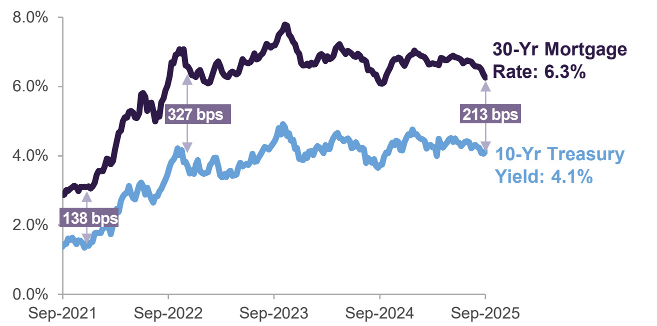
Industry Update

Macro Trends

- **Residential:** U.S. single family housing starts moved higher in July, up 8% y/y after six months of consecutive declines, but came in below expectations in August. Multifamily starts were up 15% y/y as of August, but completions remain soft. Residential construction, repair and remodel activity has been weaker but is poised to rebound with lower rates and improved affordability.
- **Non-Residential**: Total non-residential construction growth has slowed, underscored by modest y/y declines in May, June, and July. Total spend is still 45% higher than 2019. Non-residential has strong tailwinds underscored by improved project planning, construction incentives in the One Big Beautiful Bill Act (OBBBA), and a continued ramp in Infrastructure Investment and Jobs Act (IIJA) outlays.
- **Construction Costs**: Wholesale building material costs (PPI) have been rising y/y for four consecutive months reaching levels not seen since 2023. Increased tariffs and duties have pressured construction inputs, especially steel, lumber, and copper. Commodity pricing has been particularly volatile—random lengths lumber futures declined ~25% in August and then rose by 12% in the first half of September.

30-Yr Mortgage Rate vs. 10-Yr Treasury Yield

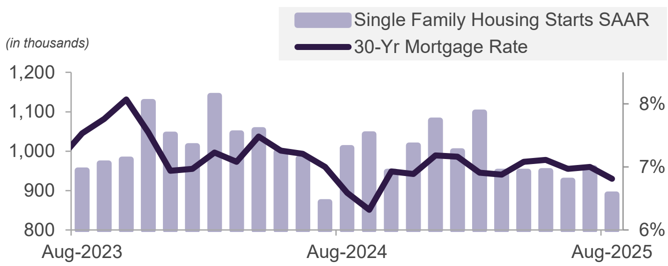
- *The 10-year Treasury yield is down more than 50 bps year-to-date*
- *30-year mortgage rate is down, driven by the drop in bond yields, and a narrowing spread between Treasuries and mortgages*
- *Falling mortgage rates could be as impactful as Fed rate cuts going forward*



Residential Poised for a Rebound

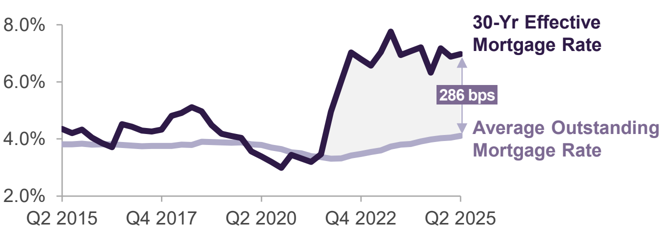
Single Family Starts vs. Fixed Mortgage Rates

Single family starts are inversely correlated to mortgage rates. Single family housing starts are down ~12% y/y but could see a rebound as rates decline



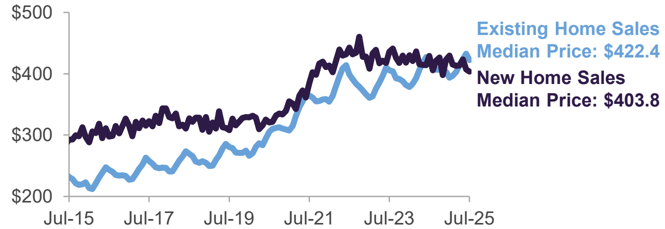
Post-COVID Lock-In Effect

More than 60% of homeowners carry mortgages below 4%, discouraging listings and tightening supply. This "lock-in-effect" has kept for-sale inventory tight, though easing mortgage rates could unlock pent-up supply and demand



New vs. Existing Home Price Gap Contracts

The "lock-in-effect" severely reduced existing available for-sale inventory that has led to a narrowing price gap between existing and new home sales, from an average of $69k more in 2015 - early 2020 to $18k more in July 2025



Key Drivers of Residential Going Forward

- Affordability constraints should improve with a more dovish Fed and a contraction in mortgage rates
- Increased household formation against a structural undersupply of homes will continue to support longer-term residential fundamentals
- A reduction in rates aligned with record amounts of home equity could reignite R&R spend
- Large national home builders continue to take market share with greater flexibility to control land, labor and materials costs, while providing multiple incentives that can reduce the total monthly costs for potential homebuyers

Sources: Freddie Mac, U.S. Dept. of Treasury, FRED, Mortgage Bankers Assoc., Bureau of Economic Analysis, U.S. Census Bureau, National Association of Realtors, Bloomberg

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Non-Residential Activity

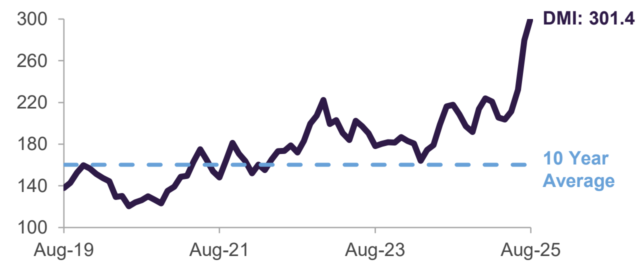
One Big Beautiful Bill Act Highlights

The OBBBA became law on July 4, 2025, and contains several incentives that could positively impact the building products industry:

- **Depreciation allowance for qualified production property:** temporary provision that allows 100% bonus depreciation for the construction of qualified production facilities (e.g. manufacturing) built between 2025-2029, and placed in service by 2031
- **Bonus depreciation for capital assets:** 100% bonus depreciation for qualified capital assets (e.g. equipment) made permanent for the first time
- **Qualified opportunity zone expansion:** permanently extends the program and introduces new incentives for real estate investors and developers—including a 30% basis step-up for rural investments and rolling 10-year zone designations

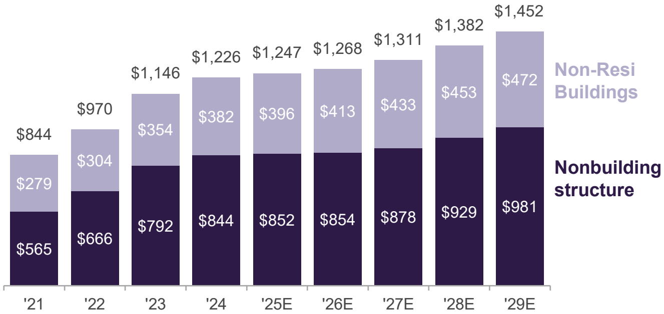
Dodge Momentum Index

Non-residential building planning is up five months consecutively for a 51% increase when compared with August of 2024. Data centers and warehouse, were the leading subsectors of this growth



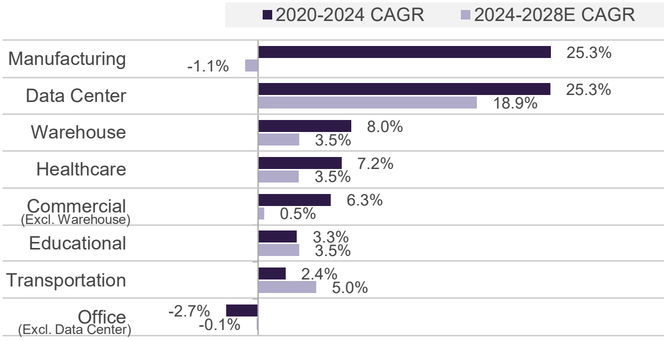
Non-Residential Construction Spend

Nonbuilding structure spending continues to benefit from IIJA tailwinds, with only ~39% of funds outlayed through July. Non-residential building spend has cooled, largely driven by moderation in manufacturing spend after experiencing over 200% growth since 2020



Growth by Non-Residential Sector

Data center construction spending remains robust while office spending declines further. From 2022 to June 2025, data center spending grew from $14B to $40B, while office spending peaked at $74B and has fallen to $46B over the same period

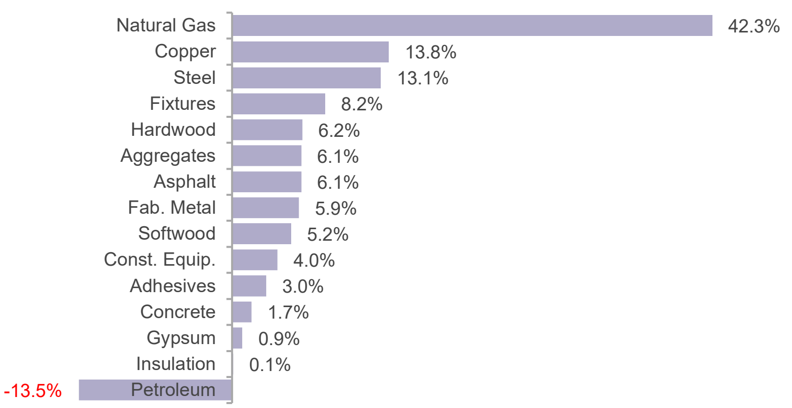


Construction Inputs Cost – Key Commodities

- Tariff implications continue to influence pricing across construction input categories, especially those with higher import reliance
- Lumber has been impacted by increased countervailing and antidumping duties on Canadian lumber imports which now total 34.2%
- Copper, steel and aluminum have section 232 import tariffs in effect at 50%. On August 19th, the Trump administration expanded steel and aluminum products to additional "derivative" products including paints, adhesives, power supplies, electrical cables, wiring and more
- Aggregates continue to reflect resilient price characteristics irrespective of volume. While weather and a lackluster residential sector have impacted volumes, pricing has continued to increase mid to high single digits year-to-date

Cost Increases for Key Construction Inputs

Y/Y as of August 2025



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Sources: FMI Corp., U.S. Bureau of Labor Statistics, Dodge Construction, FRED, Bloomberg