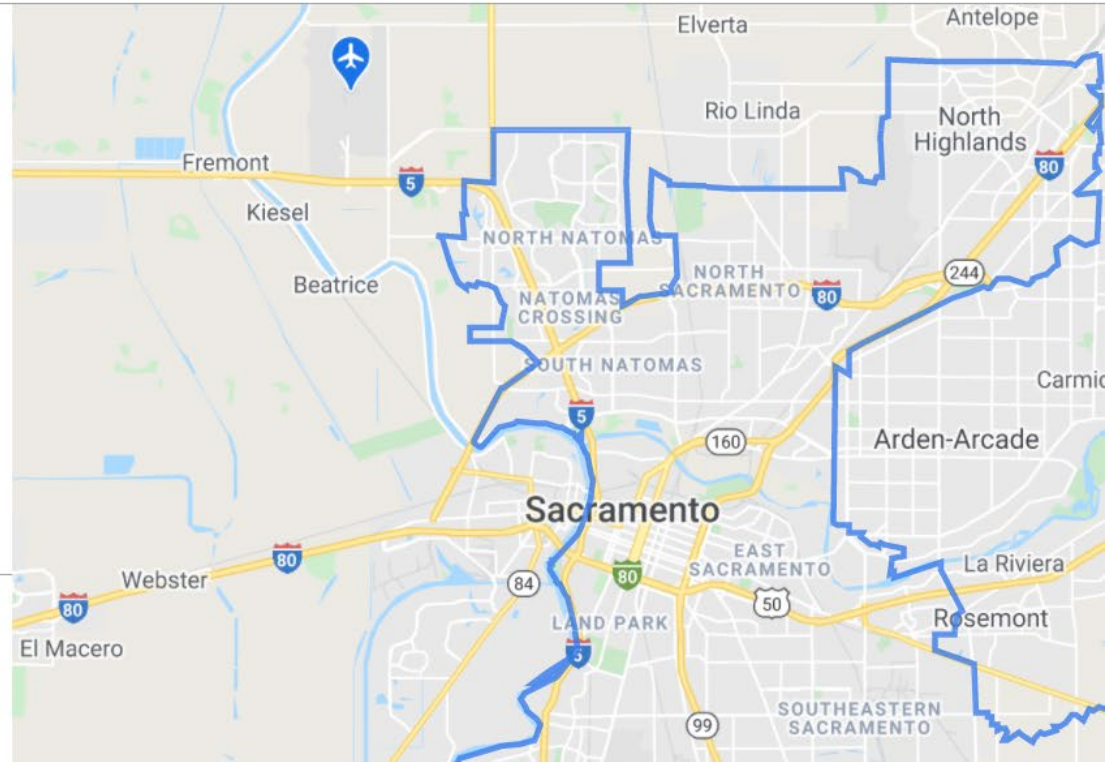
ZILLOW HOME VALUE INDEX ?

\$399,683

12.5% 1-year change



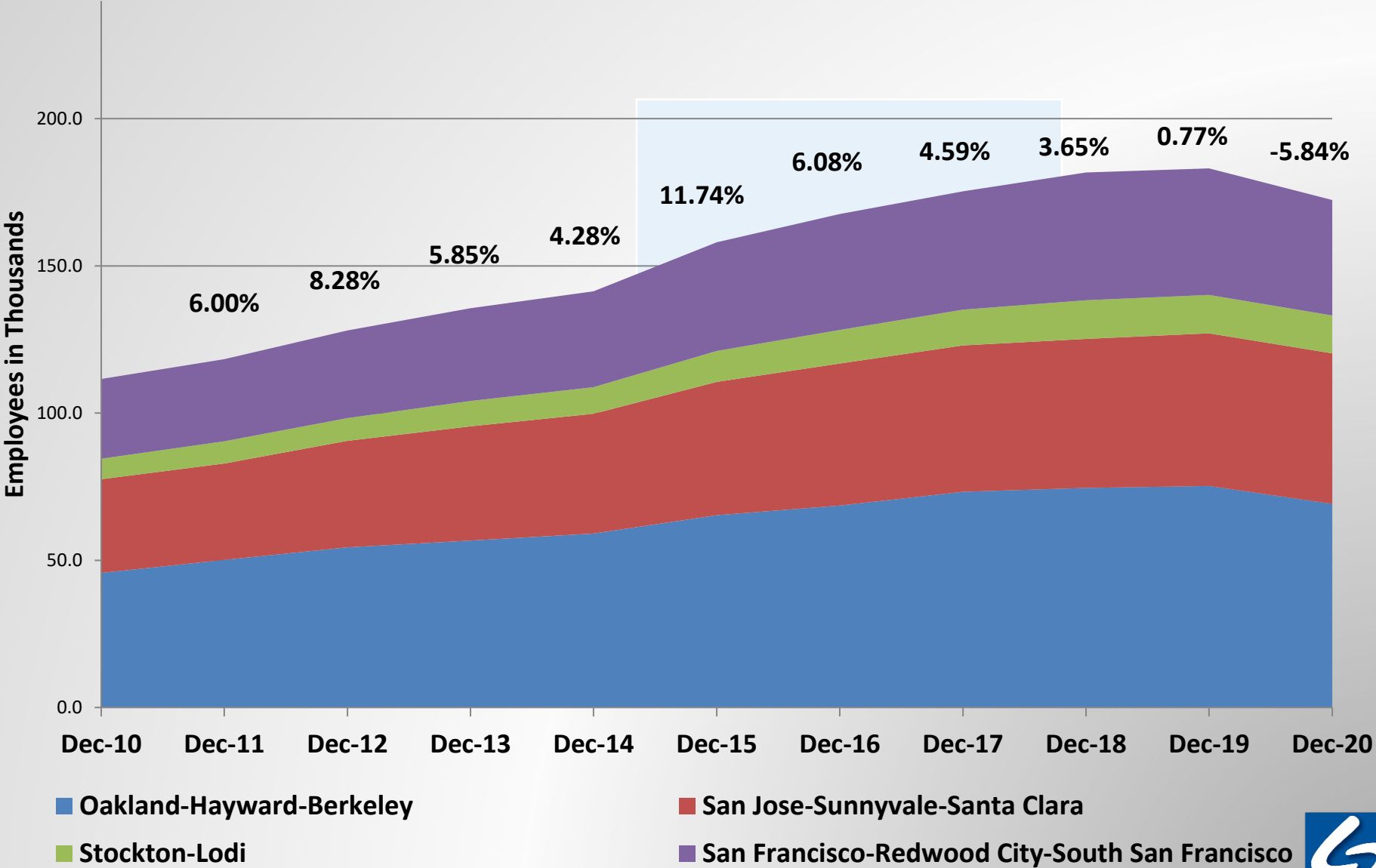
The typical home value of homes in Sacramento is \$399,683. This value is seasonally adjusted and only includes the middle price tier of homes. Sacramento home values have gone up 12.5% over the past year.



Bay Area Construction Starts Plunge in 2020

- Starts down 32% in 2020
- Projected to rebound 24% in 2021
- Big losers: Multi family, office and hospitality
- San Francisco residential rents down 26.7%; will likely depress multifamily sector
- Only 17% of N. Cal developers expect to start new office projects in 2021 (as compared to 40% in 2020)

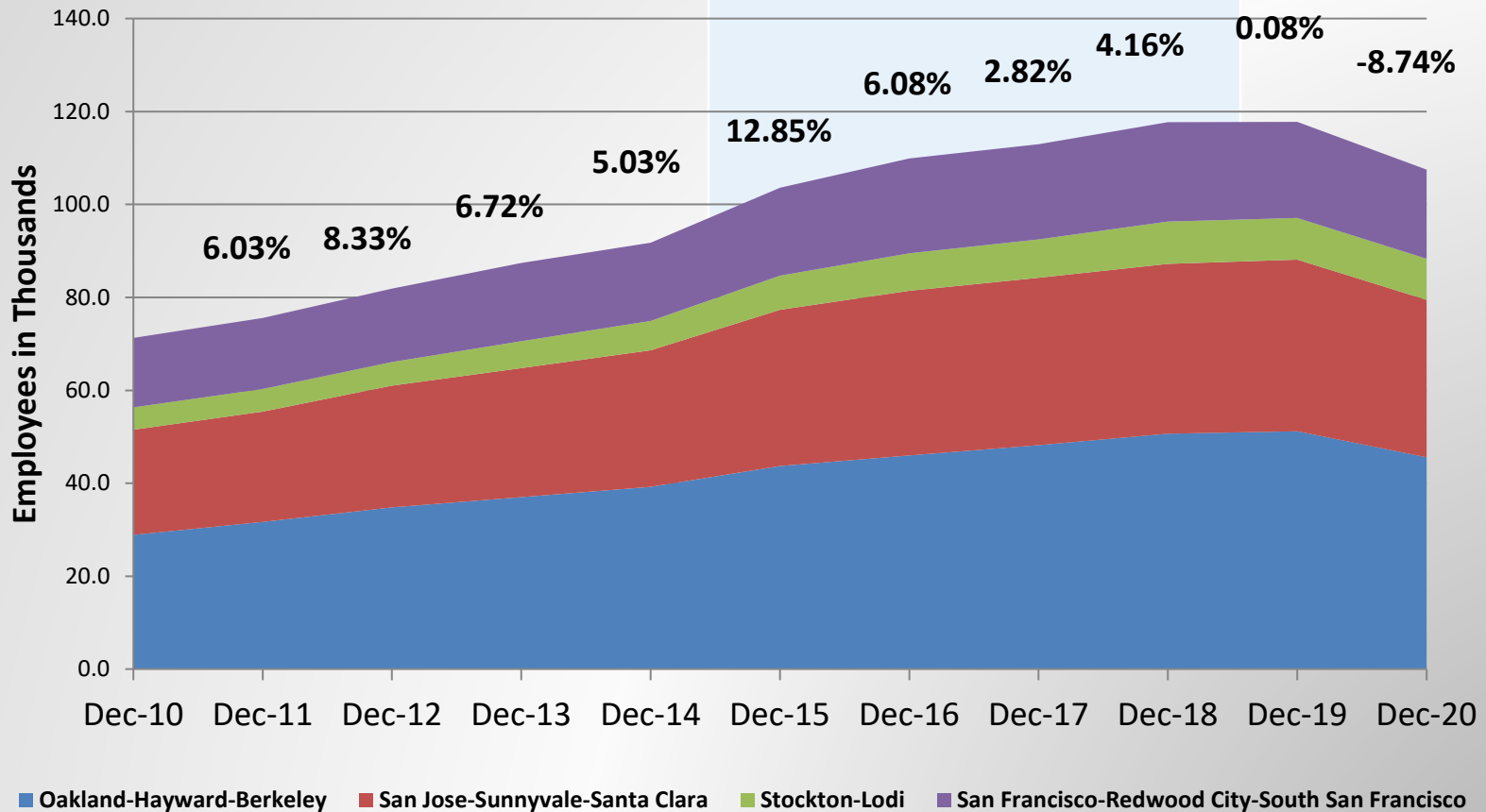
Bay Area Construction Employment Down 6%



Source: Bureau of Labor Statistics



Bay Area Specialty Trade Contractors Employment down 9%



Bidding Climate 2021



Bidding Climate 2021—return to a more balanced market—for now

- Bay Area construction starts down 32%
- Steep declines in aviation, office, multifamily and hospitality construction reduces pressure on construction market
- Productivity generally increases as least productive workers leave the market
- Most contractors and subcontractors report they are still busy but actively looking to fill backlogs
- Attracting competitive bids for complex projects still requires aggressive outreach
- Most contractors report 1 or 2 more bidders, approaching a balanced market
- Many sophisticated contractors and subs still say they avoid Design Bid Build work

2021-2023 Bay Area Escalation Forecast

- 2021: 3.5%
- 2022: 4.0%
- 2023: 4.0%

*Wood framed projects may see higher escalation due to higher lumber prices

**This escalation includes approximately 1 ½ to 2% short term Covid cost impacts, such as distancing, PPE and Covid safety coordinator. Some projects may have more of a Covid cost impact if construction is primarily indoors, especially with occupied facilities. Covid impacts should be calculated individually for each particular project.

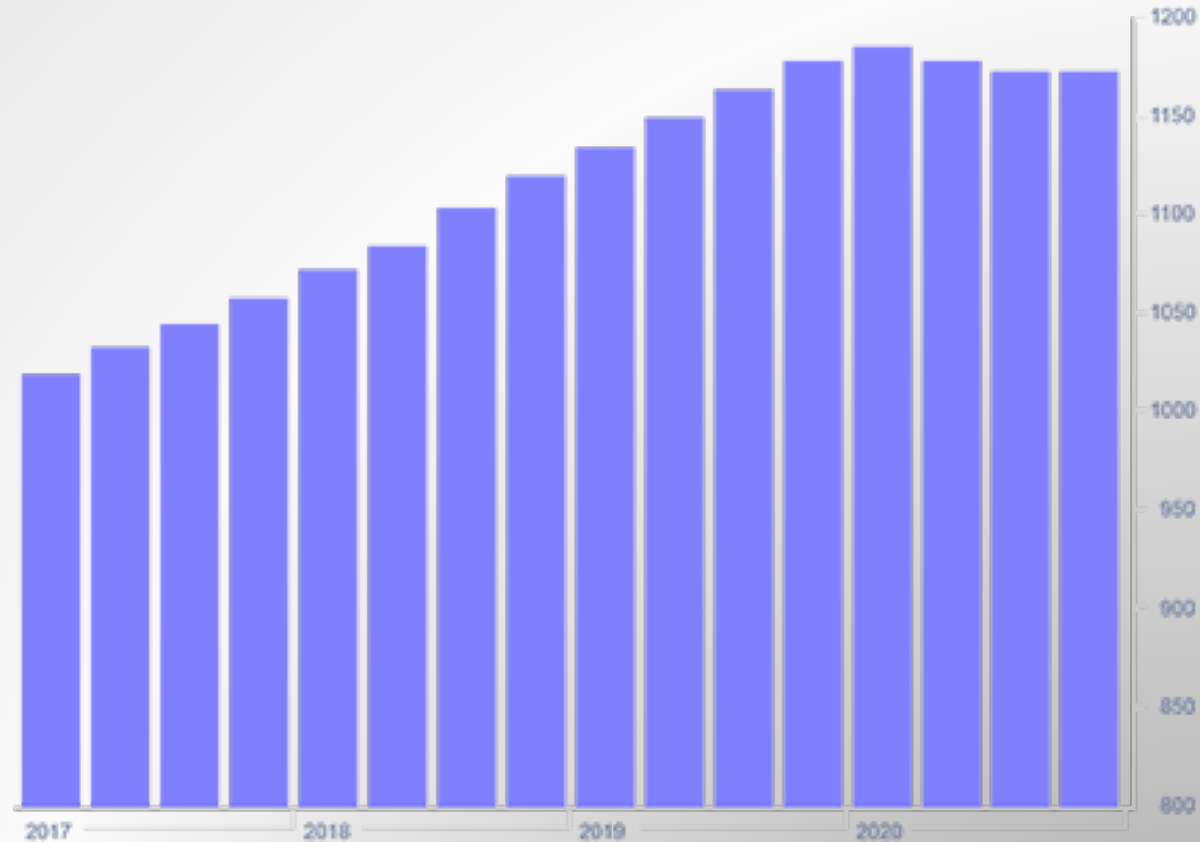
Price Differential without Competitive Bidding

• Number of Bids	%
• 1 bid	+25% to 50%
• 2-3 bids	+10% to 25%
• 4-5 bids	0% to +10%
• 6-7 bids	0% to -10%
• 8-10 bids	-10% to -20%

Turner Building Cost Index: Q4 2020

“Raw material costs in the Fourth Quarter of 2020 continued to fluctuate due to the pandemic. Fuel, copper, steel and aluminum have experienced modest increases, while concrete slightly decreased. Many of these increases were offset by increased competition by trade contractors.”

Attilio Rivetti
Vice President



**Turner Building Cost Index down .51%
yoy**

Upside Risks in Current Economy

- Skyrocketing lumber pricing
- Global competition for materials may increase commodities costs
- Short term impacts of Covid costs: PPE, distancing, Covid safety, potential shutdowns
- Alternative Delivery Methods: failure to lock in price leads to cost uncertainty
- Code and technological escalation
 - Building resiliency, blast protection
 - CalGreen Code
 - LEED Silver, Gold, Platinum
 - Net Zero

Downside Risks to Construction Market

- Lower rents in urban cores threaten multi family market
- Long term changes to the way we work may challenge office market
- Comfort with video technology may inhibit business travel in the long term, inhibiting aviation and hospitality sector
- Code and technological escalation
 - Building resiliency, blast protection
 - CalGreen Code
 - LEED Silver, Gold, Platinum
 - Net Zero

Contractors and Subcontractors Demonstrate outsize response to risk in current economy

Projects will struggle to get bidders or reasonable pricing if:

- Phased construction
- Difficult/accelerated schedule
- **Unfair contractual risk sharing**
- Difficult prequalification processes
- Unreasonable liquidated damages

Costs Impacts of Different Delivery Methods

- Design Bid Build
 - Advantages
 - Often lowest cost
 - Competitive process
 - Disadvantages
 - Risk of change orders, claims
 - Bid busts
 - Many contractors/subs will not low bid in this economy
 - How to get the most out of this delivery method:
 - Extensive outreach
 - Clear drawings
 - Best for simple design/lower risk projects

Cost Impacts of Different Delivery Methods

- Design/Build
 - Advantages
 - Generally shortens schedule/saves money
 - Can select contractor
 - Utilizes contractor's input to reduce cost
 - Reduces bid uncertainty
 - Disadvantages
 - Owner gives up some control of the design
 - Criteria packages not well suited to highly technical buildings
 - How to get the best out of this delivery method:
 - Design to cost/stipulated sum
 - Ensure performance specs/bridging documents are clear/reflect owner intent

Cost Impacts of Different Delivery Methods

- CM at Risk—CM/GC
 - Advantages
 - Attracts the most sophisticated contractors
 - Utilizes contractor's input during design
 - Generally fewer change orders/claims
 - Disadvantages
 - Loss of competition
 - Generally the higher cost option
 - How to get the best out of this delivery method:
 - Ensure independent cost control
 - **Ensure adequate competition at the trade level**
 - Ensure contract has “off ramps” should budget exceed expectations

Questions?

