



FIRST
EDITION

BUILDING PRODUCTS MARKET OVERVIEW



JUNE 2024

BUILDING PRODUCTS SPOTLIGHT

ROOFING TRENDS IN 2024 AND BEYOND

As part of our biannual Building Products Market Outlook, we'll be highlighting sectors where we're seeing innovation and shifts in demand. For the first report of 2024, we're taking a deep dive into roofing, including the market drivers, material trends and other sources of demand. Our forecasts and analysis of other product types follow this section.

The roofing market is set for dynamic changes over the next five years, with significant opportunities driven by evolving material technologies, changing market demands and shifts in industry strategies. For manufacturers, staying ahead will require a keen focus on innovation, product enhancements and strategic market engagement, ensuring they can meet the challenges and capitalize on the opportunities of an evolving market landscape.

MARKET DEMAND

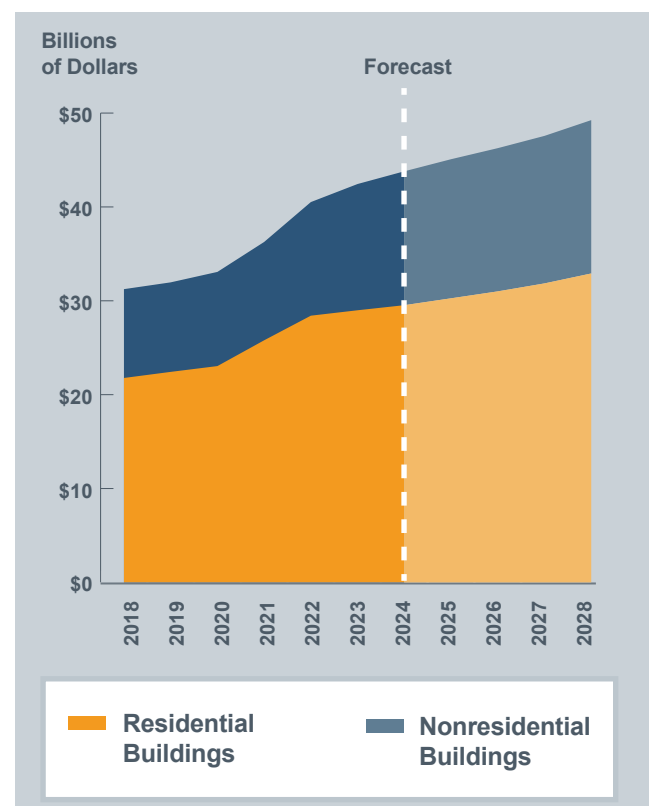
Residential roofing demand outlook.

Roofing product spending in the residential roofing market is anticipated to reach \$32 billion in 2028, influenced by recovery in the single-family housing market, homeowner preferences for durable and aesthetic roofing solutions, and an increase in extreme weather events necessitating the demand for reroofing. A slowdown in new multifamily construction will hinder growth in the new-construction residential roofing market, but that will be offset by the continuing need for repairs and replacements.

Nonresidential roofing demand outlook.

Nonresidential roofing product spending is expected to reach \$16 billion in 2028. Spending in the nonresidential sector will be influenced by broader economic activities, commercial construction rates and the renovation of existing buildings. Key growth areas include health care, education, data centers and industrial buildings, where expansions and upgrades drive demand for high-quality roofing systems. The shift toward sustainable building practices and a focus on enhancing the overall building envelope for better energy management are significant drivers in this sector.

ROOFING



SOURCE: FMI FORECAST Q2 2024

Opportunities in the reroofing market over the next five years.

Reroofing represents more than 70% of the total roofing spending market segment, driven by aging building stock and the need for upgrades to meet newer energy codes and sustainability standards. The next five years will likely see increased activity in reroofing, particularly in regions with older residential and commercial buildings. Enhanced focus on energy efficient and resilient roofing systems by property owners and developers will further stimulate this market segment.

MARKET TRENDS AND DRIVERS

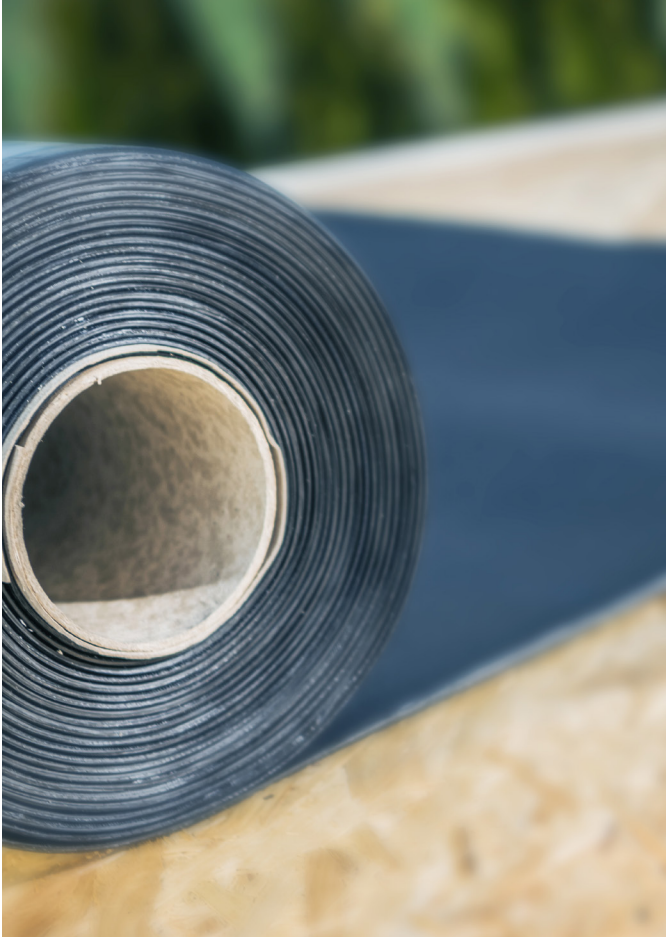
While there are many things behind the demand for roofing materials, there are some key drivers we'll be watching in the coming years. These include:

- **Storm activity.** Increased frequency and severity of storm events, particularly in hurricane-prone and high-wind regions, necessitate more frequent roof replacements and repairs and push the demand for more durable and impact-resistant roofing materials.
- **Energy efficiency and embodied carbon.** Owners are increasingly interested in reducing the energy consumption and carbon footprint of buildings. Roofing plays a crucial role in this, courtesy of materials designed to improve thermal performance and reduce energy costs. The trend toward reducing embodied carbon is also influencing material choices, pushing manufacturers to develop products with lower environmental impacts across their life cycle.
- **Life cycle considerations and material resiliency.** Life cycle performance is becoming a critical selection criterion for roofing materials as market stakeholders increasingly consider long-term costs, maintenance,

durability and end-of-life recycling potential. This shift is fueling the development of materials that offer enhanced longevity and resiliency, as well as placing a growing emphasis on the recyclability of products used for projects.

- **Ongoing supply chain management.** The roofing market experienced supply and availability challenges from the over-purchasing of these materials in 2022 and overstocking in 2023 due to demand concerns and disrupted supply chains during the pandemic. Heading into 2024, the market is adjusting with destocking activities, aligning inventory levels more closely with actual market demand.
- **Government incentives.** Federal and state incentives for energy-efficient and sustainable building practices are bolstering the roofing market. Programs like the Inflation Reduction Act (IRA) of 2022 offer tax credits for energy-efficient roofing, encouraging homeowners and commercial entities to opt for sustainable alternatives. The Weatherization Assistance Program (WAP) and State Energy Program (SEP) further support these initiatives by providing funding for energy conservation efforts, including roofing upgrades.





MATERIAL TRENDS

In response to many of the market trends, particularly the need for more energy-efficient and environmentally friendly building materials, manufacturers are innovating when it comes to the types of products they're making and stocking.

- **Single-ply materials.** Single-ply roofing materials, particularly thermoplastic polyolefin (TPO) and polyvinyl chloride (PVC), continue to dominate the market due to their cost-effectiveness, ease of installation and favorable performance characteristics. Ethylene propylene diene terpolymer (EPDM) remains a staple in scenarios requiring robust weather resistance and longevity, while ketone ethylene ester (KKE) is noted for its high flexibility and durability. Several traditional modified bitumen roofing manufacturers have expanded their product offerings to include a PVC option; additionally, the market has seen new entrants into the domestic TPO manufacturing market.
- **Metal.** Metal roofing is gaining popularity due to its durability, long lifespan and aesthetic versatility. Innovations in metal roofing, such as cool-metal roofing, are aligning with demands for energy efficiency and sustainability, making metal an increasingly attractive option. These roofs have experienced growth in the residential reroofing market as homeowners look to gain from their longevity. Metal roofs have been a staple for government and education owners, and insulated metal panels (IMP) have gained greater traction in the high-tech manufacturing, cold storage and data center markets.
- **Modified bitumen.** Modified bitumen roofing maintains a steady presence in the market, favored for its proven performance in waterproofing and its adaptability to various roofing needs. Recent advancements aim to enhance its installation efficiency and environmental profile. Modified bitumen experienced a favorable 2023 as other roofing products were challenged with overstocking and supply chain challenges.
- **Asphalt shingles.** Asphalt shingles remain a cornerstone in the residential roofing industry due to their affordability, reliable performance and relative ease of installation. The market is experiencing increased demand for high-performance asphalt shingles that offer enhanced durability and better protection against extreme weather. And with the growing emphasis on sustainability, owners will likely focus more on the recyclability of asphalt shingles and incorporating recycled materials into the product process will likely increase.

ACQUISITION ACTIVITY

Roofing remains an attractive segment for strategic and financial buyers across the board. Since reroofing and roofing services are often part of building-products companies, the reoccurring revenue makes the sector attractive for investment.

- **Private equity investment.** Private equity continues to show strong interest in the roofing industry, driven by the sector's steady demand and potential for growth. Investments are often directed toward companies with strong market positions and potential for expansion

through strategic acquisitions. FMI has tracked at least 29 platform acquisitions in roofing services since 2020. These include a mix of service and product companies.

- **Major transactions — SRS and Home Depot.** The acquisition of SRS by Home Depot illustrated a strategic move by the building products supplier to strengthen its distribution channels and deepen market penetration in the professional space. Along with other industry transactions, this deal highlights the ongoing consolidation trend within the industry and the approach firms are taking to enhance their product portfolios, expand geographic reach, deepen distribution channels and build sustainability profiles.

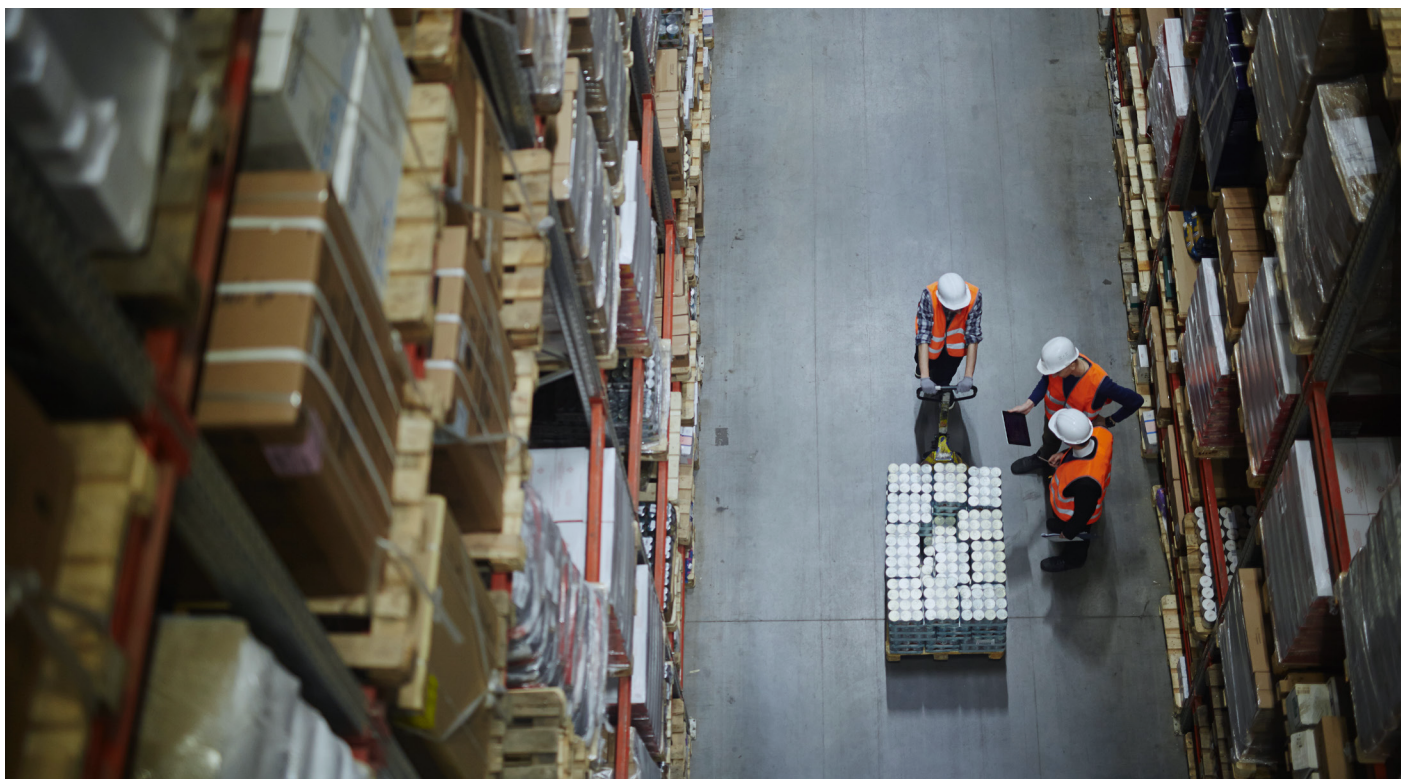
CONSIDERATIONS FOR MANUFACTURERS

It's critical for manufacturers to pay attention to trends and adapt their businesses accordingly. Here are a few ways roofing companies can respond to the trends driving this market:

- **Strengthen supply chain and operational flexibility.** The recent disruptions highlighted by the Covid-19

pandemic underscore the need for robust supply chains. Roofing manufacturers must develop flexible and resilient supply chains that can adapt to sudden changes in market conditions. This involves diversifying suppliers, investing in local production capabilities and adopting just-in-time manufacturing processes as destocking continues through 2024.

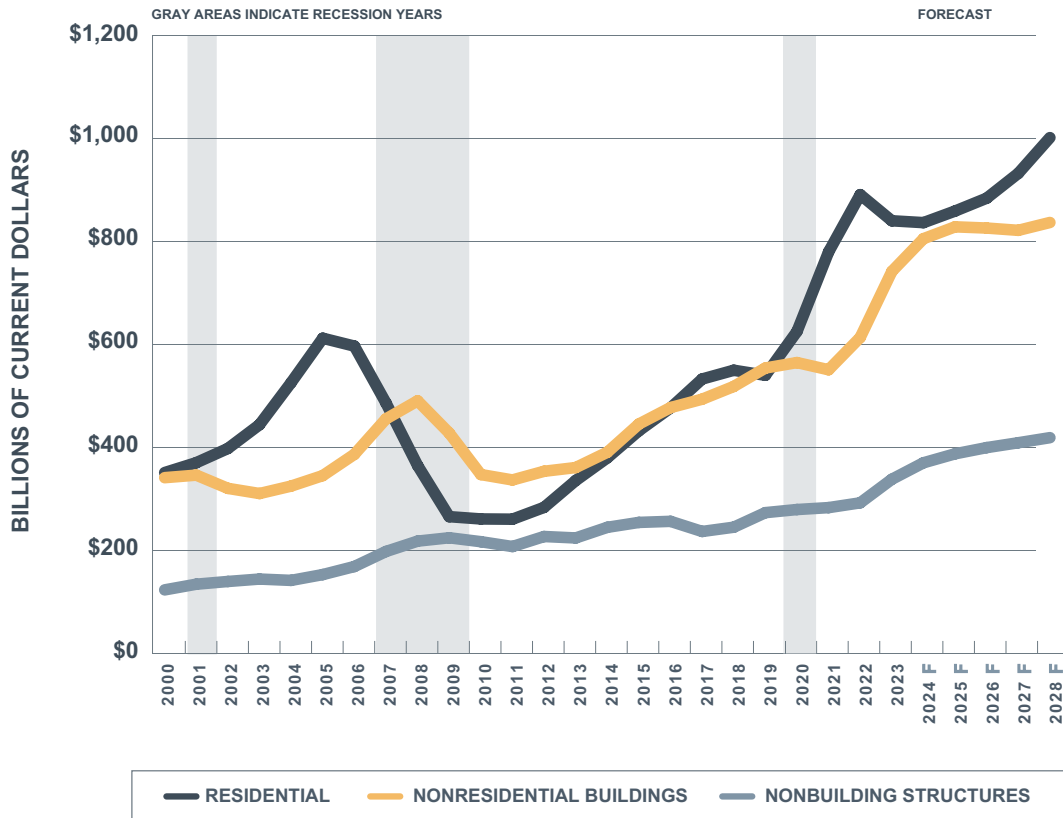
- **Build strong relationships with stakeholders.** Building and maintaining strong relationships with contractors, distributors, architects and builders is crucial. These partnerships can produce valuable insights into market trends and customer preferences, informing product development and marketing strategies. Manufacturers should also focus on enhancing customer service and technical support to reinforce their brand reputation and loyalty among professional installers and specifiers.
- **Create a unique competitive advantage.** In a market that is likely to see continued consolidation and an evolving competitive landscape, it is important that companies establish a competitive advantage. This involves not only differentiating through product innovation and improvements but also through strategic marketing and brand positioning. Companies need to effectively communicate the unique value propositions of their product offerings.



U.S. OVERALL MARKET KEY TAKEAWAYS

- Total engineering and construction spending for the U.S. is forecast to end 2024 up 5%, a slightly slower pace than 2023's 7%. Anticipated growth in 2024 will remain strong across all nonresidential segments, led by nonbuilding structures.
- High-performing segments in 2024 point to continued strong investment growth across manufacturing, lodging, public safety, highway and street, transportation, and sewage and waste disposal. Each of these segments are forecast to end the year with growth 10% or higher over 2023 levels.
- Many segments are expected to end 2023 with growth rates between 5% and 10%. These segments include health care, educational, religious, amusement and recreation, communication, power, water supply, and conservation and development.
- Single-family residential, the largest segment in the industry, is expected to stabilize from the large 14% drop in 2023 and see more investment in 2025. Conversely, multifamily residential investment is expected to recede somewhat over the next several years.
- The latest Nonresidential Construction Index (NRCI) score of 51.9 is up sharply from the previous quarter and marks the first NRCI score in two years over the neutral base of 50. The Index suggests that participants will see expanding industry opportunities in the quarter and year ahead. Sentiment toward all economic measures has improved, while labor costs, material costs and expectations for office construction are likely to remain the largest challenges this year.

TOTAL CONSTRUCTION PUT IN PLACE ESTIMATED FOR THE U.S.

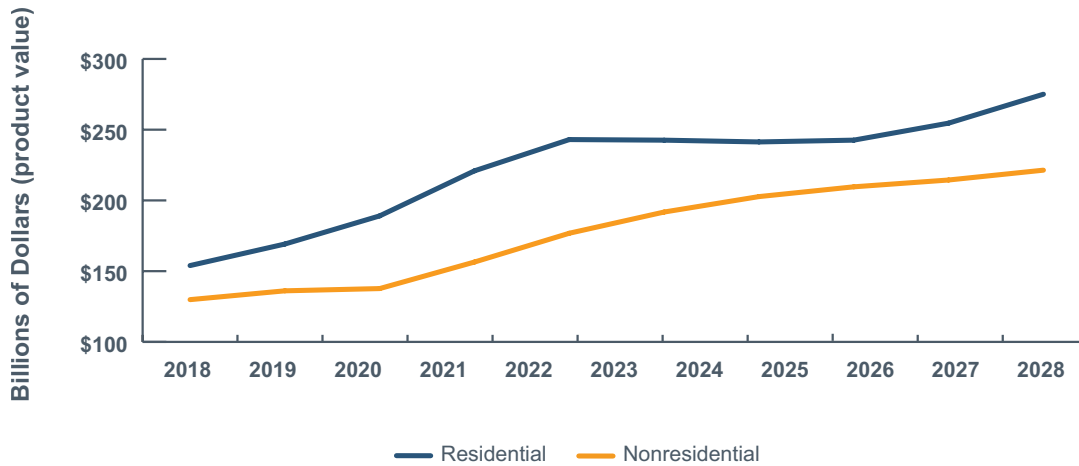


SOURCE: FMI FORECAST Q2 2024

BUILDING PRODUCTS MANUFACTURER SPENDING

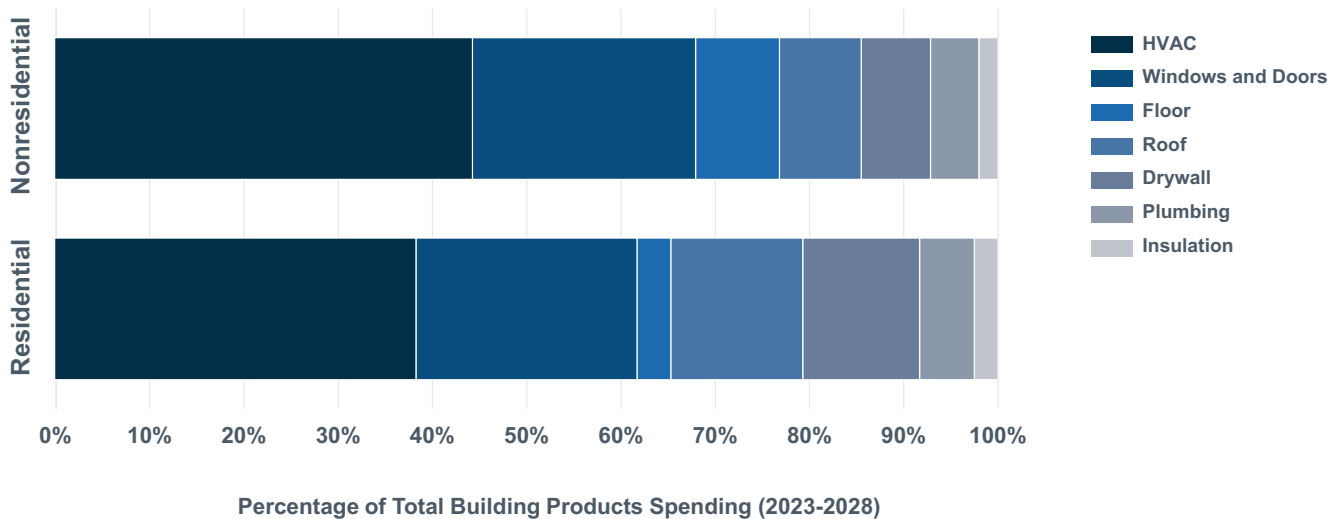
- Overall, building products spending is anticipated to reach \$496 billion in 2028, with total growth of 14% during the 2024-2028 forecast period. For the forecast period, residential building products spending is anticipated to represent 55% of total building products spending with nonresidential representing 45%.
- Residential building products spending experienced substantial growth through 2023, followed by a slight decline in spending, which is expected through 2025. The residential building products market should see a return to growth in 2026, with the biggest increases in windows and doors, HVAC and plumbing.
- Spending on nonresidential building products is anticipated to yield 4% year-over-year growth through the 2024-2028 forecast period, reaching \$221 billion in 2028. In the non-residential sector, HVAC, windows and doors, and roofing products are anticipated to experience the highest growth over the forecast period.
- HVAC (41%) and windows and doors (24%) are expected to represent the largest percentage of total building products spending through 2028. Additionally, HVAC and windows and doors are anticipated to yield the highest compound annual growth rates.

RESIDENTIAL AND NONRESIDENTIAL BUILDING PRODUCTS SPENDING



SOURCE: FMI FORECAST Q2 2024

DISTRIBUTION OF BUILDING PRODUCTS SPENDING



SOURCE: FMI FORECAST Q2 2024

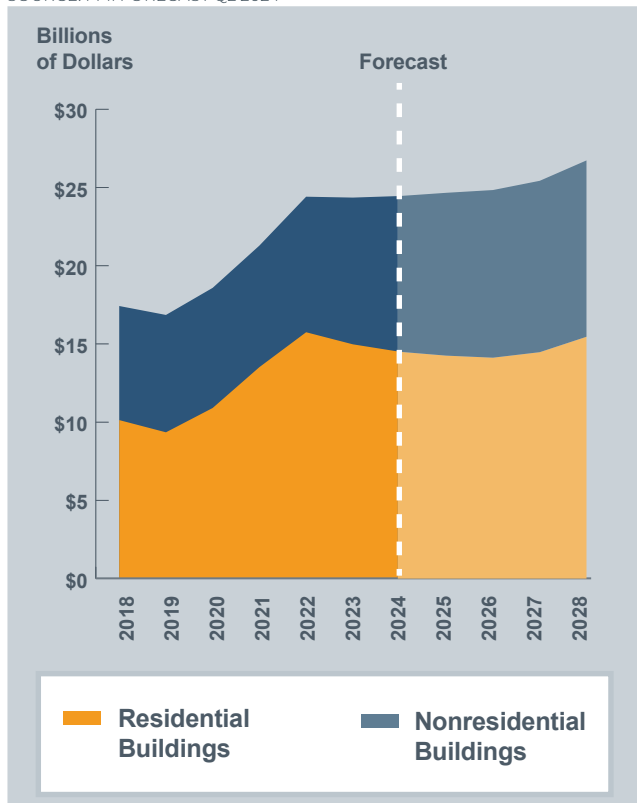
SECTOR TRENDS: BUILDING PRODUCTS





DRYWALL

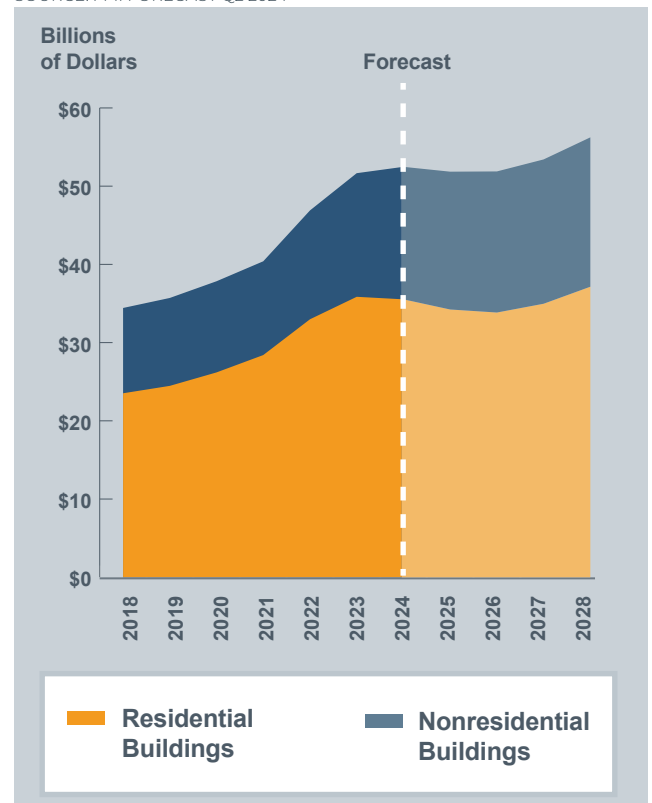
SOURCE: FMI FORECAST Q2 2024



- Drywall spending is expected to be \$24.5 billion in 2024, of which 57% is residential and 43% is nonresidential. Over the forecast period, drywall is anticipated to yield an annual growth rate of 2.3% and reach approximately \$27 billion in 2028.
- Drywall demand is influenced by residential construction. Despite temporary stagnation, the residential construction sectors are expected to recover in 2026, and manufacturers are pursuing capital improvement projects to update, modernize and expand plants.
- Drywall products spending in the nonresidential sector is anticipated to benefit from continued renovation and remodeling projects in this sector, to modernize interiors, improve energy efficiency and comply with updated building codes.

FLOORING

SOURCE: FMI FORECAST Q2 2024

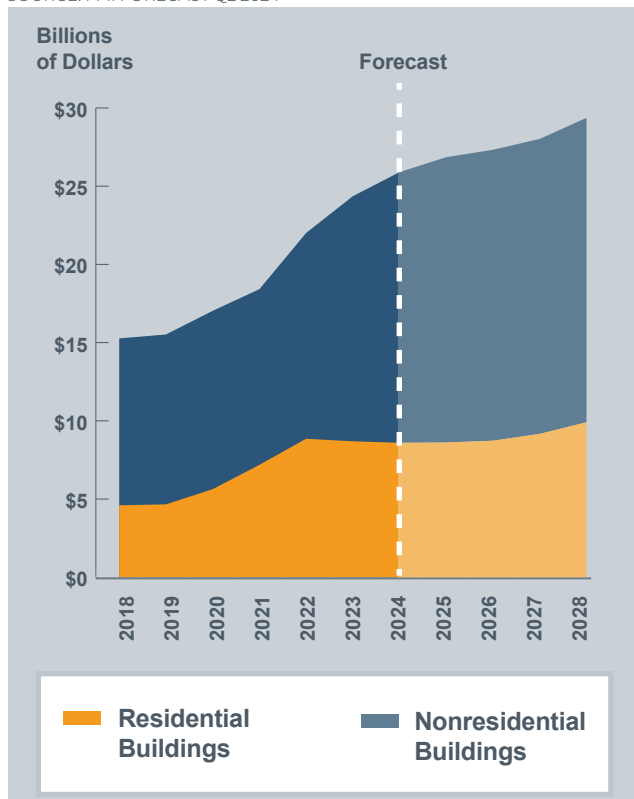


- Spending on flooring is projected to be \$52.5 billion in 2024, of which about 66% is residential and 34% is nonresidential. Total product spending for flooring is anticipated to reach over \$55 billion in 2028.
- In the residential sector, an opportunity exists in remodeling and renovation with housing in short supply and owners continuing to update homes.
- On the nonresidential side, increased spending in the education and manufacturing sectors will help flooring providers. A decline in office construction will slow growth in this sector; however, within the office segment, data centers should remain strong, which presents opportunities for firms that can provide the necessary raised flooring.
- Flooring firms continue to develop new and innovative products, which include features for antibacterial protection, slip prevention and resistance to spills, stains, scratches and dents.



PLUMBING

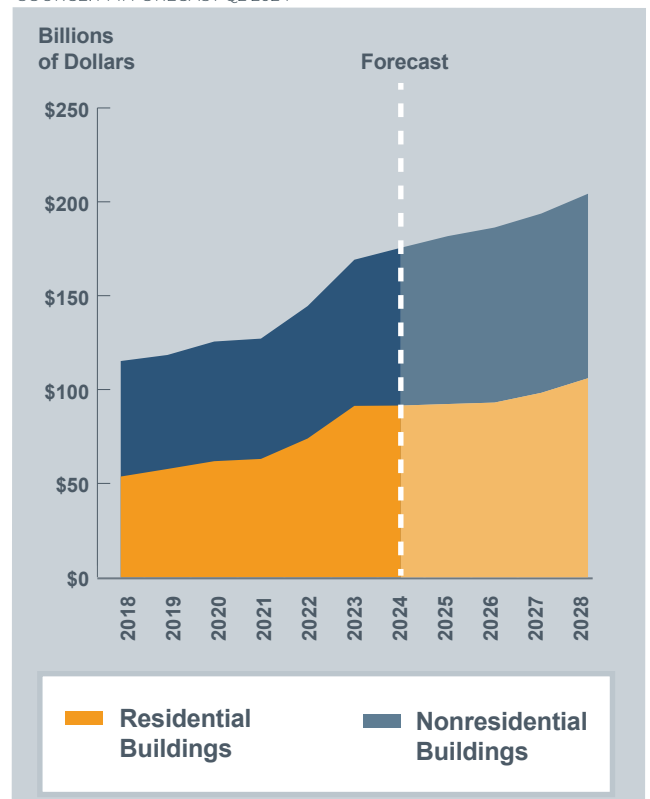
SOURCE: FMI FORECAST Q2 2024



- Plumbing spending is expected to be about \$25.9 billion in 2024, of which about 33% is residential and 66% is nonresidential. The compound annual growth rate for plumbing products is anticipated to be 3.2% over the 2024-2028 forecast period.
- Development and demand for plumbing products continues to be affected by trends around sustainability, including reduced water usage, green building practices and connected appliances. For example, tankless and smart water heaters can decrease water and energy use.
- In response to demand for cheaper piping solutions with long life spans and efficient flow, the industry is seeing material alternatives to copper used in pipes, primarily PEX (cross-linked polyethylene) and PVC (polyvinyl chloride).
- Increasing interest and investment in modular construction are also influencing plumbing product firms. Modular homes are available at all levels of the market, and high-end plumbing products should also expect to compete for sales from these customers. Building standards that apply to modular construction include componentization and modularization of plumbing systems.

HVAC

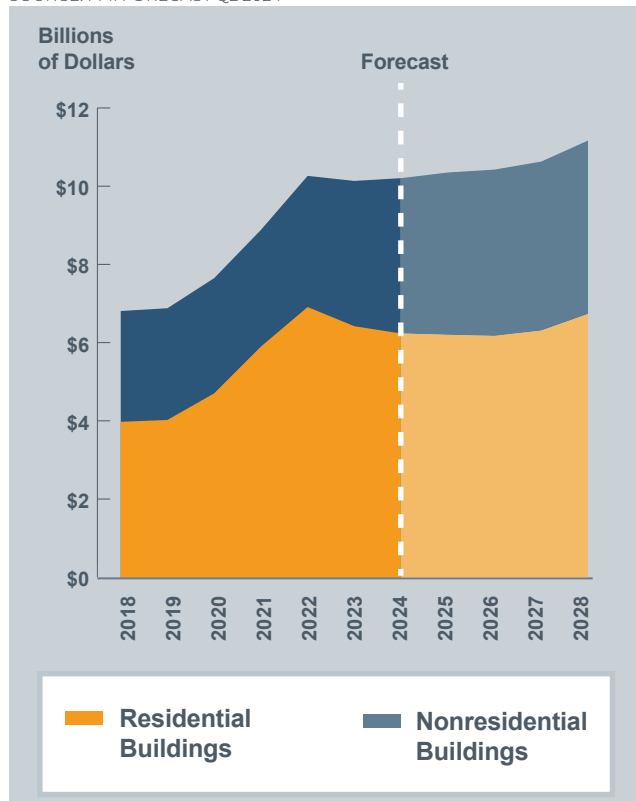
SOURCE: FMI FORECAST Q2 2024



- Total HVAC spending is expected to be \$175.6 billion in 2024 and is split nearly evenly between residential and nonresidential, with a CAGR of 3.9% through 2028.
- Initiatives that support electrification and decarbonization are driving change across the HVAC industry. These reflect a growing commitment to multiple environmental and conservation efforts, including reduction of energy, water use and carbon footprints. The industry is preparing for a transition from gas furnaces to heat pumps. Demand is highest for newer models that offer increased energy efficiency and the potential to lower energy and utility bills.
- As digital transformations become more common, cooling demand for data centers will increase substantially. Traditionally, air cooling has sufficed for data centers, but the inefficiencies and limitations of this method may point to liquid cooling as a replacement, particularly direct-to-chip and immersion cooling.
- Another change in HVAC is decreasing hydrofluorocarbon (HFC) production, which many experts expect to drive a shift toward alternative refrigerants, new product designs and manufacturing techniques.

INSULATION

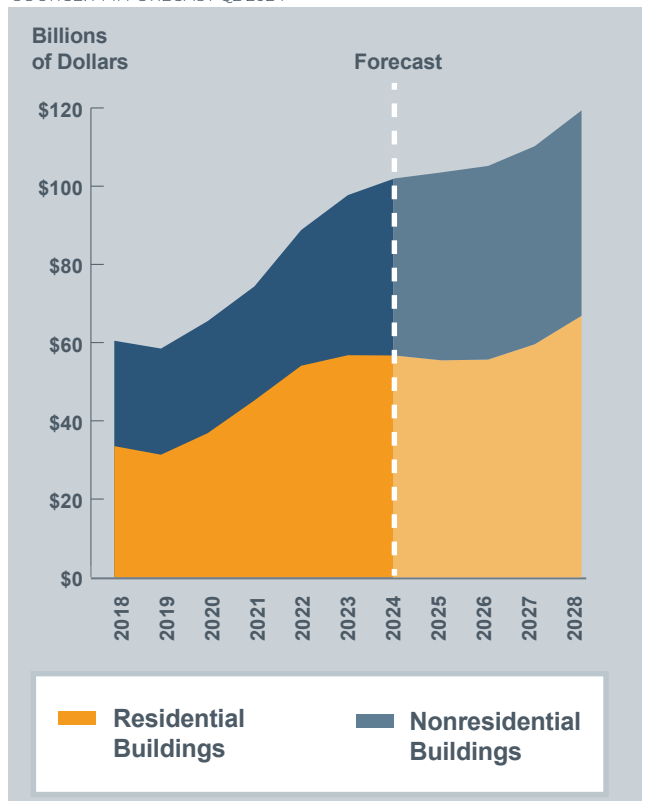
SOURCE: FMI FORECAST Q2 2024



- Insulation spending is expected to be \$10.2 billion in 2024, of which about 60% is residential and 40% is nonresidential, and is projected to grow at a CAGR of 2.3% through 2028.
- Federal action offers companies funding and financial incentives to enhance energy efficiency in commercial spaces, including installing and upgrading insulation. Recent examples include tax credits provided by the IRA for commercial building owners to improve energy efficiency.
- Despite a 1.9% CAGR in residential and 2.8% CAGR in nonresidential over the forecast period, owners are expected to capitalize on tax breaks and federal funding for renovations and replacements to make improvements that increase energy efficiency and reduce energy costs.
- The education market presents compelling insulation opportunities. The Department of Energy’s Renew America’s Schools program will issue nearly \$200 million to school districts for energy efficiency projects, many of which will require the replacement and upgrade of insulation.

WINDOWS AND DOORS

SOURCE: FMI FORECAST Q2 2024



- Window and door spending will likely be \$102 billion in 2024, of which about 55% is residential and 45% is nonresidential and growing at a CAGR of 4.1% through 2028.
- The majority of window and door trends are an extension of those seen in 2023. Owners are typically focused not only on aesthetics and appearance, but also on performance. Installers and customers continue to prioritize energy efficiency and heat retention as well as sustainable and green building practices.
- This industry offers another recent example of the large-scale M&A transactions that will influence the built environment. Owens Corning’s (NYSE: OC) recent announcement to acquire Masonite for \$3.9 billion is an example of these types of aggressive growth strategies.
- Driven in part by the increased focus on sustainability and eco-consciousness, the window and door industry has been experiencing the trend toward “indoor/outdoor living.” This primarily affects renovations and remodels of higher-end residential properties. Products supporting this shift include ultra-large sliding doors, moveable walls and patio doors to replace windows.

TOTAL MATERIAL VALUE AT THE MANUFACTURER LEVEL

MILLIONS OF CURRENT DOLLARS

	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F
RESIDENTIAL											
HVAC	53,658	57,685	61,834	63,038	73,917	91,297	91,474	92,292	93,054	98,249	106,030
Plumbing	4,600	4,660	5,630	7,184	8,853	8,691	8,596	8,615	8,731	9,166	9,908
Roof	21,779	22,427	23,046	25,793	28,415	28,993	29,533	30,266	31,003	31,854	32,913
Drywall	10,132	9,351	10,907	13,517	15,748	14,975	14,501	14,253	14,123	14,474	15,460
Floor	23,523	24,471	26,190	28,408	32,982	35,856	35,533	34,234	33,846	34,971	37,147
Insulation	3,975	4,023	4,704	5,898	6,910	6,419	6,233	6,198	6,171	6,306	6,730
Windows and Doors	33,539	31,338	36,860	45,233	54,086	56,778	56,708	55,472	55,670	59,597	66,862
Total Residential	\$151,205	\$153,955	\$169,170	\$189,071	\$220,911	\$243,009	\$242,579	\$241,332	\$242,597	\$254,617	\$275,051
NONRESIDENTIAL											
HVAC	61,526	60,739	63,733	64,091	70,563	77,852	84,088	89,423	93,247	95,501	98,278
Plumbing	10,668	10,860	11,400	11,233	13,155	15,668	17,302	18,240	18,596	18,853	19,459
Roof	9,463	9,538	10,033	10,475	12,102	13,449	14,264	14,818	15,260	15,714	16,336
Drywall	7,293	7,503	7,678	7,769	8,664	9,380	9,954	10,407	10,715	10,954	11,271
Floor	10,906	11,238	11,654	11,984	13,916	15,804	16,935	17,616	18,036	18,446	19,091
Insulation	2,833	2,856	2,945	2,984	3,353	3,715	3,972	4,152	4,253	4,323	4,436
Windows and Doors	26,941	27,136	28,661	29,155	34,705	40,940	45,274	48,044	49,499	50,638	52,507
Total Nonresidential	\$129,630	\$129,868	\$136,104	\$137,692	\$156,458	\$176,808	\$191,789	\$202,701	\$209,606	\$214,428	\$221,378

TOTAL MATERIAL VALUE AT THE MANUFACTURER LEVEL

CHANGE FROM PRIOR YEAR – CURRENT DOLLAR BASIS

	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F
RESIDENTIAL											
HVAC	0%	8%	7%	2%	17%	24%	0%	1%	1%	6%	8%
Plumbing	3%	1%	21%	28%	23%	-2%	-1%	0%	1%	5%	8%
Roof	4%	3%	3%	12%	10%	2%	2%	2%	2%	3%	3%
Drywall	-4%	-8%	17%	24%	17%	-5%	-3%	-2%	-1%	2%	7%
Floor	3%	4%	7%	8%	16%	9%	-1%	-4%	-1%	3%	6%
Insulation	3%	1%	17%	25%	17%	-7%	-3%	-1%	0%	2%	7%
Windows and Doors	-3%	-7%	18%	23%	20%	5%	0%	-2%	0%	7%	12%
Total Residential	0%	2%	10%	12%	17%	10%	0%	-1%	1%	5%	8%
NONRESIDENTIAL											
HVAC	1%	-1%	5%	1%	10%	10%	8%	6%	4%	2%	3%
Plumbing	4%	2%	5%	-1%	17%	19%	10%	5%	2%	1%	3%
Roof	4%	1%	5%	4%	16%	11%	6%	4%	3%	3%	4%
Drywall	3%	3%	2%	1%	12%	8%	6%	5%	3%	2%	3%
Floor	3%	3%	4%	3%	16%	14%	7%	4%	2%	2%	3%
Insulation	4%	1%	3%	1%	12%	11%	7%	5%	2%	2%	3%
Windows and Doors	3%	1%	6%	2%	19%	18%	11%	6%	3%	2%	4%
Total Nonresidential	2%	0%	5%	1%	14%	13%	8%	6%	3%	2%	3%

The numbers include new, renovation and replacement spending.

ABOUT THE AUTHORS



Paul Trombitas is a partner with FMI's strategy practice and leads the building products sector. Paul is actively involved with clients in developing market strategy and is responsible for managing and delivering in-depth market insights. His unparalleled industry relationships and extensive knowledge of the nuances of building products and manufacturers help clients make data-driven decisions for running their businesses. Paul can be reached at paul.trombitas@fmicorp.com.



Brian Strawberry leads FMI's efforts in market sizing, forecasting, building products and construction material pricing, and consumption trends. He focuses on primary research methods, including the implementation and analysis of surveys and interviews. Brian also leads and manages various external market research engagements, and constructs tools and models for efficiently performing high-quality analyses. Brian can be reached at brian.strawberry@fmicorp.com.



Jim House is a senior consultant in FMI's strategy practice and advises clients across the built environment. He provides FMI's clients with insightful and data-driven analysis to support a broad range of contractors, engineers and building product manufacturers. Jim can be reached at jim.house@fmicorp.com.



Porter Wiley leads FMI Capital Advisors' Building Products team, which focuses on manufacturers and distributors of products and materials used in residential, commercial and infrastructure construction. With two decades of investment banking experience in the industry, he has worked with producers and suppliers of all types of products from the tiles on the floor to the shingles on the roof to the pipes underground. Porter can be reached at porter.wiley@fmicorp.com.



James Holmes is head of FMI Capital Advisors' chemicals investment banking group based in Denver, bringing clients considerable expertise in sell-side and buy-side mergers and acquisitions advisory services for middle-market specialty chemicals companies. He offers experience in construction chemicals M&A, including adhesives, sealants, coatings, mortars, grouts and foam insulation, which are complementary to building products. James can be reached at james.holmes@fmicorp.com.



CONTACT US



RALEIGH HEADQUARTERS
223 S. West Street
Suite 1200
Raleigh, NC 27603



919.787.8400

FMI is a leading consulting and investment banking firm dedicated to serving companies working within the built environment. Our professionals are industry insiders who understand your operating environment, challenges and opportunities. FMI's sector expertise and broad range of solutions help our clients discover value drivers, build resilient teams, streamline operations, grow with confidence and sell with optimal results.

OFFICES

Denver
44 Cook Street
Suite 900
Denver, CO 80206
303.377.4740

Houston
1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Tampa
4300 W. Cypress Street
Suite 950
Tampa, FL 33607
813.636.1364

FMICORP.COM