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Supply Chain Update

8/2/21 Update:

Supply/Demand imbalances are persisting. 81% of reroofing contractors [surveyed](#) report backlogs of 1 month to over 5 months. The American Institute of Architects' [Architecture Billings Index](#) shows new project inquiries at a near-record level of 71.8 (any score above 50 indicates an increase). ENR's [Construction Industry Confidence Index](#) has just seen the largest quarterly increase ever, rising 17 points to a rating of 68.

Unfortunately, the industry's forecast expects raw material disruptions to be unresolved until late first quarter of 2022. Even that distant relief is tempered by the potential for weather events to create additional disruptions. Peak hurricane season has just begun.

Currently, steel fasteners and plates are the most difficult roofing material to obtain. Fasteners often arrive 30-90 days later than other materials. We continue to wait for confirmed delivery dates on orders placed over two months ago. Even confirmed delivery dates are occasionally missed as vendors struggle with production and shipping.

As delayed materials begin to ship, one factor may provide relief in the next several months. The abrupt increase in delivery times noted 4 months ago led to a rapid increase in "ghost orders". Many projects have been ordered from multiple vendors, seeking the earliest possible delivery dates. I anticipate that many of those orders will be cancelled once fall and winter deliveries begin.

I appreciate the flexibility and cooperation we receive from many of our clients as we work to find solutions to meet project schedules and budgets. Earlier bids and prompt awards are already allowing a return to on-time on-budget deliveries. In some cases, the deliveries must be made earlier than needed to secure quoted pricing. Early deliveries will require planning for storage space while awaiting the roof structure completion.

Recognizing issues and solving your problems is what you count on from a trusted partner. Fifth Wall is rising to the challenge. We will continue to keep you up to date and provide solutions as the situation continues.

6/16/21 UPDATE:

Conditions have continued to deteriorate in the roofing industry supply chain. Recent insulation orders are being scheduled for deliveries 7 months out. Some orders placed 60 days ago still have no

confirmed delivery date. A major manufacturer suffered an insulation plant fire May 13th that has further complicated product availability and pricing. Multiple manufacturers have ceased issuing quoted prices for future projects. Most vendors cannot even guarantee prices at the time of order, instead charging based on the price at the time of delivery. Lumber prices have peaked and begun to decline as the lone sign of improvement.

Fifth Wall continues to place orders earlier. Now we are operating with a 6-7 month lead time for select products. Manufacturers have been very flexible, permitting product substitutions from other manufacturers in warranted systems. In several cases we have been able to use specified vapor barriers as temporary roofing while awaiting delivery of other delayed components. On other projects vapor barriers have been added to systems to allow interior work to proceed on schedule.

Not only do these supply chain problems complicate projects in progress, bidding upcoming work is a huge challenge. It is understood that escalation clauses are not regularly used or desired by project owners. However, in these exceptional times, without any price protection offered by vendors, escalation clauses allow us to offer our most competitive quote based on today's prices. When required to provide a fixed price quote for jobs months in the future, roofing contractors will speculate with their own escalator or risk solvency.

As an example of a quote allowing escalation, a 10% threshold could be set before escalation would trigger, based on a limited list of products with documented baseline current prices. Escalation beyond the threshold change would adjust the contract price by the documented cost variance at delivery plus markup. At some point the supply chain imbalances will resolve and prices will fall as they have for lumber. As a motive to owners, price decreases greater than the threshold amount would also adjust the contract amount. Other similar options are available.

We will continue to employ every available solution and keep you aware as our industry supply issues evolve over the next several months.

4/30/21:

The roofing industry is experiencing profound supply chain disruption. Multiple factors have converged resulting in delays and price increases. Covid-19 lockdowns, trade problems with China, the Texas freeze, and the Suez Canal blockage have all been contributing factors to raw material shortages. Indirect effects are felt due to Covid-19 and regulatory impacts on the trucking industry that have led to driver shortages. Another worrisome indicator is the timing of material shortages this year. There are routine isolated shortages that usually occur in summer months when school construction surges. To have availability problems surfacing in March and April indicates a long recovery as demand is likely to increase more before supply can respond.

Fifth Wall has responded by accelerating procurement. Two months ago, two week lead times were the norm. Today we are operating with a 12-week lead time for select products. This timing change causes a ripple effect to the submittal process. We have responded with accelerated product data submittals. To best mitigate potential delays, full shop drawings are being delayed in order to focus on product data submission. It is understood that full submittals are preferred but the exceptional circumstances require non-traditional solutions. Product substitutions are another means of addressing certain availability problems. Fifth Wall has already successfully substituted cover boards on a couple of projects. Fifth

Wall has also responded by reaching out to the entire range of distributors and manufacturer's that we count as business partners. This has already allowed us to fill gaps and keep projects on schedule.

No one wants to be the bearer of bad news, but it is more important to be forthright and realistic about what the entire industry is faced with. As valued customers, clients, partners, and friends, we want share with you how we have responded so far. Responsiveness to submittals and flexibility on products will be welcome. We will continue to seek other solutions and will be receptive to other ideas. For example, we may collaborate to identify portions of a project that are most essential and other portions that could be delayed for a short period.

I take seriously the trust placed in us. We will continue to employ every available solution and keep you aware as our industry supply issues evolve over the next several months.

Best regards,

A handwritten signature in black ink, appearing to read "Todd R. Hewitt". The signature is written in a cursive, slightly slanted style.

Todd R. Hewitt

President

Texas Fifth Wall Roofing Systems, Inc.