

Region 3: Jeff Brown, Brinker Brown Fastener & Supply, Fort Myers, FL: The Southeast region has experienced steady growth in nearly every sector over the past 12 months. The Southeast, as well as the entirety of the country, is currently at its lowest unemployment rate since 2001. Florida and Georgia are tied for 3rd in the country for total GDP growth and are continuing to add jobs at a high rate. While revenue is up for most distributors, margins are under attack due to online pressure from Amazon.com. It is not uncommon to have customers come into showrooms expecting distributors to match prices from the online retail giant. Amazon is continuing their expansion of distribution centers throughout the United States. In the Southeast alone, Amazon has opened, or is planning on opening, distribution centers in Miami, FL (800,000 sq. ft.), Jefferson, GA (850,000 sq. ft.), and Jacksonville, FL (1,000,000 sq. ft.).

The region has a severe lack of qualified workers in the construction industry which is impeding growth. Both distributors and construction companies are investing in internal development programs to maintain talent.

Residential projects are increasing starts at a high rate. There is a boom in the demand for multi-family homes as 48% of the net migration in the United States is to the Southeast. Unfortunately, high commodity costs are attributing to a large increase for the prices of these multi-family assets. In total, there has been a 4.4% YOY increase in all materials used for construction. Steel PPI is up 17% YOY, cement PPI is up 3.7% YOY, lumber is up 6.4% YOY, and diesel is up 33% YOY. Perhaps most disconcerting among these commodities is the increase in lumber prices. New retroactive tariffs on Canadian softwood lumber have been proposed that would further increase prices, upwards of 20%, leading to a potential stagnation of growth in multi-family construction. Furthermore, banks have been weary to loan to multi-family projects due to increases in regulatory capital requirements.

Capital requirements have also affected commercial starts. Despite these increased requirements, commercial projects continue to be on the rise, especially in markets like Atlanta, Tampa, and Orlando. These markets have the largest amounts of new retail development in the country. Growth in the college educated workforce in the South, namely in cities like Charlotte, Tampa, and Nashville, has led to a boom in new office construction. Nashville accounted for a third of all office space construction in the Southeast over the past two years, with 3.5 million more sq. ft. of new construction projected in the next two years. The new \$430 million Fifth + Broadway 26-story tower project in Nashville broke ground in May with the first phase of construction expected to be completed in 2019. The tower will house office space, retail areas, and residential living spaces. Furthermore, Tampa is currently undergoing a \$534 million renovation of their international airport.

In Miami, a newly proposed mega-mall is in the works that would carry a cost of upwards of \$4 billion (the American Dream Mall in Miami is proposed to be 30% larger than the Mall of America). This mall, should it come to fruition, is a puzzling proposition considering that physical retail spaces are dealing with decreasing revenue as a whole. Businesses that were once considered infallible industry behemoths like Macy's, JC Penny, Kmart, and Sears are beginning retrenchment strategies or even going out of business. Much of this has to do with Amazon, whose stock recently hit an all time high. Miami is experiencing massive growth with more than 10 high-rises currently under construction and over 25

new proposed high-rises. Most of these new skyscrapers consist of luxury condos with a percentage of office space and hotel space.

The massive Toshiba / Westinghouse nuclear power plant projects in Georgia and South Carolina have faced huge obstacles as Westinghouse is reorganizing under Chapter 11 bankruptcy. The projects, which were predicted to have a huge positive impact on the Southeast's construction industry, have resulted in many construction companies unable to pay distributors. Currently, both projects are billions of dollars over budget and years behind schedule. The plants are scheduled to resume construction following the Chapter 11 reorganization.

The industry as a whole has been rampant with consolidation the past several years. Stanley, Black & Decker is growing at an extremely high rate and are now looking to build a 400,000 sq. ft. manufacturing center in North Carolina.

In conversations with distributors throughout the southeast United States, most share an optimistic attitude towards the industry in the region. Expect strong growth within the region through the remainder of 2017.