

## STATE OF THE INDUSTRY: TEXAS COMMERCIAL ROOFING

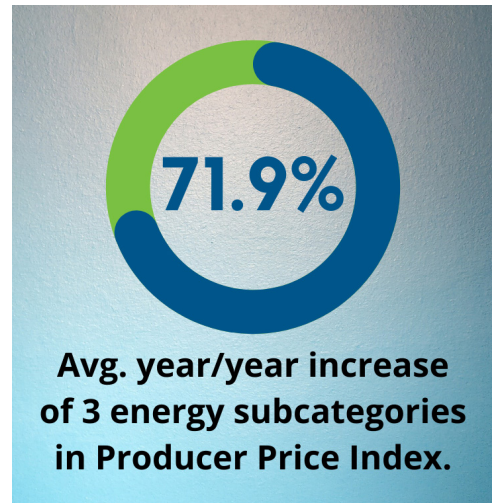
2022 opens as a year of promise and peril for the state and national roofing industry. Limited material supplies and rising costs continue to be the primary issues for the construction industry, with roofing among the most impacted trades. Beyond that persistent headline, demand for roofing services is strong, and Texas continues to attract new businesses and residents.

### Key Impacts on the Roofing Industry — By The Numbers:

- 23.2% — December's year-over-year increase in non-residential construction inputs (per U.S. Bureau of Labor Statistics).
- 127.2% — the 12-month increase in the Steel Mill Products subcategory (feeds the fasteners and plates used in roofing).
- 71.9% — the average year-over-year increase in the three energy subcategories tracked in the Producer Price Index, a key metric given that most roofing products rely on petrochemical raw materials, energy in manufacturing, and fuel during transportation.
- 4-11 Months — supply chain issues have pushed delivery lead times from weeks to months (or even a year in some cases).
- 15% per quarter to 20% per month — the current range in non-binding price increase guidance from roofing manufacturers.

### How The Industry Has Adapted

The inability to definitively price roofing materials has led to changes in contracting methods that now include allowances or escalation clauses to avoid abnormally escalated fixed prices derived in accordance with manufacturer's guidance. Other responses to material cost increases by the roofing industry include substituting products or structural redesigns to avoid supply constrained materials. To mitigate supply chain issues, some manufacturers and distributors are now resorting to allocation

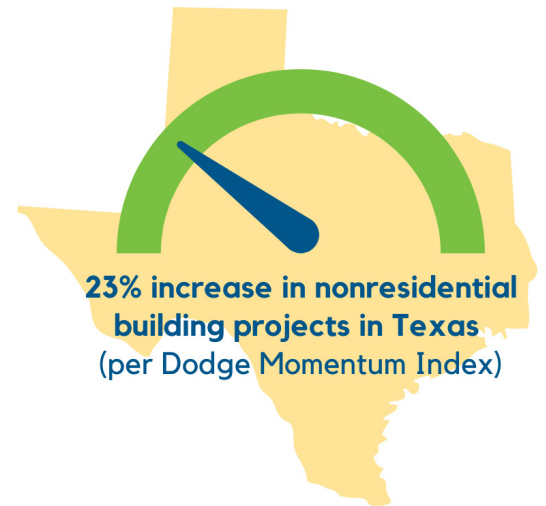


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limits for 2022. The intent is to weed out panic buying and bring stability and realism to the manufacturing and delivery schedule. In the near-term, allocations will contribute to project delays but should result in much better long lead time predictability for an industry suddenly forced to plan three-to-10 times further ahead than this time last year.

### Texas or Bust – Positions Now Open

Demand is strong across the country, but few states are as strong as Texas. The Dodge Momentum Index increased 23% last year. As a forward-looking index that leads construction spending by an entire year, the Index suggests strong growth in 2022. Texas also finished the year at the top of U-Haul's Growth Index. While not as rigorous as other sources, it demonstrates the economic opportunity companies and individuals recognize in Texas due to the state's business-friendly policies. Elon Musk's recent interest in Texas is one example of the state's vigor.



However, like most markets, the workforce in Texas has its challenges, and labor represents yet another rising cost for many industries. Not only is there an exceptionally high demand for construction workers, but the ongoing impact of COVID-19 related safety protocols, absences, and documentation requirements puts added pressure on employees and employers alike.

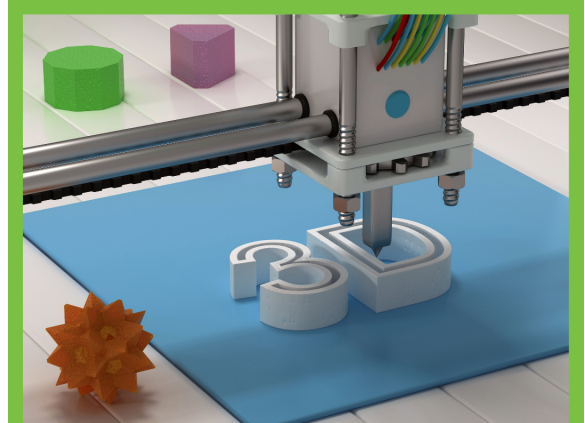
### The Federal Policy Response

A significant part of current demand is due to recent monetary and fiscal policy. COVID-19 related stimulus efforts and quantitative easing by the Federal Reserve have resulted in surplus capital. These funds are flowing into construction projects more rapidly than the industry can respond with materials or labor. As the Federal Reserve begins to pivot to containing inflation, some demand will fall as interest rates rise and the costs of projects increase to the point of cancellation. While the Infrastructure bill that was signed into law last November has a negligible direct effect on roofing, as funds begin to flow, infrastructure projects will add to the demand for common materials – like steel and petrochemical-based products – and will have an indirect impact on the pool of construction workers.

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## From Challenges Arise Opportunities

Despite the headwinds, contractors are eternal optimists. The Associated Builder and Contractors' Construction Confidence Index showed December increases in sales expectations, staffing levels, and profit margin expectations. Manufacturers continue to innovate, as well, and much of the innovation is focused on labor-saving products like self-adhered membranes. Robotic application methods that harness 3-D printing, GPS and LiDAR technologies are in development. Other areas of innovation will take many years to bear fruit. Renewable energy will continue to become more common, and solar and wind power can be conveniently integrated into roofs. Products that utilize recycled materials such as shredded tires as an alternative to wood blocking will also become more prevalent over time.



**3D Printing, GPS, and LiDAR are just some of the new innovations being utilized in the roofing industry.**

