JUNEAU

CONSTRUCTION COMPANY

2020 Market Perspective

Market Perspective: From the Juneau Trenches

2020 Brings Uncertainty to Commercial Real Estate Industry

So far the year 2020 has been filled with challenges and uncertainty. In the Spring, we were all met with the early onset of COVID-19 which affected how Juneau's business and projects across all three of our offices was conducted. Pretty quickly however, construction services were considered an 'essential business' and we swiftly rolled out new safety protocols to fulfill our social responsibilities by ensuring the safety and well being of all our personnel and partners in our offices and on our project sites. Juneau Construction's services were deemed essential, but would that mean that new projects would continue to charge forward in the face of uncertainty? Most firms, like Juneau, found in the 4th quarter projects that were slated to start and not yet financed get pushed out or shelved, leaving gaps in revenue projections.

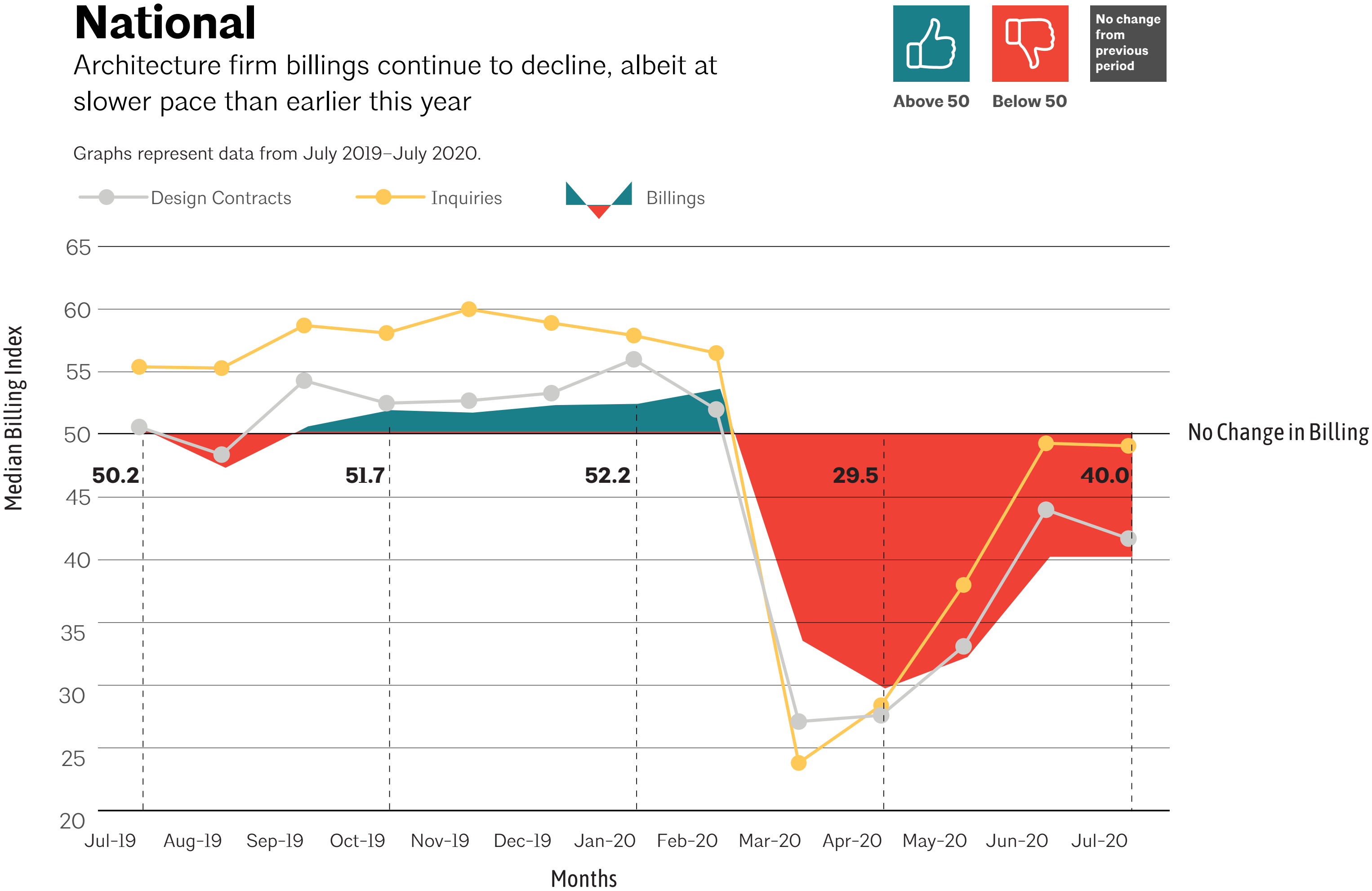
You are not alone. The goal of presenting our perspective is to provide pertinent data over the past 8 months on architectural billings, development outlook, and commodity pricing along with our insight as to where we see the market trending in the coming months.

COVID-19 Jobsite Safety

National

Architecture firm billings continue to decline, albeit at slower pace than earlier this year

Graphs represent data from July 2019–July 2020.



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Architectural Billing Index

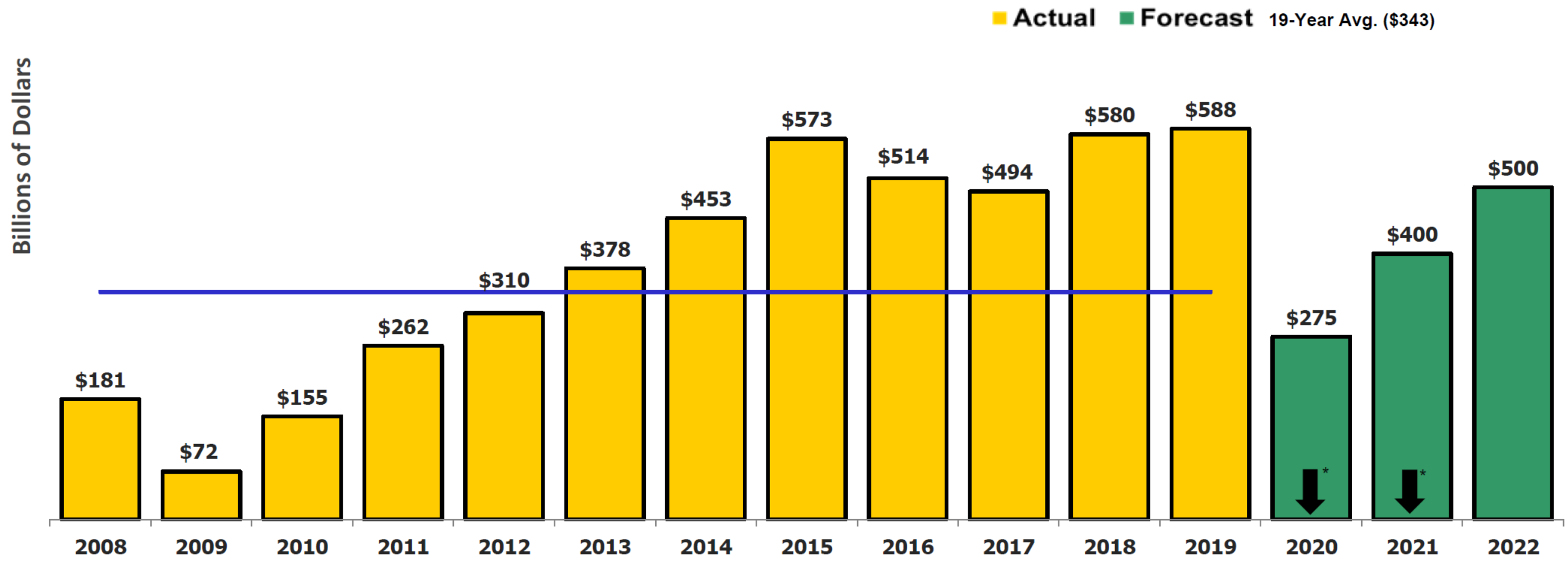
Design firms across the nation saw the largest decline in monthly billings in the month of March. And while billings have continued to be well below the index in the months following, rebounding development activity is still not resulting to a pre-COVID level as of reporting through the end of July. The decrease in development momentum from June to July as COVID-19 cases continued to expand across the country has put a temporary pause on a 'V' shape recovery that the major stock indexes have experienced. Now, you may be asking what does that mean in regards to development transaction volume?


West Midtown Multifamily Community | Atlanta, Ga

**Site Source - AIA Architecture Billing Index (ABI) July 2020*

ULI Real Estate Economic Forecast

Commercial Real Estate Transaction Volume



Sources: 2001-2019, Real Capital Analytics (RCA); 2020-2022, ULI Real Estate Economic Forecast.
*Indicated directions (↑ ↓ =) refer to the current forecast relative to the previous ULI Real Estate Economic Forecast. The previous forecast (released in October, 2019) projected 480B for 2020 and 470B for 2021.

2 Urban Land Institute – Development Outlook

According to a recent outlook provided in May by ULI, 'Commercial real estate transaction volume reached $588 billion in 2019, a post-Great Financial Crisis peak. Volume is expected to be over 50% lower in 2020 with a forecast of $275 billion. Forecasts for '21 and '22 show growth to $400 billion and $500 billion, respectively.' These projections point to a slower recovery than what has been seen within the financial markets in recent months. A 24-month recovery in new project starts could result in a slower recovery in construction related unemployment and downward pressures on costs. With a slow recovery also comes the risk of skilled tradesmen finding work in other industries, leaving a skilled labor gap to complicate a full recovery. We have seen some evidence of these forces at play in a recent project (see case study on the following page).

Grove Central Station | Miami, Florida

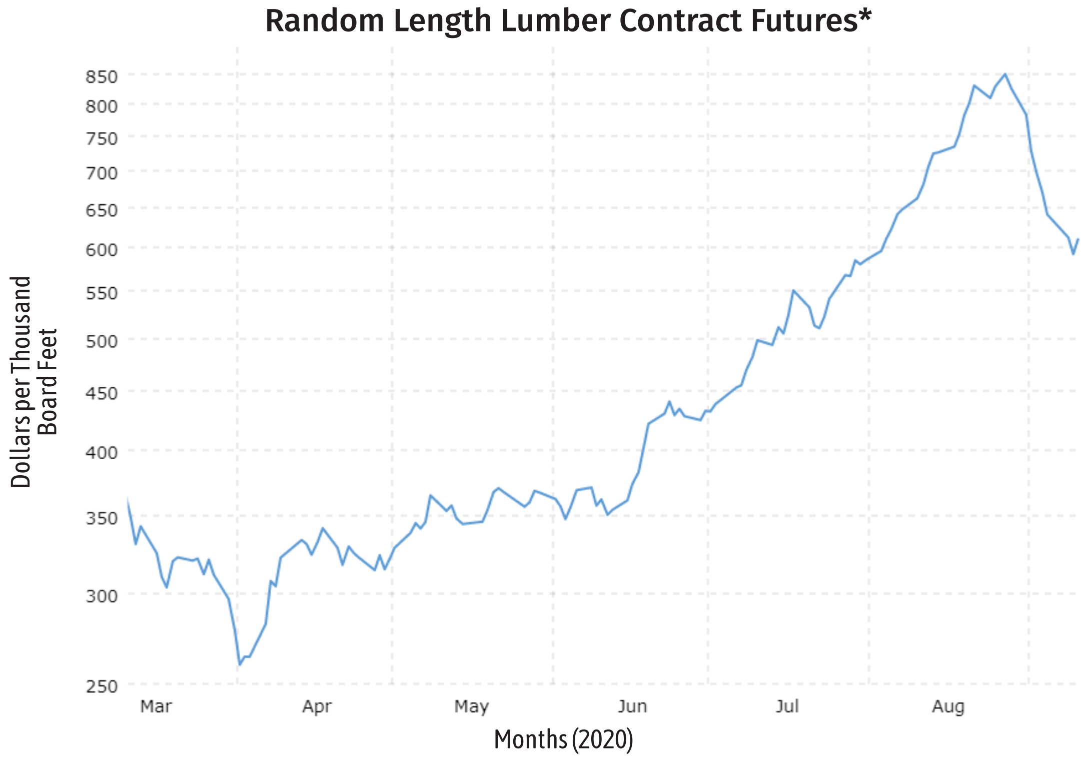
**Site Source - Urban Land Institute Real Estate Economic Forecast*

CASE STUDY

Juneau provides preconstruction services on every one of our projects and our involvement typically spans the entire design timeline, resulting in three-to-four cost analysis deliverables.

On one of our Multifamily projects we were uniquely situated because our 50% Construction Document pricing effort took place in January of 2020, right before the COVID-19 pandemic was public on U.S. soil. That same project went to GMP off the 100% Construction Document set, six months later in the month of June 2020. There was not an extensive value engineering exercise that took place over those months, but one thing that did happen was an economic shock. Because the sub market was craving predictability in backlog and project starts, the interest and participation was overwhelmingly positive.

Costs round-over-round, with the same scope, decreased by 4.6%. The costs savings didn't come down because subcontractors are cutting their numbers across the board, but more so because there is more subcontractor participation which drove the costs down.



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Commodity Pricing

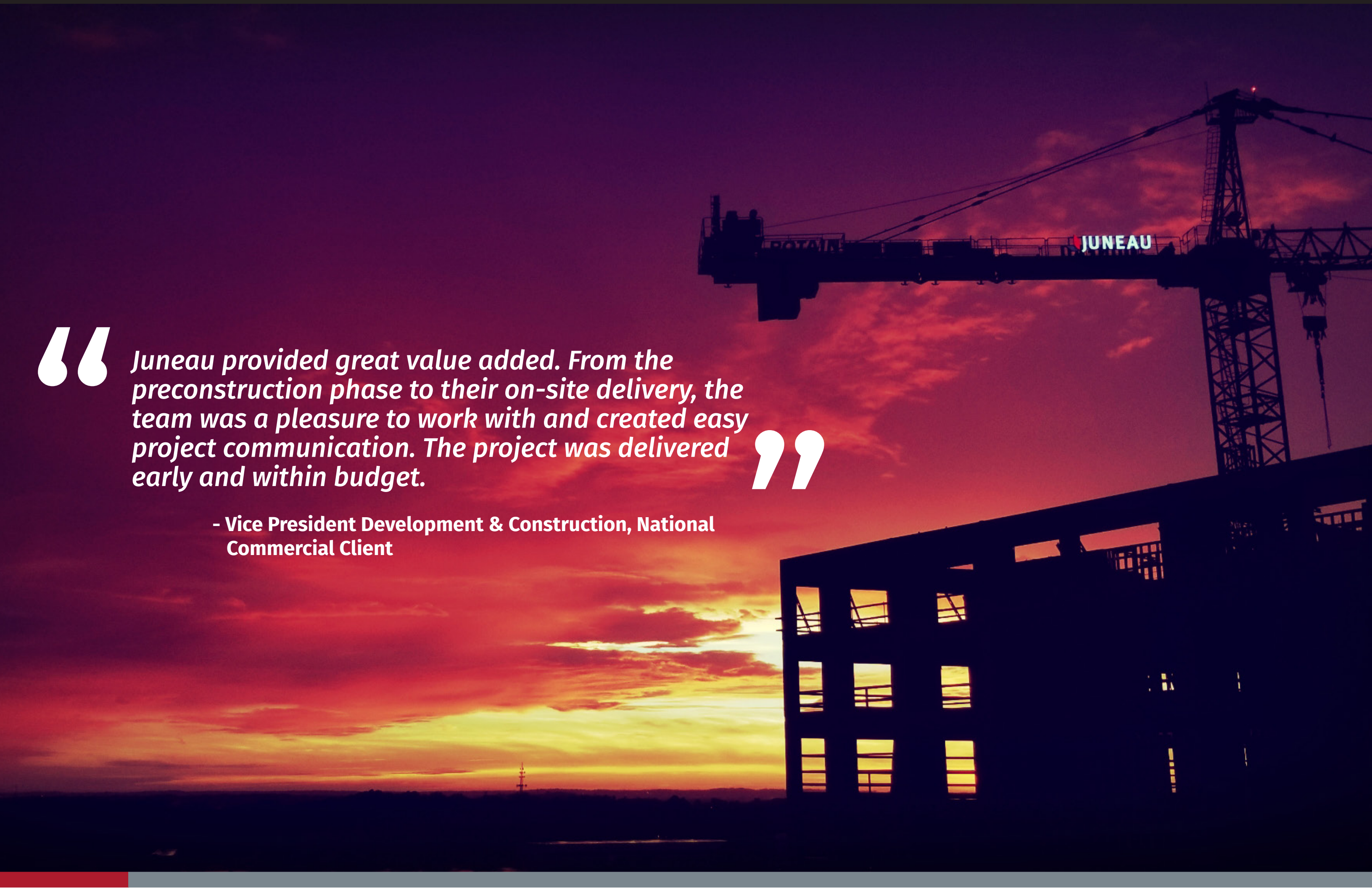
All of our projects utilize raw commodity-based materials, whether it be copper, steel, aluminum or lumber. None of the commodities are on a tier quite like lumber. In early April, futures for random length lumber was $259/KBF. Futures for lumber skyrocketed to a record high of $850 as of August 27th. During that same time frame the execution of GMP contracts has been low which has resulted in keeping the pricing risk on the developers. In a GMP scenario, these costs are locked in, therefore pushing that risk onto the contractor and lumber suppliers.

Lumber market volatility can be traced to two primary reasons:

1. Producers didn't expect the increase in demand for DIY home projects
2. The current housing market is at an all-time high due to low interest rates

These market pressure are further aggravated by the fact that mill workers who were furloughed aren't going back to work as quickly as needed because they're able to make more income from federal loans & unemployment benefits, preventing mills from operating at peak capacity in order to meet the unpredicted increase in demand. The U.S. is in negotiations over Canadian tariff changes which has created a standoff that is slowing the transport on softwood lumber across the border. All of these factors coupled with the U.S. being in the midst of one of the most active hurricane seasons in history has created a lumber futures market no one has ever seen. Historical trends show, when a major hurricane comes ashore, lumber mills are impacted and shut down while at the same time demand rises quickly to protect and rebuild. As Type III and V projects are being budgeted, the cost of lumber is increasing the likelihood that other structure types are pursued for mid-rise construction. While there may still be a premium for these systems, they are not as volatile as the wood market is forecasted to be over the coming months. These include CFMF load bearing structures, such as Prescient and Ecospan, concrete block and plank, or tunnel form concrete.

**Site Source - Macrotrends Lumber Futures - Price & Chart*



Juneau provided great value added. From the preconstruction phase to their on-site delivery, the team was a pleasure to work with and created easy project communication. The project was delivered early and within budget.

- Vice President Development & Construction, National Commercial Client

Conclusion

The continued uncertainty will keep the downward pressure on construction labor and overhead costs. However, there is less control over the raw material costs as discussed previously. Those who have ‘shovel ready’ deals and break ground over the next 3 months are best situated to reap the benefits for both the lower pricing pressures discussed herein and the need of both subcontractors and General Contractors to fill gaps in backlog. Once the cloud over economic uncertainly clears, the influx of development deals will undoubtedly push the construction industry back to full employment and as a result drive costs back to recent levels.

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