BUILDING FOR THE FUTURE

GILBANE BUILDING COMPANY

FLORIDA CONSTRUCTION
MARKET CONDITIONS UPDATE

SUMMER 2020

Gilbane

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MORE THAN
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To Our

VALUED CLIENTS AND PARTNERS

Gilbane Building Company appreciates the opportunity to share our market conditions interim update for the Florida construction industry.

As we navigate these unchartered waters with COVID-19, we are committed to keeping our employees, contractors, clients and communities safe and healthy. In addition to information contained in this report, visit our Gilbane Ink blog for regular COVID-19 updates.

Thank you to our trade partners and suppliers who specifically provided valuable insights. During these unprecedented times, 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.

If you would like to request additional information or specific market-related data, please reach out to us.

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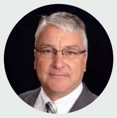

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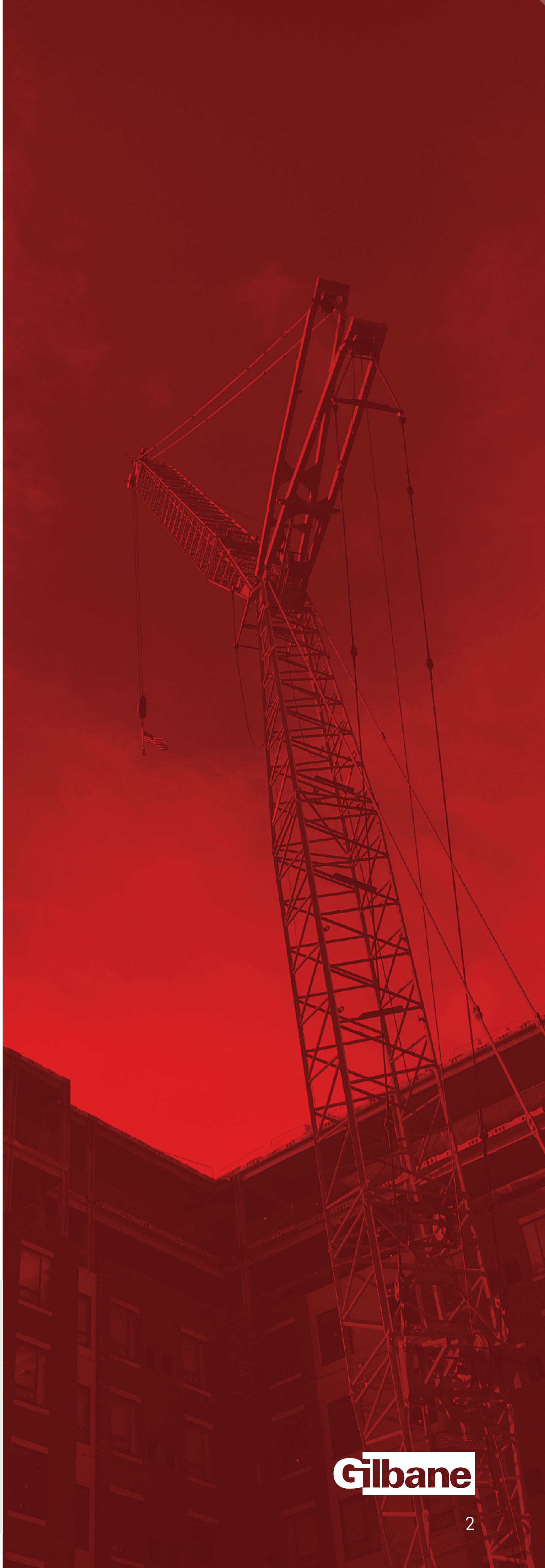

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EMPLOYMENT DATA UPDATE

NATIONAL[1]

"Total payroll employment rose by 1.8 million in July, and the unemployment rate fell to 10.2 percent. These improvements in the labor market reflected the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic and efforts to contain it. In July, notable job gains occurred in leisure and hospitality, government, retail trade, professional and business services, other services, and health care. In July, construction employment changed little (+20,000), following job gains of 619,000 in May and June combined. However, employment in the industry remains 444,000 below its February level"

FLORIDA[2]

Florida's seasonally adjusted unemployment rate was 11.3 percent in July 2020, up 1.0 percentage point from the revised June 2020 rate, and up 8.2 percentage points from a year ago. There were 1,125,000 jobless Floridians out of a labor force of 9,975,000. The U.S. unemployment rate was 10.2 percent in July. Florida's seasonally adjusted total nonagricultural employment was 8,465,700 in July 2020, an increase of 77,900 jobs (+0.9 percent) over the month. The state lost 497,700 jobs over the year, a decrease of 5.6 percent. Nationally, the number of jobs fell 7.5 percent over the year.

FLORIDA ECONOMIC INDICATORS FOR JULY 2020 INCLUDE:

- Unemployment rate was 11.3 percent.
- Labor force was up 223,000 or 2.3 percent, over the month.
- Florida businesses gained 74,100 private-sector jobs over the month.
- Consumer Sentiment Index is 80.5 in July 2020, 2.0 points lower than the June revised figure of 82.5.
- Florida's private-sector job creation over-the-year rate of decline of 6.3 percent was less than the national over-the-year decline of 8.1 percent.
- Florida private-sector jobs were down 490,200 over the year.

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[1] Employment Situation Summary, Economic News Release, U.S. Bureau of Labor Statistics, August 7, 2020
[2] August Press Release, Florida Department of Economic Opportunity, August 21, 2020

MARKET UPDATE

OVERVIEW[3]

Over the past several months Gilbane has been closely monitoring the effects that COVID-19 has been having on the current construction market. For the very near-term, we expect to see a continued moderate softening of costs due to lower demand for materials, and the need for the subcontractor market to backfill current workload due to cancellations and delayed starts of projects. This short-term effect has created a "buyer's market" at least through Q4, 2020.

Subcontractors have been burning through a reduced backlog and revenue stream over the past several months. The significant loss of cash flow and resources due to the impacts of COVID-19 will financially strap many smaller, under capitalized firms. Construction managers and general contractors will be more aggressive and diligent in financially prequalifying new subcontractors and vendors and will closely monitor resource availability, staffing and performance.

Many small subcontractors, suppliers and vendors will be at risk of going out of business over the next several months, enabling larger regional and national companies to come into new market sectors currently served by these smaller firms. These larger firms will be competing for smaller projects and will be more capable of sustaining reduced revenue for a longer period and will be very aggressive with pricing. Over time costs will start to creep back up as backlog and workforce levels return to some level of sustainable growth. The timing of this, however, remains uncertain.

As a result of COVID-19 risks on project sites, there is an increased emphasis on off-site fabrication, BIM coordination and "kitting" from distributors to minimize labor requirements on job sites.

On a positive note, the causes of the Great Recession of 2008 are different than what is currently being experienced in the market. In 2008 there were specific economic events that triggered the downturn, circumstances that are not relevant to current market conditions. The fundamental drivers that produced a strong economy over the last two-to-three years are still in place. Owners across many key market sectors continue to issue Requests for Proposals (RFP), although at a lower frequency. There could be a reduction of subs, as in 2008, when firms that were not financially strong enough to weather these circumstances went out of business. Consolidation and acquisition of firms may occur, which highlights the need for contingency plans in the event of subcontractor defaults.

Material Price & Availability – Current Conditions

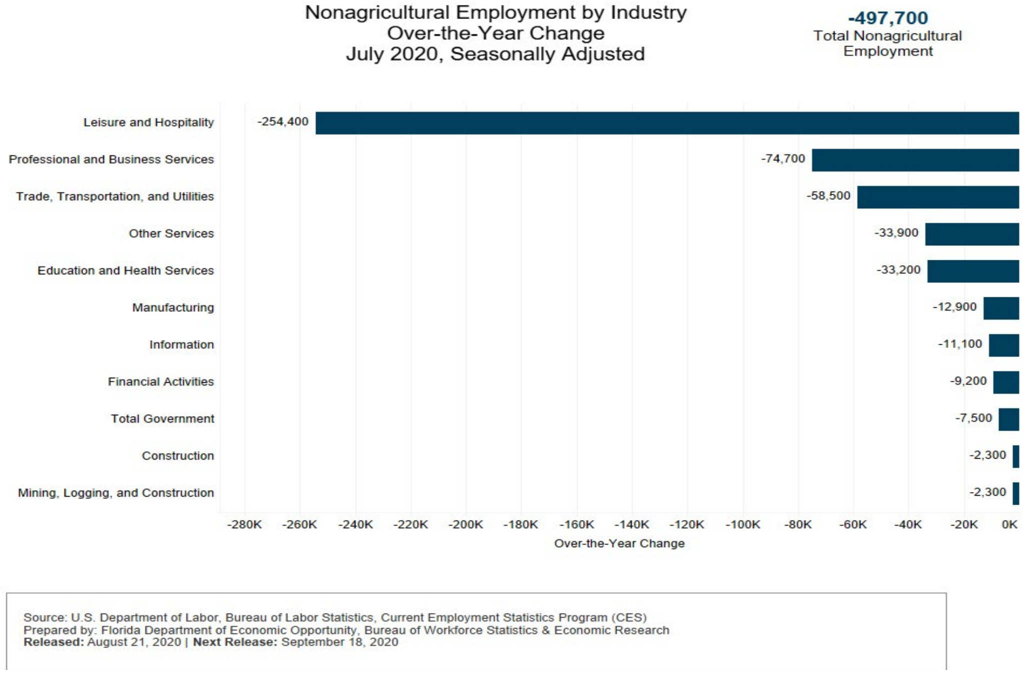
"Gilbane saw signs of stabilization in both price and availability of critical building materials in recent months. While we continue to communicate regularly with representatives from all related markets, there appears to be no significant supply risk at this time."

Joe Piro
Director of Supply Chain Management
Gilbane Building Company

[3]"What Will Construction Look Like When COVID-19 Ends?"; LePanter, Barry B.; Commercial Property Executive, June 11, 2020

MARKET UPDATE CONTINUED

MARKET SECTORS[4]



HEALTHCARE

Healthcare projects have experienced the greatest amount of delays resulting from elevated operating costs and reduced revenue due to the impacts of COVID-19. Most major healthcare systems have paused the majority of their planned capital projects near-term to conserve cash; some systems are in acquisition mode to maintain revenue. The reductions in revenue were largely due to cancellation of elective procedures and a significant slowdown in emergency room visits. Elective procedures and other surgeries have resumed in most systems, providing a much-needed return to financial stability. As this trend continues and funding is more certain, project activity should return. It is expected many of these projects will move forward by Q2 of 2021. The demand for healthcare services associated with significant population growth over the past few years will continue to drive renovations and expansions of these facilities. As stability, predictability and certainty return to this segment, capital projects will move forward. For the financially healthier systems, they will likely move forward more quickly to take advantage of lower pricing in the current market. The projects that slipped to next year will cause pricing to increase across the industry. Priorities across the healthcare segment will include renovations, especially around HVAC and ingress/ egress points in the hospitals. The administration areas will need to be redesigned due to social distancing, a requirement that will stay with us for some time to come.

HOSPITALITY & LODGING

Hospitality and lodging have experienced the greatest negative impact and will likely be the slowest to recover. It is anticipated that all but uniquely positioned, large-scale projects in this sector will be delayed or canceled, due to lack of demand, revenue and financing. Large projects with secured financing and a high potential to generate revenue are the most likely to move forward.

COMMERCIAL OFFICE & TENANT IMPROVEMENTS

The outlook for planned office developments is unpredictable and largely dependent on safety protocols and design trends that will influence the workplace of the future. The home office "virtual workplace" that has evolved as a result of the pandemic will have a significant impact on the future demand for office space across all market sectors. Several large projects, mostly build to suit, are moving forward while other projects are being delayed or canceled. It is anticipated that overall, this market will contract, though there will likely be robust activity in tenant improvement, office modification and redevelopment projects to meet changes in market demand. In addition, vertical transportation protocols will increase the use of staircases when going 5 floors or less, meaning the look and feel of those areas will need to be renovated and include HVAC. Elevators themselves will go thru a drastic redesign.

[4]Southeast Contractor Backlog & Pipeline Assessment; FMI Corporation, June 2020

MARKET UPDATE

COMMERCIAL OFFICE & TENANT IMPROVEMENTS CONTINUED...

There will be sanitizing systems incorporated into the elevators and the shafts may have their own air cleaners and systems. Isolation of systems and areas will become more frequent and common. Spaces in offices will be changed from the 15SF/person to a much higher number, with more separation and higher partitions. Home offices have become a very effective, safe, comfortable and an acceptable norm and will have a transformational impact on the future of the commercial office sector.

HIGHER EDUCATION

Higher Education is currently focused on strategies to modify the campus environment to safely resume classes in the fall. Most Colleges and Universities are moving forward with some combination of limited in-person on campus classes and hybrid on-line offerings beginning in late August. On-campus housing is being modified to single occupancy, with a percentage of rooms reserved for quarantine purposes. Funding for capital projects is limited, as resources are focused on modifying campus buildings and sanitation to create a safe learning and social environment. Classroom spaces, on average, will be at 25% utilization to accommodate social distancing, which is achievable due to capacity availability resulting from the increase in on-line classes. PECO funding will be dramatically impacted by reductions in state revenue and will likely be directed to building retrofits to improve indoor air quality and ventilation. Many institutions are focused on grant funding opportunities for priority needs. Projects related to programs that are in high demand and generate revenue are moving forward where possible. As state-based funding is limited, projects tied to programs affiliated with health sciences, research, workforce development and public safety are the most likely to move forward and, in many cases, be funded by foundations and grants. We expect to see more creative alternative procurement opportunities develop in the market utilizing strategic P3 solutions that will allow institutions to leverage assets to achieve program needs for continued growth. Universities that have locations around inner-city Opportunity Zones will be seeking alternative procurement solutions to accommodate their needs for growth.

K-12 EDUCATION

This market continues to be active, as needs are great and funding resources in many districts are in place as a result of legacy bond programs. Much like healthcare, there continues to be a need for new schools to replace outdated facilities and meet the demand generated by robust population growth in recent years. There is also a need in most districts for long overdue renovations, expansions and upgrades to existing schools. We are seeing a lot of activity in this sector; some projects being accelerated to take advantage of current market pricing. In some markets, there are sales tax referendums on this November's ballot to finance K-12 construction needs. This will also become a strong buyers' market, as contractors and subs who have not done this work are migrating to this sector to backfill backlog.

MULTI-FAMILY

This market continues to grow and flourish in most markets. Everything from garden style to multi-story towers are in various forms of development, from conceptual planning to coming out of the ground. Well capitalized developers are securing sites and applications for permits has continued at a steady pace. Current favorable pricing is accelerating much of this activity across markets.

> ***"We expect to see more creative alternative procurement opportunities develop in the market utilizing strategic P3 solutions that will allow institutions to leverage assets to achieve program needs for continued growth."***

INDUSTRIAL

This market sector is perhaps the most robust of all. The growth of e-commerce has accelerated exponentially as a result of COVID-19 and is driving industrial developments associated with the "last mile delivery". These developments are locating closer to population centers and sites are in high demand, escalating prices and driving acquisition activity. The softening of construction costs is also accelerating this market sector. As malls fail, the virtual, no contact e-commerce purchasing will exceed projections, driving the need for more local/smaller distribution centers. Amazon is targeting distressed malls for conversion to distribution centers.

OTHER PUBLIC PROJECTS

Public Safety and workforce training are seeing robust activity at the local, state and federal levels, with significant sources of grant funding available to support current and future needs. We expect this activity to continue as trends around law enforcement evolve and change.

[4] Southeast Contractor Backlog & Pipeline Assessment; FMI Corporation, June 2020

COVID-19 SAFETY INITIATIVES

Gilbane has developed specific, proactive risk management plans and procedures. We established a Crisis Response COVID-19 Task Force to respond to swift preparations and actions for the safety of our employees, subcontractors, vendors, clients and the public.

PROACTIVE MEASURES AT PROJECT SITES

- All construction-related personnel access construction sites through dedicated interior and/or exterior entries.
- Key points of the Interim Guidance are reviewed at a safety stand-down held with all tradesmen. Social distancing and hand washing are stressed as key points.
- Personnel density is reviewed regularly. Job Hazard Analyses (JHA) are created by Gilbane's subcontractors to confirm compliance with the six-feet social distancing requirement.
- Gilbane's safety measurement tool, SafetyNet, has been updated to include a COVID-19 Checklist for use in the field.
- Increased hygiene regimens implemented on-site.
- Gilbane reviews the CDC COVID-19 Risk Assessment tool in the foremen meeting.
- Portable hand wash stations are positioned throughout job-sites to supplement the sanitizer in the toilets and serviced three times weekly.
- Social distancing signage is posted and standing spots are marked on floors.
- Man and material hoist cars are wiped down daily and/or as needed.

CONTRACTORS ON-SITE

- All meetings are held in areas/locations to adhere to social distancing practices. If need be, these meetings may be held remotely.
- All construction-related personnel are required to follow strict procedures for proper hygiene including hand washing and mandatory foot protection and material/debris movement activities.
- Gilbane requires Stretch & Flex before every shift. Gilbane decentralized Stretch & Flex and required tradespeople to conduct in smaller groups to maintain social distancing.
- Social distancing of at least six feet, frequent hand washing, disinfecting workspaces and reporting illness are required.
- Restrictions placed on visitors to limit the amount of people on-site.
- Subcontractors are responsible for sanitizing their individual workspaces and tools.

SUBCONTRACTOR RISK

COVID-19 SUBCONTRACTOR IMPACTS

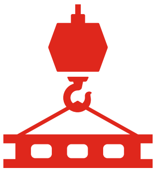
Construction declines typically lag financial markets 12-18 months. In this unprecedented situation, we are experiencing the decline and the risk in sync with the market. Rather than follow along the curve, where we gradually rock back and forth over time, we may quickly be jumping from one high-risk situation to the other extreme.[5]

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

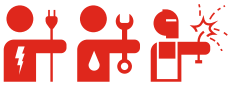
> *"During these times, we must be diligent in monitoring the health of our subcontractor partners to ensure their success, and in turn the success of our projects."*

WHAT WE ARE DOING:



- Constant communication
- Assessing and prioritizing review of financials based on risk profile and current backlog
- Requesting quarterly financial statements to evaluate cash, credit, liquidity
- Monitoring supply chain concerns and potential impacts to critical path

HELPING OUR SUBCONTRACTORS



- Constant monitoring of COVID related protocols and procedures
- Monitoring subcontract behavior
- Assist with subcontractor cash flow through bimonthly payments
- Monitor subcontractor payments to sub-tier vendors, sub-subcontractors and suppliers, including joint checks if necessary

[5] Nonresidential Construction Industry - 2020 Projections

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