INDUSTRIALS

2024 Building & Infrastructure Dinner Recap: Navigating the Crosswinds of Interest Rates, Demographics, Housing Undersupply and Remodeling Trends

L.E.K. Consulting and Lincoln International recently co-hosted the 16th annual Building & Infrastructure event in New York City. More than 150 construction industry-focused executives and investors gathered in person to attend this exclusive, invitation-only event.

The event included a cocktail networking reception and featured remarks from Lucas Pain, Managing Director and Co-Head of L.E.K.'s Building & Construction practice; Jeff Corum, Managing Director at Lincoln International; and the keynote speaker, John Burns, CEO of John Burns Research & Consulting.

The evening's discussions began with a reflection on the past five years in the building products industry and transitioned to painting a nuanced picture of the trends shaping the market as we look ahead to 2025. Below, we dive into the key forces driving both opportunities and risks.

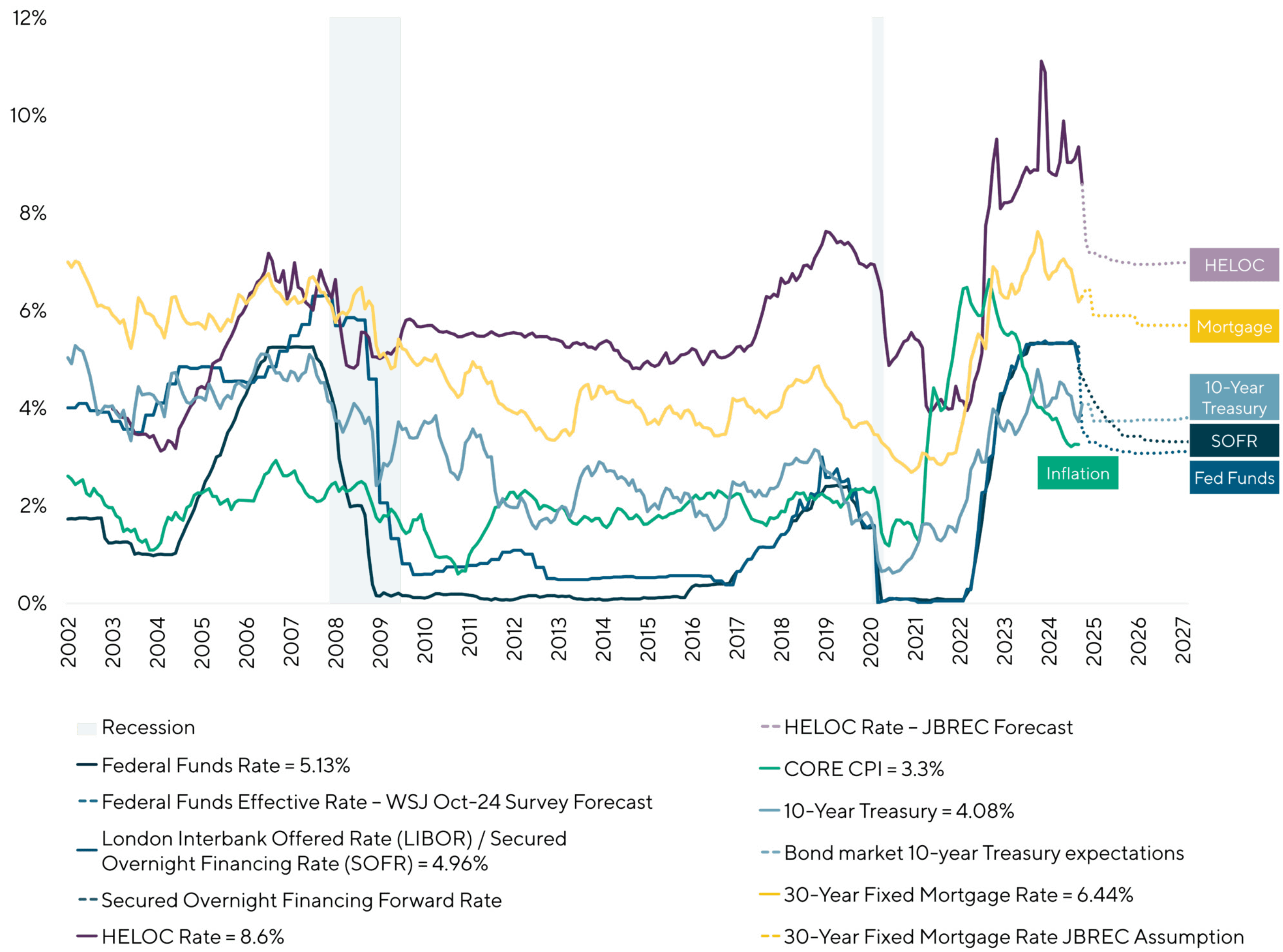
(continued on next page)

1

The Interest Rate Cascade: Reshaping Housing Demand and Investment Decisions

Rising interest rates have benefited home builders and remodelers while creating challenges for apartment developers and first-time home buyers. With 76% of homeowners locked into fixed mortgage rates below 5%, many are choosing to stay put, limiting housing turnover. This "lock-in" effect, combined with expectations for declining HELOC and mortgage rates, is expected to boost remodeling activity and multifamily development, with a modest lift for home sales.

Interest Rates Since 2002



** LIBOR/SOFR data from January 2017 through March 2018 is unavailable due to the transition from LIBOR to SOFR and the gradual implementation of SOFR in financial markets. This chart reflects the Fed Funds rate for this period, which SOFR typically tracks closely.*

***Core CPI excludes goods with high price volatility, such as food and energy.*

**** HELOC Rate, Federal Funds Rate, LIBOR/SOFR, and 30-Year Fixed Mortgage Rate data are shown as monthly averages.*

Sources: Freddie Mac; Bloomberg; Federal Reserve Bank of New York; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics; Survey of Consumer Expectations, © 2013-2024 Federal Reserve Bank of New York; Wall Street Journal; John Burns Research and Consulting, LLC (Pub: Oct-24)

(continued on next page)

2

The Demographic Shift: How Immigration and Generational Wealth Transfer Are Redefining Housing Demand

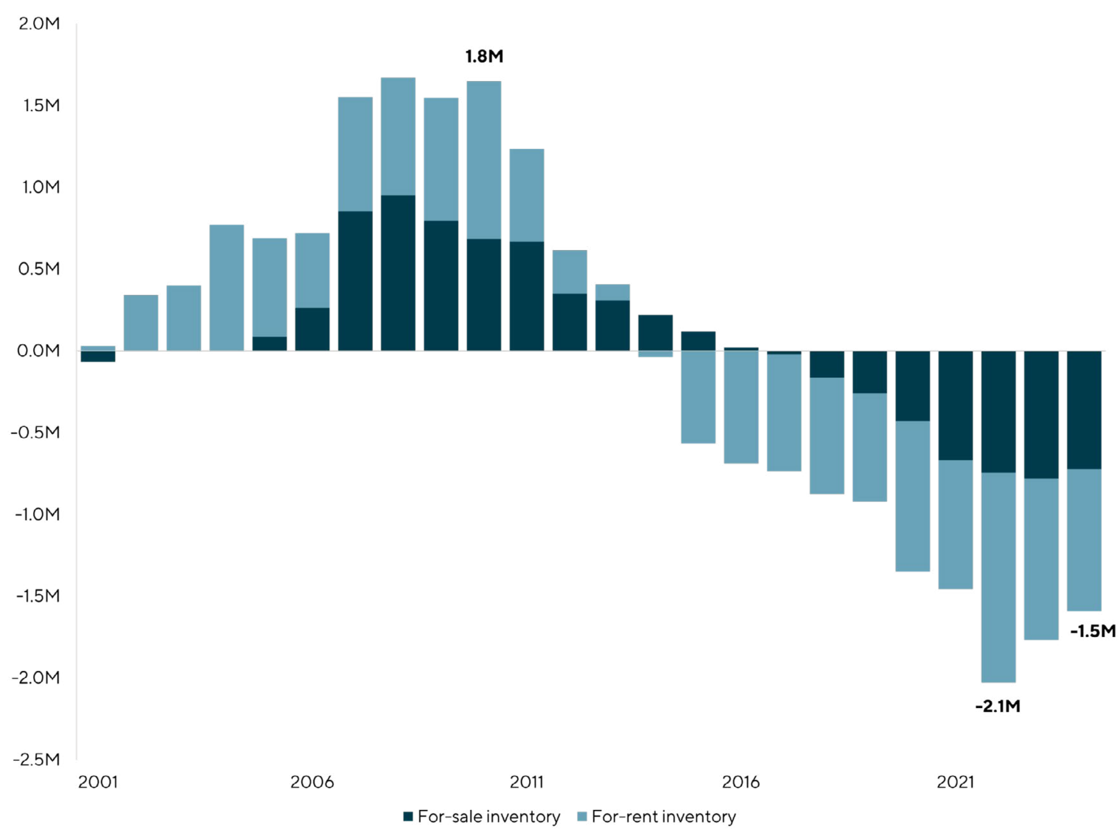
Immigration has boosted housing demand, expanded the construction labor force and led to the formation of 700K additional households over the past three years, most of which entered the rental market. Meanwhile, intergenerational wealth transfers are enabling younger buyers, particularly in higher-income brackets, to overcome affordability challenges. Together, these trends are creating notable opportunities in both rental and entry-level housing markets.

3

The Undersupply Challenge: Bridging the Gap in an Imbalanced Market

The housing market remains structurally undersupplied, with an estimated need for 1.5M additional vacant units to achieve balance – 630K for sale and 830K for rent. The persistent shortage has been driven by limited availability of developable land, rising material costs and labor constraints, all of which slow the pace of new construction. As a result, homebuilders are capturing a growing share of the for-sale market, while tight rental inventories are driving up occupancy rates and rents. Addressing this supply-demand gap presents challenges and significant opportunities for homebuilders and companies across the new construction ecosystem.

U.S. Housing Oversupply / Undersupply



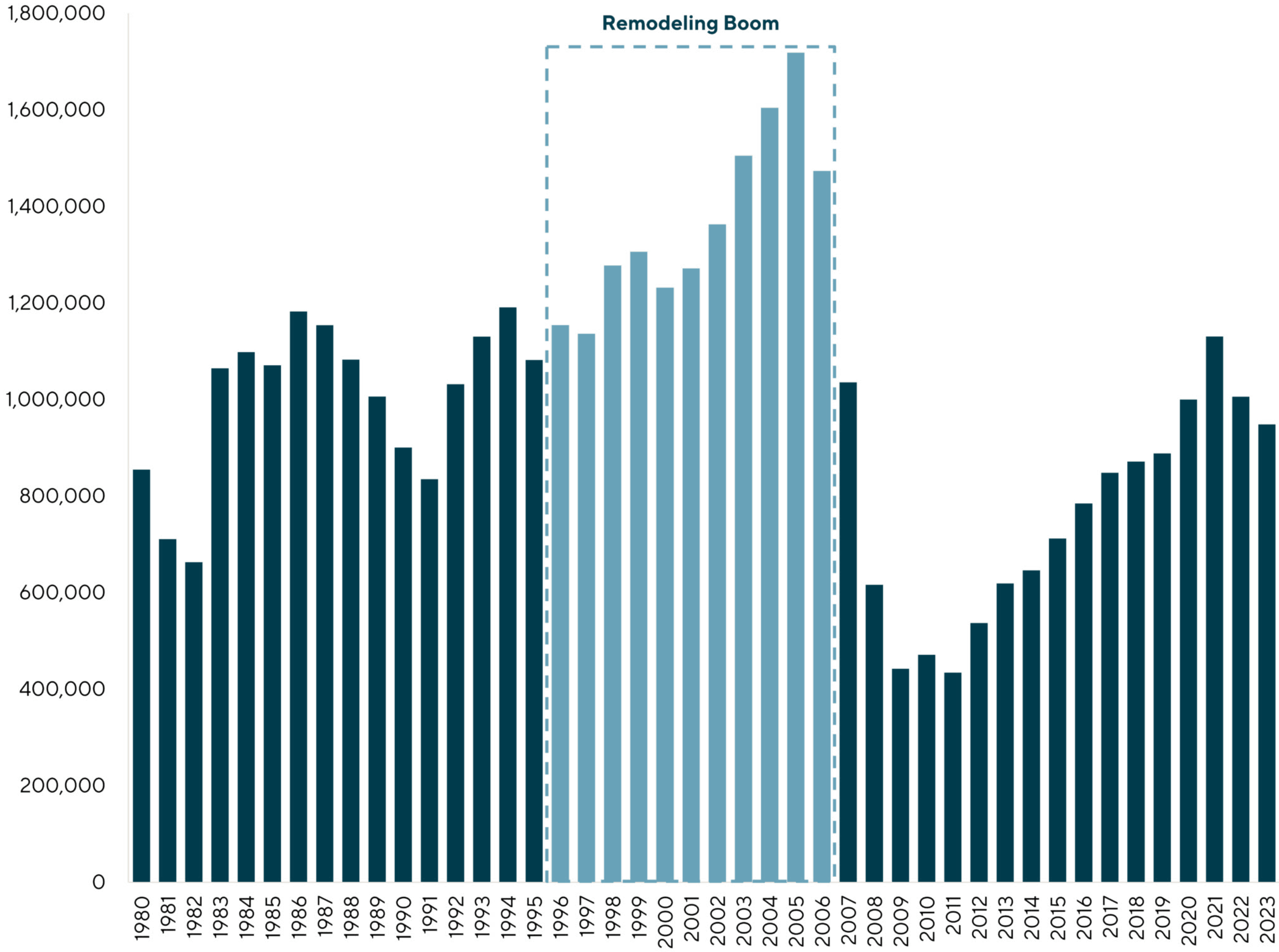
(continued on next page)

4

Adapting to Change: Navigating the Remodeling Market's New Reality

The remodeling market, which surged during the pandemic period of 2020-2022 by pulling forward future demand, has now overcorrected. Elevated material costs, high HELOC rates and ongoing affordability challenges have tempered activity, leaving many remodelers facing slower growth. However, near-record homeowner equity levels and aging homes entering their prime remodeling years (20-30 years old) serve as a silver lining, providing "dry powder" and pent-up demand for future remodeling investments. This shifting landscape underscores the importance of aligning strategies with evolving consumer needs and market conditions.

Single Family Completions



Sources: John Burns Research and Consulting, LLC, tabulations of US Census Bureau Housing Vacancies and Homeownership Survey (Data: 1Q24, Pub: Jun-24)

(continued on next page)

5

Navigating 2025: Growth Prospects Amid Shifting Market Conditions

The outlook for 2025 signals a return to growth across key segments of the construction market. Repair and remodel (R&R) activity is projected to grow ~4% in 2025, following a 2% decline in 2024. Single-family starts are expected to increase ~6% to ~1,020K units, though high mortgage rates above 6% could pose downside risk. Multifamily starts, which declined ~28% in 2024, are forecasted to increase 9% to 370K units. Collectively, these trends position 2025 as a year of renewed momentum and cautious optimism for the industry.

As the building products industry adapts to shifting economic conditions, the themes outlined above highlight both the obstacles and opportunities ahead. With projected growth across segments of the industry, 2025 presents a promising outlook for industry participants to capitalize on, adapt to changing market dynamics and build for the future.

For other perspectives, visit us at www.lincolninternational.com/perspectives.

Get to know Lincoln's building products team at www.lincolninternational.com/whoweserve/building-products/