

CURRENT CIRT INDEX SUMMARY



CIRT SENTIMENT INDEX THIRD QUARTER 2010 EXECUTIVE SUMMARY

Welcome to the “New Normal.” Actually, we may not be there yet, but the phrase “The New Normal” has gained currency faster than the economy. With the CIRT Sentiment Index backsliding to 53.9 this quarter, we are getting a glimpse of a new normal economy that will not be a period of abnormal growth like the old normal. The economic stimulus helped to keep some construction markets from falling into an even deeper recession, but it has now about run its course. The plan was that private investors would have started to build, hire and invest again, but it appears that most private investors did not get the memo. Still reeling from the downturn, large corporations and investors are sitting on their cash. If companies are not investing in new buildings, shouldn’t they be upgrading existing buildings? According to 44 percent of our panelists, more owners are looking to make these improvements, and it could mean a boost in contractor backlogs of about 5 percent through next year.

Most of the improvement/alteration projects are for energy efficiency, and some panelists have had the foresight to make organizational changes to address this market. This work will involve smaller projects and will not approach “Old Normal” new construction volumes. The work also requires greater customer service focus, and contractors are realizing that maintaining relationships is more important than ever in a slow-growth economy. When we asked panelists if they have become more service oriented since the recession, many said they have always had that focus. Others are reorganizing to be closer to the customer. Panelists for the CIRT Sentiment Index do not appear to be sitting around waiting for the next party to begin. They are preparing for that economic condition called the New Normal, which predicts slower growth, higher risk and greater uncertainty, in brief, not that normal at all.



CURRENT CIRT SENTIMENT READING Q3-2010

53.9

PREVIOUS READING: 57.8

EXHIBIT 1

CIRT Sentiment Index
Scores Since Inception: Q1, 2009 to Q3, 2010

(Scores above 50 indicate expansion, below 50 indicate contraction)

ABOUT THE CONSTRUCTION INDUSTRY ROUND TABLE (CIRT)

The Construction Industry Round Table (CIRT) is exclusively composed of approximately 100 CEOs from the leading architectural, engineering and construction firms doing business in the United States.

CIRT is the only organization that is uniquely situated as a single voice representing the richly diverse and dynamic design/construction community. First organized in 1987 as the Construction Industry President's Forum, the Forum has since been incorporated as a not-for-profit association with the mission "to be a leading force for positive change in the design/construction industry while helping members improve the overall performance of their individual companies."

The Round Table strives to create one voice to meet the interests and needs of the design/construction community. CIRT supports its members by actively representing the industry on public policy issues, by improving the image and presence of its leading members, and by providing a forum for enhancing and developing strong management approaches through networking and peer interaction.

The Round Table's member CEOs serve as prime sources of information, news and background on the design/construction industry and its activities. If you are interested in obtaining more information about the Construction Industry Round Table, please call 202-466-6777, or contact us by e-mail at cirt@cirt.org.

CIRT SENTIMENT INDEX

The CIRT Sentiment Index is a quarterly survey of members of the Construction Industry Round Table conducted quarterly by FMI Research, Raleigh, N.C. For press contact or questions about the CIRT Sentiment Index, contact Mark Casso at mcasso@cirt.org and/or Phil Warner, research consultant with FMI Corporation, at pwarner@fminet.com or call 919-785-9357.

CONFIDENTIALITY

*All individual responses to this survey will be confidential and shared outside of FMI only in the aggregate.
All names of individuals responding to this survey will remain confidential to FMI.*

CIRT Sentiment Index Third Quarter 2010 Highlights

- **Overall Economy:** While still in positive territory at 52.7, the steep drop from 69.2 last quarter shows an abrupt change in panelists' optimism for the overall economy. There is a sense here that the government's stimulus has run its course, but the private sector has not picked up where the stimulus left off.
- **Overall Economy Where Panelists Do Business:** The score of 54.4 this quarter compared with 61.8 last quarter, reflects the trend in the overall economy. This change does not indicate a return of the recession, but it does indicate that we have not gotten all the way out of the hole.
- **Panelists' Construction Business:** There was a significant improvement this quarter from 51.9 last quarter to 59.8, suggesting that most of our panelists were able to take advantage of the improving economy and government projects.
- **Private Sector Construction Business:** The residential construction component was unable to sustain its move into positive territory, falling back to 44.4. There is no significant growth expected for the office/lodging markets for the next three years.
- **Cost of Materials:** The cost of materials for construction continues to rise, but panelists are indicating that this component has improved this quarter to 48.2 from 34.8 last quarter. A rising number indicates that materials costs are trending down, thus considered better for construction. A score above 50 would indicate lower materials costs.
- **Cost of Labor:** Labor costs continue to increase despite there being no sign of significant hiring. This may indicate higher negotiated labor agreements or that firms are trying to do more with fewer people at greater skill levels and/or with more overtime to keep crew sizes down until business improves consistently. The cost of labor component stands at 41.1 this quarter, where a number below 50 indicates higher labor costs.
- **Productivity:** There are still some signs that productivity is improving, but it appears that gains from simply doing more with fewer people are slowing. The challenge for contractors will be how to maintain improvements in productivity when business eventually picks up. The component at 61.8 is declining compared with 64.9 last quarter.
- **Delays and Cancellations:** The rate of delayed projects tracked as a percentage of total projects has not improved since the fourth quarter of 2009. It seems we may be establishing a new "normal" rate for delays and cancellations.
- **Euro Crisis:** The euro came under increasing threat in the second quarter as Greece's economic crisis made headlines. We asked panelists this quarter if the euro crisis had begun to affect their prospects, yet. Only 4 percent said "yes," and some of those contractors had overseas projects. Most said it had not affected their projects or they weren't sure.
- **Improvement/Alterations Projects:** If growth for new nonresidential construction remains sluggish, can we expect owners to invest more in improving or upgrading their properties? According to 44 percent of panelists, interest for this type of work has increased. For those who are experiencing more interest from owners, it is for energy efficiency projects. Panelists expect this service-oriented work to be somewhat more active over the next year or two.
- **State and Municipal Budgets and Public Projects:** As states and municipalities begin more stringent belt-tightening, budgets for construction projects will suffer. With few exceptions, panelists expect sharp declines in state and municipal budgets next year. These budget shortfalls occur as more contractors have begun to enter the market for public construction projects. These markets could be even more competitive if private construction projects remain on hold.

While still in positive territory at 52.7, the steep drop from 69.2 last quarter shows an abrupt change in panelists' optimism for the overall economy. There is a sense here that the government's stimulus has run its course, but the private sector has not picked up where the stimulus left off.

PROJECT CANCELLATIONS AND DELAYS CONTINUE

It seems we may be establishing a new normal for project delays and cancellations. Delays due to owner financing continue to run at 10 percent of backlog compared with the “old normal” rate of 5 percent, and cancellations remain at 5 percent compared with an expected rate of 2 to 3 percent. For large projects that could take a year or several years to build, owners and banks are looking at a financing horizon that is difficult to predict in turbulent markets.

EXHIBIT 2 Delays and Cancellations							
	Q1, 2009	Q2, 2009	Q3, 2009	Q4, 2009	Q1, 2010	Q2, 2010	Q3, 2010
Percentage of project delays due to owner financing problems.	15%	15%	15%	15%	10%	10%	10%
Percentage of project cancellations due to owner financing problems.	5%	10%	10%	10%	5%	5%	5%
Estimated normal rate of project delays as a percentage of annual projects.	5%	5%	5%	5%	5%	5%	5%
Estimated normal rate of cancellations as a percentage of annual projects.	1%	2%	2%	2%	2%	2%	3%

CURRENT ISSUES

Interest Increases for Improvement and Alterations Projects

With government incentives and encouragement to improve energy efficiency for buildings and the need to both maintain and improve existing properties, one would expect more owners to be seeking to

do improvement and alterations projects. Lack of maintenance and improvement will result in lower rents and decreased property values. However, the question for owners is whether they can realize the benefits of property improvements with higher rents or business improvements when businesses aren't hiring and unemployment rates remain high. While financing may be difficult for new construction projects, taking advantage of government energy programs and upgrading facilities using smaller loans and cash flow will make improvement and alterations projects more attractive. According to 44 percent of panelists, interest for this type of work has increased. For those who are experiencing more interest from owners, it is for energy efficiency projects. There is no sign of a strong movement in this area, especially for the larger firms represented by CIRT panelists. For those engaged in these markets, there may be a 5 percent improvement in backlog for this work in the next year. This work will require a higher level of service than large, new construction projects require.

EXHIBIT 3 Are you experiencing more interest from improvement/alterations projects?

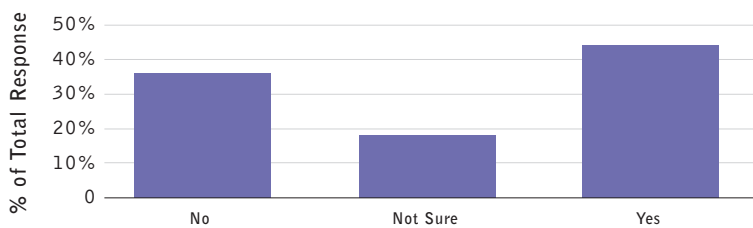
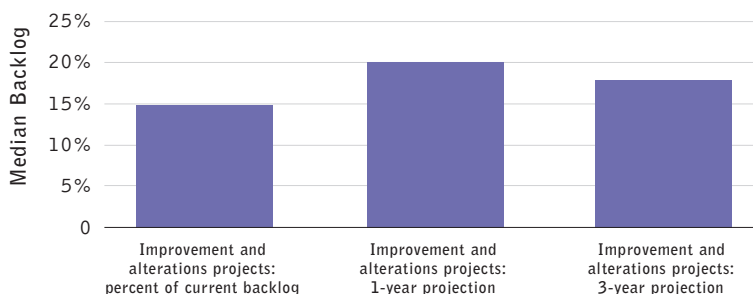


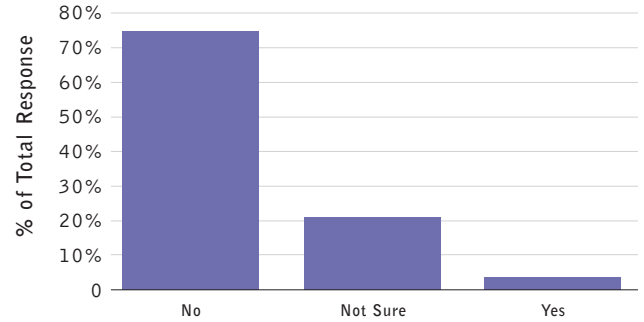
EXHIBIT 4 Backlog for Improvement or Alterations Projects



EURO CRISIS? NOT HERE, YET

In the second quarter, the concern that Greece would default on its debt of somewhere around \$400 billion caused great concern that the financial structure of the eurozone countries was in jeopardy. Since that time, the International Monetary Fund and leaders of eurozone countries, especially Germany, have provided support and loans to keep that disaster at bay, for now. To see if this crisis was causing a ripple effect for construction activity, we asked panelists if they had projects that were affected by the upset in the European financial situation. At this time, only 4 percent of panelists said the eurozone debt crisis has affected their projects. Twenty-one percent aren't sure, and 75 percent said they saw problems for projects due to the debt crisis in the eurozone. Uncertainty is the most likely concern at this time, but, even if this crisis is not currently in the headlines, it did not just go away. Among the potential outcomes are that the euro will collapse and eurozone countries will return to individual currencies. That could mean a devaluation of several currencies and reduced exports for U.S. goods, less construction of plants and more job loss in the United States. Now, however, it is just another huge problem hanging around and adding to the reluctance to invest in new projects.

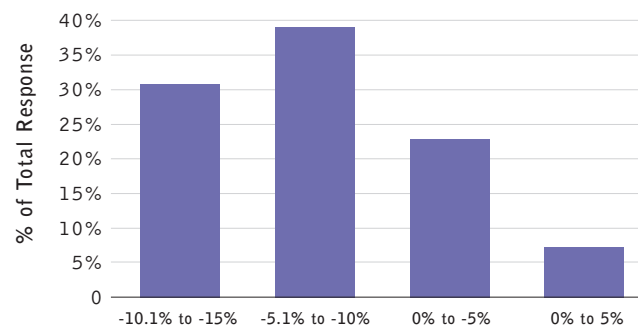
EXHIBIT 5 Has the eurozone sovereign debt crisis affected any of your projects?



STATE AND MUNICIPAL BUDGETS AND PUBLIC PROJECTS

As the federal stimulus funds wind down over the coming year, construction markets will be faced with a significant drop in new projects from states and local government. When we asked panelists if state and municipal budgets will affect their markets in the coming year, over 98 percent said “yes.” Over 69 percent of panelists expect state and local municipalities budgets to be cut more than 5 percent next year, with some cuts much deeper than that. Since states and municipalities must show balanced budgets, most are being forced to make deep cuts in all areas. Federal government funding will help shore up some budget shortfalls, but, until tax revenues pick up, many projects will be shelved. We can expect these budget reductions will help make the case for more public private partnerships, but that begs the question of where the private part of that partnership will come from.

EXHIBIT 6 I expect the change in state and municipalities budgets to be:



SELECTED COMMENTS

Have you made changes to your organization to become more service-oriented since the recession began? If so, how?

The change from the busy times of the old normal, where customers are calling you to get new projects started to the present, where you want to call your service providers to make sure your telecommunications equipment is working, can be a shock to your business development efforts. However, the idea is simple; if the customer is not coming to you, you must go to the customer. In a deep recession, some

“1) We have more consistent follow-up with owners on issues raised via our customer feedback process.

2) Due to staff reductions, our current staff is more adept at being service-oriented.

3) Fewer clients mean more focus from the top.”

customers may have gone out of business, so you will have to find new ones. Most, however, are struggling through the recession just as you are, and could use your help even if they aren't currently planning the next wave of construction. Many panelists indicated they have stepped up their customer relationship building efforts or are adding new services and market focus. These changes along with productivity improvements may be among the good things that come out of recessionary times, because they are good to do in good times and bad. The following comments from panelists show a range of efforts to become more service-oriented:

Added or Changed Organization

- Added services, reduced costs.
- Expanded outreach to get closer to existing customers, their issues and plans, and to identify and engage new customers.
- Continued down sizing. Focus on customer service.
- Senior management spends more time with key clients. Simpler, more frequent client satisfaction surveys.
- Sharing of focus on safety culture.
- Some consolidation to reduce costs and size the organization for the New Normal.
- The focus level is very high to retain clients through outstanding service. Operation employees are very focused on marketing.
- We have added a marketing and public communications department.
- We have focused on personal relationships at multiple levels with our clients, so that we can make sure we are meeting their needs and providing the services that move their business plans forward.
- We have put more people in front of clients, and we have better defined who would do what with the client relationship.
- We have made a significant investment in the energy retrofits market. We are hiring in this area of the business. While it involves engineering and construction services, it also provides a steady flow of maintenance and service contracts after the retrofit work.
- Yes. Greater commitment from leadership. Adding the right staff. Forcing our businesses to make it part of their business plan.
- Yes. We've instituted companywide customer surveys throughout the project life for all projects. Our goal is that our “customers want us back.”

Improved Client Relationship Focus

- Continually checking in with long-term clients.
- Focus on service/maintenance, strengthen sales relationships and focus on federal government.
- Instituted a focus on quality in everything we do, not just quality construction, but every person in our company with everyone they deal with within our company and outside.

No Changes

- No. Our business is 100% municipal work. Funding is level with prior years, but with labor up, you are buying less, so we in effect will build less. Markets are very tight and bidding for lower profit margins. Private sector companies are looking at our work, which makes it more difficult to get backlog.
- Not significantly. More work is now hard bid, and we are trying to provide negotiated services on bid jobs yet protect our interests.

Technology Improvements

- Launched a significant effort in BIM/IPD.
- Much more focus on preconstruction. More focus on financing assistance. More focus on BIM. More focus on subcontractor assurance.

Dangerously Low

Very Low / Significant Drop

Low

Positive Growth Indicator

Very Positive Growth Indicator

EXHIBIT 7 CIRT Sentiment Index Components Detail by Market Sector

Business Outlook – 3 Months	Overall Quarter 2, 2010				Overall Quarter 3, 2010			
	Improving over last quarter	Remains the same as last quarter	Worse than last quarter	CIRT Index Q2, 2010*	Improving over last quarter	Remains the same as last quarter	Worse than last quarter	CIRT Index Q3, 2010*
Commercial	12.9%	58.1%	29.0%	41.9	9.1%	72.7%	18.2%	45.5
Education	16.2%	64.9%	18.9%	48.6	7.5%	75.0%	17.5%	45.0
Health Care	38.9%	58.3%	2.8%	68.1	27.0%	70.3%	2.7%	62.2
Lodging	0.0%	42.9%	57.1%	21.4	3.1%	56.3%	40.6%	31.3
Manufacturing	20.0%	60.0%	20.0%	50.0	26.3%	57.9%	15.8%	55.3
Office	10.8%	54.1%	35.1%	37.8	5.6%	52.8%	41.7%	31.9
Industrial/Petrochemical	26.1%	65.2%	8.7%	58.7	18.8%	62.5%	18.8%	50.0
Transportation Related	25.0%	56.3%	18.8%	53.1	22.6%	58.1%	19.4%	51.6
Public Works/Heavy Civil	20.6%	64.7%	14.7%	52.9	21.2%	60.6%	18.2%	51.5
Other	40.0%	50.0%	10.0%	65.0	55.6%	33.3%	11.1%	72.2

Business Outlook – 1 Year

Commercial	29.0%	61.3%	9.7%	59.7	24.2%	66.7%	9.1%	57.6
Education	35.1%	48.6%	16.2%	59.5	20.0%	65.0%	15.0%	52.5
Health Care	75.0%	25.0%	0.0%	87.5	45.9%	43.2%	10.8%	67.6
Lodging	14.3%	46.4%	39.3%	37.5	9.4%	68.8%	21.9%	43.8
Manufacturing	45.0%	45.0%	10.0%	67.5	47.4%	36.8%	15.8%	65.8
Office	24.3%	51.4%	24.3%	50.0	13.9%	63.9%	22.2%	45.8
Industrial/Petrochemical	60.9%	30.4%	8.7%	76.1	31.3%	62.5%	6.3%	62.5
Transportation Related	37.5%	50.0%	12.5%	62.5	25.8%	45.2%	29.0%	48.4
Public Works/Heavy Civil	41.2%	44.1%	14.7%	63.2	27.3%	60.6%	12.1%	57.6
Other	60.0%	40.0%	0.0%	80.0	66.7%	22.2%	11.1%	77.8

Business Outlook – 3 Years

Commercial	83.9%	16.1%	0.0%	91.9	75.8%	24.2%	0.0%	87.9
Education	64.9%	21.6%	13.5%	75.7	57.5%	27.5%	15.0%	71.3
Health Care	86.1%	13.9%	0.0%	93.1	62.2%	35.1%	2.7%	79.7
Lodging	42.9%	50.0%	7.1%	67.9	53.1%	46.9%	0.0%	76.6
Manufacturing	70.0%	30.0%	0.0%	85.0	68.4%	26.3%	5.3%	81.6
Office	37.8%	51.4%	10.8%	63.5	61.1%	36.1%	2.8%	79.2
Industrial/Petrochemical	77.3%	18.2%	4.5%	86.4	62.5%	31.3%	6.3%	78.1
Transportation Related	62.5%	31.3%	6.3%	78.1	61.3%	29.0%	9.7%	75.8
Public Works/Heavy Civil	67.6%	32.4%	0.0%	83.8	62.5%	28.1%	9.4%	76.6
Other	70.0%	20.0%	10.0%	80.0	44.4%	55.6%	0.0%	72.2

CIRT Index Scores

> 50 indicates growth (better)
 < 50 indicates slowing (worse)

* A note on the use of the diffusion index: Do not interpret diffusion index values in the same manner as averages, because a simple increase or decrease in a diffusion index does not necessarily imply an improving or declining result. For example, if a diffusion index moves from 31 last quarter to 35 this quarter, it does not imply the market has improved. A reading above 50 indicates improving or expansion, 50 indicates remaining the same and below 50 indicates worse or contracting. Therefore, if a reading goes from 31 to 35, then the result still implies a decline from the previous quarter because 35 is below 50; but the decline is not as great as the previous decline because 35 is above 31. As another example, if the diffusion index changes from 31 to 65, it implies improvement over the previous quarter, not because 65 is above 31, but because 65 is above 50.

Dangerously Low

Very Low / Significant Drop

Low

Positive Growth Indicator

Very Positive Growth Indicator

EXHIBIT 8 CIRT Sentiment Indexes — Comparisons of Results: Q4, 2009 to Q3, 2010				
Component Indexes	CIRT Q4, 2009	CIRT Q1, 2010	CIRT Q2, 2010	CIRT Q3, 2010
Overall Economy	50.0	60.6	69.2	52.7
Overall Economy Where Panelists Do Business	45.5	56.6	61.8	54.4
Panelists' Construction Business	39.5	55.7	51.9	59.8
Residential Building Construction Market Where Panelists Do Business	31.4	44.1	51.5	44.4
Nonresidential Building Construction Market Where Panelists Do Business	34.5	49.0	53.0	51.8
Cost of Construction Materials	60.0	48.0	34.8	48.2
Cost of Labor	53.6	47.1	43.8	41.1
Productivity	63.6	67.3	64.9	61.8
Expected Change in Backlog	34.2	55.7	58.0	37.7
Approximate Current Signed Backlog in Months	12.0	12.0	12.0	12.0

CIRT Index Scores

> 50 indicates growth (better)
 < 50 indicates slowing (worse)

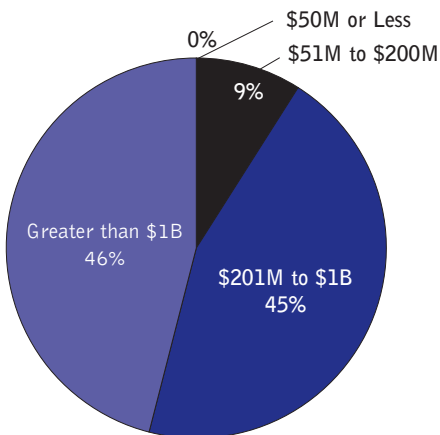


EXHIBIT 9
 Size of the Organization
 in Annual Revenue

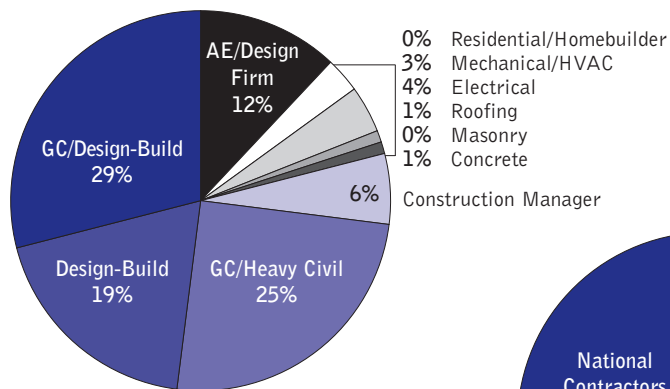


EXHIBIT 10
 Type of Contracting Business

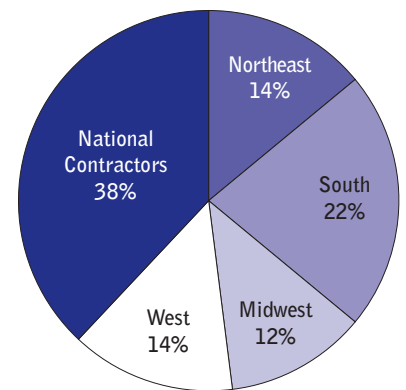


EXHIBIT 11
 Primary Region in Which
 Panelists Work

Dangerously Low

Very Low / Significant Drop

Low

Positive Growth Indicator

Very Positive Growth Indicator

EXHIBIT 12 CIRT Sentiment Index Results: Q2, 2010 and Q3, 2010

	CIRT Sentiment Index Quarter 2, 2010				CIRT Sentiment Index Quarter 3, 2010			
	Improving over last quarter	Staying the same as last quarter	Worse compared to last quarter	CIRT components Q2, 2010*	Improving over last quarter	Staying the same as last quarter	Worse compared to last quarter	CIRT components Q3, 2010*
Overall Economy	42.3%	53.8%	3.8%	69.2	21.4%	62.5%	16.1%	52.7
Overall Economy Where Panelists Do Business	33.3%	56.9%	9.8%	61.8	29.8%	49.1%	21.1%	54.4
Panelists' Construction Business	19.2%	65.4%	15.4%	51.9	35.7%	48.2%	16.1%	59.8
Residential Building Construction Market Where Panelists Do Business	21.2%	60.6%	18.2%	51.5	16.7%	55.6%	27.8%	44.4
Nonresidential Building Construction Market Where Panelists Do Business	20.0%	66.0%	14.0%	53.0	29.1%	45.5%	25.5%	51.8
Backlog in Months	High	Median	Low		High	Median	Low	
Approximate Current Signed Backlog	72.0	12.0	3.0		30.0	12.0	3.0	
	Grow faster than last quarter	Stay about same as last quarter	Shrink compared to last quarter		Grow faster than last quarter	Stay about same as last quarter	Shrink compared with last quarter	
Expected Change in Backlog	34%	48%	18%	58.0	30%	16%	54%	37.7
	Higher than last quarter	Same as last quarter	Lower than last quarter		Higher than last quarter	Same as last quarter	Lower than last quarter	
Cost of Construction Materials	37%	57%	7%	34.8	11%	82%	7%	48.2
Cost of Labor	15%	83%	2%	43.8	21%	75%	4%	41.1
	Improving over last quarter	Same as last quarter	Declining compared to last quarter		Improving over last quarter	Same as last quarter	Declining compared with last quarter	
Productivity	30%	70%	0%	64.9	27%	69%	4%	61.8

CIRT Index Scores

> 50 indicates growth (better)
 < 50 indicates slowing (worse)

EXHIBIT 13 CIRT Sentiment Index Component: Q1, 2010 to Q3, 2010
Business Outlook Summary by Market Sector

Sector	Overall Q1, 2010			Overall Q2, 2010			Overall Q3, 2010		
	3 Months	1 Year	3 Years	3 Months	1 Year	3 Years	3 Months	1 Year	3 Years
Commercial	26.7	45.2	90.3	41.9	59.7	91.9	45.5	57.6	87.9
Education	47.1	58.3	86.1	48.6	59.5	75.7	45.0	52.5	71.3
Health Care	55.7	76.4	88.9	68.1	87.5	93.1	62.2	67.6	79.7
Lodging	19.4	35.9	78.1	21.4	37.5	67.9	31.3	43.8	76.6
Manufacturing	38.9	61.1	83.3	50.0	67.5	85.0	55.3	65.8	81.6
Office	26.5	37.1	74.3	37.8	50.0	63.5	31.9	45.8	79.2
Industrial/Petrochemical	47.1	58.3	75.0	58.7	76.1	86.4	50.0	62.5	78.1
Transportation Related	48.1	60.0	80.8	53.1	62.5	78.1	51.6	48.4	75.8
Public Works/Heavy Civil	55.2	60.3	77.6	52.9	63.2	83.8	51.5	57.6	76.6
Other	81.3	88.9	85.0	65.0	80.0	80.0	72.2	77.8	72.2

ABOUT FMI

FMI is the largest provider of management consulting, investment banking and research to the engineering and construction industry. We work in all segments of the industry providing clients with value-added business solutions, including:

- Strategy Development
- Market Research and Business Development
- Leadership and Talent Development
- Project and Process Improvement
- Mergers, Acquisitions and Financial Consulting

Founded by Dr. Emol A. Fails in 1953, FMI has professionals in offices across the U.S. FMI delivers innovative, customized solutions to contractors; construction materials producers; manufacturers and suppliers of building materials and equipment; owners and developers; engineers and architects; utilities; and construction industry trade associations. FMI is an advisor you can count on to build and maintain a successful business, from your leadership to your site managers.

Raleigh—Headquarters

5171 Glenwood Avenue
Suite 200
Raleigh, NC 27612
P.O. Box 31108
Raleigh, NC 27622
T 919.787.8400
F 919.785.9320

Denver

210 University Boulevard
Suite 800
Denver, CO 80206
T 303.377.4740
F 303.398.7291

Phoenix

5080 N. 40th Street
Suite 245
Phoenix, AZ 85018
T 602.381.8108
F 602.381.8228

Tampa

308 South Boulevard
Tampa, FL 33606
T 813.636.1364
F 813.636.9601



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