STO BUILDING GROUP

SUPPLY CHAIN
Market Update Bulletin

March 2024

Lead Author: David Hamilton, *Vice President, Dir. of Strategic Sourcing*

Introduction

With a continued choppy economic landscape, geopolitical pressures, and election-year turbulence, the construction industry is experiencing growth in most sectors, leading to a more stabilized and predictable supply chain. Labor availability issues, lending constraints, material cost increases, and persistent competition are all putting tremendous strain on subcontractors. For years, we've developed an unparalleled roster of top-performing trade partners. We pride ourselves on collaborating closely with them to navigate challenges and help us ensure that we meet the vision of our clients with the highest quality, within optimal timelines, and on budget. STO Building Group's extensive geographic reach and depth of resources position us as industry leaders, adept at steering through these dynamic times with both our clients and trade partners.

Economic Outlook

- Despite continued volatility, we are holding onto a lens of optimism. Challenges remain and, in some areas, are growing in skilled labor scarcity, material cost increases, and the impacts of higher interest rates.
- Fuel costs, logistics challenges, and raw material increases all contribute to overall costs remaining high but not to pandemic levels.
- Construction spending is finding its footing, with sectors like mission critical, healthcare, and aviation still on the rise. In major cities along the East and West coasts, the shift towards more remote work is reshaping the landscape, leading to a flattening in commercial office interior construction as we adapt to new norms.
- A shift in volume in various sectors has had the effect of stabilizing most materials lead times, except for HVAC and especially electrical equipment.

Mitigation Strategies

In our white paper, find strategies and solutions to help navigate issues like these.

Scan or click to link to our White Paper here:

Subcontractor Impacts

- With debt and credit requirements tightening from lenders, subcontractors are facing a tenuous position as material costs, insurance, etc. all increase.
- Cashflow – In order to maintain subcontractor financial health, timely payments and expedited approval of change orders is essential. These are the main cause of subcontractors defaulting in recent months.
- Competition nationwide has led to a challenging environment for subcontractors, with many reducing their margins to unsustainable levels to secure more work. This trend increases the risk of defaults. Subcontractor Default Insurance (SDI) becomes crucial under these conditions, as it helps mitigate project delays when a subcontractor fails to meet their obligations.

Manufacturer Relationships

- Digital developments are transforming the fragmented construction supply chain into a more transparent, cohesive approach. Enhanced visibility and data gathering capabilities are adapting our manufacturer partnerships, with significant future advancements on the horizon.

SECTORS / REGIONS

- **Mass Timber** – Mass timber's popularity is surging in the US, with over 700 projects in development, thanks to its quick construction and unique health benefits. However, limited manufacturing capacity in the US and Canada is causing significant lead times. For example, large projects like Structure Tone Southwest's 7-story, 250,000sf project in Frisco, Texas, may require a production deposit a year in advance. Efforts to expand manufacturing and fabrication across North America are in progress to meet this demand.
- **Residential Conversions –** Transaction prices of office buildings is falling (below $200psf for distressed assets in several major cities), rental demand remains at or near record highs, and there has been a large uptick in residential conversion activity. Older buildings with shallow floorplates are easier to convert, but many recent targets are large offices from the 1960s–'80s, driven by market availability. Upcoming zoning incentives and tax abatements may further boost this trend.
- **Healthcare** – Alongside data center/manufacturing tech. construction, healthcare spending has reached unprecedented levels in recent months, leading this sector to be our largest by backlog. With an aging population and demands for more personalized and accessible healthcare increasing, the building infrastructure has had to adapt accordingly and is leading to this robust development. The specialized nature of this sector demands equally specialized materials, which means extra attention should be paid to extended lead times.
- **Manufacturing Tech** – The growth of artificial intelligence technology is continuing to exponentially boost demand for advanced microchips. Coupled with the existing backlog for chip-based components, this has driven growth and the expansion of new manufacturing facilities, especially in Texas and the Carolinas, to meet ongoing demand and support supply chains. Desire for concrete, structural steel, and exterior envelope materials remains very strong, keeping pricing for these materials on the upper end of 8–10%.

CURRENT IMPACTS / COST CHANGES

- **HVAC Equipment** – Production of large equipment orders (Rooftop Units, Chillers and VRF Systems) has slowed from the outset of 2024 due to the adoption of new refrigerants for use in US markets. Many factories have implemented compressor and refrigeration circuit modifications to meet new guidelines. This change has further compounded what are already robust long lead time struggles.
- **Power Systems –** Switchgear, switchboard, and other panelboards procurement remains a significant challenge. 400-amp and smaller GHB breakers are in short supply. All factories are fully loaded with work orders, making it extremely difficult to negotiate an expedited option and, in such instances, where offered may prove to be cost prohibitive.
- **Lighting** – Lead time issues vary but continue. There is routine uncertainty surrounding committed ship dates. Conversely, lighting controls lead times for several major brands have substantially improved.
- **Drywall & Ceiling** – Most manufacturers have published increases of 5–10%. Sustainability efforts will continue to impact this pricing as newer methods of production evolve.
- **Labor –** The scarcity of skilled workers poses a significant risk to project success and can lead to increased labor costs due to bidding wars for essential talent. As certain sectors experience a slowdown, trade partners are reallocating their labor forces to expanding markets, which necessitates time and training to acquire the requisite expertise for more technically advanced construction projects. Regionally, the US Southwest has emerged as a focal point for the development of data centers, manufacturing facilities, and healthcare institutions, alongside the necessary infrastructure. This surge in development has resulted in a labor shortage across various trades, including concrete, precast concrete, steel, utilities, mechanical, electrical, and plumbing.

CONTRIBUTORS

DAVID HAMILTON (Group Lead)
Director of Strategic Sourcing, National
STO BUILDING GROUP
David.Hamilton@stobuildinggroup.com
212-251-9389

STEPHEN DENNIS
Estimating Manager
STRUCTURE TONE
Philadelphia, PA
Stephen.Dennis@structuretone.com
215-563-7875

BRIAN S. LYNCH
Purchasing Manager
STRUCTURE TONE
Boston, MA
Brian.Lynch@structuretone.com
617-348-2800

JUSTIN ACQUAVIVA, LEED® AP
Purchasing Manager
STRUCTURE TONE
Woodbridge, NJ
jacquaviva@structuretone.com
609-658-6347

BRET FIELDS
Director of Preconstruction, CA
BCCI
Bret.Fields@bcciconst.com
415-817-5116

TIMOTHY PAPPS
Purchasing Manager
PAVARINI NORTHEAST
Stamford, CT
tpapps@pavarini.com
203-978-2340

ROSS ALLEN, LEED AP®
Senior Estimator
LAYTON CONSTRUCTION
Ross.Allen@layton.com
801-563-3847

JASON FRENCH
Director of Purchasing, TX
STRUCTURE TONE SOUTHWEST
Jason.French@structuretone.com
214-525-5142

MARC PARSONS
Estimator
ABBOTT CONSTRUCTION
mparsons@abbottconstruction.com
206-467-8500

GREG COURTMAN
Estimating Manager
NATIONAL STRUCTURE TONE GLOBAL SERVICES
Gregory.Courtman@STOBuildingGroup.com
347-491-2813

NAVLEEN GHAI
Purchasing Agent
STRUCTURE TONE
New York, NY
Navleen.Ghai@structuretone.com
212-251-9328

SILVIU STOIAN
Vice President, Estimating
GOVAN BROWN & ASSOCIATES
Toronto, Ontario, Canada
sstoian@govanbrown.com
416-703-5100

STO BUILDING GROUP