# COST INDEX

## DENVER Q3 2023

## Non-Residential Construction Outlook in Denver Shows Promise as Overall Costs Decrease Despite Surge in Diesel Prices

**The overall outlook for non-residential construction remains mixed as the industry grapples with high interest rates even as costs flatten.** Material availability and lead times, specifically, have mostly stabilized, bringing some alleviation to inflation after successive quarters of cost increases brought on by the global supply chain crisis and the COVID-19 pandemic.

**In Denver, nonresidential construction costs decreased by almost half a percentage point (0.47%) in the 3rd Quarter 2023,** led by significant, double-digit drops in the cost of structural steel (-12.80%) and reinforcing steel material (-10.99%) material packages.

That's despite significant regional increases in transportation costs due to the closure of the Suncor Refinery earlier in the year drove the price of diesel fuel upwards of 51%. Prior to its shutdown, Suncor produced between 35% and 40% of Colorado diesel.

**Continued high demand for life-science buildings is also helping to buoy nonresidential construction activity in Colorado.** According to CoStar and CBRE, the broader Denver and Boulder area has one of the lowest biotech vacancy rates in the country at 5.5%, with current demand for almost 1 million square feet outpacing the 834,500 square feet moving through the region's development pipeline, nearly three quarters of which is already preleased.

**Nationally, nonresidential construction costs tracked by the Mortenson Quarterly Cost Index remained almost flat for the 3rd Quarter 2023,** increasing by only 0.19% despite continued pressure on labor availability in most markets. The increase is the smallest since pre-pandemic business conditions, and could signal opportunity for building on a market-to-market basis.

Mortenson regional offices beyond Denver reporting cost increases this quarter likewise saw lower than average cost gains, including nearly flat increases in Minneapolis (+0.3%), Milwaukee (+0.07%), Seattle (+0.02%), Portland (+0.25%), Chicago (+0.5%) and Phoenix (+0.67%).

Both the Phoenix and Portland markets saw 3rd Quarter material cost flattening mitigated by labor rates. In Phoenix, strong construction activity continues to drive labor shortages and higher labor costs, while Portland saw pre-negotiated labor rate increases for the quarter.

**Nationally, labor costs increased by only 0.1%, while the cost for subcontract work edged slightly upward at 0.9%,** representing a significant slowdown in the velocity of cost increases that had previously stifled broader improvements in material costs. Comparatively, the overall pace of labor cost increases in the 2nd Quarter 2023 were still clocking in at 3.2%, and subcontract costs were tracking at +1.3%.

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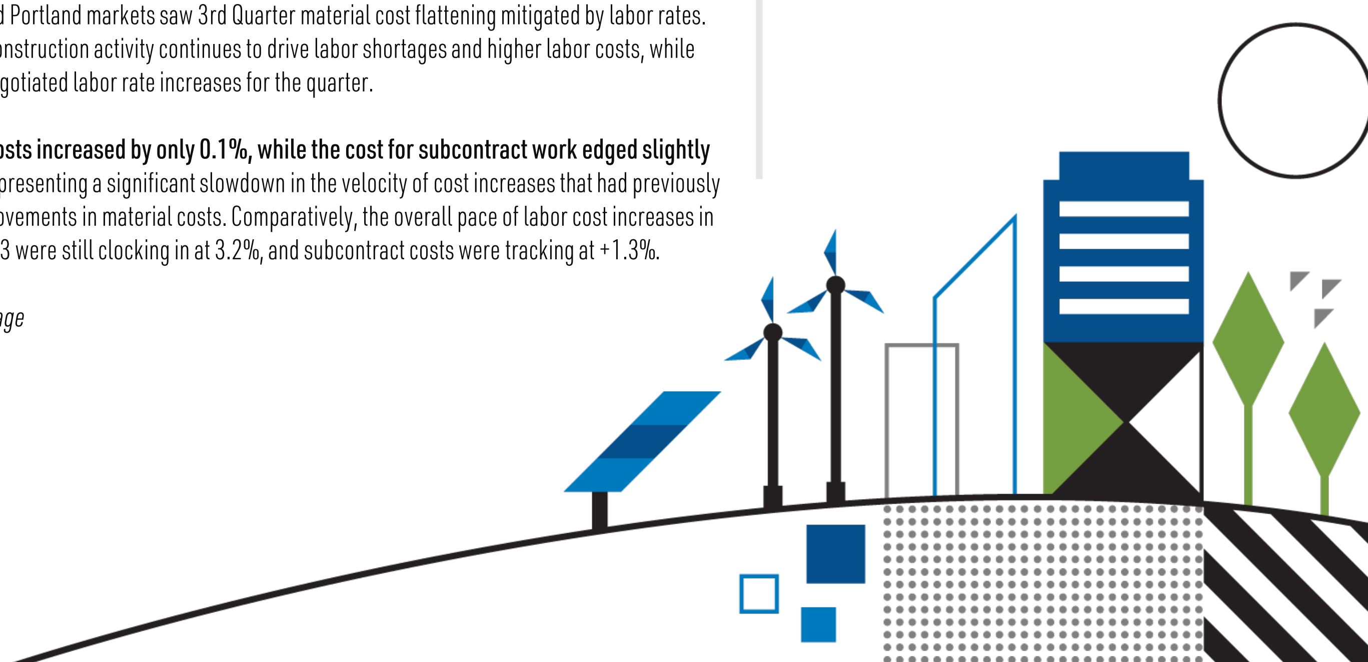

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### Insights:

**Despite cost flattening, industry optimism remains cautious to tepid, particularly as a decline in nonbuilding construction activity is dragging construction starts down overall.** Citing increased credit rates and tighter lending standards overall, the Dodge Construction Network reported a 6% drop to construction starts in September, and noted that starts for the year have remained flat relative to 2022.

**The AIA/Deltek Architecture Billing Index, often viewed as a nine-to-twelve month forward-looking indicator of construction activity, likewise dipped into negative territory in September,** led by declines in multifamily and billings in the Western portion of the US, with AIA Chief Economist Kermit Baker noting that the decrease in billings shows a hesitancy among clients to commit to new projects.

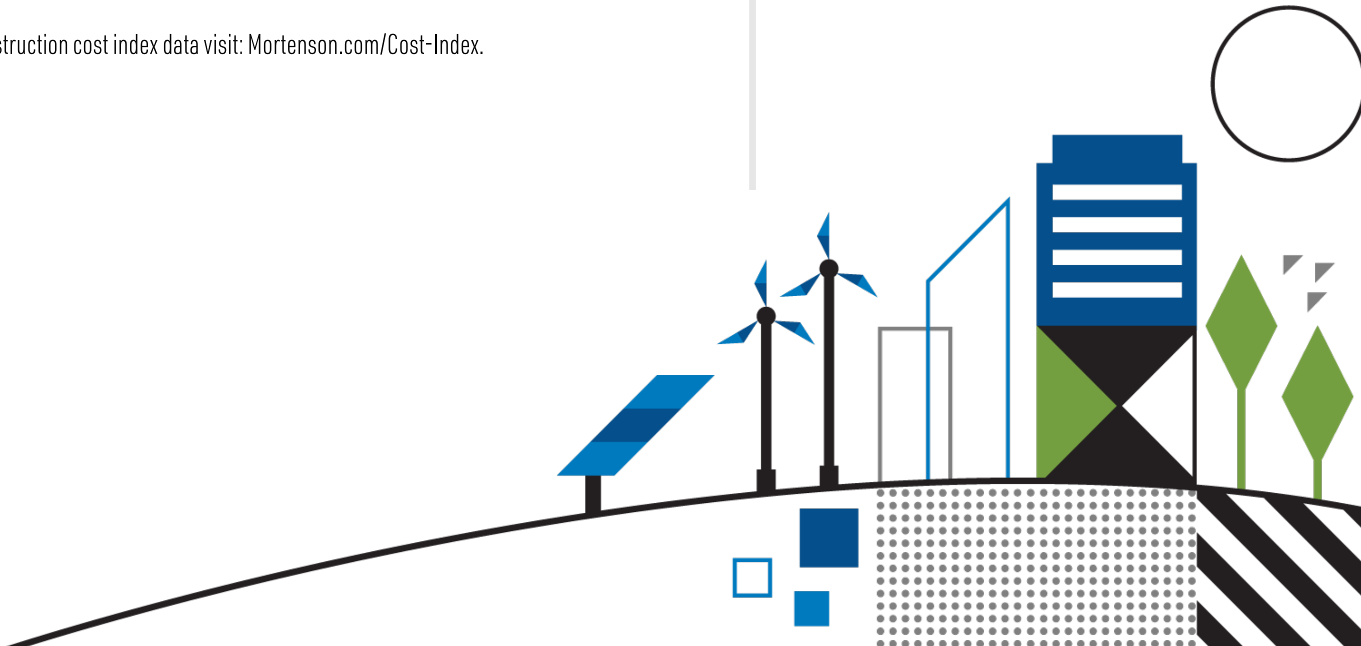
**Ironically, the lull in construction activity could prove beneficial to well capitalized projects already in design or preconstruction,** especially if future market conditions provide better access to labor as costs overall remain flat. Even as nonresidential building starts tracked by the Dodge Construction Network dipped 4% in September, starts were still 3% higher than in September 2022, and the sector remains healthy with a seasonally adjusted annual rate of $459 billion.

**Our construction cost index shows a near flattening of material, labor, and subcontractor costs for the 3rd Quarter 2023 and an overall slowdown to the trajectory of cost increases seen since the onset of the pandemic.** Based on market data and our insights, we remain cautiously optimistic while keeping a watchful eye on labor availability even as costs mitigate, especially in markets where mega projects aren't already consuming labor resources. We recommend customers weigh the relative challenges and cost of borrowing capital against flattening costs on a market-to-market, opportunistic basis for the balance of 2023.

Mortenson tracks and reports on seven metropolitan areas in the U.S. including Chicago, Denver, Milwaukee, Minneapolis, Phoenix, Portland, and Seattle. The Mortenson Construction Cost Index is calculated quarterly by pricing representative non-residential construction projects in various metropolitan areas. It is part of a portfolio of industry insights and market studies provided by Mortenson.

For nationwide construction cost index data visit: Mortenson.com/Cost-Index.

**VIEW THE FULL CONSTRUCTION COST INDEX**



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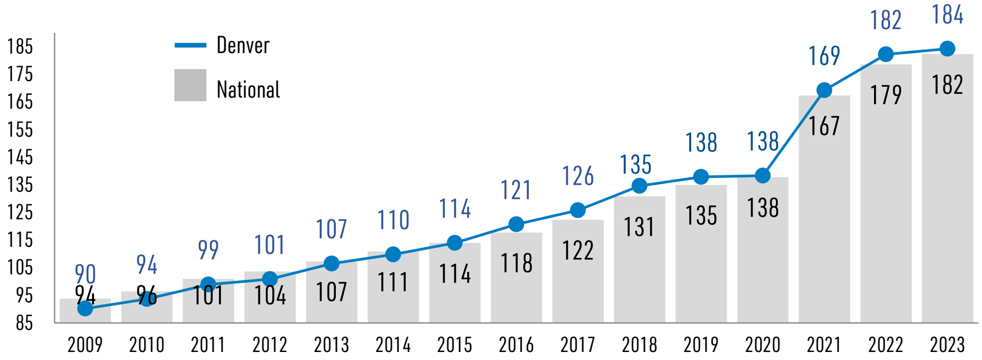
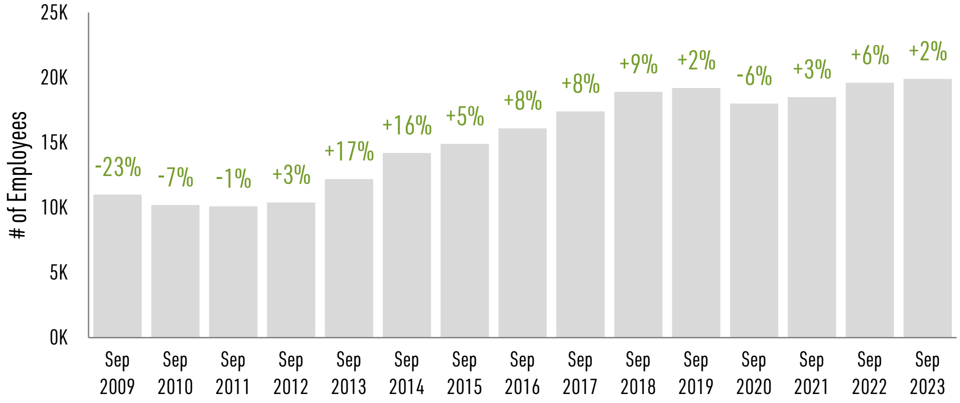
Mortenson

### CONSTRUCTION COST INDEX
(January 2009 = 100)




The Mortenson Cost Index is showing a single quarter increase of 0.2% nationally and a decrease of 0.5% in Denver. Over the last twelve months, costs increased 2.3% nationally and 1.2% in Denver.

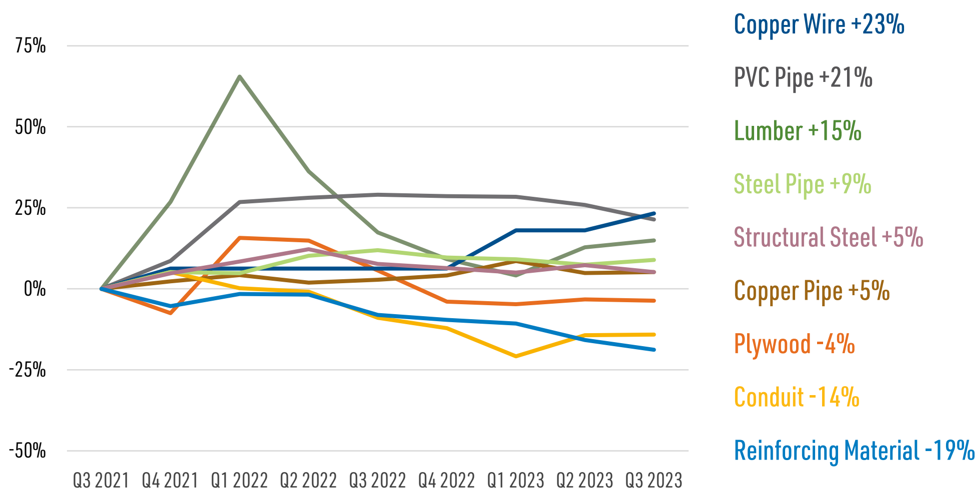
### DENVER CONSTRUCTION EMPLOYMENT
(Number of Employees and 12-Month Change)




Building construction employment in the Denver metro region totaled 19,900 in September 2023. This is 2% higher (300 workers) compared to September 2022. The cost and availability of qualified workers remains an ongoing challenge for the industry.

*Source: Bureau of Labor Statistics*

### MATERIAL PRICING CHANGES
(Cumulative Q3 2021 to Q3 2023)




Prices for commodity-based materials have leveled off, with material availability and lead times reported to be mostly stable.