BUILDING FOR THE FUTURE

GILBANE BUILDING COMPANY

MID-ATLANTIC CONSTRUCTION MARKET CONDITIONS

Special Edition: Impacts of COVID-19

JUNE 2020

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To Our

VALUED CLIENTS AND PARTNERS

Gilbane Building Company (Gilbane) appreciates the opportunity to share our market conditions report for the Richmond construction industry. This report provides an overview of how COVID-19 has impacted the construction industry and impacts moving forward.

As we navigate these unchartered waters with COVID-19, we are committed to keeping our employees, contractors, clients and communities safe and healthy.

Thank you to our trade partners and suppliers who specifically provided valuable insights for this report. We believe in working as an integrated team to share information, we can learn from each other and be more informed with where our industry is heading as we progress into 2020 and beyond.

We hope you enjoy this report and find it useful. If you would like to request additional information or specific market-related data, please reach out to us.

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COVID IMPACTS

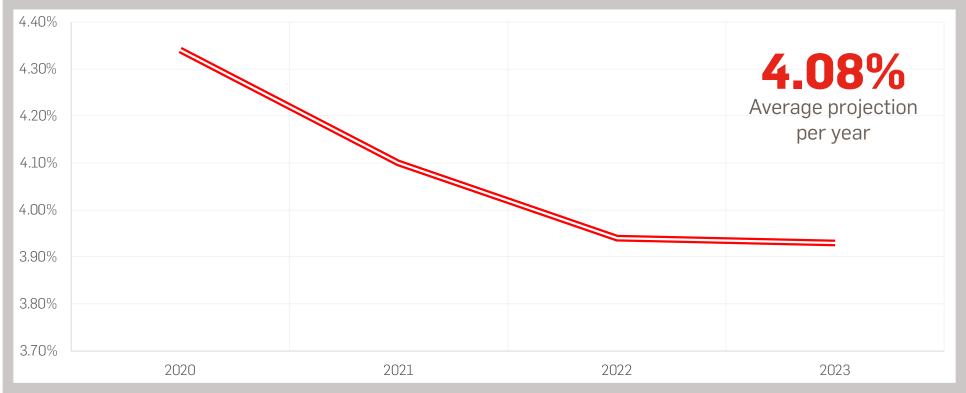
PRIOR TO COVID-19

CONSTRUCTION BACKLOG

LABOR AVAILABILITY

ESCALATION/ INFLATION INDEX PROJECTIONS

Based on the average of four major construction indices



CURRENT COVID-19 IMPACTS

Downward trend in construction starts

27% nationally

New work cancellations in 2020

11% nationally

Backlog work delayed

2-3 MONTHS minimum

Reduction of labor force

600,000* jobs in March and April

Decline in Architectural Billing Index in March/ April

Decline in on site construction productivity

POST COVID-19 IMPACTS

Work Volume Decreases

Expect the bidding environment to be more competitive with a reduced pool of vendors

Loss of Productivity

Expect increased labor hours and longer than normal schedules to accommodate CDC, Federal and State work requirements

Potential Subcontractor Defaults

Expect an increase in subcontractor defaults (Up to 1/3 of subcontractors have less than one month of available cash to cover overhead expenses)

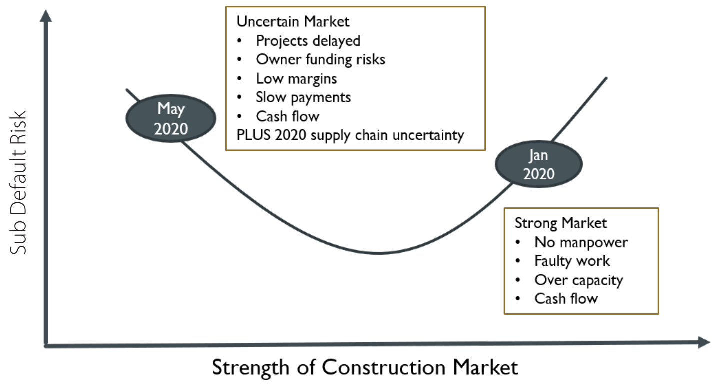
*Based on national May data

SUBCONTRACTOR RISK

Subcontract costs typically represent 85 - 90 percent of project construction costs, making fluctuation in subcontract costs the largest impact to Owner budgets. While construction declines typically lag financial markets by 12-18 months, in this unprecedented situation we are experiencing construction declines simultaneously with the market. This translates into a scenario wherein we will be immediately transitioning from one high-risk situation to the other extreme, without the benefit of an adjustment period.

OUR PRIMARY CONCERNS:

- Subcontractor cash and liquidity
- Access to credit
- Low margins and ability to absorb material price fluctuations
- Erosion of backlogs through delayed and canceled projects



PROJECT RISKS

- Delays attributable to COVID19 impacts should be excusable
- Claims for lost productivity due to CDC, Federal and State work requirements
- Claims for demobilization/ remobilization
- Subcontractor performance and ability to fulfill contracts
  - Manpower
  - Material price fluctuations
  - Material availability

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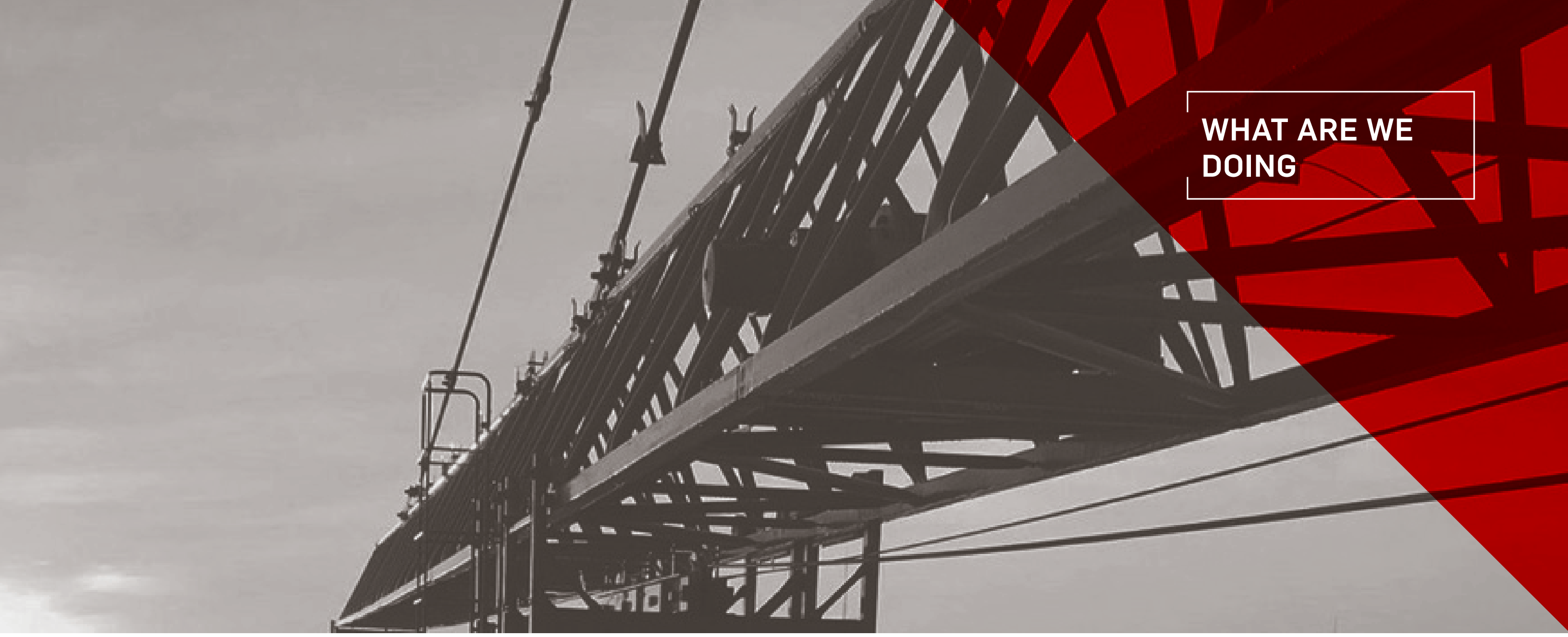

WHAT ARE WE DOING

PRECONSTRUCTION

- Working with Owner and designers to balance decreased on-site productivity with opportunities for more efficient construction methodologies
- Targeted cost/benefit analysis to determine appropriate use of second/ third shift labor to curtail project schedule impacts
- Obtaining consistent subcontractor input on labor and specialized market conditions impacting pricing and schedules
- Targeted discussions on escalation and risk contingencies included in estimates

CONSTRUCTION

- Adding safety measures on our sites to keep workers safe and jobsites open and operating as efficiently as possible. These measures include:
  - Temperature screenings and contact tracing
  - Social distancing requirements
  - 100 percent face coverings on jobsites
  - Added sanitation of jobsites
  - COVID-19 requirements as standard task planning for all work activities
- Pushing the use of pre-fabrication to reduce time on site and number of workers required on site
- Working second and third shifts to spread out manpower on site to maintain schedule progress
- Increased monitoring of project material supply chains combined with recommendations for alternate suppliers for at-risk materials (i.e. light fixtures from Canada i.l.o. China)
- Increased review of monthly payments, sub-tier lien waivers and other risk indicators to ensure subcontractor financial status

SUBCONTRACTOR RISK

Strengthening our pre-qualification process

- Assessing and prioritizing review of financials based on risk profile and current backlog
- Requesting quarterly financial statements to evaluate cash, credit and liquidity
- Monitoring supply chain concerns and potential impacts to critical path
- Defaulting the subcontractor should not be the first response
  - Determine the best course of action for the project (i.e. assist the subcontractor in identifying alternate suppliers, supplement manpower if necessary, etc.) Many issues are best resolved via back charge or through use of contingency.

MATERIAL SUPPLY CHAIN RISK

Data in the table below is as of 6/17/2020

Commodity	Lead Time	Price
Cast Iron	Consistent	Consistent
Ceiling/Acoustic	Consistent	Consistent
Concrete	Consistent	Consistent
Copper Tube	Consistent	Consistent
Drywall	Consistent	Consistent
Flooring - Domestic	Consistent	Consistent
Flooring - Imported	Possible Delays	Consistent
Furniture - Domestic	Consistent	Consistent
Furniture - Imported	Possible Delays	Consistent
Glass - Domestic	Consistent	Consistent
Glass - Imported	Possible Delays	Consistent
HVAC/MEP - Domestic	Consistent	Consistent
HVAC/MEP - Imported	Possible Delays	Consistent
Lighting - Imported	Possible Delays	Consistent
Lumber - Domestic, NA	Consistent	Consistent
Plumbing Fixtures - Imported	Possible Delays	Consistent
Process Equipment - Imported	Consistent	Consistent
PPE/C19-Related Equipment	Consistent	Inflated
Pipe, Valves & Fittings	Consistent	Consistent
Rebar	Consistent	Consistent
Stainless Pipe & Fittings	Consistent	Consistent
Steel - Domestic	Consistent	Consistent
Steel - Imported	Possible Delays	Consistent

Joe Piro, vice president and director of supply chain management at Gilbane, is spearheading information-gathering efforts around the country. Subscribe to our bi-weekly supply chain updates to stay up-to-date on the latest lead time and price impacts!

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CONCLUSION

While it remains too early to confidently predict the long-term impacts of COVID-19 on the Virginia construction market, the immediate indicators tell us that projects will generally take longer to complete due to delays, lost productivity on site and disruptions to the material supply chain. All of these translate into an initial surge in cost for active and shovel-ready projects and likely an impact to projects starting in the next 12–18 months as the market corrects itself from current losses. The active construction projects that have been impacted the most by COVID-19 (from shutdowns and delays) will bear the initial brunt of financial impacts and will largely influence how the market ultimately reacts. Settlements for delays, loss of productivity and continuing COVID restrictions will have a significant impact on how general contractors and subcontractors close out 2020 and look at new work in 2021.

Like most of the country, the healthcare and higher education markets in Virginia will see the largest impacts resulting from loss of revenue during COVID-19. With the start of Phase II in Virginia and several prominent universities already declaring in-person classes for this fall, the beginning of the recovery is already underway. As people return to hospitals and clinics for non-emergency procedures and students return to campus this fall, healthcare and higher education revenue streams will turn back on. It will, however, take time for those revenue streams to fully recover and for us to understand the net impact to these markets from COVID-19.

The corporate/commercial real estate markets remain the most in flux. There are countless articles about working from home permanently, when and how workers will return to offices, and the future of commercial real estate that provide opinions from one end of the spectrum to the other. The common themes, however, are relatively simple. First, more people are working from home than before. That trend will continue in a post-COVID world. Second, companies will still need office space, but the volume and requirements of those spaces will vary from what they were pre-COVID. While it is simply too early to definitively gauge the changes to this market, companies moving forward with commercial real estate projects in the next 12–18 months will likely gain the most benefit from a restructuring construction market.

As we move into Phase II in Virginia and we see glimpses of our economy starting up again, we remain encouraged that the economic growth over the last few years will be reignited and help the Commonwealth recover faster than other areas of the country. Our current counsel to clients is simple:

› Much of the uncertainty will remain until at least the end of 2020. Be prepared to be agile with decision-making and ready to seize opportunities.

› Challenge your teams to ensure they have appropriate planning, contingency and recovery in place to accommodate dynamic changes in material delivery and labor productivity.

› Do not overestimate the impact of a recession on construction pricing. There will be some cost advantages for clients, but it will not be anywhere near the same levels seen in 2008 and 2009.

› Engage with contractors early and often when planning new projects. For projects on hold, reconfirm original programming budgets and schedules before formal procurement.

Along with countless news articles, these sources were used for data in this report: ENR (https://www.enr.com); Dodge Construction Starts (https://www.construction.com/news); RS Means (https://www.rsmeans.com); U.S. Dept. of Labor Bureau of Labor Statistics Construction Labor (https://www.bls.gov/iag/tgs/iag23.htm).