

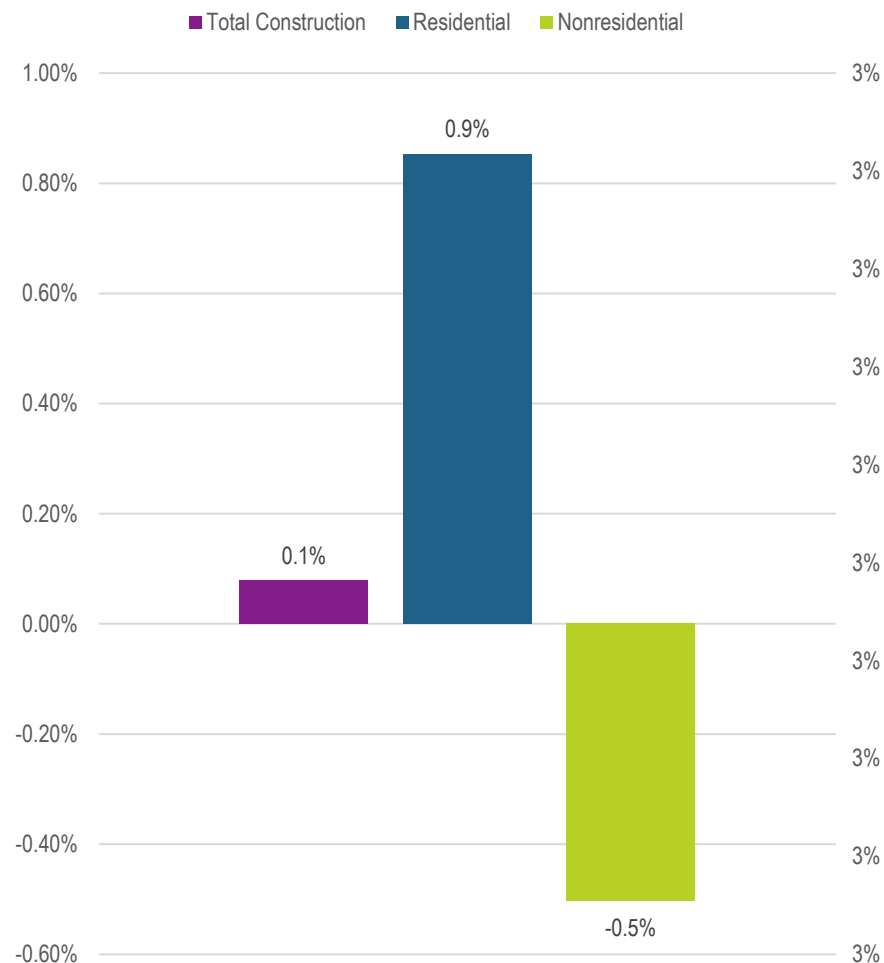
2025 Construction Spending Update

May 1 Data Release

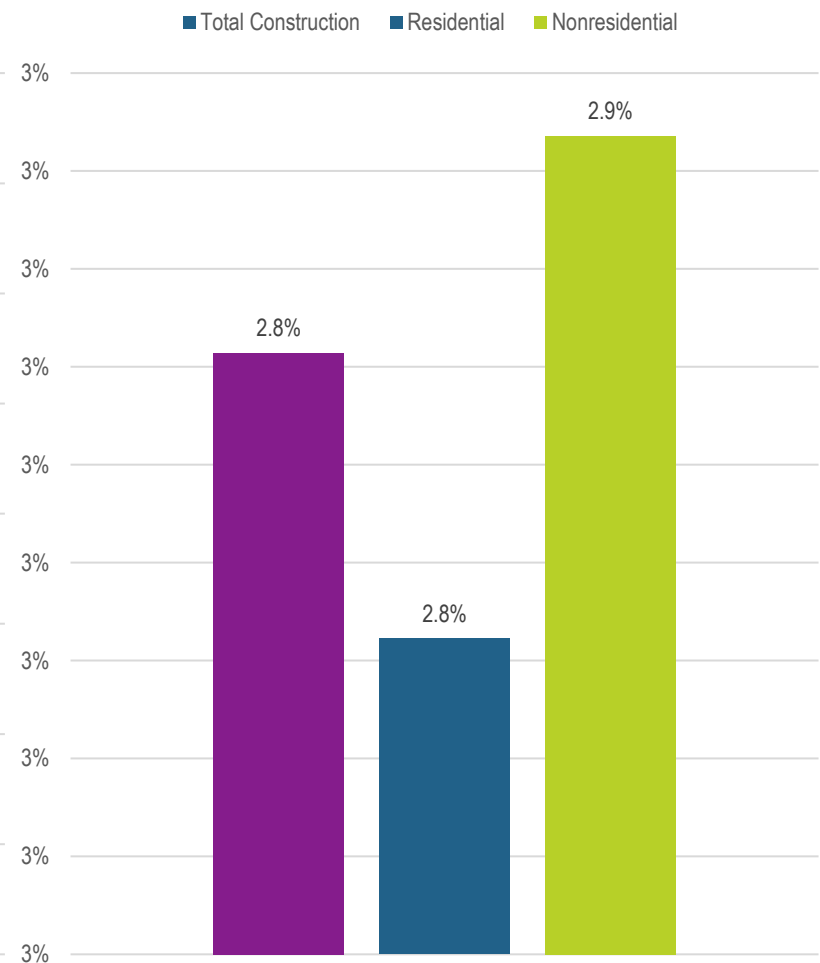


Overall Construction Spending

Quarterly Change in Total Construction
January to March 2025



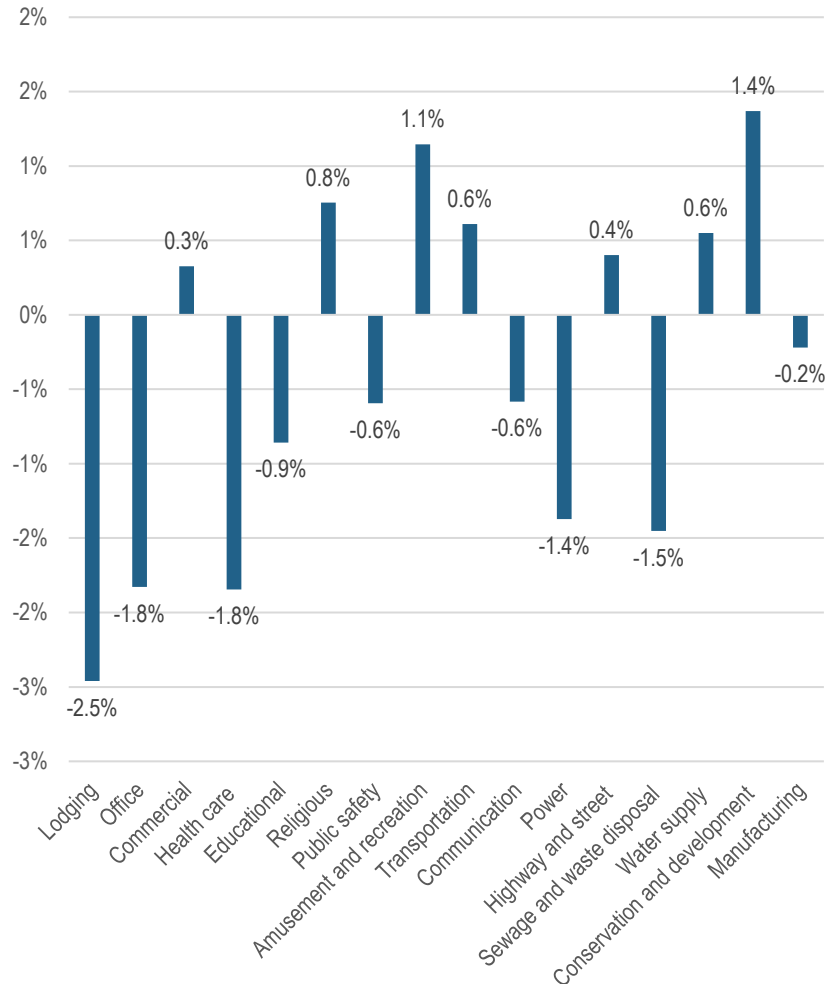
Annual Change in Total Construction
March 2024 to March 2025



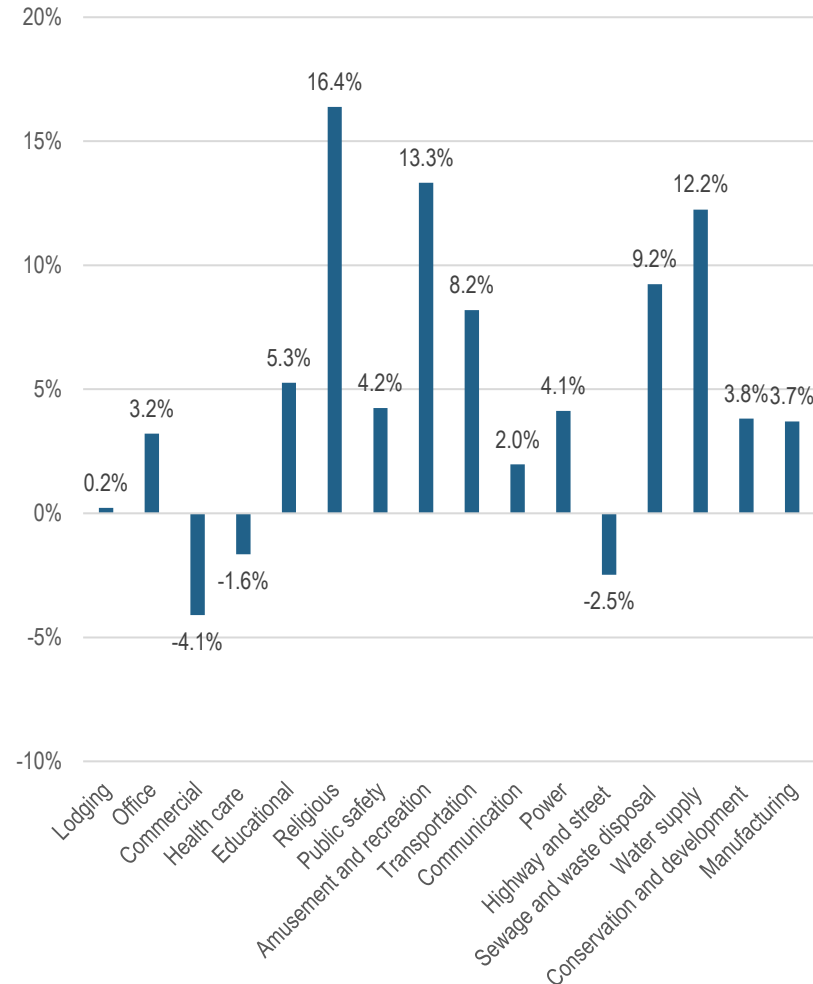
- On an annual basis, Construction spending has been flat for the last year, with growth right at the rate of inflation.
- Non-residential construction spending declined 0.5% over the last quarter. The decline is in line with US GDP growth in Q1, down 0.3%.
- The good news is that non-residential spending is still at a historically high level, up \$400B (48%) over the last five years.
- In the short term, there is still a lot of construction activity going on. In the longer term, a continued market contraction seems likely.

Nonresidential Construction

Quarterly Change in Construction Put in Place
January to March 2025

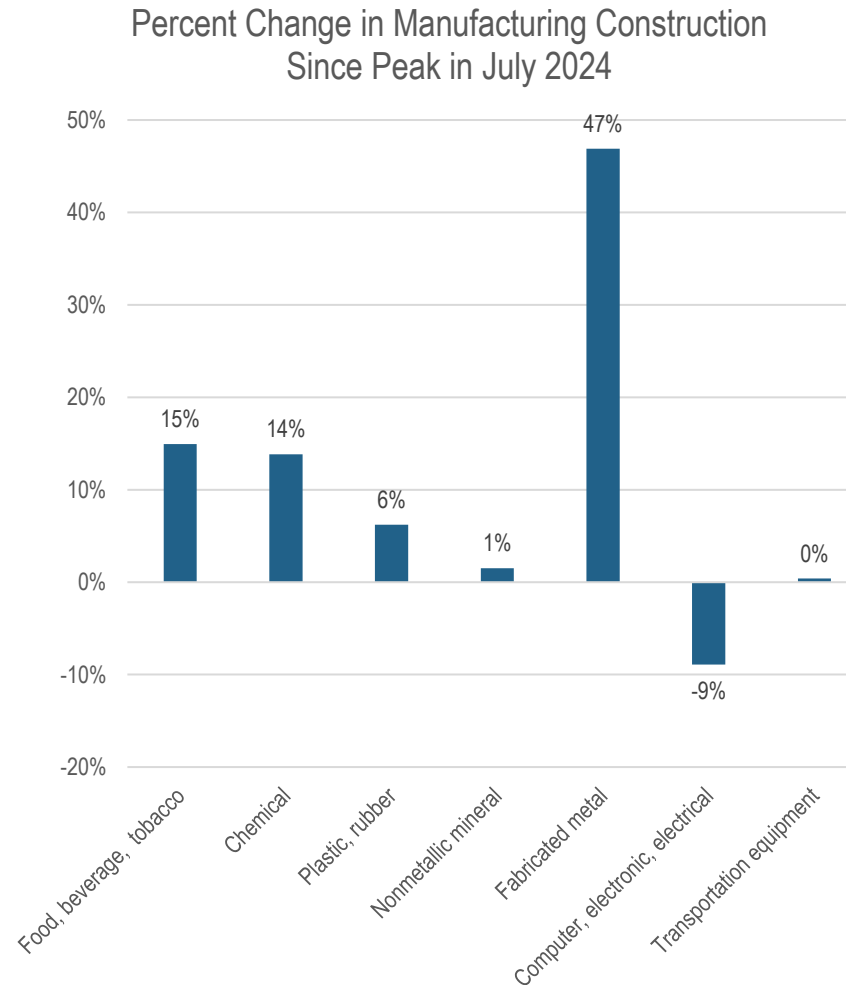
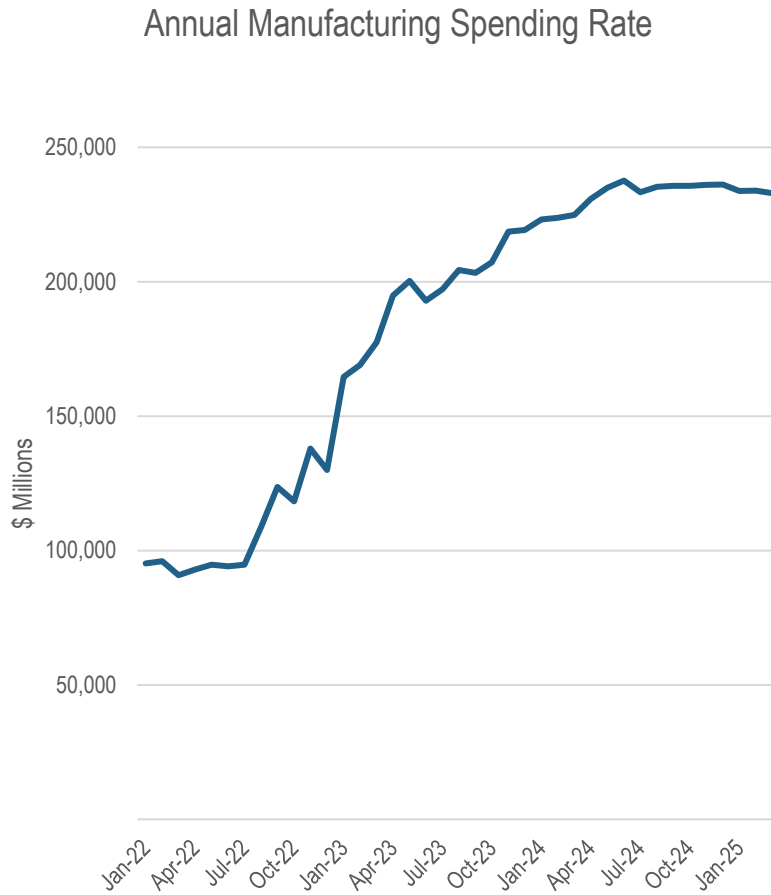


Annual Change in Construction Put in Place
March 2024 to March 2025



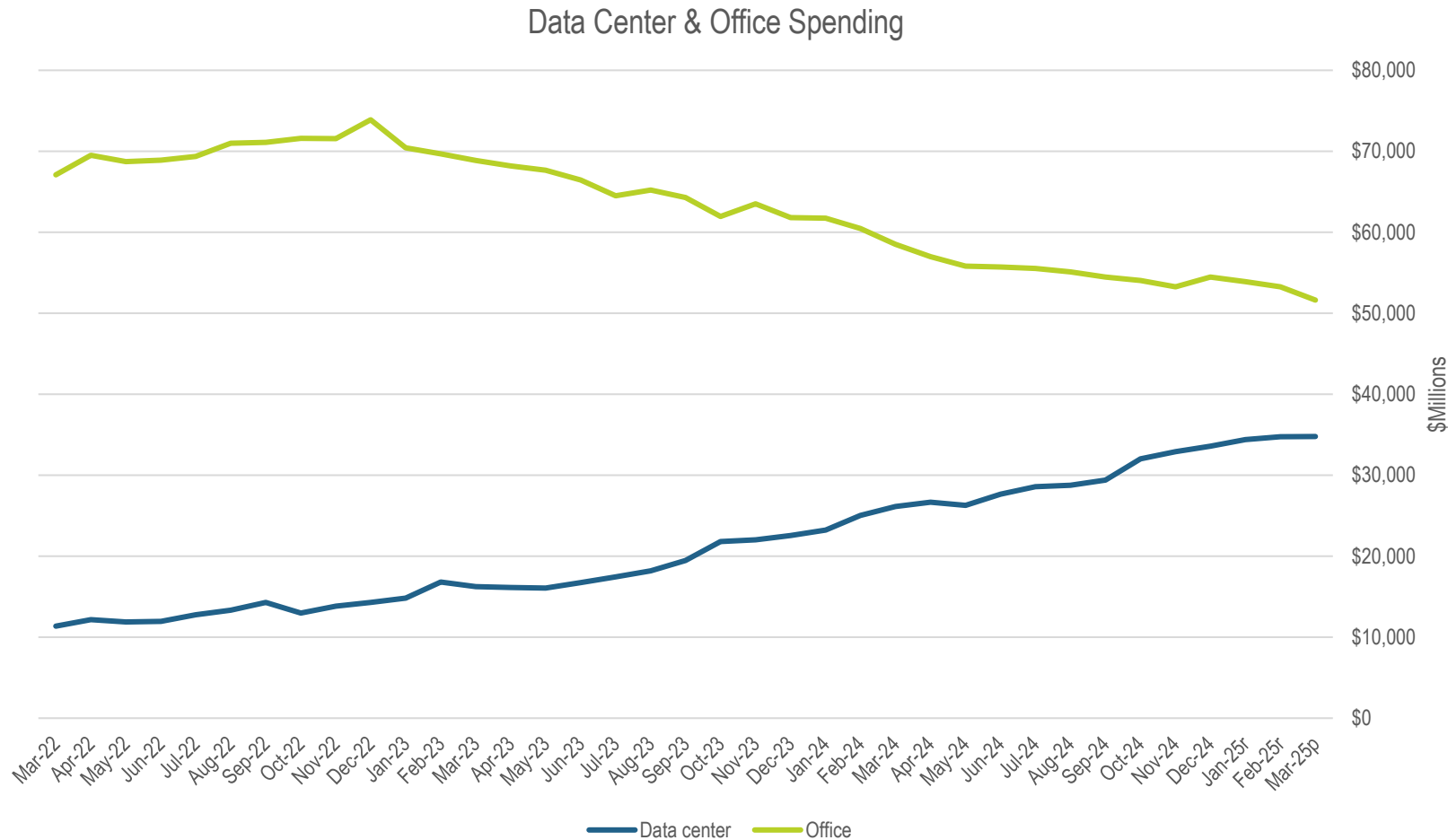
- Nine of the 16 nonresidential construction segments declined over the last quarter.
- Of the seven segments that grew, only two (amusement/recreation and conservation/development) saw growth in excess of 1%.
- The segments driving growth over the last five years—Warehouse, Manufacturing, Roads, and Data Center—have either stopped growing or started to decline.

Manufacturing Construction Spending has Levelled Off



- Total manufacturing construction spending is down \$4B (1.7%) from its peak in July 2024. This decline was driven by a \$12B drop in spending on Computer/Electronic manufacturing (Battery Plants & Chip Fabs).
- The drop has been mitigated by growth in Food/Beverage (up \$2B) and Chemical (up \$5B) over the same period. Fabricated metal is up significantly (\$1.1B), though that is a small segment with total annual spending of \$3.5B.
- Note that spending on Computer/Electronic was only \$12B annually as recently as July 2022. It is currently \$121B, down from its peak of \$133B.
- Changes in spending plans for chip fabs and battery plants have the potential to have a major impact on overall manufacturing construction spending moving forward. While we have not seen significant project cancellations, we have heard reports of project delays due to economic and political uncertainty.
- For perspective on how important the spending on Computer/Electronic manufacturing has been to the health of the construction market, total non-residential construction spending is up \$262B since July 2022. \$109B or 42% of that growth was from the Computer/Electronic manufacturing segment.

Data Center Construction Spending Remains a Growth Driver While Office Spending Continues a Slow Decline



- At a high level, office construction spending appears relatively flat, up 3.2% for the year but down 1.8% for the quarter. The top-level office spending number includes data center, which clouds what has been occurring in this space.
- Office spending, excluding data center, peaked in November 2022 at \$74B. Since then, it has fallen steadily to \$53B and continues to decline.
- Data center spending was at \$14B in November 2022 and has grown rapidly to \$35B today.
- The major hyperscale data center builders, AWS, Google, and Meta, all have extensive plans to keep building along with the rest of the industry. We expect current data center spending levels to continue, if not expand, over the next few years.
- The office construction market continues to face strong headwinds. The combination of a slowing economy, high interest rates, and economic uncertainty will likely lead this market to continue its slow decline.

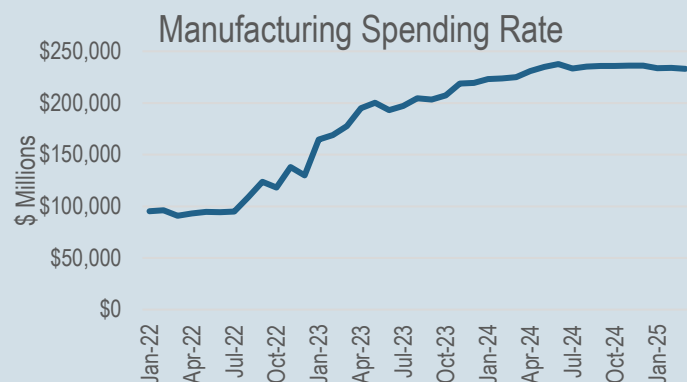
Drivers of Non-Residential Construction Spending: Recent Performance & Outlook

SEGMENT

RECENT HISTORY

STATUS AND OUTLOOK

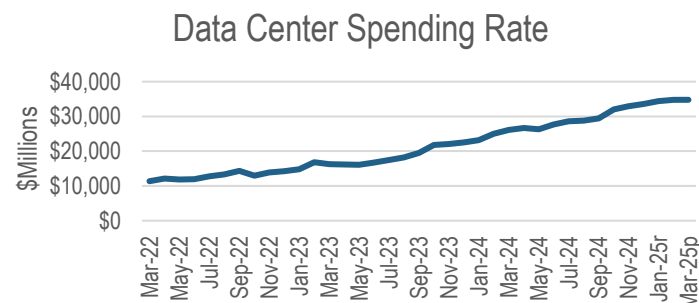
Manufacturing



Manufacturing was the largest driver of construction spending in 2023. Spending has leveled off for the last year at a historically high level. Primary drivers are chip fabs and battery plants. The future of chip fabs remains strong with TSMC and others planning continued major projects. The future of battery plants is less clear, as political support for electric cars is uncertain. The market will likely continue at historically high spending levels, but additional growth is unlikely. A significant decline is possible if automakers reverse course on EV plans.

Note that chemical, driven by investments in US pharmaceutical manufacturing, is emerging as a growth driver. The overall segment was up \$9B (27%) over the last two years. Eli Lilly and Novartis announced plans in April 2025 to invest \$75B in US manufacturing facilities. These investments, along with an overall push to reshore US pharmaceutical manufacturing, position this segment as a major driver of construction spending over the next few years.

Data Center



Data center was a major driver of non-residential construction spending for the last three years, with spending tripling over that time. Companies in this space continue to announce large projects driven by increasing demand for AI. Spending leveled off over the last quarter. Potential headwinds include the availability of power and a recent announcement by Meta that it is delaying some projects. The most likely outcome for the next few years in this space is continued growth, but at a slower pace than over the last three years.

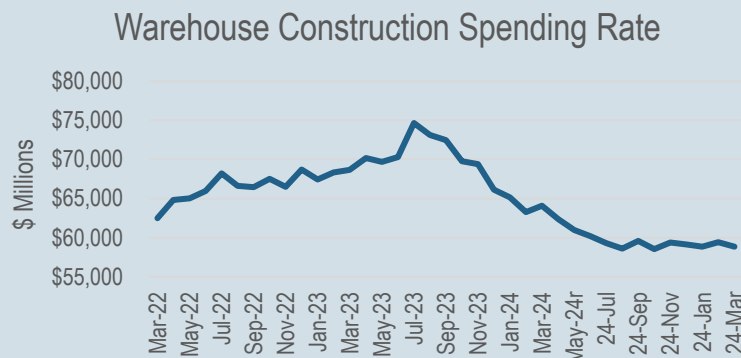
Drivers of Non-Residential Construction Spending: Recent Performance & Outlook

SEGMENT

RECENT HISTORY

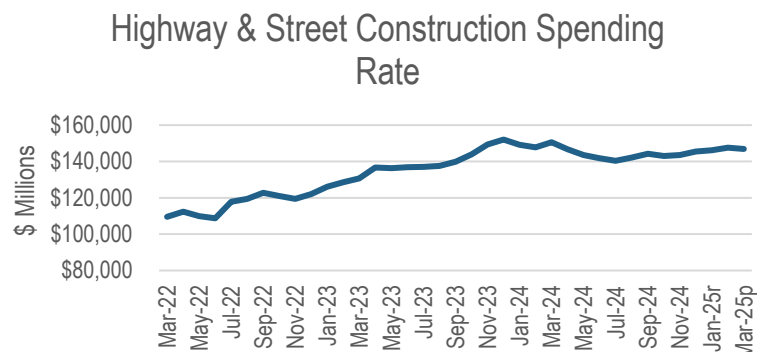
STATUS AND OUTLOOK

Warehouse & Distribution



A major driver of construction spending from the late teens to 2023, the warehouse and distribution market is clearly past its peak. Spending has stabilized around \$60B annually. For reference, this market was only \$10B annually as recently as 2014. Moving forward, e-commerce continues to grow as a percentage of overall US retail, which provides a baseline demand for warehouse and distribution space. We would expect this market to remain stable around current spending levels with year-to-year variance based on overall economic conditions and interest rates. It's unlikely to be a major driver of spending growth through the end of the decade.

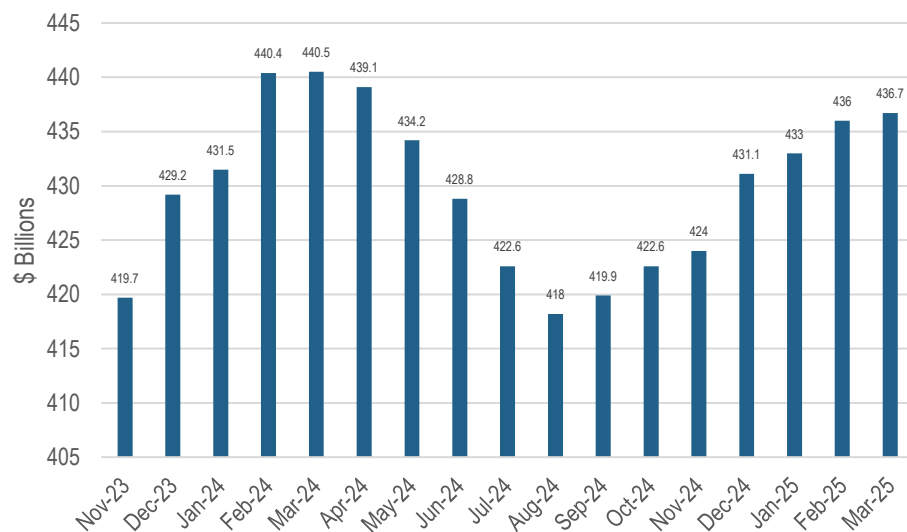
Highway & Street



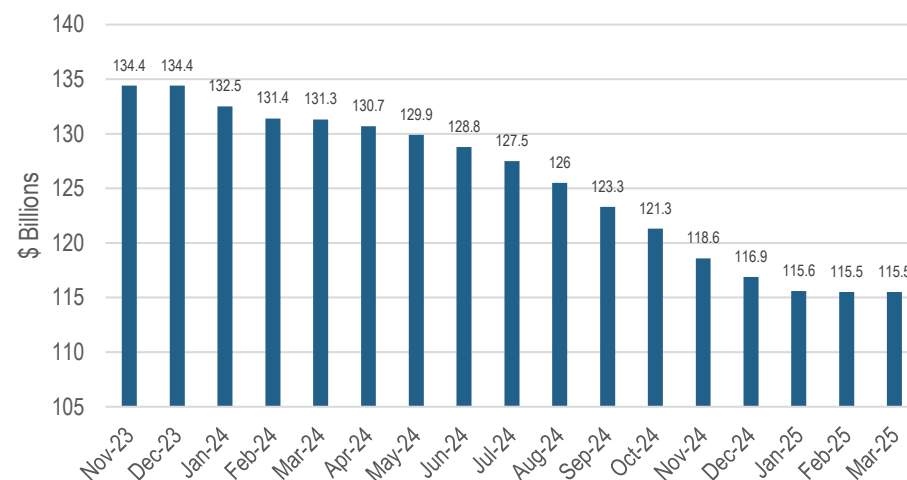
Supported by the federal infrastructure act, spending on highway and street is up \$37B (34%) over the last three years. Additional infrastructure spending does not appear to be a focus of the Trump administration or the current congress. The act runs through 2026, though there have been some efforts to pull back some of the spending. Absent new legislation, we will likely see highway and street spending begin to decline in 2026 as the infrastructure act winds down, with a potential acceleration of this decline in 2027. For reference, highway and street construction spending averaged around \$100B annually for the few years prior to the passage of the act. Spending is currently at \$146B annually.

Residential Construction

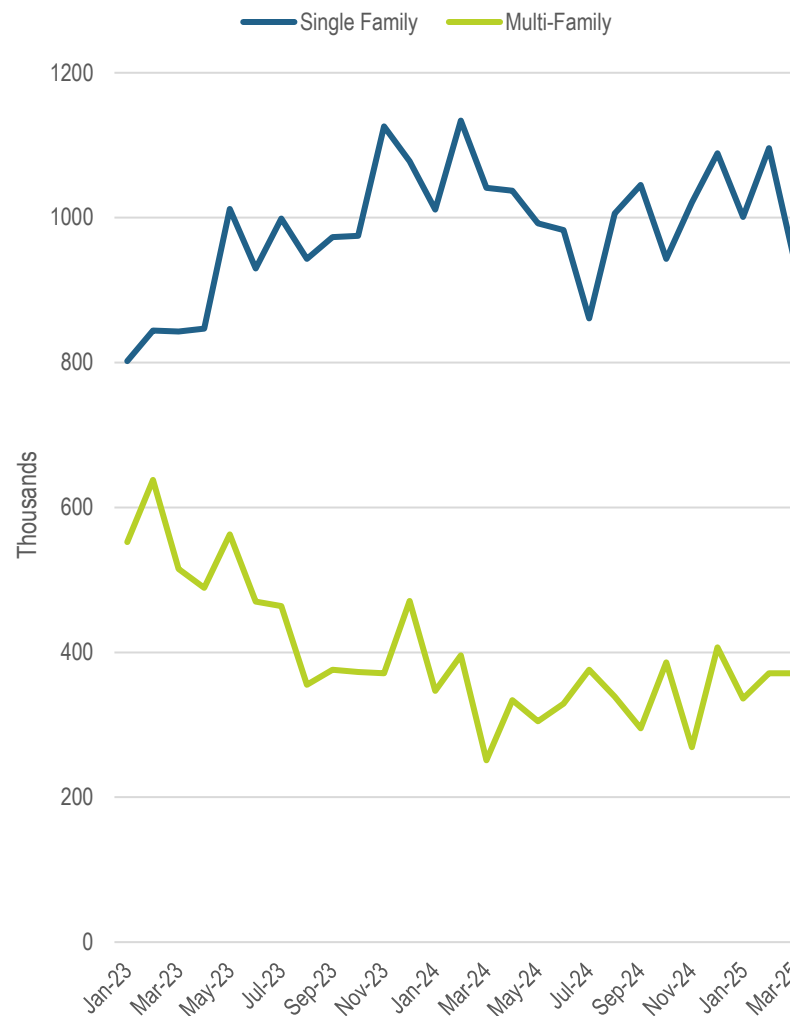
Single Family Construction Put in Place



Multi-Family Construction Put in Place



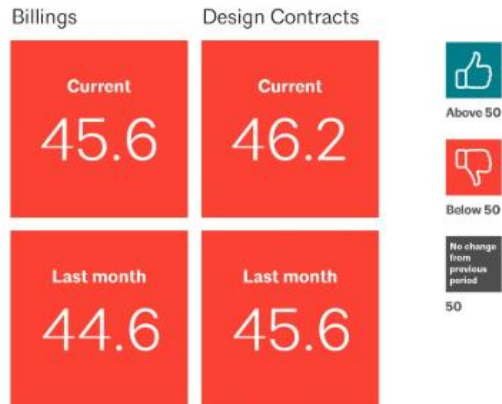
Annual Housing Start Rate by Month



- Single-family construction has been resilient over the last year, with spending growing and starts stable, averaging a little over one million annually.
- Large builders have been able to use their financial power to offer interest rate buydowns to their customers, allowing them to continue to sell homes despite an overall decline in US home sales.
- A US recession, followed by a drop in interest rates, would pose a significant threat to new homebuilding as it would both decrease demand and eliminate the interest rate advantage that has been benefiting large homebuilders over the last two years.
- Multi-family construction continues to be depressed, though both spending and starts appear to have stabilized at a low level over the last several months.

Leading Indicators: AIA

January 2025



February 2025

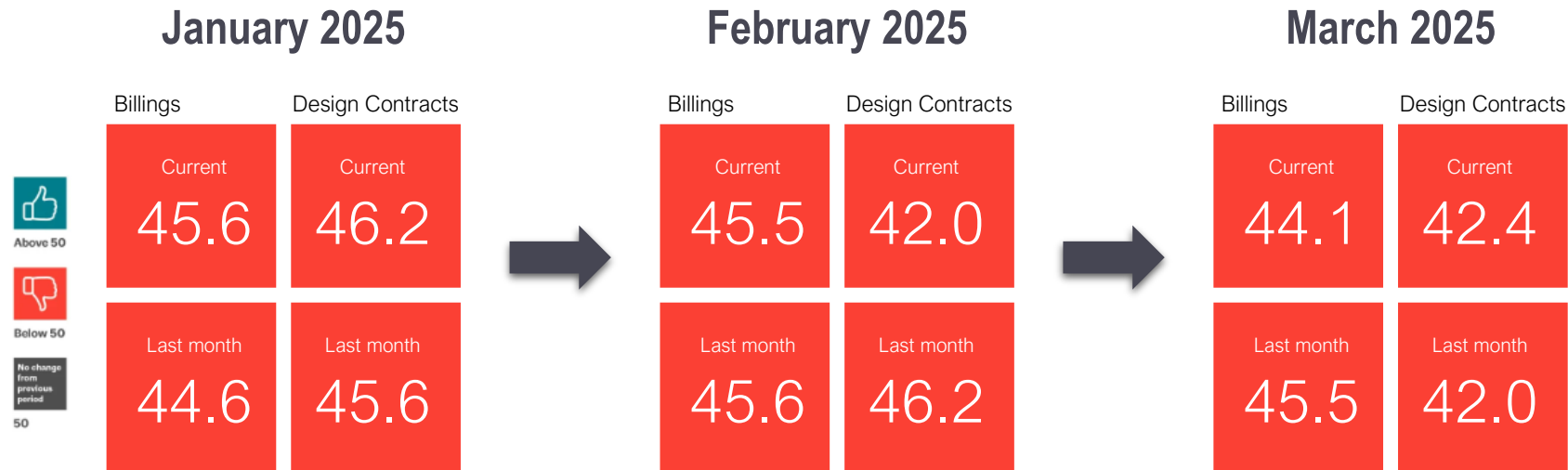


March 2025



- Over the last three months, we have seen declines in both the architectural billings index and the new design contract index.
- Both are solidly negative, indicating that last quarter's contraction in nonresidential construction spending is likely to continue.
- AIA does indicate that “backlogs at architecture firms remain reasonably healthy at 6.5 months, on average, which means that even though little new work is coming in currently, they still have a decent amount in the pipeline.”

Leading Indicators: AIA



- Over the last three months, we have seen declines in both the architectural billings index and the new design contract index.
- Both are solidly negative, indicating that last quarter's contraction in nonresidential construction spending is likely to continue.
- AIA does indicate that “backlogs at architecture firms remain reasonably healthy at 6.5 months, on average, which means that even though little new work is coming in currently, they still have a decent amount in the pipeline.”

May 2025 Overall Observations

- The rapid growth in nonresidential construction seen in 2022 and 2023 came to an end in 2024. 2025 is beginning to show signs of a declining construction market.
- The market segments that drove the rapid spending growth in 2022 and 2023 —warehouse, Manufacturing, Roads, and Data Centers—are no longer rapidly growing, with some moderately declining.
- There does not appear to be a clear emerging growth segment for 2026. Data center has some potential for additional growth, but it is unlikely to be enough to mitigate declines in other segments.
- Current AIA billing and design contract indices indicate a continued decline in construction spending through the end of the year.
- The biggest driver of the 2026 market will likely be US economic conditions – the question being recession or no recession? If there is a recession, how long and how deep?