# MARCUM'S 2023 NATIONAL CONSTRUCTION SURVEY

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# About Our Construction Industry Group

Marcum's Construction Services Group is dedicated to assisting contractors with personalized and attentive service, strong technical expertise, and uncompromising integrity. Regulations related to the construction industry can be complex, making compliance with these laws an ongoing challenge.

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The 2023 Marcum National Construction Survey was administered in February 2023.
To make sure you are among the respondents for Marcum's 2024 National Construction Survey,
contact jordan.difranco@marcumllp.com.

# Executive Summary

Picking out an overarching theme from these surveys can sometimes be challenging. Not this year. Everyone's worried about the rising interest rate environment and what it means for their construction businesses.

After more than a year of central banks grappling with inflation by steadily raising interest rates, the world looks very different from the decade-long run of near zero rates. That's surely a heyday we're unlikely to ever see again. The sea change in terms of financing to the mid to higher-single digit rates of today is likely a new normal for the foreseeable future. In fact, we just have to hope the Fed is about done pumping the brakes on the economy, lest they spur a recession – an outcome that often happens as part of the rate versus inflation balancing act.

## RATES AFFECT EVERY ASPECT OF CONSTRUCTION

Everything seems to cost more than it did, even if inflation's rise has begun to slow. Executives are finding inflation is acting like an economic tax they didn't expect. A notable 69% of executives placed inflation, rising commodities, and other costs as the top challenge for 2022 and 2023, more than 20 points ahead of finding skilled labor (49%), supply chain (40%) and the persistent impact of the pandemic (33%). The annual inflation rate for the United States was 7.7% for the 12 months ended October 2022, according to the U.S. Department of Labor. One executive says inflation's impact on costs has "never been this bad in the 30 years I've been in business." Rent was up 7.5% as of October with little sign of economic anxiety subsiding. Did revenues increase purely because of inflation or were unit sales increasing?

The cascading effects could include more delays and cancellations, particularly on private work. This is often because even small movements in interest rate basis points can have a huge effect on project viability and profitability. And as the snowball rolls downhill, it becomes more difficult to pass additional costs such as material prices to customers.

While interest rate increases may soon be ending, the effects of higher interest rates are still filtering through the economy and could quite possibly lead to a further economic slowdown later this year and into 2024. But the U.S. is still delivering strong employment numbers so any slowdown is unlikely to be severe. Many survey answers suggested construction business owners are battening the hatches a bit as well, detailing:

- A significant uptick in respondents cutting costs;
- An increased focus on strategic planning; and
- A large downward swing in those optimistic about seeing more opportunities in the coming year with an increase in those expecting fewer opportunities.

## IT'S NOT ALL DOOM AND GLOOM

If you compare the ebullient responses from last year's survey to the opening paragraphs of the summary this year, you might have a bit of whiplash. Despite the very real challenges presented by inflation and higher rates, no survey respondents think the sky is falling. In fact, some key indicators still show resilience in construction. Backlogs are only slightly behind their incredibly strong figures of the past couple of years, perhaps buoyed by a still-robust market in the public construction sector. Supply chains are improving and material costs are largely stabilizing – and in some cases declining. And the persistent problem of finding skilled labor shows that the underlying economy is still strong.

It all makes for a deeply interesting and complex time for the industry. We hope this report provides some perspective on how others facing the same challenges are approaching and overcoming them. Please share any thoughts with us on the report if you'd like to. Here's to another strong year for the construction industry.

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> "Many companies have a renewed focus on cutting costs, and while the supply chain agony of the past few years is subsiding, overall costs remain a challenge.

# Money Matters

### INTEREST RATES AND INFLATION

For the first time this year, we specifically asked how companies were handling the dual threat of rising inflation and rising rates. The results were pretty dramatic, with half of respondents expecting projects to be delayed or canceled, more than half anticipating difficulty in passing expenses on to customers and large percentages delaying equipment purchases, lowering overhead spending and expecting fewer projects to bid on.

Although inflation is not rising at the breakneck pace it was last year, it also remains a concern, with similar percentages of respondents anticipating fundamental problems like 59% worried about being unable to pass costs on to customers and the 55% concerned about delayed or canceled projects due to inflation. Inflation is clearly not fully tamed yet.

### FINANCING AND BONDING

Those higher rates are pinching construction companies in many ways, not least of which is obtaining financing. The percentage of those surveyed who saw a decrease in their ability to obtain financing doubled to 26% from last year, and those who found financing easier than in the prior year plummeted to 4% after hitting an all-time high of 19% in 2022.

Although less dramatic, the rate environment also had an impact for respondents who require personal indemnity agreements for obtaining capital. Personal guaranty agreements are typically limited to small to mid-sized companies. Out of those respondents, 75% sign personal indemnity agreements with the surety, personal guarantee agreements with banks, or both surety and bank personal guarantee agreements, down from 79% last year. There was a 7% bump in those who expect bonding to be more difficult in the coming year and just 3% expect obtaining bonding to be easier, down from 10% last year.

If your company is facing new difficulties finding financing in this challenging environment Marcum has the network, tools and talent to find solutions.

## EXPENSES

As you'll see in the figures, many companies have a renewed focus on cutting costs, and while the supply chain agony of the past few years is subsiding, overall costs remain a challenge. Once again, 60% of respondents said general and administrative (G&A) overhead expenses were higher than the past year, and 43% expect the coming year to be higher still. That's down from 55% last year, as preparing for a recession is on many companies' agendas.

## TAXES

Taxes were cited as the third-most important political issue facing companies, behind only material price volatility and healthcare costs. Yet when asked if they have explored the Research and Development tax credit, only 26% are leveraging it and 58% are not while 16% are aware of it but do not plan to use it. While this credit doesn't work for everybody, these numbers suggest some lost opportunities. This benefit is indeed getting more challenging to use, but working with a tax expert can help you get smarter about your overall tax approach. Be sure to tap expert knowledge to reduce your tax burden, whether through the tax credit or otherwise.

**55%** Concerned about delayed or canceled projects due to inflation.

**26%** Saw a decrease in their ability to obtain financing – twice as many compared to 2022.

**43%** Expect higher general and administrative (G&A) overhead expenses in 2023, down 12% from last year.

**26%** Leveraging Research and Development tax credit.

"Those higher [interest] rates are pinching construction companies in many ways, not least of which is obtaining financing.

## Do you feel over the past year your ability to obtain financing has:

# Construction Companies Face Challenges

By **ANIRBAN BASU,**
Chief Construction Economist

This year's survey supplied a mix of optimism and pessimism – often from the same respondents – and that makes a lot of sense. For many construction companies, it is the best and worst of times. There are plenty of reasons to feel good today, but many worrying trends point to a more challenging future.

On the plus side, backlog is healthy, with work remaining plentiful in many construction verticals. Causes for concern are significant, with some familiar woes being joined by new ones in 2023. The years-old issues of high input costs and challenges finding skilled labor persist, with the survey indicating that labor and skills shortages are even more of a problem today. And while inflation is abating, thanks in part to shifting Federal Reserve monetary policy, those same policy actions have raised the cost of capital and therefore contribute to a throttling back of projects in certain verticals, particularly those in which demand is driven by private developers.

## STORM CLOUDS ON THE HORIZON

Higher interest rates represent just one among a set of factors that may further dampen economic activity. Roughly $1.5 trillion of U.S. commercial real estate debt will be due for repayment before the end of 2025. This could easily exacerbate the banking woes we've already seen with the collapse of multiple banks in the spring of 2023. We are also seeing considerable pessimism among corporate leaders, who are already conserving cash, making new construction less likely on the corporate side. Large-scale layoffs have begun in some industries, exacerbating the pressure on the consumer side, where we see spending slowing and credit card debt rising. Add it all to an inverted yield curve and a bunch of other weak macroeconomic signs. It all points to an increasing likelihood of recession.

## A BIFURCATED MARKET

But it's not all bad news, especially if you are doing construction in the certain categories. Simply put, this period is fraught with risk, but the risks are more pointed depending on the end markets a construction company serves.

While contractors have been busy up to now regardless of the sector in which they work, we will likely see more disparate performance as certain sectors like commercial real estate, retail and residential construction may slow significantly if not fall off a cliff. While the office market is obviously struggling in our new work-from-home world, healthcare continues to evolve and require new buildings to facilitate its transformation. And though private capital is drying up as interest rates rise, halting some projects midstream and cancelling others, public money is flowing thanks to the federal infrastructure bill and other government projects.

## BALANCING ACT

Keeping up with your current backlog while trying to conserve cash for a pending downturn is tricky at best. Staff and equipment are painfully expensive as it is, and avoiding downtime in the future is critical for keeping a balance sheet strong. Workers are expensive, costs of basic supplies like concrete keep climbing and equipment is always costly. To complete jobs today, you need a massive cost structure, yet taking on cost based on future needs is risky.

## PREPARING FOR CHANGE

This challenge of meeting current needs while preparing for various future scenarios is incredibly complex, but there are some steps to take to reduce risk. Here are a few:

- Relentlessly focus on costs in ways large and small. Delaying the purchase of a costly piece of equipment may seem obvious but using your enterprise resource planning (ERP) system to its full potential may not. Examine all the ways you can drive out costs without damaging your ability to meet customers' needs.
- Your end market will matter a lot in the next several years, so if you're over-relying on a sector that's slowing or heading for that proverbial cliff, act now. Consider pivoting to another end market. Develop your marketing, build your portfolio and deepen your experience in growth sectors. It won't happen easily or quickly, but there could be a long drought ahead for certain sectors so get started now.
- Consider a joint venture in a growth area. Yes, the margins are often worse, but it will allow you to add verticals, build relationships and gain experience that will pay off down the road. And while joint ventures can be difficult to initiate, negotiate and successfully pull off, a third-party expert like Marcum can help connect you with the right partner and ensure the deal is fair.

## PLENTY OF OPPORTUNITY

Thanks to manufacturing-related megaprojects tied to onshoring the production of computer chips, clean energy, data centers and other nonresidential buildings coupled with a lot of public spending, some construction companies have a lot less to worry about. These are ongoing initiatives that tie back to the trade wars during the Trump administration and have gained steam as companies move out of China amid fears about intellectual property or instability. Biden-era legislation tied to domesticating more of the supply chain and focusing on alternative energy has further fueled a construction boom.

As the office market stagnates, the opportunity for adaptive reuse is rising as well. The looming commercial real estate debt crisis is likely to speed this trend along, as defaults shift ownership and more office buildings become residential.

## LOOKING AHEAD

Today's issue is finding workers, and tomorrow's issue could be finding work. Softening the blow of any downturn will involve preparing as well as you can. And even if a recession hits, remember that they do not last forever. Moreover, while economic growth drives construction, most construction is really in response to economic transformation. The good news is that we are entering a period of incredible transformation right now. The healthcare revolution, alternative energy, onshoring, housing needs and the opportunity for reusing offices are all strong growth areas. Whatever the future holds, we'll have to build for it.

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## What do you see as the biggest threat to your business over the next 12 months ?

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# Skilled Labor Woes Persist

Despite a cooling economy, construction companies continue to struggle to find and retain talented employees. This issue ranges from a serious annoyance for some construction companies to a genuine crisis for others, with many saying it has cost them jobs or forced them to skip bids.

"Finding skilled labor and [the] general labor shortage has completely stymied any growth and expansion," said one respondent.

Echoing the frustrations of dozens of respondents, another business owner said, "Growth opportunities currently exist if we can get enough labor to go after the opportunities."

Many respondents also expressed concern and frustration that the skilled workforce was aging out of their roles, with fewer young people possessing the interest and aptitude to take on the jobs and fill in behind them. We have seen skilled labor shortage and costs as a major issue for years now, but there were some notable increases in certain metrics this year, including:

- 39% of respondents cited securing skilled labor as their biggest threat in the coming year, up 12% from 2022
- Those seeing labor costs as the biggest threat doubled to 14% from prior year; and
- Pay bumps were slightly higher overall compared to our 2022 survey where increases exceeded above average norms

**39%** Cited securing skilled labor as their biggest threat in 2023, up 12% from last year.

**14%** 14% ranked labor costs as their biggest threat.

**9%** Are considering a joint venture to address labor shortages.

"Growth opportunities currently exist if we can get enough labor to go after the opportunities.

– SURVEY RESPONDENT

For some tips and tricks on overcoming the persistent problem of finding skilled labor – including those that go beyond the usual approaches of higher pay and more training – see the sidebar article from Joseph Natarelli, Marcum National Construction Services Leader. It offers some clever ways to meet labor demands and keep your business growing. A consultant like Marcum can also provide assistance across the human resources spectrum, including consulting, training, onboarding and recruiting.

A joint venture can serve as a bridge that solves problems with financing, supplies and other challenges, but few companies see them as a tool for managing labor shortages, with only 9% deploying them for that purpose this year, down from 27% last year. Large projects are still attracting joint ventures but the overall number is declining, possibly because of the stress and difficulty in making arrangements that work and are fair for both sides. A third party like Marcum can serve as a consultant or advisor to help companies make the right connections and build partnerships that work for all involved.

Given the rate environment, it was not surprising to see a decline in interest in employee stock ownership plans (ESOPs), which generally require considerable financing. However, ESOPs can help with employee recruitment and retention, so construction companies should not dismiss this option out of hand.

# Overcome Labor Shortages Without Over-hiring

By **Joseph Natarelli**
Marcum National Construction Leader

Despite the one-two punch of inflation and high interest rates slowing the economy, most construction companies continue to struggle to find and retain skilled labor.

Supply chain issues are finally behind us, infrastructure spending is still robust and even with significant slowdowns on the commercial side, construction projects are still hampered by labor shortages.

Labor is clearly a problem with staying power, so it's vital to find solutions, even if you expect softness around the corner. A cooling economy can even make it even trickier to meet labor needs because times like this call for prudent spending.

Marcum can help. Meeting labor needs often takes a bit of creative thinking that goes well beyond simply adding to your headcount, incurring the time and expense of training or increasing wages. Here are three options we regularly provide:

## JOINT VENTURES

Teaming up can be a wonderful tool for overcoming labor shortages, but these arrangements require diligence. Remember that these are negotiations, and an expert third party is a vital cog in the process. A good joint venture is often the difference between being able to complete a job and not even being able to bid on it. Many firms are wary of joint ventures, but that's where a trusted advisor comes in. Put simply, joint ventures team up construction companies to complete a project as one entity.

## SUBCONTRACTOR ARRANGEMENTS

Sometimes a joint venture is overkill, and labor needs can be met with subcontractor arrangements. We can connect construction companies with qualified resources, then structure the arrangement for maximum efficacy. On a multimillion-dollar project, there is an art to building arrangements that work for both sides, and we have a long history of consultative success.

Whether choosing a joint venture or subcontractor, Marcum can help connect the biggest and best players in the construction industry while capitalizing on our understanding of each company's strengths and weaknesses.

## PLANNING

Sometimes having adequate labor simply comes down to planning. It's critical for construction companies to build their backlogs correctly to ensure they have both the financing and people available when the project is due to start.

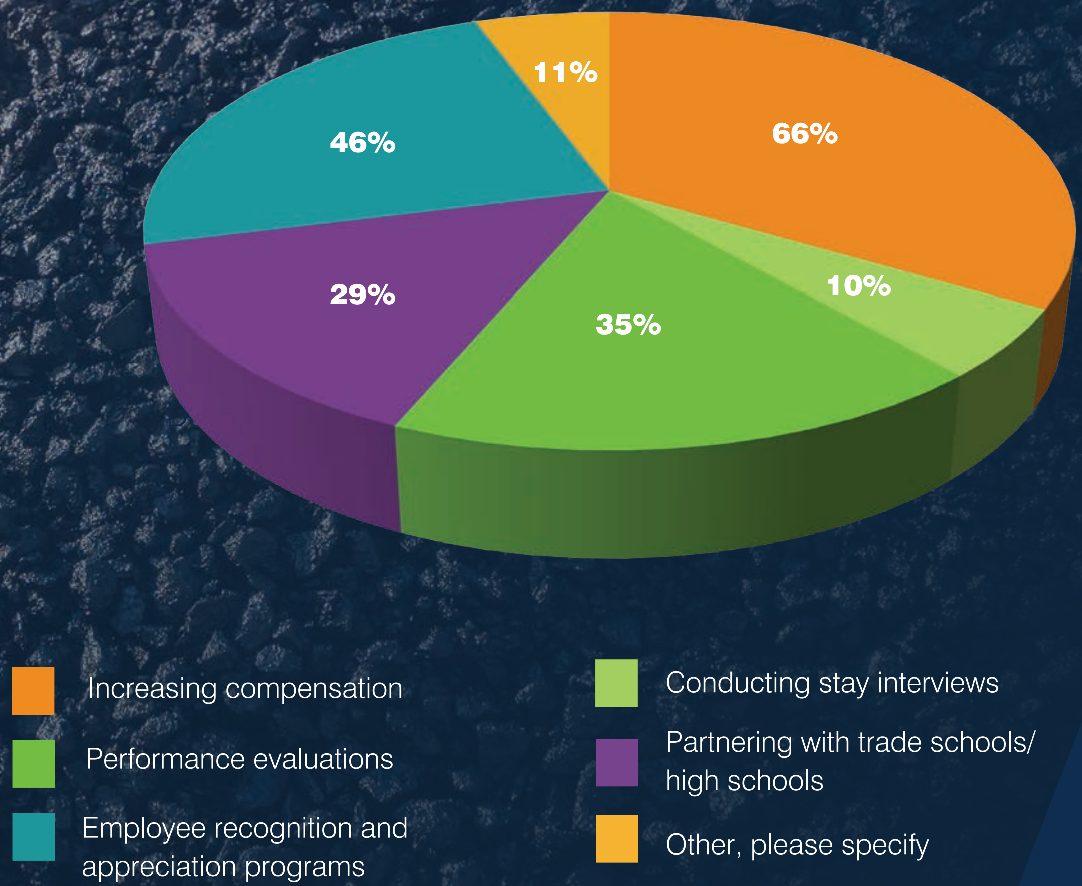
Planning is vital in both good times and bad. No one wants to have a successful bid and then struggle to meet basic needs when the job starts. And it's even worse to have expensive labor idle because of macroeconomic conditions. We all know that high interest rates are killing some projects, and the commercial office space rut seems long-term as hybrid work is here to stay.

The first half of 2023 had no shortage of economic shocks, including bank failures, wild swings in public indices and a near self-inflicted wound with the debt ceiling fight. As you look ahead, build your backlogs very carefully and remember that sometimes the best deal is the one you walk away from. The persistence of the labor issue amid all this uncertainty means that finding creative solutions will have a long-term payoff.

Doing it the smart way will allow you to shore up balance sheets, ensure you're working with the right partners and to be assured that you get paid.

> Meeting labor needs often takes a bit of creative thinking that goes well beyond simply adding to your headcount, incurring the time and expense of training or increasing wages.
>
> **– JOSEPH NATARELLI, MARCUM NATIONAL CONSTRUCTION LEADER**

## What are you doing to address the lack of skilled labor?



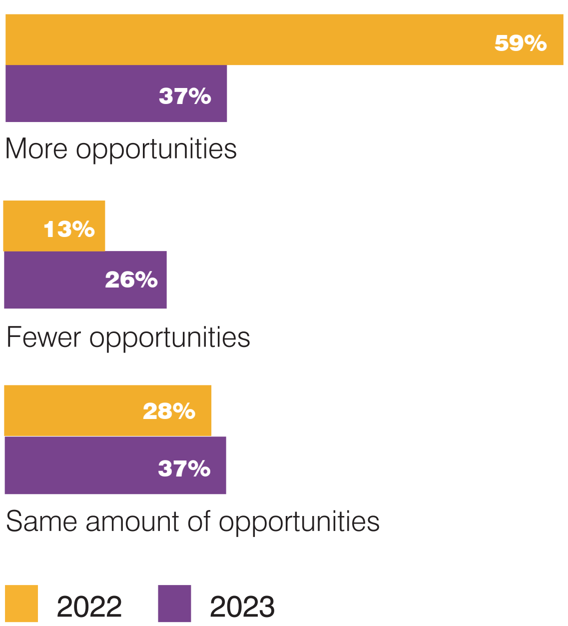
# Pessimism on the Rise

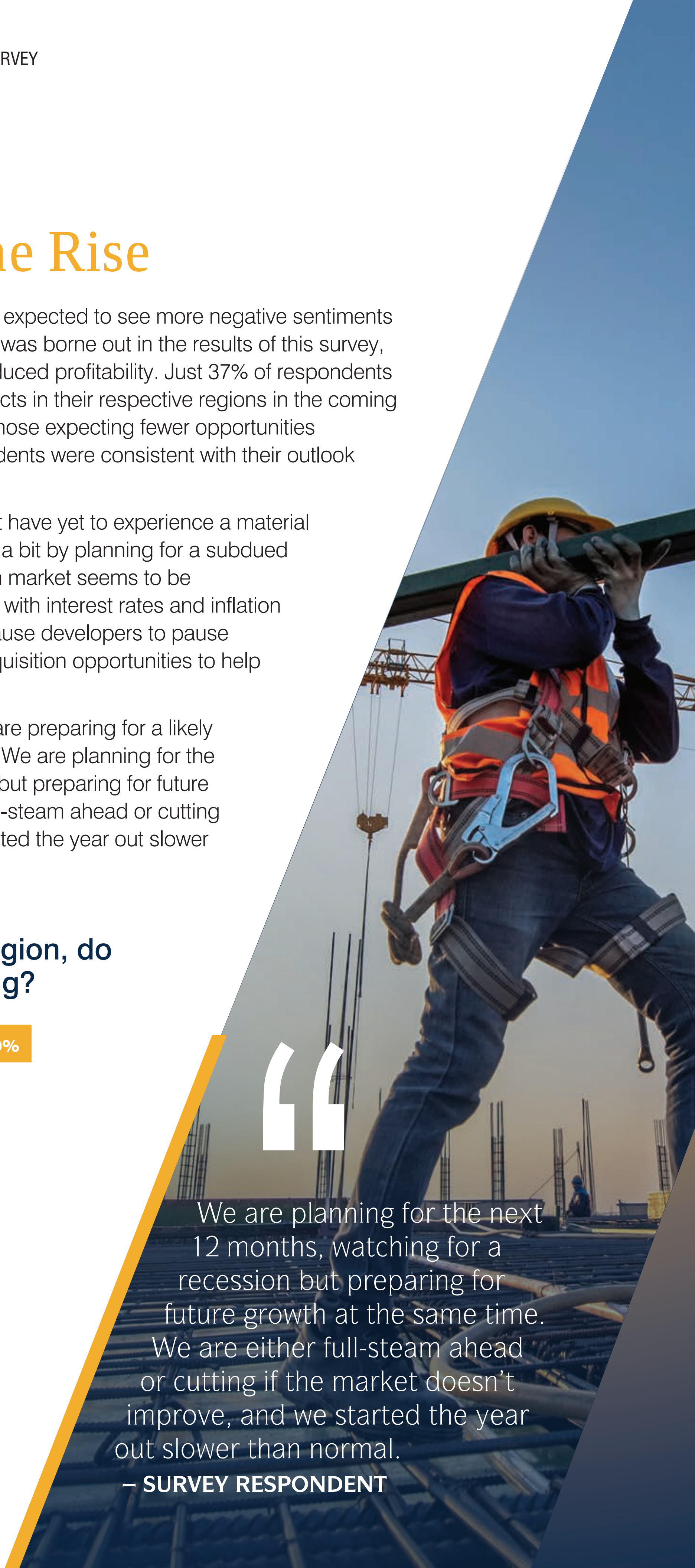
Given the macroeconomic landscape, we expected to see more negative sentiments across the construction industry, and that was borne out in the results of this survey, as respondents cited smaller jobs and reduced profitability. Just 37% of respondents expect to see more opportunities for projects in their respective regions in the coming year, which is down from 59% last year. Those expecting fewer opportunities doubled to 26% this year as well. Respondents were consistent with their outlook for opportunities outside of their regions.

Even those with healthy backlogs and that have yet to experience a material change in demand are hedging their bets a bit by planning for a subdued market, with one noting, "The construction market seems to be waiting for a demonstrable slowdown and with interest rates and inflation we seem on the cusp of that, which will cause developers to pause projects. Therefore, we are looking for acquisition opportunities to help increase breadth and spread risk."

Respondents taking a less-active stance are preparing for a likely change, with another respondent noting, "We are planning for the next 12 months, watching for a recession but preparing for future growth at the same time. We are either full-steam ahead or cutting if the market doesn't improve, and we started the year out slower than normal."

## In the next 3 years in your region, do you see your business having?



"We are planning for the next 12 months, watching for a recession but preparing for future growth at the same time. We are either full-steam ahead or cutting if the market doesn't improve, and we started the year out slower than normal.

**– SURVEY RESPONDENT**

# Preparing for Challenges

The need to be nimble and ready for whatever is next was clear in how leaders of companies are prioritizing needs and anticipating a recession. The highest total ever – 80% – are focused on managing cash flow while 59% are planning around a recession, up from 49% last year.

An emphasis on planning came through in the ranking of top priorities as well, with the largest tallies ever citing planning as among their highest needs (55% citing organizational planning and 61% citing strategic planning).

Other shifts in priorities in this environment include a 10% jump in those cutting costs, up to 47%, while sourcing skilled labor ballooned to 50% – another all-time high. These labor concerns extend beyond the construction industry, as you can see in this JOLT report.

It is pleasing to see more priority placed on planning, and Midwest Construction Leader Roger Gingerich's sidebar article on exit planning is a great primer for the many ways preparing your business for anything can make your business more effective, efficient and, valuable.

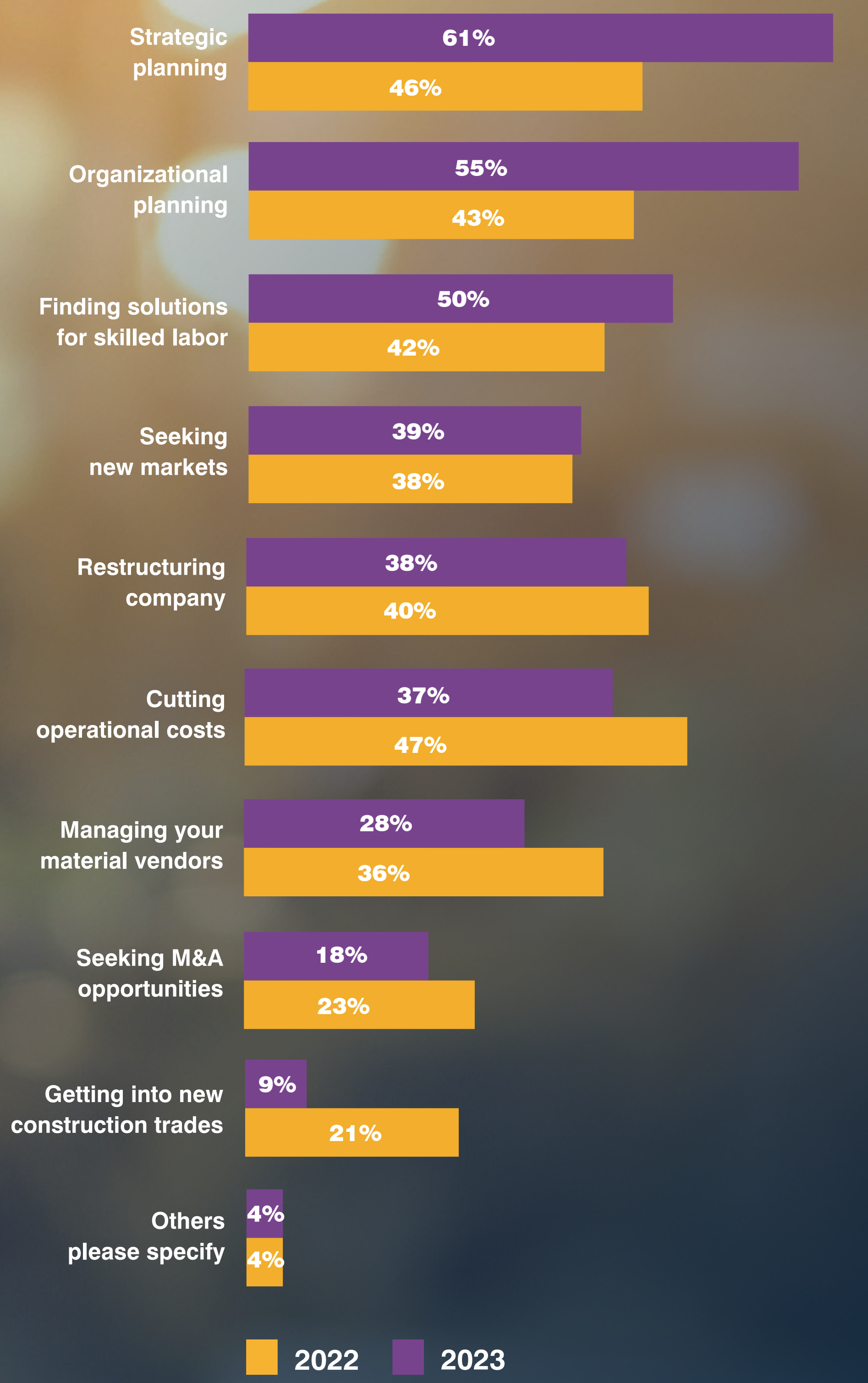
**80%** Are focusing on cash flow management to prepare for a potential recession.

**10%** Increase in recession planning overall.

**10%** Increase in cost cutting.

15% Increase in strategic planning for 2023.

## Which of the following actions are among your company's top priorities?



# It's Never too Early to Build an Exit Strategy

By **ROGER GINGERICH**
Midwest Construction Leader

If you haven't thought about succession planning, you're in good company. Roughly 70% of business owners don't have a plan for moving on from their business.

Whether you're young or old, interested in selling or never planning to retire, a good succession plan is imperative. And building that succession or exit strategy is a process that has numerous benefits, including:

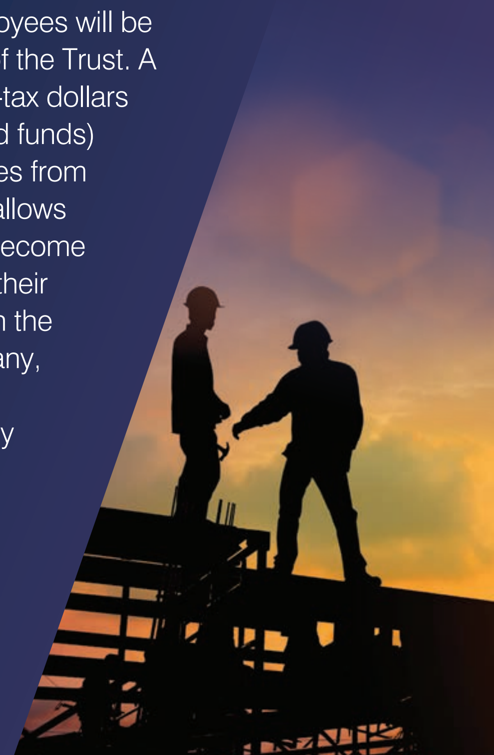
- Helping make your business better and maximizing its value.
- Providing tax advice around structuring your exit to minimize tax liabilities and create an overall tax plan.
- Understanding the market and helping time an exit optimally.
- Knowing all your options.
- Estate planning to help manage your wealth before and after a sale to meet your personal goals.

That first bullet point often surprises business owners, but the key part of building any succession or exit strategy is determining the full and fair value of the company. That valuation process often identifies improvement opportunities that can quickly add value to the company through operational improvements, reducing expenses or capturing new business.

The valuation process also helps you better understand cashflows, as well as risks and how to reduce them through deepening specializations or diversifying. It also helps identify business and financial risks, allowing you to understand risk factors, de-risk, and grow value. These steps help build a better, more valuable enterprise.

One reason business owners often cite for skipping succession planning is that they don't have a true heir apparent, so they simply put it off. This is why it's so important to talk with a Certified Exit Planner, who can explain all your options, which go well beyond turning over the keys to another individual. Here are some choices for gaining liquidity from your business:

- A partial or full sale to a strategic acquirer, such as selling to a competitor or adjacent business.
- Selling to a financial acquirer such as a private equity firm. This often allows you the option to retain a stake in the business (in some cases a majority), providing the benefit of a PE firm's financial and intellectual capital while delivering liquidity up front and more at the end of a successful hold.
- An Employee Stock Ownership Plan (ESOP) creates a trust to purchase the shares from shareholders and the company employees will be beneficial owners of the Trust. A company uses pre-tax dollars (including borrowed funds) to acquire the shares from the owner(s). This allows the employees to become "owners" (through their beneficial interest in the Trust) of the company, as opposed to the sale of the company to an outside buyer/investor. All transactions are more difficult in a high-rate



environment, but an ESOP provides funding alternatives that may overcome the hurdle of high-cost third-party financing. A dedicated ESOP expert can explain the upsides of this exit alternative and can help you understand the pros and cons of this option.

- Selling the company to family member(s) or others, including an existing management team, is a well-worn path, but your succession plan will help you determine if those people are ready, willing, and, most importantly, capable of continuing to build your business in your absence. You will also understand if such members can afford a shareholder buyout or if a tax-advantaged option (such as an ESOP) can provide shares to management and/or family members while providing the selling shareholder an exit that allows him/her to monetize the sale of shares at fair-market value.
- Gifting all or part of the company to family members. This helps keep the legacy of a business going, can help set heirs up for success, and can be combined with selling a portion simultaneously. Gifting to family means you can take advantage of permissible valuation tax discounts. There are clear and sometimes complex IRS rules regarding gifting, so be sure to work with tax experts to both maximize benefits and avoid the wrath of the IRS.

It's understandable that a busy business owner would put off succession planning. Retirement might be decades away, you may be unsure of what you want to do, or may think it's a lot of work for no immediate benefit. But being ready for succession is not about putting one foot out the door – it's about setting your company and yourself up to succeed and deliver the best possible valuation. Besides, you never know when someone will call with an interest in your company. Taking the right steps with respect to succession planning means you'll always know the value of your company and be ready to make a fully informed decision. Getting started is as simple as contacting a Certified Exit Planner, who will likely build a readiness assessment on your company with a simple questionnaire.

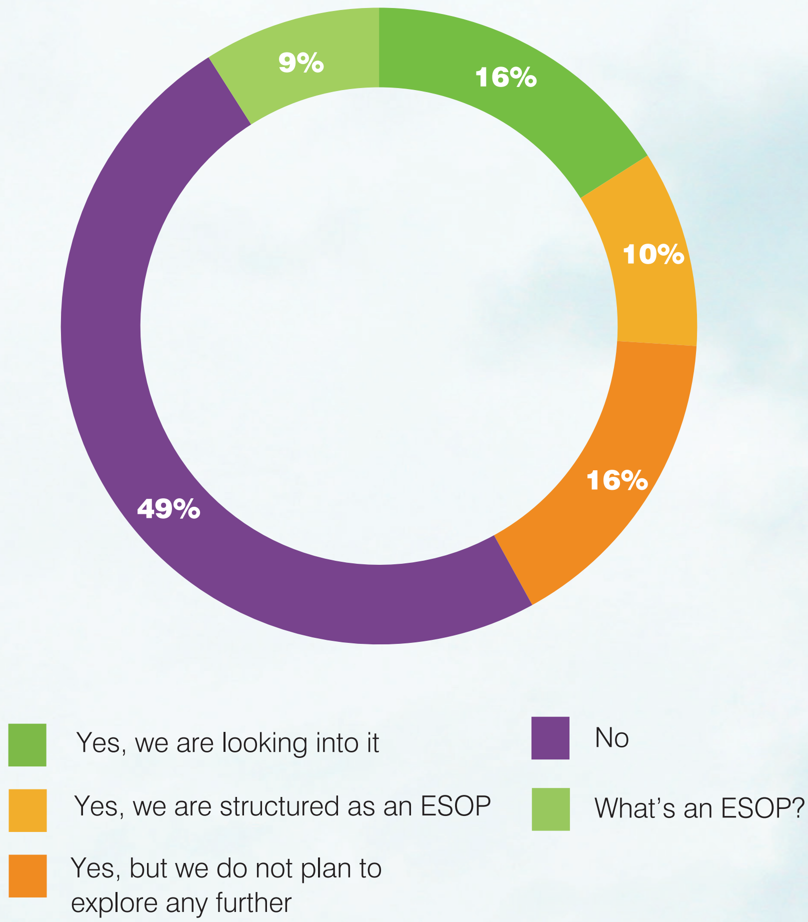
Whether you choose to work with the deeply experienced team at Marcum or not, you start the process and do so with expert guidance. And remember that succession planning is an ongoing process, and the sooner you begin, the better off you and your business will be. For a deeper dive into how the process works and why it delivers so much value and peace of mind, check out our Five Stages of Value Maturity E-Book.

Circumstances, businesses, goals and even taxes change all the time, so keeping a succession plan up to date is incredibly important. Reach out to Marcum to get started or to improve your existing succession plan.

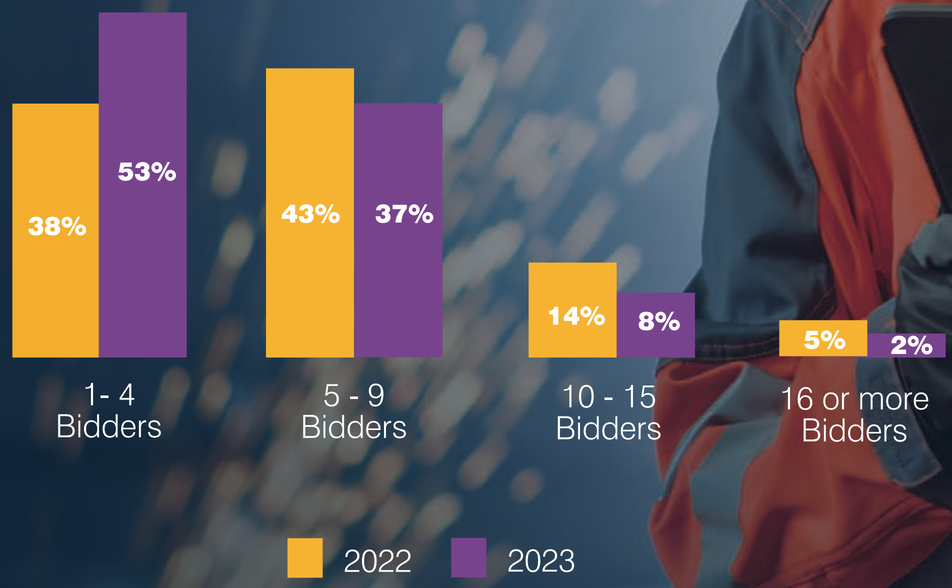
**70%** Of business owners don't have a plan for moving on from their business

> All transactions are more difficult in a high-rate environment, but an ESOP provides funding alternatives that may overcome the hurdle of high-cost third-party financing.
>
> **– ROGER GINGERICH, MIDWEST CONSTRUCTION LEADER**

## Have you explored ESOPs?



## What is the average number of bidders that you are competing against?



"Many are taking fewer risks and being more selective when bidding on projects, as evidenced by a clear reduction in the number of job bidders for projects repsondents bid on.

# Plenty of Silver Linings

Though there is a lot of turmoil in the markets and some ominous signs ahead, the construction industry is still riding a historically strong wave, and perhaps the best illustration of that is in backlogs, which are declining but remain very healthy overall. The amount of work out there is evident in how respondents viewed their backlog situation. While 23% expected lower backlogs in 2022, that increased to just 32% this year. And those expecting a higher backlog fell from 48% last year to a still robust 41% this year.

Balance sheets are still healthy and most contractors are sticking to their knitting and not feeling compelled to chase after contracts. Many are taking fewer risks and being more selective when bidding on projects, as evidenced by a clear reduction in the number of competing bidders on projects respondents bid on.

Finally, though they are not fully resolved, the issues of material shortages and supply chain problems are drastically improved from the prior few years. So, while worries persist, what's happening right now has yet to cause significant reductions in the quality or quantity of work available.

You can learn more about this mixed bag of threats and opportunities in the first quarter Marcum Commercial Construction Index report.

We hope you've gained some new insights with this look into how construction industry leaders like you are preparing for the future.

**9%** Increase in lower backlog expectations for 2023.

**7%** Decrease in higher backlog expectations for 2023.

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# Survey Results

### Please classify the type of construction work that you perform. (Select all that apply)

| | |
|---|---|
| General contractor | 39% |
| Subcontractor | 39% |
| Design/build | 30% |
| Service provider (Banks, insurance, attorney, accountant, etc. | 15% |
| Construction and materials supplier | 10% |
| Other, please specify | 11% |

### Please indicate your company's annual revenue.

| | |
|---|---|
| Under $1 million | 4% |
| $1 million - $50 million | 55% |
| $50 million - $100 million | 17% |
| $100 million - $500 million | 16% |
| $500 million - $1 billion | 4% |
| Over $1 billion | 4% |

### Please indicate the number of employees at your company.

| | |
|---|---|
| 0 - 50 | 38% |
| 50 - 100 | 28% |
| 100 - 500 | 21% |
| 500 - 1,000 | 6% |
| More than 1,000 | 7% |

### Do you use Union or non-Union Labor?

| | |
|---|---|
| Union | 34% |
| Non-Union | 46% |
| Both | 20% |

### In what region of the United States are you located?

| | |
|---|---|
| New England (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut) | 15% |
| Middle Atlantic (New York, New Jersey, Pennsylvania) | 18% |
| East North Central (Ohio, Indiana, Illinois, Michigan, Wisconsin) | 38% |
| West North Central (Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas) | 1% |
| South Atlantic (Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida) | 10% |
| East South Central (Kentucky, Tennessee, Alabama, Mississippi) | 5% |
| West South Central (Arkansas, Louisiana, Oklahoma, Texas) | 4% |
| Mountain (Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada) | 1% |
| Pacific (Washington, Oregon, California, Alaska, Hawaii) | 8% |
| International | 0% |
| Other | 0% |

### At your company, which of the following do you anticipate will result from rising interest rates? (Select all that apply)

| | |
|---|---|
| Delay decision on purchasing equipment | 37% |
| Delay or cancellation of projects | 50% |
| Exploring alternative financing options | 35% |
| Exploring joint venture opportunities | 11% |
| Challenges passing additional costs onto customers | 53% |
| Pull back on overhead spending | 42% |
| Less projects to build | 42% |

### At your company, which of the following do you anticipate will result from increased inflation? (Select all that apply)

| | |
|---|---|
| Delay decision on purchasing equipment | 34% |
| Delay or cancellation of projects | 55% |
| Exploring alternative financing options | 27% |
| Exploring joint venture opportunities | 11% |
| Challenges passing additional costs onto customers | 59% |
| Pull back on overhead spending | 43% |
| Less projects to bid | 41% |

### Do you feel that over the past year the ability to obtain financing has:

| | |
|---|---|
| Decreased | 26% |
| Stayed about the same | 70% |
| Increased | 4% |

### What is the current outlook on your bonding capacity?

| | |
|---|---|
| It will be significantly more difficult to obtain bonding | 6% |
| It will be somewhat more difficult to obtain bonding | 20% |
| It will be neither more nor less difficult to obtain bonding | 71% |
| It will be somewhat less difficult to obtain bonding | 2% |
| It will be significantly less difficult to obtain bonding | 1% |

### For contractors, which of the agreements below do your owners sign personally?

| | |
|---|---|
| Personal indemnity agreement with the surety | 13% |
| Personal guarantee agreement with bank | 20% |
| Both surety and bank personal guarantee agreements | 42% |
| Owners do not sign personally on either agreement | 25% |

### In the next 3 years in your region, do you see your business having:

| | |
|---|---|
| More opportunities | 37% |
| Fewer opportunities | 26% |
| Same amount of opportunities | 37% |

### In the next 3 years outside of your region, do you see your business having:

| | |
|---|---|
| More opportunities outside my region | 33% |
| Fewer opportunities outside my region | 25% |
| Same amount of opportunities | 42% |

### Which of the following actions are among your company's top priorities? (Select all that apply)

| | |
|---|---|
| Cutting operational costs | 47% |
| Getting into new construction trades | 9% |
| Organizational planning | 55% |
| Managing your material vendors | 28% |
| Restructuring company to position for growth | 38% |
| Seeking M&A opportunities | 18% |
| Seeking new markets | 39% |
| Strategic planning | 61% |
| Finding solutions for skilled labor | 50% |
| Other (please specify) | 4% |

### Over the past 12 months has the average size job that you bid on:

| | |
|---|---|
| Increased | 46% |
| Decreased | 20% |
| Stayed the same | 34% |

### In the past year, which of the following have caused job delays or cancellations for your company?

| | |
|---|---|
| Material shortages | 22% |
| Labor shortages | 16% |
| Both material and labor shortages | 51% |
| We did not have delays or cancellations | 11% |

### What is the average number of bidders that you are competing against?

| | |
|---|---|
| 1 - 4 bidders | 53% |
| 5 - 9 bidders | 37% |
| 10 -15 bidders | 8% |
| 16 or more bidders | 2% |

### What do you see as the biggest threat to your business over the next 12 months?

| | |
|---|---|
| Banking (tightened credit) | 10% |
| Increased difficulty in securing bonding | 1% |
| Labor costs | 14% |
| Securing skilled labor | 39% |
| Lack of work | 12% |
| Material costs | 8% |
| Unfunded pension liability | 1% |
| The current political climate | 11% |
| COVID-19 | 1% |
| Other, please list | 3% |

### Over the past 12 months, what percentage, on average, have you increased the pay for your skilled labor force?

| | |
|---|---|
| We have not increased pay | 7% |
| 1-3% | 21% |
| 4-5% | 34% |
| 6-8% | 23% |
| >8% | 15% |

### What are you doing to address the lack of skilled labor?

| | |
|---|---|
| Increasing compensation | 66% |
| Conducting stay interviews | 10% |
| Performance evaluations | 35% |
| Partnering with trade schools/high schools | 29% |
| Employee recognition and appreciation programs | 46% |
| Others, please specify | 11% |

### What political issues will most impact your business in 2023? Please rank 1-9 with 1 the most impact and 9 the least impact.

| | |
|---|---|
| Material price volatility | 1st |
| Healthcare Reform and Insurance rates (Health, liability, etc.) | 2nd |
| Income tax rates | 3rd |

| | |
|---|---|
| Worker's compensation | 4th |
| Minority Business Enterprise (MBE), Women Business Enterprise (WBE) contract requirements | 5th |
| Availability of credit | 6th |
| Union issues | 7th |
| Environmental regulation | 8th |
| Sustainability/energy efficient initiatives | 9th |

### Do you expect your construction backlog at the beginning of 2023 to be:

| | |
|---|---|
| Lower than the beginning of 2022 by more than 15% | 19% |
| Lower than the beginning of 2022 by less than 15% | 13% |
| About the same as the beginning of 2022 | 27% |
| Higher than the beginning of 2022 but by less than 15% | 24% |
| Higher than the beginning of 2022 by more than 15% | 17% |

### Have you explored ESOPs?

| | |
|---|---|
| Yes, we are looking into it | 16% |
| Yes, we are structured as an ESOP | 10% |
| Yes, but we do not plan to explore any further | 16% |
| No | 49% |
| What's an ESOP? | 9% |

### Have you explored the Research and Development tax credit?

| | |
|---|---|
| Yes, we are looking into it | 26% |
| Yes, but we do not plan to take advantage of the credit | 16% |
| No | 58% |

### Over the past year, your company's general and administrative overhead expenditures have:

| | |
|---|---|
| Decreased | 8% |
| Stayed about the same | 32% |
| Increased | 60% |

### In the future (next 12 months), your company's budget for general and administrative overhead expenditures will:

| | |
|---|---|
| Increased | 43% |
| Stayed about the same | 40% |
| Decreased | 17% |

### What actions are you taking to prepare for a potential recession? (Select all that apply)

| | |
|---|---|
| Planning | 59% |
| Managing cash flow | 80% |
| Managing capital | 56% |
| Attending to clients | 53% |
| Attending to staff | 46% |
| Focusing on sales and marketing | 52% |
| Utilizing a dashboard to track early warning indicators | 18% |
| We are not preparing | 4% |
| Other (please specify) | 3% |

### If you are considering a joint venture, why are you considering it? (Select all that apply)

| | |
|---|---|
| We are not considering a joint venture | 30% |
| To address labor shortages | 9% |
| To address supply chain issues | 9% |
| To enter new geographical markets and/or/trades/skills | 11% |
| To offset financing and working capital resource limitations | 11% |
| To combat rising interest rates | 2% |

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