Durotech Construction

Quarterly Materials Report
For Period Ending - Q2/2024
July 26, 2024

Summary:

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Pricing and deliveries at this time appear less volatile, but delivery and cost issues remain stressed on key items as will be noted below. The lower interest rate media hype outweighs its impact other than psychologically and in some asset class cap and return rates. Higher than anticipated Q2 24 GDP growth price effect and the deleterious effect of negative weather on crop yields and commodity and consumer prices seem overlooked. Domestic political turmoil creates uncertainty and if sustained could effect pricing in all economic sectors. For project Owners, 2024-2025 continues to remain a time to be alert and agile. The following outlines some present macro level potential cost disruptors.

Transit/Logistics Cost Impact

As detailed in our recent annual report and cost projections, reduced Suez and Panama Canal traffic caused by Houthi Red Sea actions and a drought in Panama are increasing ocean freight transit times and costs. Some credible projections anticipate an overall 3% inflationary add. Additionally, Panama traffic diverted to LA/Long Beach due to canal water level issues has restored volume at that port of entry but could cause land transit delays and higher cost burdens from increased California trucking regulations and driver shortages. Margins remain difficult for carriers. For example, a Houston nationwide logistics company with over 4,000 employes recently closed its doors when it lost its bank line of credit. Others have collapsed in bankruptcy. Costs will rise.

General Materials Issues

A number of supply chains have been restored somewhat tenuously. Others still experience periodic issues. As detailed in our annual report, huge domestic construction projects and volume has begun to stress select materials supplies and prices (see report below). Any number of issues from a contagion outbreak to political and geopolitical events could disrupt some or many supply chains.

Financial Concerns and Impacts

For project ownership, financial system stress negatively impacts borrowing cost and credit availability for materials suppliers and contractors that ripples into construction projects of all kinds. Commercial real estate lending is beginning to cause a number of banks financial stress. Project tax, foreclosure, and transactional downward reappraisals are causing significant write downs in collateral valuations with earnings and equity repercussions. The net real effect on the banking system and general lending market remains to be seen. JP Morgan Chairman Jamie Dimon talking the government out of mandating the 15% bank equity requirements of Basel III has thwarted a domestic version of the European Basel III adoption economic contraction.

Labor

Expect wage rate increases to roll into costs. Durotech's recent annual cost report detailed the labor market impact of the enormous national manufacturing, data center, and infrastructure construction boom on an already understaffed national skilled construction labor force. Local labor shortfall cracks are appearing in field force staffing, work in place production, and schedules. Many schedules are presently stretched to the limit from a combination of late key materials deliveries and trade workforce undercapacity. This situation appears less than likely to improve and will worsen over time.

China Factor

China is under serious economic pressures (details in Durotech annual report) and attempting an economic pivot. Its manufacturing capacity is underutilized while its overall debt structure becomes heavier. The Party is attempting a major industrial transition to attack and seize market share from the tech industry in other countries by dumping low-priced high-tech equipment. This is the reason the Biden Administration significantly raised tariffs on Chinese goods. Whatever happens in this regard and with Chinese debt can have a significant impact, more likely down the road than this year.

Geopolitical Impacts

Systematic Russian war threats and combat operations will continue until significant Russian regime change occurs. The likely result in increased domestic military spending can enter the supply chain in the form of cost and materials increases as will warfare beyond Ukraine and Gaza in unpredictable/unquantifiable ways.

Material Cost and Delivery Issues:

Metals: Steel prices continue to rise as deliveries slow. The rise is in direct correlation to the increased manufacturing, data center, medical, and infrastructure boom detailed in the Durotech annual report. As volume in those areas increases, steel will trail it.
Drywall/Ceilings: Prices and deliveries are stable.
Glass: As inventories fall, prices continue to rise. This area needs to be monitored for potential cost and delivery issues.
HVAC Equipment: Equipment remains a problem due to increased manufacturing, data center, medical and stadium work. Chillers are running 25-36 weeks, and ahu pump deliveries - 16 weeks with rising costs. Expect this to continue and worsen as a result of huge national manufacturing, data center, and medical construction volumes.
Plumbing fixtures and materials: Prices and deliveries are stable at this time. Later in national major project cycles deliveries and costs may rise.
Electrical: A continuing cost and delivery problem due to nationwide major projects. Switchgear still 12 months +, switches and transformers the same, ABB switchboards 20 weeks. Square D products may require substitution due to demand for their product. Will continue to be problematic for schedules and project openings.
Other: There is far more overall local and national construction activity than generally realized. While projects are not apparent at every street corner, this is driving cost bumps, lengthening delivery times, and contributing to manpower supply shortfalls.
Subcontractors and field forces: Cracks are apparent in the local skilled labor supply and new talent is not in the local or national pipeline in any quantity to make a difference. This will become worse going forward. Expect subcontractors to bid up wages and pass on those costs. Labor shortfalls have long been foreseen as a problem and stressed in national construction organizations and Durotech reports. The reality is now beginning to enter the market. It will effect cost and schedules.
Schedules: Over the last 5 years schedule durations have increased. Expect that trend to continue as labor and key electrical/HVAC component supplies are over-extended. Owners need to plan accordingly.
While the current cost and delivery climate is like a calm after a storm, Owners should use this period to their advantage to review the process in securing utilities and permits to accelerate their acquisition and should prepare to be flexible for a potential round of project delivery challenges. Current procedures utilized to secure utilities and permits are outdated in present conditions. Significant state and local demographic growth and job creation are stressing all utilities and permit processes. Houston is #2 in the US in job creation by a significant margin after New York City. This job and population growth will increase utility and permit demands and lead times. Completion of ship channel widening and deepening in 2025 will accelerate regional industrial and economic growth with increased activity and industrial / employment demand. Houston is already the nation's top port for waterborne tonnage, pre-widening. That will accelerate. At the same time, design and construction industries nationally have difficulty meeting qualified staffing requirements and construction skilled field trade forces dwindle rather than grow. Project labor shortages and wage increases appear to be in the cards and potential political and geopolitical events could result in materials disruptions. Owners who remain alert and agile will succeed.

For more information or questions contact Bob Richardson at 281.848.2422 or bobr@durotechgc.com.

Durotech

Owner Cost Bulletin on Material Costs in the Houston Region

A quarterly bulletin providing current risk status in this market and showing potential high risk areas.

DUROTECH MATERIALS TRACKING - 2nd Quarter 2024

NOTE: This Bulletin is based on data provided by manufacturers and subcontractors.

Material	Price	Factory Inventory	Delivery	Notes
Brick	*Slow Rise*	*Falls*	***Stable***	
Ceramic Tile	***Stable***	***Stable***	***Stable***	
Concrete	*Slow Rise*	Decreasing	***Stable***	6/24 cement increase.
Doors/Frames/Hardware	*Falls*	Decreasing	**Slower**	
Drywall & Ceilings	***Stable***	***Stable***	***Stable***	15% increase in insulation & adhesives, ceilings, grid 6/24.
Electrical Equipment	***Rising Fast***	*Falling*	**Long Lead Trouble**	Problem area for cost & schedule.
Elevators	***Rising Fast***	*Falling*	**Longer Lead**	6 - 12 month lead time.
Fabricated Metal Products	***Rising Fast***	Decreased	***Slowing***	Parts continue to be an issue.
Freight Costs	Rising	***N/A***	**Slower**	Companies are having financial issues.
Glass	*Slow Rise*	Decreased	***Slowing***	Could become a problem.
HVAC Equipment	Rising	*Falling*	***Slowing***	A problem - see quarterly summary.
Lumber	***Stable***	***Stable***	***Stable***	
Plumbing Fixtures	***Stable***	***Stable***	***Stable***	Steady.
PVC	***Stable***	***Stable***	***Stable***	Steady.
Steel	*Starts to Rise*	*Falling*	**Slower**	Increase coming.
Roofing	Rising	***Stable***	***Stable***	Stable.

The above is for materials and supply chain issues. Price increases and uncertainty are ongoing problems for subcontractors and project budgets.

DUROTECH CONSTRUCTION QUARTERLY BULLETIN

For more information please contact Bob Richardson
Ph: 281-848-2422 or Email: bobr@durotechgc.com

Current High Risk Areas:

1. Problems with deliveries for Electrical / HVAC through 2024, and 2025.
2. Subcontractors may have financial issues going through 2024-2025.
3. Supply chains worldwide are still restructuring; will continue.
4. China dumping materials in markets to revive their economy.