

Good morning,

First, I would like to thank the committee for allowing me to testify today and share some of the challenges small businesses are facing. This is certainly an unprecedented time and the challenges that small businesses are facing are significant and in some cases crippling.

My name is Scott Lockard of Hampton Enterprises located in Lincoln Nebraska. We are a nearly 75 year old small business that has two main focuses, commercial construction as well as leasing and development. With just over 70 employees we own and lease out nearly 900,000 sf of commercial property which we have built out, lease and maintain with our own employees. Since the majority of our tenants are also small businesses, We have the unique perspective of seeing how small businesses are being impacted and affected due to the current economy.

Like many businesses around the country labor has been a major factor to our business and industry. On the construction side, we struggle to find an adequate supply of employees who are skilled in the construction industry or willing to learn. We offer on the job training, we have worked with both vocational schools as well as the local Universities in order to find and train workers. However, there continues to be a lack of skilled workers in our industry. The majority of the subcontractors that we deal with have also felt this pain. Unfortunately, since there is a scarcity of skilled work force, typically the subcontractor market gains employees by poaching from their competition. This, along with a historic amount of construction work over the past few years has led to labor prices increasing to historic highs. Not only are companies having to start out new employees at higher than normal wages, they are having to increase the wages of current employees just to keep them. This has had a major impact to the cost of construction.

Additionally, the supply chain has had a significant impact on the construction industry. We have many projects that have been delayed due to the availability of materials. We have seen electrical switchgear and components that typically take 6-8 weeks to deliver take anywhere from 6 to 12 months to now be delivered. HVAC equipment like roof top units typically would take 12 weeks from the time the order was placed now can take over a year to deliver. This again is a combination of parts not being available at the factory to build these HVAC units and electrical switchgear, but also labor shortages as these factories cannot find the labor to build these units. The delays have added to construction cost but have impacted schedules and the ability to complete projects.

I had one tenant that was delayed moving in for several months because part of the switchgear that we needed to complete their space wasn't available. We tried multiple avenues to find

another solution, but ultimately we had to complete the project and wait until these components arrived so we could finish and have them move in.

We have another project where the roof top units were ordered on time, but the delivery date has moved multiple times to the point that it ended up delaying the completion of the project. In both of these cases it not only added to the cost of the project but we also lost revenue for the months that these projects sat without the tenants being able to move in on time.

These are only a couple of examples, but I certainly could speak all day just on the impact of these delays and the short supply of materials. The combination of the labor shortage and supply chain issues have increased construction costs nearly 40% of what we saw just two years ago. Supply chain issues will be solved and hopefully after another 6-12 months we will see that come back to normal time frames. However, we likely won't see costs return to a reasonable range, particularly in the labor market. I question the long term impact to our industry with these rising costs.

As a landlord our tenants have also had many struggles as well. We have some retail tenants that struggled when covid hit and shutdowns affected their businesses. It seems as if the labor market has not returned to the same level that it was prior to covid. For the most part their customers seem to have returned to their stores, however supply chain issues and labor costs have affected them as well. As their costs for labor and product increase significantly, they are only able to adjust their costs for their product slightly for fear of losing customers. This has led to a major reduction in their profitability. In some cases, our tenants have significant fears that they will not be able to survive and will have to shut down. Not only would it be tragic to see these businesses close, but it would also be an impact to us as their landlord. We still owe the money to the bank for the mortgage, however without a tenant in the space there would be no revenue stream for us to pay the bank back. Although there have been some grants and relief programs out there, they were only a temporary solution. The combination of inflation, supply chain issues, lack of labor and the rising cost of labor will be too much for many small businesses to overcome.

On the development side we have also seen struggles. Although we have over 900,000 sf of property already built out, we can add another 500,000 sf on the vacant land that we own. As previously stated, the rise in construction costs has made it difficult to move forward with new tenants in existing spaces or even new buildings on our vacant land. Additionally, the drastic increases in interest rates have made certain projects almost impossible to move forward.

We had been looking at a major apartment development to add market rate apartments in one of our developments. There is a housing shortage in our City and although we have built apartment buildings we don't currently own any. One of our properties has several acres where apartments would have a great benefit, especially with a current housing shortage. However, after working through estimates, looking at the rising interest rates, and running through our proformas, we have decided not to move forward with this project at this time. Unfortunately, I

fear that we will see other projects from customers also go on hold or not move forward due to rising interest costs and construction costs. At this rate, it is certainly not sustainable.

At the end of the day, we still have hope that things can and will improve. We must have hope, but to us small businesses, inflation is not a political word made up to win elections. It is a real issue that we as face every day. We continue to look for ways to overcome the challenges that we face and keep moving forward. However, we need to see policies put in place that will reduce these challenges, not more restrictions that will add costs and frustration to how we operate.

Thank you again for your time and for giving me the opportunity to share with you today. I am proud of the Company I work for and the many businesses that we work with every day. I hope that my testimony today helped you understand the challenges that we face.