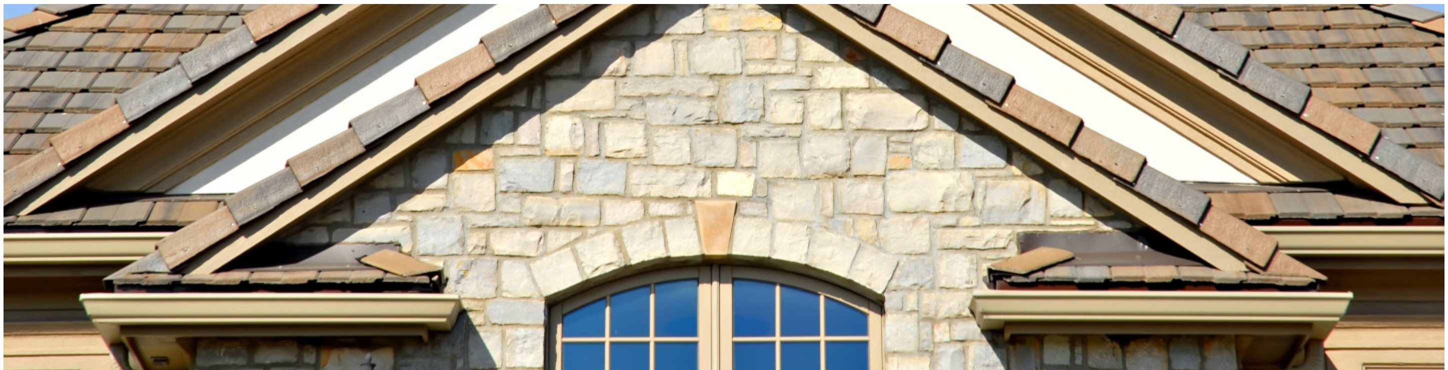


BUILDING SUPPLIES

CURRENT TRENDS

- Experts predict construction revenue will increase 5.2% in 2021 aided by low interest rates.
- Data suggests spending on improvements and repairs to owner-occupied homes will increase in 2022.
- Low housing supply, low interest rates and increased disposable income continue to drive demand for residential construction activity.
- Existing home sales have neared the record highs of the mid-2000s. The median home sales price increased 14.9% and housing months' supply increased from 3.5 to 6.1 year over year as of August 2021.
- Gordon Brothers expects the building supplies market will remain strong from an inventory appraisal perspective, in part because of ongoing product shortages and steady demand for both public and private construction driving higher recovery rates.

PROJECTED VALUES
(12-MONTH OUTLOOK)

APPROXIMATE NET RECOVERY ON COST

80%-90%
lumber

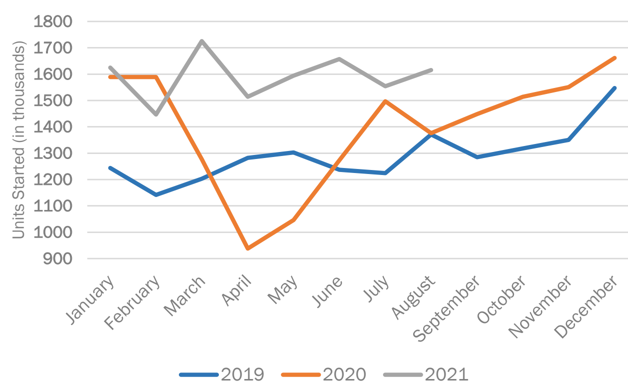
55%-75%
roofing

35%-55%
drywall

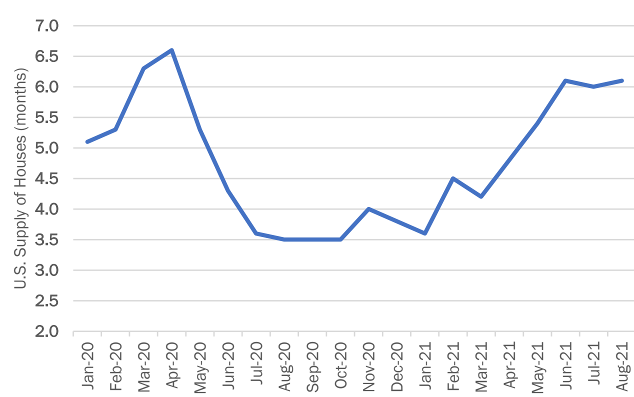
35%-45%
millwork

25%-40%
windows & doors

NEW PRIVATE-HOUSING UNITS STARTED



MONTHS' SUPPLY OF HOUSES



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LOW INTEREST RATE ENVIRONMENT SUPPORTS CONSTRUCTION REVENUE: The COVID-19 pandemic hindered growth in 2020 resulting in a 0.4% decline in industry revenue. Decreased business activity, unemployment and labor shortages led to delays in projects and less demand for sector services. As the U.S. economy continues to recover from the effects of the pandemic, consumers who weathered the crisis without financial distress are taking advantage of the limited supply of homes for sale, driving up prices and creating a barrier to entry for less financially secure buyers. A low interest rate environment will likely support ongoing growth, with construction revenue expected to increase 5.2% in 2021 per research firm IBISWorld.

Experts predict the residential building market will generate 35.5% of total revenue in 2021, representing the largest industry segment, followed by nonbuilding construction at 23.5%, commercial building at 22.1%, municipal building at 12.4% and industrial construction at 6.5%.

Home prices rose more quickly in the 12 months ended July 2021 than in the previous decade. Robust demand and limited supply drove this surge in pricing, with the largest gains in rapidly growing western states. Prices increased by 28% in Boise, Idaho, 22% in Austin, Texas and 23% in Tacoma, Washington for July 2021 over July 2020. Additionally, home price gains exceeded income growth in 2020, increasing the national price-to-income ratio to its highest level since 2006.

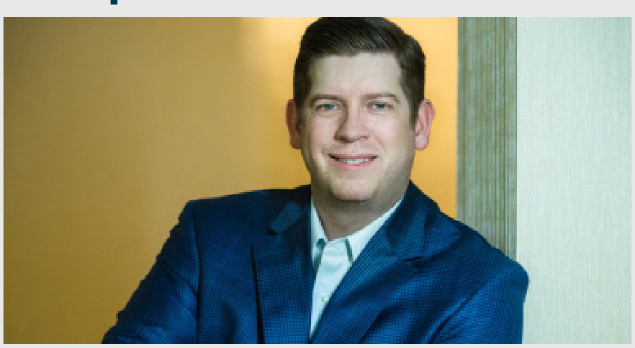
"These outsized increases have raised concerns that a home price bubble is emerging," says Daniel McCue, a Senior Research Associate at the Harvard Joint Center for Housing Studies. "But conditions today are quite different from the early 2000s, particularly in terms of credit availability. The current climb in prices instead reflects strong demand amid tight supply, aided by record-low interest rates."

VALUATION OUTLOOK: Residential building products have steadied after an initial period of disruption to supply and demand in 2020. Although the building supply sector continues to face uncertainty and supply chain issues in the short term, sales for building material and garden equipment retailers increased 15.4% for the eight-month period ended August 2021 compared to the previous year, according to U.S. Census Bureau data.

Looking ahead, the building products distribution market will still face supply chain issues, tariffs and extreme weather. Experts suggest current interest rates will likely continue their positive effect on the housing market. And while the pandemic continues to affect certain areas of the U.S. more severely than others, improvements in vaccine rates may alleviate some pandemic-specific challenges for the building supply market.

From an inventory appraisal perspective, Gordon Brothers expects to see continued strength in building products markets, especially as product shortages continue to roil markets and both public and private construction demand remain robust.

The Expert: Erick Beaudoin



Erick Beaudoin is a director in Gordon Brothers' Industrial Inventory Valuation practice. His industry specialties include building products, fabricated metal products, fabricated plastic products, automotive, paper, agricultural food products, dairy, sporting goods and fracking sand. Read his full bio here.

In a rising price environment, liquidation discounting tends to decrease as buyers focus on securing supply and locking in low pricing. However, a sharp price correction is possible as high market prices increase capacity utilization and supply chain issues subside.

HOME IMPROVEMENT RATES REMAIN STRONG: Data suggests sector operators will benefit from growing consumer finances over the next five years as per capita disposable income increases and the unemployment rate declines. Growing disposable income will likely result in more industry projects bolstering industry revenue. However, price increases have had a countering effect on demand. Lower housing stock levels and stricter credit lending has pushed out some buyers while low interest rates continue to attract others.

Data suggests spending on improvements and repairs to owner-occupied homes will increase in 2022. The Leading Indicator of Remodeling Activity projects the four-quarter moving rate of growth in home renovation and repair expenditures will reach 8.6% by the second quarter of 2022.

"With a financial boost from recent federal stimulus payments and strong house price appreciation, homeowners are continuing to invest in the upkeep and improvement of their homes," says Chris Herbert, Managing Director of the Joint Center for Housing Studies. "This lift in incomes and ongoing strength of the housing market are providing homeowners incentives to make even greater investments in their homes this year."

"Although the recent surge in DIY activity is slackening as the economy continues to open up, homeowners are undertaking larger discretionary renovations that had been deferred during the pandemic," says Abbe Will, Associate Project Director in the Remodeling Futures Program at the Joint Center for Housing Studies. "A shift to more professional projects should boost annual homeowner remodeling expenditures to $370 billion by early next year."

HOME SALES, PRICE AND SUPPLY RECOVERING FROM COVID-19 LOWS: Household growth in the suburbs and small metro areas was on the rise before the pandemic and has accelerated since its start, particularly among younger buyers who were ready to own homes and have more space to work remotely. In 2020, existing home sales increased 6% and new single-family home sales jumped 20%, putting total home sales at their highest level since 2006. Homebuying surged despite historically tight supply; in late 2020, months' supply for existing homes dipped below two months for the first time ever, while median time on the market hit a record low of 18 days.

Median sale prices are also on the rise. As of August 2021, the median sales price of existing homes in the United States was $356,700, an increase of 14.9% over the same period in 2020. The pandemic and its effects on supply chains and labor markets drove this increase and that of the monthly supply of U.S. homes, which rose from 3.5 in August 2020 to 6.1 in August 2021.

As supply chain challenges subside, reducing lead times for materials, the market will no longer support these inflated housing costs. Gordon Brothers expects building supply costs will decrease and supply will match demand, leaving consumers to seek a return to pre-pandemic housing prices. This return to normalized market pricing may take years and could be extended by economic downturns or disruption from coronavirus variants.

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