

US Construction Market Outlook

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Construction Overview

- Since Feb '05 Construction Spending Doubled over rest of US Economy (1.9% vs. 0.9%)
- Material Prices extremely volatile, although expect some stabilizing in '07
- Housing Starts have dipped 10%
- Expect Pickups in Non-Residential and Heavy as well as Renovation
- Higher energy costs divert funds from construction & dampen investment confidence



Construction Overview

■ Non-Residential

- Increase at a pace of 10% through '07

■ Heavy

- Increase to 15% for Highway, Sewer and Water
- Other areas, less than 5%

■ Housing

- Increase slowed to 5% through '07



Construction Overview

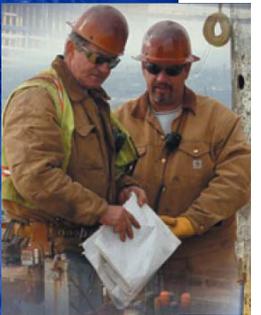
Materials

■ Energy costs

- ❑ Up 25% over last 12 months
- ❑ Forecast Oil @ \$50 - \$55 per bl
- ❑ Natural gas significantly lower than '05

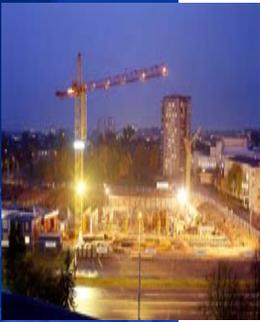
■ Items of particular concern

- ❑ Plastic, gypsum, lumber - decline
- ❑ Copper, concrete – topped out, but will stay high
- ❑ Steel, asphalt, diesel fuel – could move in either direction, but not as volatile
- ❑ Forecast 6 – 8% increase for '07
- ❑ Forecast 8 – 12% increase for '08



Material Price Changes

<u>Material</u>	<u>'01</u>	<u>'02</u>	<u>'03</u>	<u>'04</u>	<u>'05</u>	<u>'06</u>
#2 diesel fuel	-44.7	54.4	13.0	37.9	46.3	26.6
Asphalt paving	0.9	2.0	3.7	4.3	4.2	37.9
Concrete	2.5	-0.3	1.5	7.6	9.8	10.4
Plastics	-2.7	3.1	3.2	7.2	22.6	20.1
Gypsum	0.4	3.4	2.8	20.0	18.2	21.2
Insulation	0.4	-1.5	2.0	8.6	2.6	7.1
Lumber	-2.9	1.4	3.1	5.0	-1.0	-6.1
Arch Coatings	2.9	0.6	3.9	5.3	9.2	8.6
Steel	-6.1	11.1	1.7	48.8	-3.6	23.3
Copper	-9.5	-1.6	11.6	29.6	31.0	81.0
Aluminum	-2.9	-0.9	-0.5	9.9	6.6	15.6



Material Price Changes

<u>Material</u>	<u>'01</u>	<u>'02</u>	<u>'03</u>	<u>'04</u>	<u>'05</u>	<u>'06</u>
Fab metals	-1.3	-2.4	0.1	24.7	3.0	7.5
Fab Blds	-1.5	-3.3	-0.1	20.0	3.3	8.0
Prefab Blds	0.0	4.0	-0.7	35.5	2.8	1.2
Equipment	-0.1	1.9	1.3	6.0	5.0	3.2
Crude Petro	-42.4	60.6	14.3	30.5	51.3	15.7
Ind N Gas	-36.7	12.2	20.3	20.1	31.5	-2.9



2005 Construction Results

- Total Construction (+) 9.0%
- Residential 11.0%
- Office 6.3%
- Healthcare 6.9%
- Educational 1.3%
- Transportation 2.0%
- Communications 5.2%
- Manufacturing 20.7%

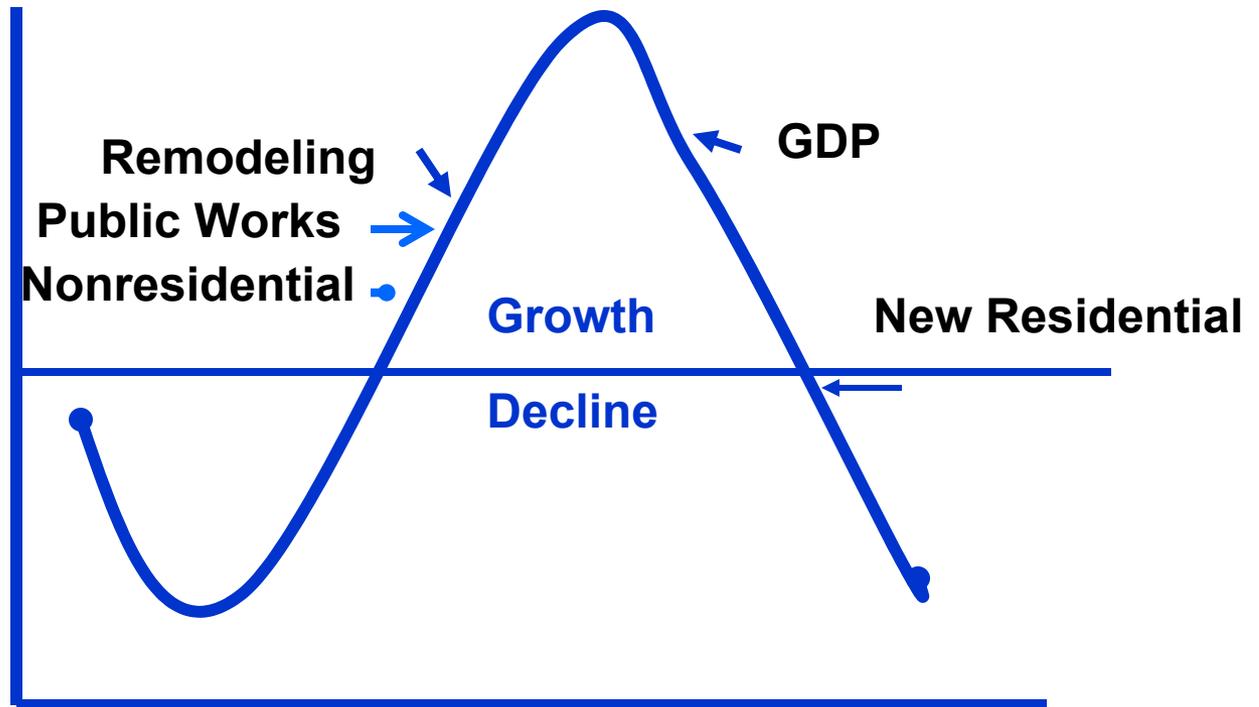


Energy Prices Threaten GDP Growth

	2004 Avg.	2005 Jan-Aug	Sep 05 to Dec 06
Crude Oil (\$/bbl.)	41.50	54.00	58.00
Gasoline (\$/gal.)	1.80	2.12	2.60
Natural Gas (\$/Mbtu)	6.32	7.15	11.70
Heating/Diesel (\$/gal. no tax)	1.42	1.51	1.81

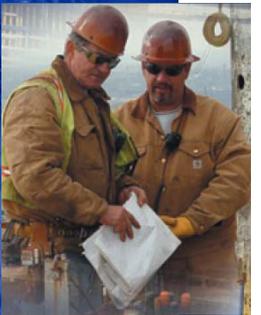


Business Cycle Status



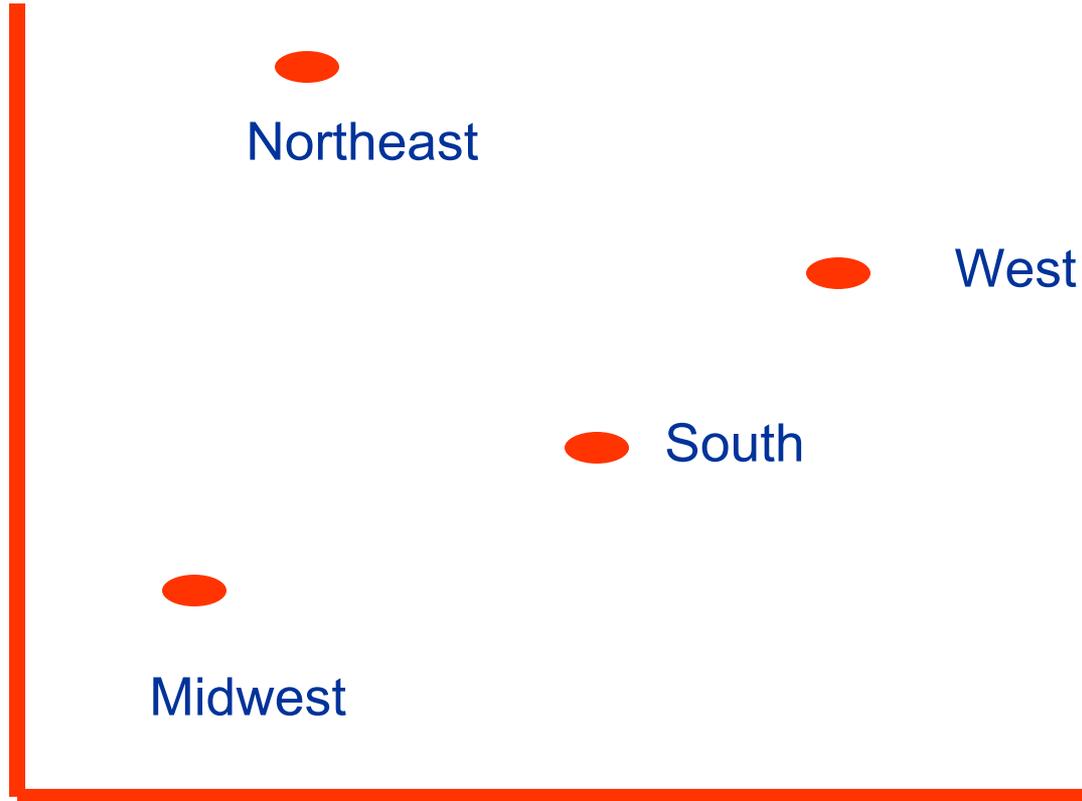
Economic Environment for Construction

- Confidence recovers by year end '05
- Inflation over 3% but “core” rate 2.0% +
- 30-year fixed mortgage rate rises 50 basis points by end of 2006
- GDP growth
 - '05 Q3 3.7% pre-hurricane strengthening
 - '05 Q4 3.0% disruption & reduced confidence
 - '06 1st H 4.2% rebuilding & lower energy prices
 - '06 2nd H 3.4% rising costs & inventory cuts
 - '07 2.8%



Regional Market Conditions

Market Tightness



Market Growth

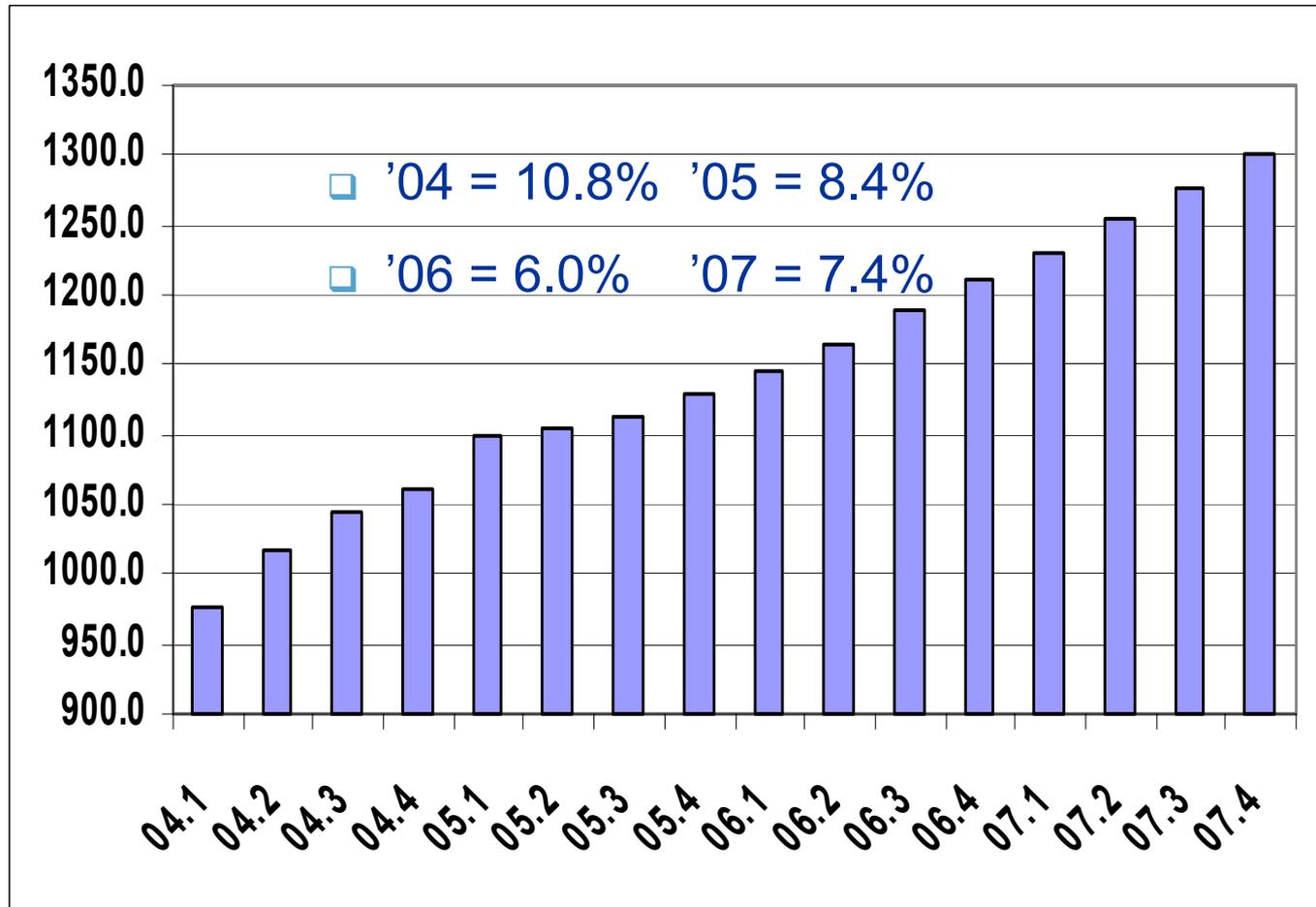


Reed Construction Data

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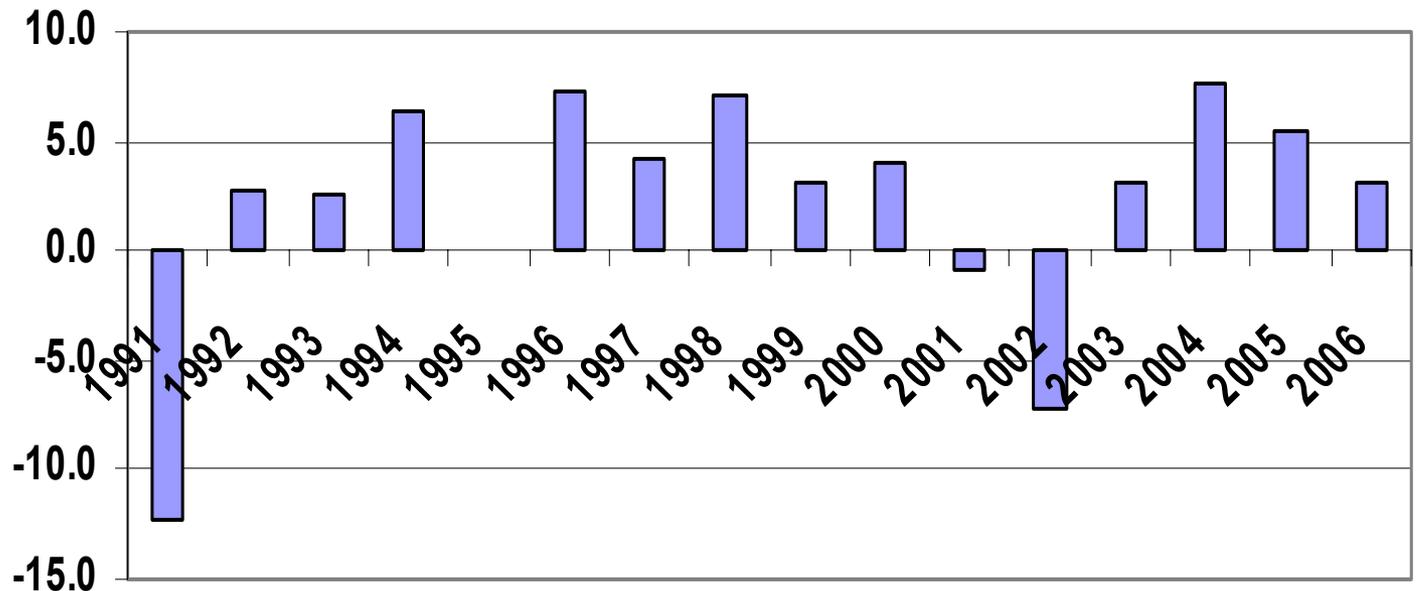


Construction Spending Outlook \$B



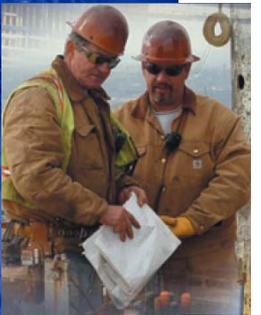
Current Market Slowdown is Mild

New Construction Spending
(annual % change, constant dollars)



Construction Outlook by Sector \$B

	2005	2006	2007
New Residential	\$462.4 +9.8%	\$455.5 -1.5%	\$464.5 +2.0%
Commercial	\$128.5 +4.0%	\$141.4 +10.1%	\$161.0 +10.8%
Institutional	\$178.7 +7.3%	\$202.2 +13.2%	\$222.6 +10.1%
Heavy (Engineering)	\$179.1 +7.4%	\$198.8 +11.2%	\$221.0 +11.0%

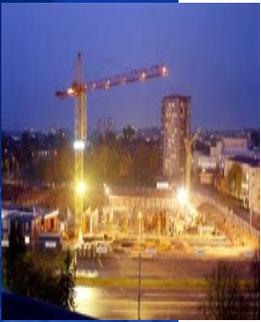


New Residential Market Forecast

Projected # of Homes Started (000's)

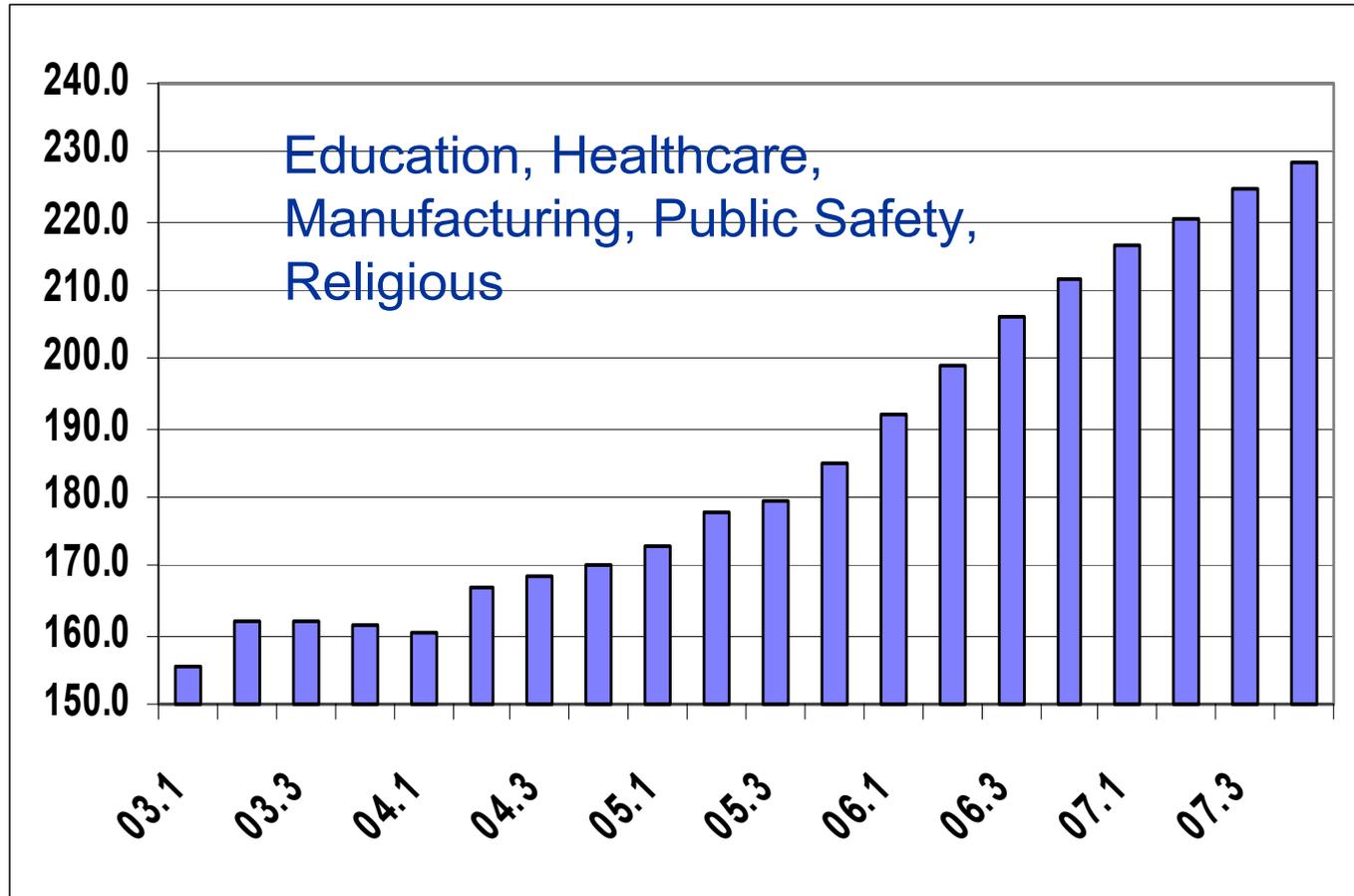
Housing Starts	2005	2006	2007
NE	187	170	167
MW	356	336	329
South	973	896	872
West	518	490	484
US	2034	1893	1850
Single Family	1688	1560	1530
Multi Family	346	333	320

Institutional Building Trends



- **Rapid growth phase of building cycle beginning**
- **Current construction spending, after inflation, is up 2-3% over the last year and slightly above the 2000 peak level**
- **Projects starts are low but are now rising**
- **Pre-construction planning rising in most sectors**
- **Strong expansion expected beyond 2007 - but not as long or as strong as the boom in the 1990's**

Institutional Construction Outlook \$B



Institutional Construction Spending \$B



	2005	2006	2007
Healthcare	+37.0 +8.5%	\$41.8 +13.1%	\$46.6 +11.5%
Education	\$77.1 +7.0%	\$88.5 +14.8%	\$98.0 +10.6%
Manufacturing	\$28.3 +20.1%	\$31.7 +11.7%	\$33.9 +6.9

Institutional Market Growth Drivers

■ Healthcare

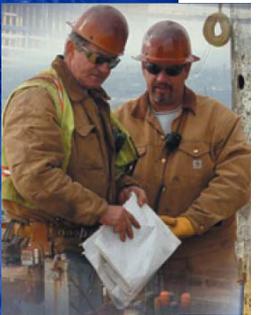
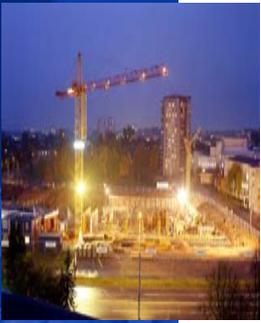
- ❑ Construction fueled by 2002-04 surge in healthcare insurance premiums and public medical programs

■ Education & Public Safety

- ❑ State and local tax receipts have been rising very strongly for two years after a depression level plunge in 2001-2002
- ❑ State budget reserves back to 4-5% of annual spending after dipping to about 2% - budget reserves approached 10% in 2000

■ Manufacturing

- ❑ Capacity use near 80%
- ❑ Declining \$US permits manufacturing to expand faster than the rest of the economy



Heavy Construction Trends

- **Delayed cyclical recovery now underway after**
 - Federal highway fund increase delayed 21 months
 - 11% spurt in 2004 materials prices delayed some projects
- **Current spending, after inflation, is 15% below 2001 peak level**
- **State & local budget balances expanding so most maintenance work back on schedule**
- **Hurricane rebuilding adds to previously scheduled projects**



Heavy Construction Spending \$B

	2005	2006	2007
Highway	\$66.4 +9.4%	\$70.8 +6.7%	\$77.3 +9.2%
Power	\$36.0 +4.2%	\$41.9 +16.4%	\$47.4 +13.1%
Water & Sewer	\$29.9 +12.9%	\$34.0 +13.5%	\$37.6 +10.7%
Transportation Facilities	\$27.0 -0.9%	\$30.3 +12.3%	\$35.4 +16.7



Heavy Market Growth Drivers

■ Highway

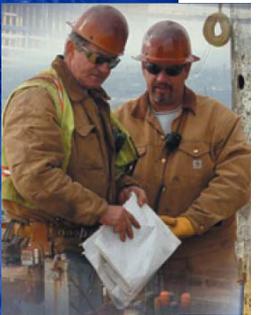
- ❑ Federal funding expanded 6-7% per year
- ❑ Catch up of projects delayed during funding debate

■ Water & Sewer

- ❑ EPA mandated improvements
- ❑ New lines and plants follow building of new neighborhoods

■ Transportation Facilities

- ❑ Mandated security related improvements
- ❑ Airline traffic rising 7%/year
- ❑ Capacity reached at many port, rail and truck freight terminals



Trends

- **Design-Build is running @ 45% of new Construction Delivery, over 80% in Gov't Projects**
- **Job Order Contracting is emerging as a Delivery Method for Renovation & Repair Projects, especially in Municipalities, Educ.**
- **Expect Material Price increases to slow in '07, but potential double digits in '08**
- **Green / Sustainability are becoming more important, particularly in Healthcare / Educ
LEED Certification is a plus**

