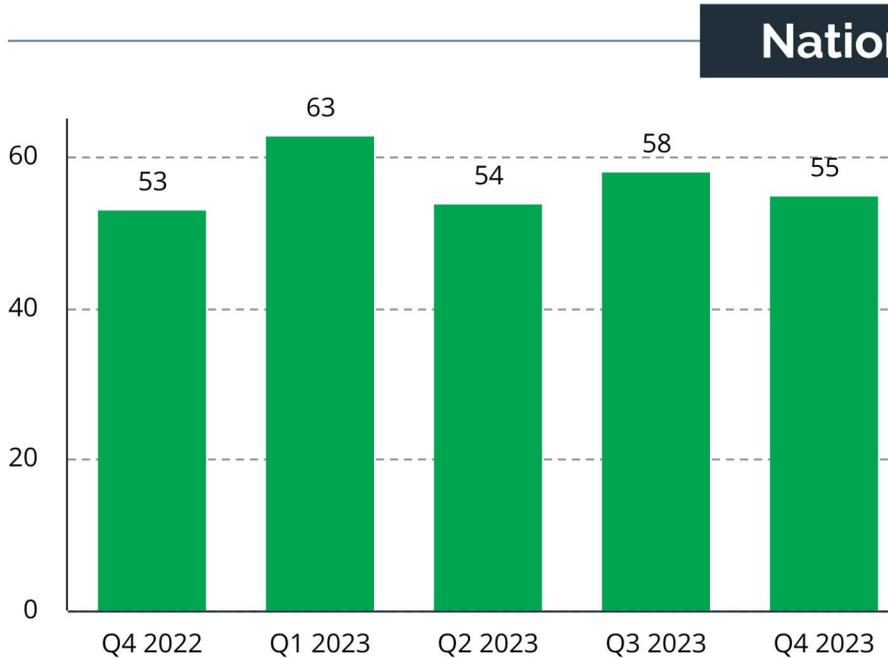


NCS Credit's Lien Index is derived from carefully monitored national and regional mechanic's lien activity, construction economic data from various sources, and general economic trends. The Lien Index compares mechanic's lien data, quarter over quarter.

The standard is fifty ("50"), with a number greater than "50" representing an increase in mechanic's lien activity, and less than "50" representing a decrease in mechanic's lien activity.



The Lien Index came in at 55 for Q4 2023. This is a 3 point drop from the revised* Q3 Index of 58. Lien activity is 2 points higher than Q4 2022.



National Mechanic's Lien Activity

The Lien Index ended 2023 at 55.

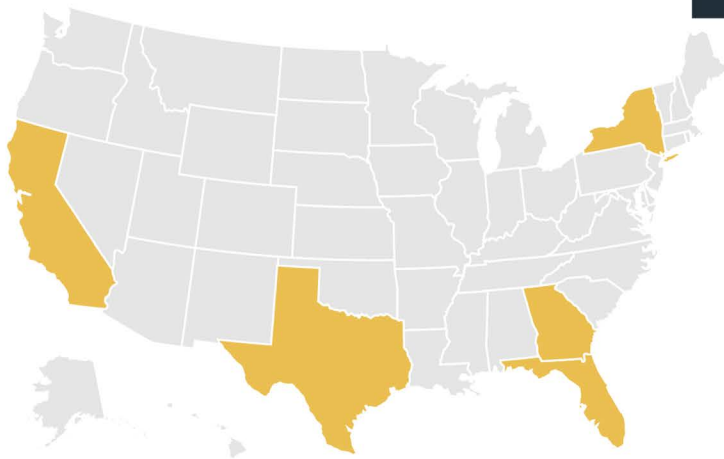
This is an approximate **5% decline** in activity from Q3 2023 and a **4% increase** in activity compared to Q4 2022.

Even though activity has slowed over Q3, lien activity remains above 50, signaling payment issues on projects nationwide.

The Index is predicted to stay over 50 in early 2024, as new construction starts aim to recover from a turbulent Q4. With fewer projects starting, cash flow challenges will surface in areas such as aggressive bidding, putting additional pressure on razor-thin margins.

*Nationwide, recording offices continue to manage a backlog of requests. The Index data is adjusted and revised accordingly.

States with Highest Lien Activity



The top 5 states for lien activity were (in order of volume): **Texas, Florida, California, New York** and **Georgia** (new to the list in Q4).

Top 3 States by Region

Midwest: Iowa, Ohio, Michigan

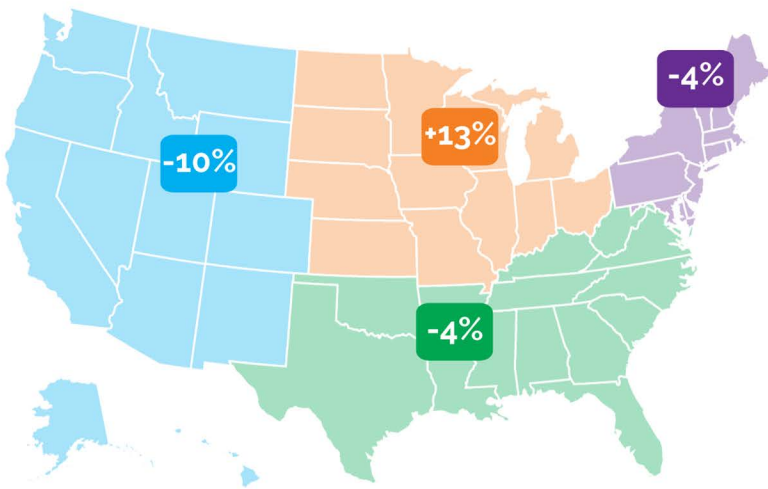
Northeast: New York, Massachusetts, New Jersey

South: Texas, Florida, Georgia

West: California, Colorado, Nevada

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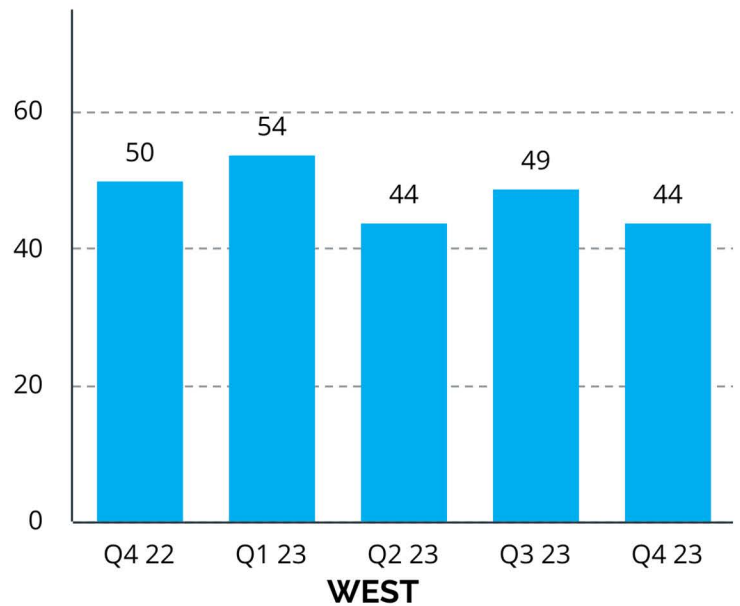
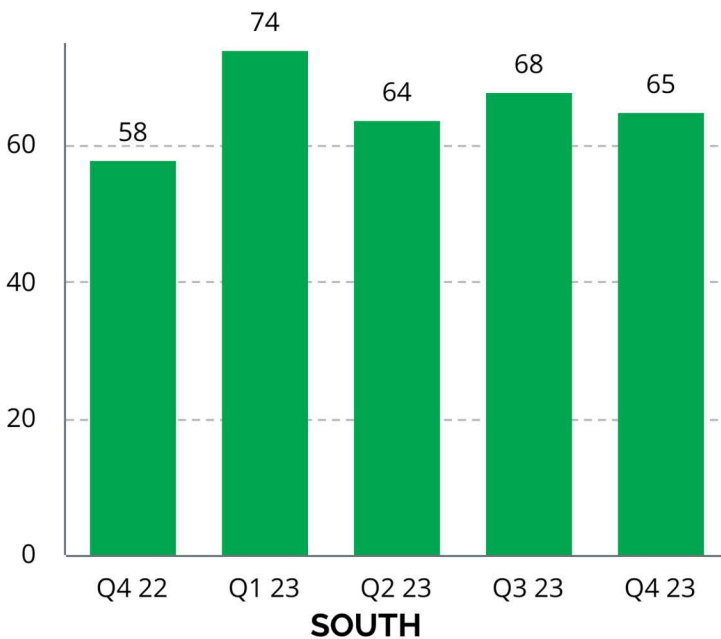
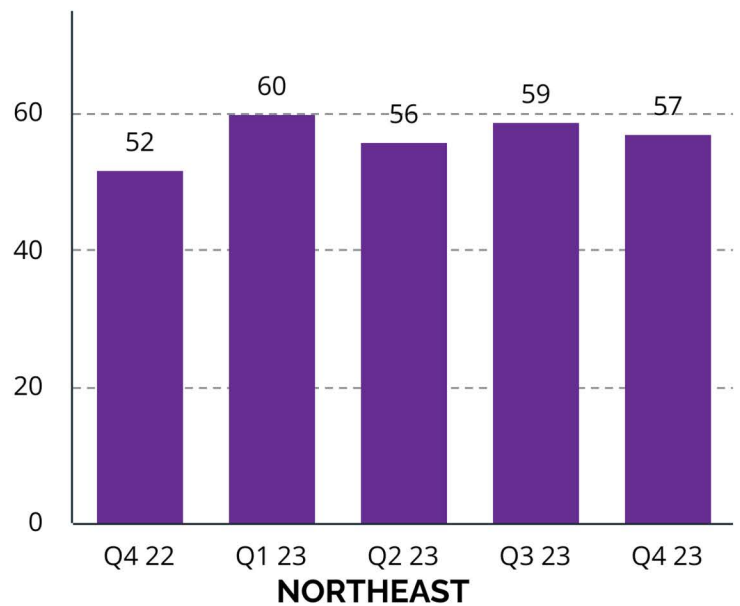
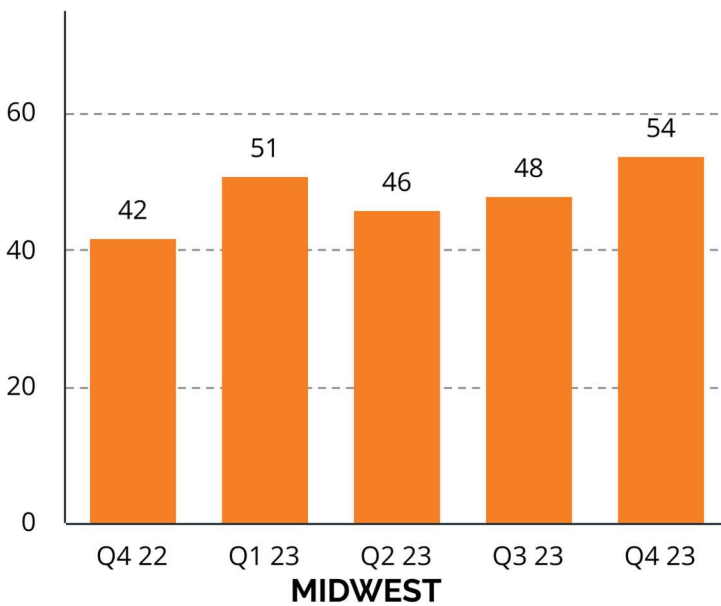
Regional Mechanic's Lien Activity



Lien activity **jumped 13% in the Midwest**, led by lien activity in Iowa, Ohio and Michigan.

The **Northeast** and **South** were higher than the national average, though both declined from Q3.

The **West** pulled down the national average with its **dramatic 10% decrease**; however, appearances of lower activity may be deceiving. At the end of Q3, the West was at 38 and, with revised activity, leapt to 49 (*the revision resulted in a 29% increase*). It's certainly within reason to expect the revised Q4 to increase too.



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Looking Forward

Bankruptcy filings rose throughout 2023, businesses have depleted cash reserves and lending options are nearly cost-prohibitive, creating the perfect storm for restricted cash flow in 2024. Expect subcontractors and material suppliers to front (and carry) funds for projects, extending credit far beyond reasonable terms, thus impeding their own cash reserves. In addition to mechanic's liens, a prudent creditor should file UCCs as supplemental payment security.

The **Architecture Billings Index (ABI)** spent most of 2023 below 50. *"Nearly one third of firms report an uptick in significantly delayed projects over the past six months...Billings at firms declined for eight months of the year...However, clients largely remained interested in at least discussing potential new projects...The value of new design contracts increased for only six months of the year, indicating that while clients were interested in new projects, they were generally less likely to commit to them by signing a contract."* - The December ABI report

Associated Builders and Contractors (ABC) reported contractor confidence improved at the end of 2023. *"Collectively, contractors experienced an uptick in optimism during the holiday season,"* said ABC Chief Economist Anirban Basu. *"Still, there remains cause for concern. Recent data indicate that wage pressures persist, which makes it more likely that interest rates, and therefore project financing costs, will remain higher for longer. Geopolitical instability appears to be on the rise, raising the probability of a major conflagration that could further impact supply chains and potentially cause steep increases in certain energy prices."*

The **Dodge Momentum Index** ended 2023 on a low note. *"The Momentum Index ended the year 11% below the November 2022 peak... hitting levels of activity that haven't been recorded since 2008,"* stated Sarah Martin, associate director of forecasting for Dodge Construction Network. *"While ongoing labor and construction cost issues will persist in 2024, a substantive amount of projects are sitting in the planning queue and will support construction spending going into 2025."*

Epiq Bankruptcy reported a 72% increase in Chapter 11 filings in 2023. *"We expect the increase in number of consumer and commercial filers seeking bankruptcy protection to continue in 2024 given the runoff of pandemic stimulus, increased cost of funds, higher interest rates, rising delinquency rates, and near historic levels of household debt,"* said Michael Hunter, Vice President of Epiq AACER.

- Carefully identify and evaluate credit for all parties within the ladder of supply. Construction is wrought with payment issues because the credit relationship is between more than you and your customer; it includes every party between you and the project owner. Timely payment is at the mercy of the weakest link in the payment chain.
- Obtain as much information as possible on the project and all parties within the ladder of supply. Recognize these large-scale projects will likely cover multiple parcels across multiple states.
- Serve preliminary notices on both public and private projects to secure bond claim and mechanic's lien rights respectively.
- Continue to monitor activity on your existing projects and customers. We are seeing an uptick in fund shifting (project to project), which is escalating payment issues.



Carefully identify and evaluate credit for all parties within the ladder of supply.



Obtain as much project and party information as possible.



Serve preliminary notices on every project, every time.



Continue to monitor payment activity on existing projects & customers.

LienFinder™: Innovation & Business Intelligence Like You've Never Seen. LienFinder™ is an online database that captures construction project data nationwide, from hundreds of recording offices daily. Locate essential project information and avoid potential payment risks, through the review of national mechanic's lien activity. Contact us today to learn more about this revolutionary database!



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