

# Market Outlook Construction Forum

## Summary

*as of October 1<sup>st</sup>, 2021*

### Presenters

- Blair Tennant, Associate Principal, Vermeulens
- Steve Skabala, Preconstruction Director, Vaughn Construction
- Brett Fairman, Senior Project Manager, Vaughn Construction
- Ken Simonson, Chief Economist, Associated General Contractors of America

### Material Cost Increases, Vaughn Construction

- rebar material costs have increased by 45% in the last three quarters (Texas Market)
- structural, miscellaneous, and deck steel material costs have increased by 75% in the last three quarters (Texas Market)
- ductwork material costs have increased by 74% (\$2-\$4/sf increase in HVAC)
- aluminum material has increased to \$1.60/lb and is anticipated to rise to \$1.75-\$2 in the next 6 months
- drywall and metal studs have escalated significantly (San Antonio projects have seen 21% escalation, 14% in Dallas)
- latest predictions, based on the stimulus bill and new infrastructure projects, anticipate a slowdown of escalation in Q3 of 2022
- skilled laborers are leaving the industry (retirement and quitting the industry)
- Texas technology giants continue to escalate and entice labor to their markets
- tech giants will have an impact on the population of Texas, which will result in the demand for more facilities (hospitals, schools, and infrastructure projects)
- minimum wage for construction labor (truck drivers, roofers, caulkers) is not attracting new laborers since retail and warehouse jobs offer better wages and benefits
- using alternate construction materials and installation methods are ways to combat escalating prices
- offsite prefabrication can be used for price savings
- procurement has also been affected tremendously; most trades are seeing significantly longer lead times

### US Construction Outlook, AGC

- since Q3 of 2020, residential construction employment is up by 5.3%, nonfarm employment is up by 4.3%, and nonresidential construction is up by 0.9%
- construction spending: private residential construction has increased by 26%, education has declined by 11%, office has declined by 11%, and healthcare has declined by 2%
- PPI (Producer Price Index) jumped by 20.6%, BPI (Bid Price Index) jumped only 5%
- supply chain problems are likely to last longer than the material price escalation issues
- Architectural Billings Index (ABI) is at 54.6 vs 40.6 one year ago
- DMI and multifamily permits are indicating a slow economic recovery
- economic recovery looks more certain, but virus risks remain
- in the long run the post pandemic outlook is a slower demand for most construction (healthcare and higher education) due to a slower population growth and an increased demand for renewable energy construction

### Recommendations, Vermeulens

- anticipating 0.5% escalation
- recommending 3%-5% in bidding contingency for price shocks and margins as backlogs rebuild
- design add alternates in the magnitude of 10%

### Next Session, November 5, 2021

- Design Build and Design Assist Contracting



# Design and Construction Market Outlook

Richard Vermeulen, Principal | Vermeulens

Blair Tennant, Associate Principal | Vermeulens

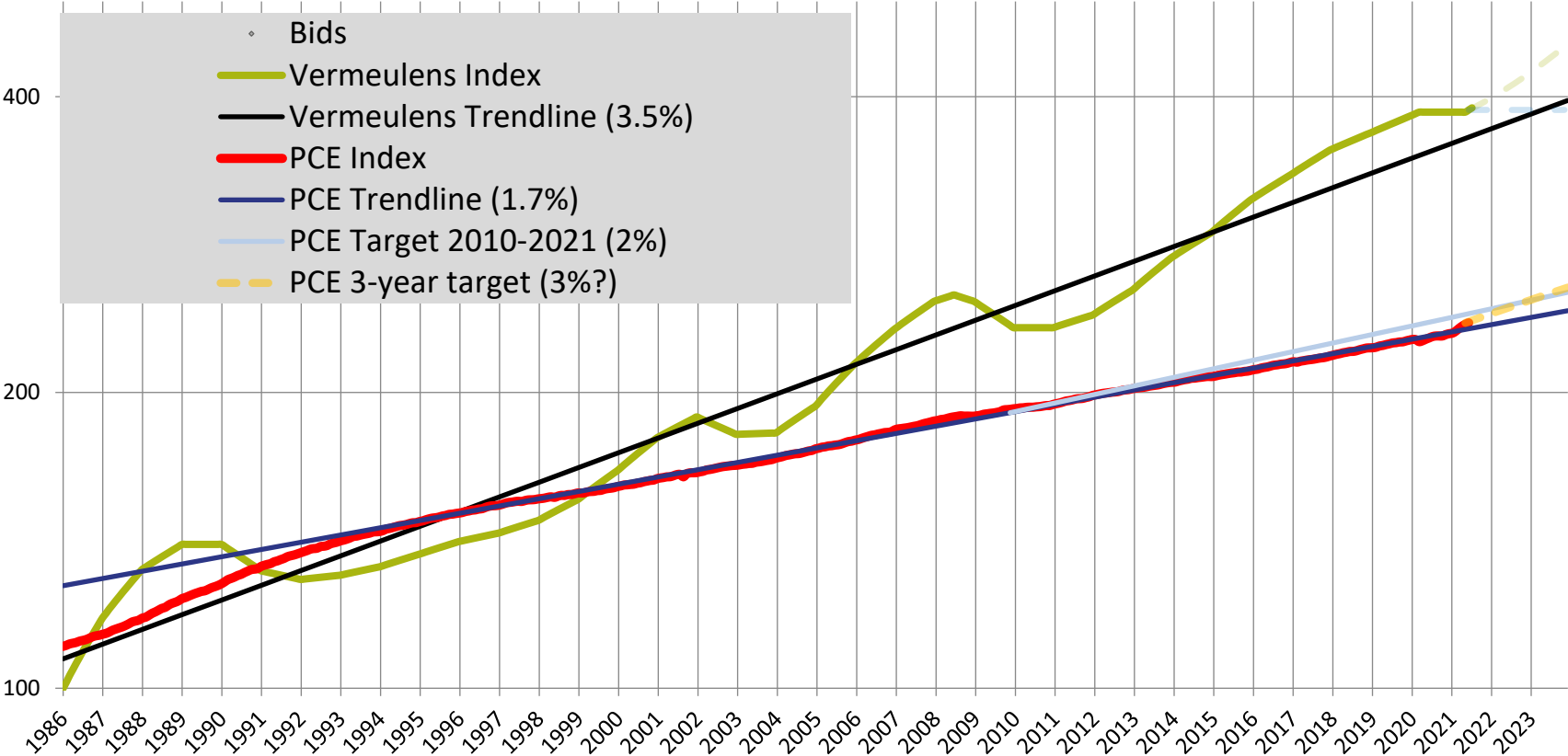
Ken Simonson | Associated General Contractors of America

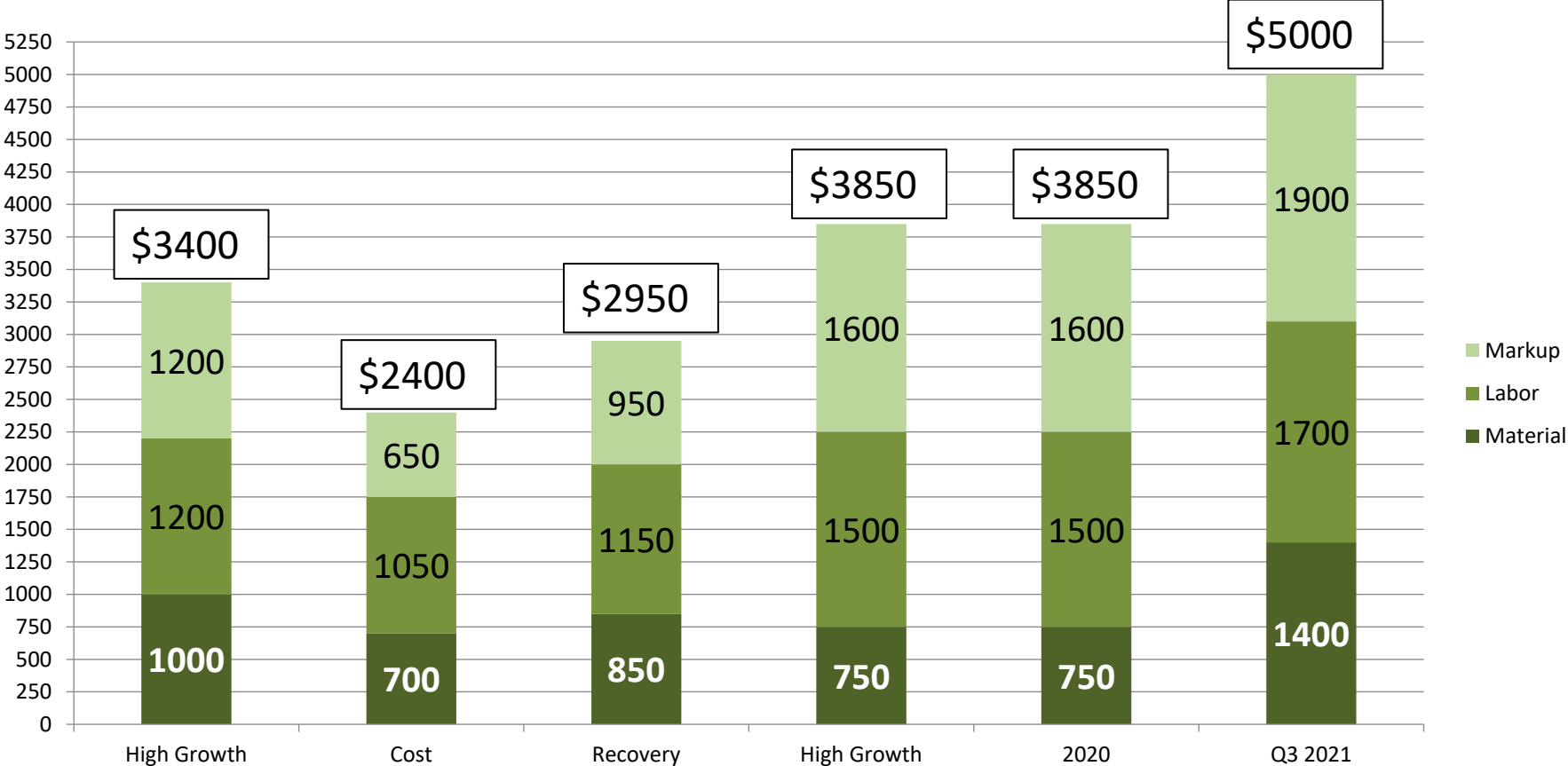
Steve Skabala | Vaughn Construction

Brett Fairman | Vaughn Construction

- Interim questions and comments via chat
- Slide deck, videos, summary; available on website
- Next session, November 5, 2021 (First Friday)

- 2021 Material Cost Increases: Vaughn Construction
- US Construction Outlook: AGC





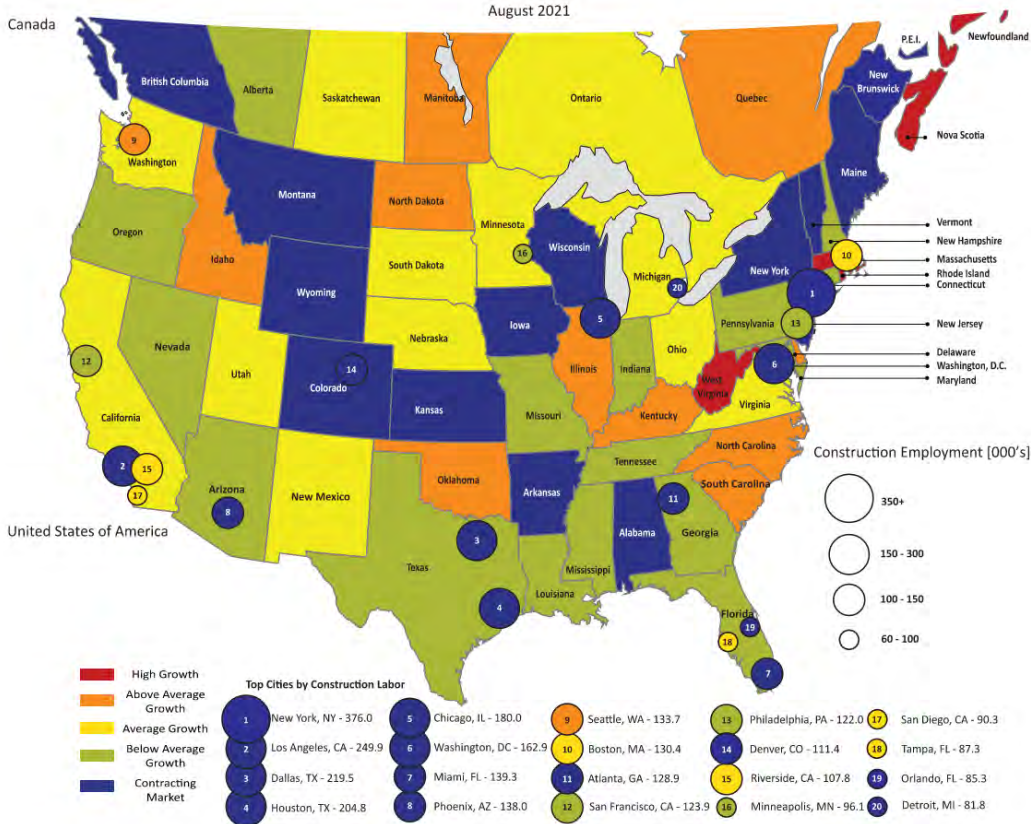
# Vaughn Construction

Steve Skabala



Brett Fairman







# US Construction Outlook

Ken Simonson



- Recommend a 3% - 5% bidding contingency for price shocks and margins as backlogs rebuild
- Expect escalation to return sharply in the second half of 2021
- Anticipating 0.5% per month
- Design Add Alternates in the magnitude of 10%

- Design Assist Contracting
- Design Build Contracting
- Next session, November 5, 2021

# Design and Construction Market Outlook

Thank You