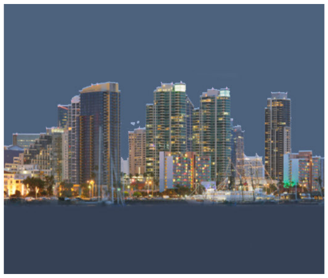

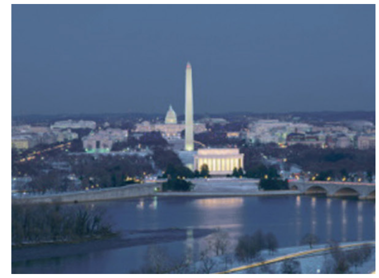

TBD MARKET REPORT

SPRING 2021

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In this Edition:

General Market Update

March 2021 marked one year since the first construction site shutdowns. It has been a long year and much has happened, however COVID-19 remains the number one concern.

We have seen shutdowns, cautious re-openings and new technologies to perform health protocols that enable everyone to keep working safely. However, issues regarding privacy, contact tracing and health record maintenance liability have come to the fore and had to be addressed.

Most companies used any downtime to establish new jobsite protocols and to quickly adopt new technologies with the adaptation of health screenings via smartphones and QR codes.

Construction companies have now been working for many months utilizing new technologies. These have produced advantages but there are also risks. These digital records can provide proof to address union or OSHA issues. They save time checking into job sites but are also evolving into management tools to capture data e.g., who is working where. All the data analytics collected can be applied to provide more effective management of resources and provide data to assist in bidding future work.

Contact Tracing - California has a new law AB685 (effective January 1, 2021), which requires notification within 48 hours of any viral outbreak. We all appreciate how critical time is when there is an outbreak for informing government agencies and workers of potential hazards.

Now that vaccinations are being implemented, employers will need to be aware of state and federal regulations with regard to requiring employees to be vaccinated. There are always exceptions as defined by the federal government, so employers have to proceed with caution

Inefficiency claims due to shutdowns or COVD-19 protocols appear to be into a grey area (specific contract language to deal with lines of responsibility has not been fully drafted). However, using technology to track health screenings and entry to sites will be a critical tool to track and demonstrate responsibility. Regardless of the contract language on many projects the owners are being asked to carry the burden of elongated schedules and loss of productivity claims.

Market Trends

Looking forward to the balance of 2021, there is a good chance that most of the population will be vaccinated by the second half of this year. Most economists are predicting a surging economy and construction industry in the latter half of this year and real growth and expansion in 2022. Contractors however still have concerns about backlog and currently we see more competition among Generals and subcontractors. There is no shortage of subcontractors interested in competitive bidding in the current market. Many Generals have chosen to focus on negotiated contracts.

The housing market, a big barometer for the construction sector, continues to be very strong. Buoyed by historically low mortgage rates, an increase in savings rates, and for those now working from home the added impetus to expand into accommodation large enough for office and added space to cope with the trials of working from home. House prices for last 12 months in the Bay Area have escalated in double digits and the market shows no signs of cooling down.

Some of the sectors hurt from COVID-19 (e.g., offices, retail, hospitality) will take some time to recover and office market will no doubt require a complete rethink as many employees have adapted to working from home and employers will need to revisit their office requirements. Some of the large office building projects are now on hold and may stay in that limbo for some time. Meanwhile the office vacancy rate in San Francisco has reached 20% with rental rates beginning to soften.

Most other sectors not hurt by COVID-19 continue to move forward with little pause. In addition, the Federal government has indicated a willingness to stimulate the economy with infrastructure funding. It is still unclear how large and encompassing this funding will be.

Building Codes are changing in California city by city in regards to the elimination of fossil fuels for space and water heating. Net result is a move to electrical power and away from gas. 40 cities in California have enacted goals in this direction. Even projects not under this directive would be smart to anticipate a move in this direction and plan accordingly. As a knock-on effect more and more projects will require PV as part of the base scope.

Labor and Material Pricing

In the last 12 months to end of 2020 raw construction labor costs have been stable with increases on average in the last year below 2%. Although every trade is different, the labor increases in 2021 should be in the range of 3-4%. Material pricing however has become volatile. Lumber pricing has been ratcheting up for months and we should anticipate these high costs to prevail due to increased demand and lower supply. Supply chain problems have arisen partly due to some natural disasters, (severe weather) increased demand and port congestion. These highlights supply problems include 1) Rising metal prices (partly due to Scrap Shortages), 2) The booming residential market creating shortages in many common products including insulation, drywall, roofing, etc., 3) Severe weather that hampered production in many chemical related products, 4) Lead time problems related to ongoing COVID protocols and port congestion.

A summary of some sample material price spikes (excl lumber) in the last quarter are as follows:

Item	Percentage increase
Wallboard	10-20%
Int Finishing	5-10%
Metal Framing	10-12%
Ceilings	10-12%
Insulation	10-12%
Roofing Materials	5-10%
Steel	2-3%
Steel decking	35-50%

Escalation

Prior to COVID escalation TBD Bid Index averaged 7-8% for the previous 5-6 years (Jan 2014 - Jan 2020). The year 2020 carried minimal escalation due to the COVID outbreak.

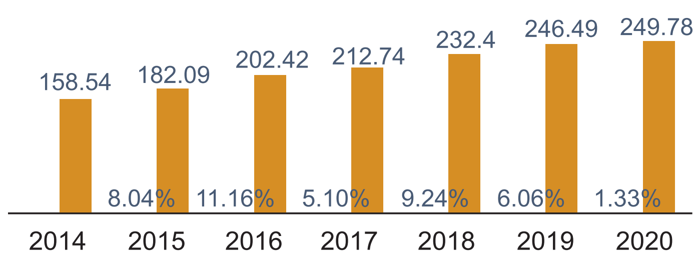

Table above shows Fourth Quarter TBD Index 2014 - 2020

Percentage increase shown reflects the previous year to fourth quarter

e.g. The rate above for 2020 (1.33%) represents the period Fourth Quarter 19 - Fourth Quarter 20

Looking forward to the coming years we are anticipating the following rates of escalation (compounded) to be much closer to the historical norms (in range of 3.5-4.5%)

2021………........... 3.0- 3.5%

2022……........…. 4.0-4.5%

2023……….......... 4.5-5.0%

2024……......….. 4.5-5.0%

Further years…... 4.5-5.0%