Q3 2023 DFW CONSTRUCTION MARKET SUMMARY

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The Dallas-Fort Worth construction market continues adapting to changing market conditions. While volatility persists, signs point to measured stabilization across sectors.

On the materials cost front, prices for key inputs remain substantially elevated in the commercial and industrial sectors - up to 50% over pre-2020 levels by some measures. Ongoing supply chain disruptions coupled with still-strong demand are mainly responsible. However, the rate of cost inflation keeps moderating, with prices for some materials like steel and lumber dipping 5-10% from peaks. Additional relief is anticipated but the timeline remains uncertain. Multifamily and interior finish-outs have seen costs decrease almost 4% this past year as feverish demand cooled.

Turning to commercial real estate, DFW's office market shows increasing signs of occupancy recovery following pandemic declines, particularly among class A towers in affluent submarkets like Uptown and Legacy West. Asking rents are rebounding accordingly. However, speculative new office construction has slowed to a trickle, with under 7 million square feet now underway region-wide. Developers are understandably cautious breaking ground amid current uncertainty.

The industrial sector exhibits sustained strength, with vacancies holding near all-time lows around 7% across DFW. This supports robust rent growth of 6-8% annually for most product types. While speculative warehouse construction continues, signs point to a slowdown in the sector

Retail occupancy remains equally tight, hovering at 95% regionally – leaving limited space available despite solid tenant demand. This fuels annual retail rent growth of 3-4%, with new construction muted. Suitable sites are becoming scarce.

An economic cocktail of strong demographic expansion, domestic migration, and job creation provides forward momentum. But developers are evaluating projects judiciously given lingering economic uncertainty. Public incentives also factor more prominently in viability.

As Dallas-Fort Worth's contractor of choice for over 75 years, Bob Moore Construction stands ready to assist clients navigating this dynamic period. Our comprehensive suite of preconstruction, procurement, design-build, and construction management services deliver value and risk mitigation. And we remain fully committed to transparent communication and partnership as the market progresses toward equilibrium.

Should you have any questions or need additional information, please don't hesitate to contact us.

Best Regards,

Ed McGuire
President
Bob Moore Construction

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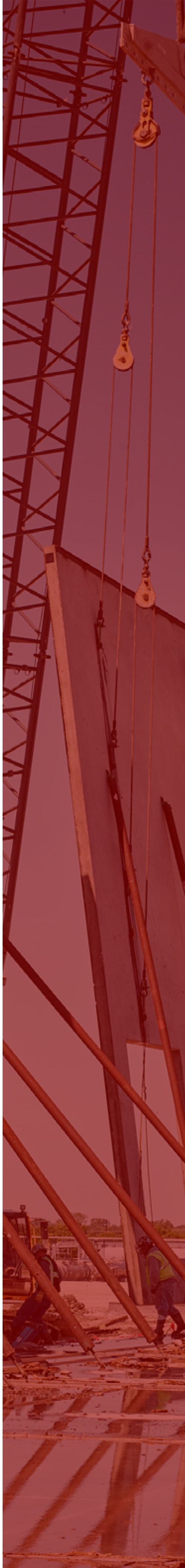

Producer Price Index by Commodity	Pre-Covid Change*	12-Month Change*	3-Month Change*
Concrete	+33.4%	+7.3%	+0.8%
Asphalt	+1.4%	-2.3%	-0.9%
Steel Mill Products	+75.1%	-2.7%	-5.2%
Lumber & Plywood	+21.2%	-10.2%	-1.4%
Flat Glass	+27.6%	-7.0%	-3.9%
Copper Wire & Cable	+25.4%	+3.4%	-0.2%
Aluminum Mill Shapes	+18.8%	-1.4%	-2.7%
Gypsum Building Materials	+44.1%	-1.0%	-0.6%
HVAC Equipment	+40.1%	+3.9%	+0.3%
Paint & Coating	+39.0%	-0.6%	-0.2%
Switchgear, Switchboard, & Industrial Controls Equipment	+37.5%	+5.9%	+0.7%
Weighted Average for **Commercial & Industrial Sectors**	**+49.3%**	**+2.9%**	**-1.6%**
Weighted Average for **Multifamily & Interior Sectors**	**+28.2%**	**-3.7%**	**-1.2%**

*change as of 10/2/2023

The construction landscape has undergone significant shifts in recent years. The echoes of the 2020's initial impact are still resonating, particularly in the commercial and industrial sectors. These sectors continue to see fluctuations in their commodity prices, which currently stand nearly 50% higher than the days before the pandemic gripped the world. Meanwhile, the Multifamily and Interior sectors, although not as profoundly affected, haven't been spared either. Their prices have currently stand nearly 30% higher when compared to the pre-pandemic era.

When compared to pricing in 2022, the commercial and industrial sectors grapple with a modest 3% average hike in their commodity prices while the Multifamily and Interior sectors find themselves on the opposite end of the spectrum, having seen their average prices dip nearly 4% over the same period.

The past three months have painted a slightly different picture. Both the commercial and industrial sectors, as well as the Multifamily and Interior sectors, have experienced an overall drop in prices. The former witnessed an average drop of over 1.5%, and the latter saw an average decrease of just over 1%.

Diving deeper into specific commodities, concrete's tale continues to be one of persistent ascent. Its price trajectory continues upward, though the climb is becoming gradually less steep. A similar narrative unfolds for HVAC equipment, switchgear, and related industrial equipment, where prices are on the rise but at a decelerating pace. However, not all commodities share this story. Steel Mill Equipment and Lumber have charted a different course. Since 2022, they've much needed price decreases, with their costs plummeting roughly 8% and 11.5%, respectively.

In the ever-evolving construction market, these are the threads of change and adaptation. As the industry navigates this intricate maze of price fluctuations, one thing is clear: vigilance and adaptability remain paramount.

Commercial

Sector Overview

The Dallas-Fort Worth commercial real estate market shows signs of slowing but remains fundamentally healthy. In Q3 2022, nearly 1,400 commercial projects were initiated across DFW totaling $2.32 billion in reported value. This represents a YoY decrease of 10.04% and a QoQ increase of 18.95%.

Retail accounted for 44.5% of new projects, driven by tenants backfilling vacant boxes. Office followed at 33.2% of starts, focused on tenant improvements rather than new buildings. Medical, hospitality, and mixed-use projects rounded out initiation activity. Notably, 77.4% of all commercial projects initiated were interior build-outs rather than ground up construction. Developers clearly exhibit risk aversion initiating large-scale projects amid economic uncertainty.

Dallas, Frisco, Fort Worth, and Plano saw the most new commercial development by reported value, although even these active submarkets saw projects decline 20-36% from the same quarter last year.

Fundamentally, DFW's commercial real estate economy remains well positioned. Retail and industrial occupancy sustain near all-time highs, while the office recovery continues. Long term demand drivers - including corporate relocations, population growth, and employment gains - persist.

Yet developers are understandably judicious breaking ground on major new projects given macroeconomic headwinds. An abundance of sublease space also factors into office planning. As the horizon clarifies, DFW's commercial real estate outlook remains bright. But the short term presents understandable caution.

Commercial Stats at a Glance

- 1,393 projects initiated in Q3
  - 44.5% Retail
  - 33.2% Office
  - 13.0% Medical
  - 1.3% Mixed-Use
  - 1.2% Hospitality
  - 0.3% Data Center
  - 22.6% Ground Up & Additions
  - 77.4% Interior/TI

Top Markets, by total reported valuation of initiated projects in Q3

- Dallas - $257.5 M (*-24.5% YoY*)
- Frisco - $247.3 M (*-32.5% YoY*)
- Fort Worth - $197.2 M (*-36.90% YoY*)
- Plano - $187.4 M (*-8.13% YoY*)
- Denton - $62.6 M (*-1.57% YoY*)

Bottom Markets, by total reported valuation of initiated projects in Q3

- Lucas - $7.8 M (*+548.5.2% YoY*)
- Little Elm - $6.9 M (*-11.5% YoY*)
- Weatherford - $1.4 M (*+0% YoY*)
- Hurst - $1.3 M (*+0% YoY*)
- Argyle - $1.0 M (*+0% YoY*)

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Industrial

Sector Overview

The Dallas-Fort Worth industrial market remains extremely active despite broader economic concerns. In Q3 2022, 244 industrial projects initiated totaling $1.76 billion in reported value. This represents a YoY increase of 13.9% and a QoQ increase of 38.4%, showcasing robust developer sentiment.

The vast majority of new industrial starts (86%) were warehouses and distribution centers, catering to still-surging logistics demand. Manufacturing accounted for most remaining projects. Notably, 53% of industrial starts were ground-up construction rather than interior build-outs, indicating confidence launching major projects.

Fort Worth, Dallas, Wilmer, and Grand Prairie logged the most new industrial construction value, with massive year-over-year increases. However, major submarkets like Denton and Irving posted declines, suggesting localized saturation. With over 70 million square feet already underway across DFW, developers continue pushing the envelope into new frontiers.

The construction pipeline remains robust, howeve, the pace of new projects initiated has begun decreasing as developers grow more cautious amid economic uncertainty. Deliveries are projected to peak in late 2023 before tapering off.

With strong population growth, a central location, and business-friendly policies, DFW is expected to remain one of the top-performing industrial markets. However, performance indicators are stabilizing from the exceptional levels seen during pandemic-driven demand spikes. The market appears positioned for steady, healthy growth rather than the overheated conditions of the past two years.

Stats at a Glance

- 244 projects initiated in Q3
  - 86% Warehousing & Distribution
  - 16% Manufacturing
  - 53% Ground Up & Additions
  - 47% Interior/TI
- 109 project starts in Q3

Top Markets, by total reported valuation of initiated projects in Q3

- Fort Worth - $369.4 M (*+25.5% YoY*)
- Dallas - $336.1 M (*+300.8% YoY*)
- Wilmer - $255.2 M (*+100.2% YoY*)
- Grand Prairie - $216.2 M (*+222.5 YoY*)
- Denton - $124.6 M (*-29.8% YoY*)

Bottom Markets, by total reported valuation of initiated projects in Q3

- Sanger - $500 K (*+100.2% YoY*)
- Farmers Branch - $350 K (*-96.9% YoY*)
- The Colony - $250 K (*+100.2% YoY*)
- Benbrook - $80 K (*+100.2% YoY*)
- Roanoke - $50 K(*+100.2% YoY*)

Multifamily

Sector Overview

The Dallas-Fort Worth multifamily market shows moderating momentum after a blistering pandemic rebound. In Q3 2022, 64 multifamily projects broke ground totaling $1.23 billion in value - down 45.3% YoY and up 46.7% QoQ.

52% of new starts were garden-style complexes, followed by 27% mid-rises. Senior living accounted for 17%, with student housing trailing at 5%. Dallas, Anna, McKinney and Arlington led major metros, but even these saw mixed yearly growth. Smaller submarkets like Lewisville, Crowley, and Allen anchored the bottom for multifamily starts as developers grow more selective. Major hubs like Frisco and Richardson experienced over 80% declines in new projects.

Fundamentally, multifamily remains attractive, with occupancy still strong above 93% across DFW. But developers are pausing after breakneck pandemic construction exceeded even robust demand. Permitting and starts have moderated significantly. Rising mortgage rates also deter would-be homebuyers, sustaining rental demand. But construction costs continue rising while rents plateau, squeezing feasibility. Land and labor availability also constrain projects.

The apartment outlook remains positive given DFW's sturdy population growth and affordability. But the sector's astronomical growth appears to be entering a more stable equilibrium. Disciplined targeting of undersupplied submarkets will be key.

Stats at a Glance

- 64 projects initiated in Q3
  - 52% Garden-Style
  - 27% Mid-Rise
  - 17% Senior Living
  - 5% Student Housing

Top Submarkets, by total reported valuation of initiated projects in Q3

- Dallas - $259.8 M (*-54.5% YoY*)
- Anna - $146.0 M (*+147.5% YoY*)
- McKinney - $119.4 M (*-44.2% YoY*)
- Arlington - $110.9 M (*+114.6% YoY*)
- Denton - $96.4 M (*-20.4% YoY*)

Bottom Submarkets, by total reported valuation of initiated projects in Q3

- Lewisville - $2.7 M (*+100.2% YoY*)
- Crowley - $1.2 M (*+100.0% YoY*)
- Allen - $485 K (*-83.8% YoY*)
- Richardson - $460 K (*-99.3% YoY*)
- Frisco - $417 K (*-99.7% YoY*)

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WANT MORE INFORMATION?

Bob Moore Construction is proud to offer clients and partners with a monthly Speculative Warehouse Price Index for building sized 50,000 square feet to 1,000,000 square feet.

If you would like to receive a copy of this index each month, please contact Chandler Tucker at 817.640.1200 or ctucker@generalcontractor.com.

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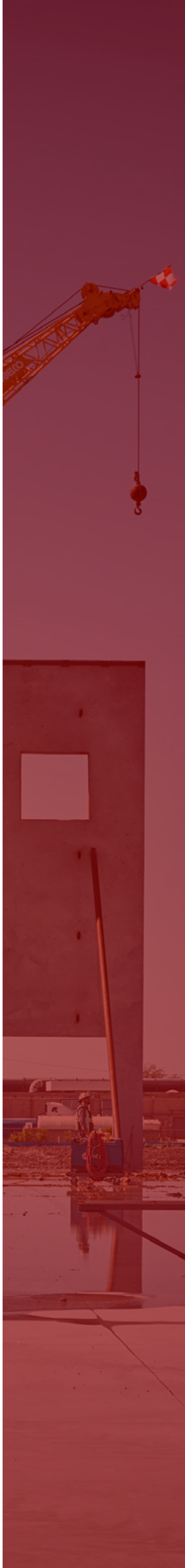

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