COST INDEX
PORTLAND Q1 2024

Non-Residential Construction Outlook Continues to Show Exposure to Broader Inflation, Interest Rate, and Supply Chain Challenges

The overall outlook for non-residential construction is cautiously optimistic, with inflation delaying interest rate reductions, continued workforce challenges keeping labor costs high, and national supply chain workarounds in the wake of the Francis Scott Key Bridge collapse tangentially contributing to longer lead times and higher costs for construction materials.

Stuck above 3 percent despite a softening job market, the inflation rate continues to stymie Federal Reserve intentions to further cut short-term interest rates down to 4% by December 2024. Nationally, nonresidential construction costs tracked by the Mortenson Quarterly Cost Index for the 1st Quarter 2024 increased by +0.34%, a +1.89% increase over the previous twelve months following several quarters of relatively flat cost movement.

Mortenson regional offices reporting cost increases this quarter include Milwaukee (+1.29%), Seattle (+0.72%), and Minneapolis (+0.52%), while Portland, Denver, Phoenix and Chicago remained relatively flat.

Across all markets, MEP (mechanical, electrical, and plumbing) scopes continue to show material and equipment pricing volatility. On a trade-by-trade basis, Electrical contractors (1.5%), Structural Framing Erection (+1.8%), and Metal Fabrication (+1.9%) were the top three trades seeing cost increases.

Trade partner work, which accounts for roughly 51% of the cost index weighted value, increased by 0.7% during the quarter, while construction materials (43% of the cost index) decreased by (0.2)% and labor (6% of the cost index) increased slightly by 0.9%. Still, labor costs have increased an average of 4.3% over the last 12 months, contributing in part to a similar 3.2% cost increase for trade partner work.

Craft labor rates in both the Denver and Phoenix markets saw an increase in the first quarter, pushing a trailing 3-month increase to labor costs in those markets to 6.7% and 4%, respectively. Both offices, along with the Seattle regional office, also note a general slowdown in construction activity, and the Denver, Seattle, and Minneapolis regional offices report strong trade competition for projects, which could help offset costs rising elsewhere across project scopes.

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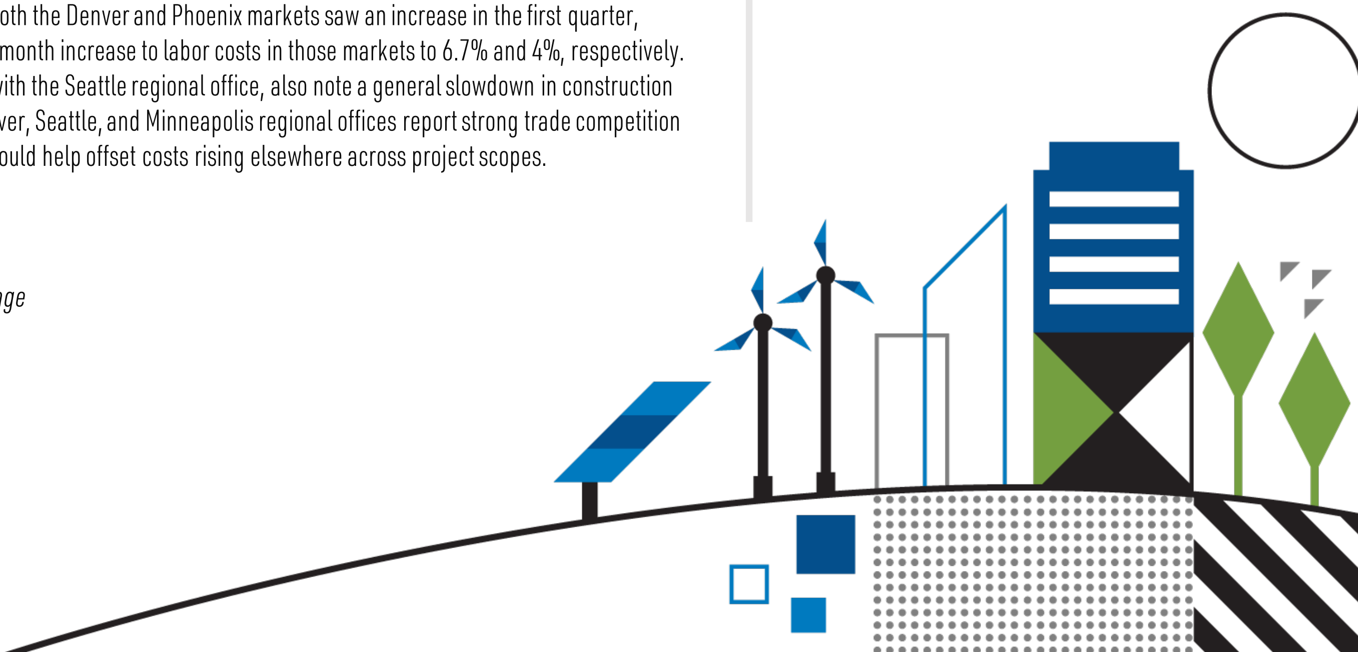

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Insights:

The cost and procurement of labor remains a critical challenge to construction, with various industry sources estimating a need for 450,000 to 550,000 new craft workers above the normal pace of hiring in 2024 just to meet demand. The Associated General Contractors of America further notes that hiring among its members is already more difficult in 2024 than it was in 2023, a trend expected to continue into 2025.

Despite those headwinds, the Dodge Construction Network expects total spending on construction starts to eclipse the $1 trillion mark this year. Indeed, the first two months of 2024 saw a 26% year-over-year increase in nonresidential construction spending to $67.6 billion, compared to $53.5 billion in 2023, with the institutional sector, in particular, buoyed by robust activity in both education and healthcare construction.

Nationally, while average construction material costs have remained relatively flat, the collapse of the Francis Scott Key Bridge is expected to impact supply chains in the short term, particularly on the East Coast. Baltimore, the 17th largest port in the US, is a hub for vehicle and coal imports and exports, and disruptions to the supply of construction materials are expected as freight moves to alternate rail and trucking routes. Truckers, however, are already challenged by decreased capacity and higher diesel fuel prices, prompting the American Trucking Association to bump its For-Hire Truck Tonnage Index up 4.3 percent in February.

Our construction cost index shows a modest increase in costs for the 1st Quarter 2024 after a period of either negligible or slower cost increases experienced across 2023. Inflation and the cost of labor procurement remain a burden to projects, but overall spending on non-residential construction starts remains healthy, with additional market activity expected to grow in tandem with interest rate cuts expected in the second half of the year. We recommend customers continue to gauge the market-specific challenges of labor and material costs while considering project starts on an opportunistic basis in the 2nd Quarter 2024.

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

COST INDEX

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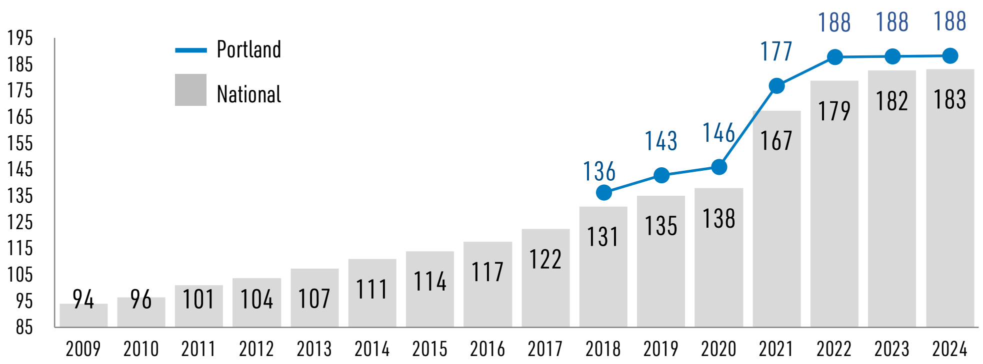
CONSTRUCTION COST INDEX

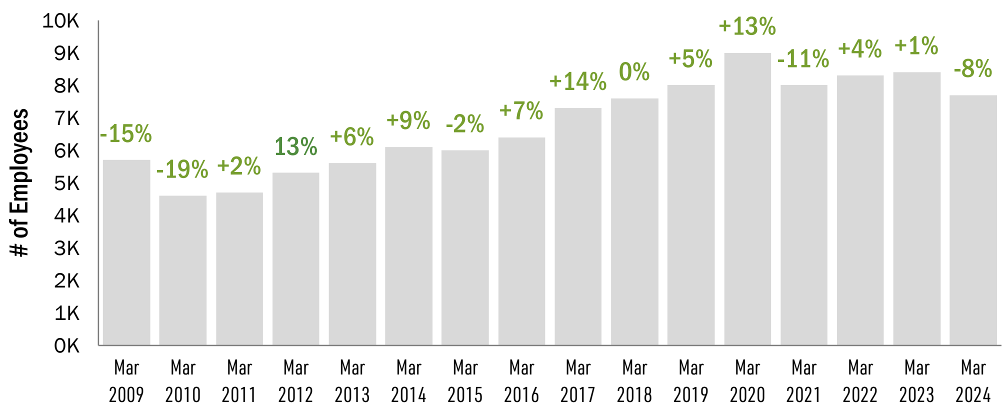
(January 2009 = 100)



Nationally, the Mortenson Cost Index increased by 0.34% for the 1st quarter 2024, a 1.9% increase over the previous twelve months. Costs in Portland were flat in the most recent quarter and increased 0.3% over the last twelve months.

PORTLAND CONSTRUCTION EMPLOYMENT

(Number of Employees and 12-Month Change)

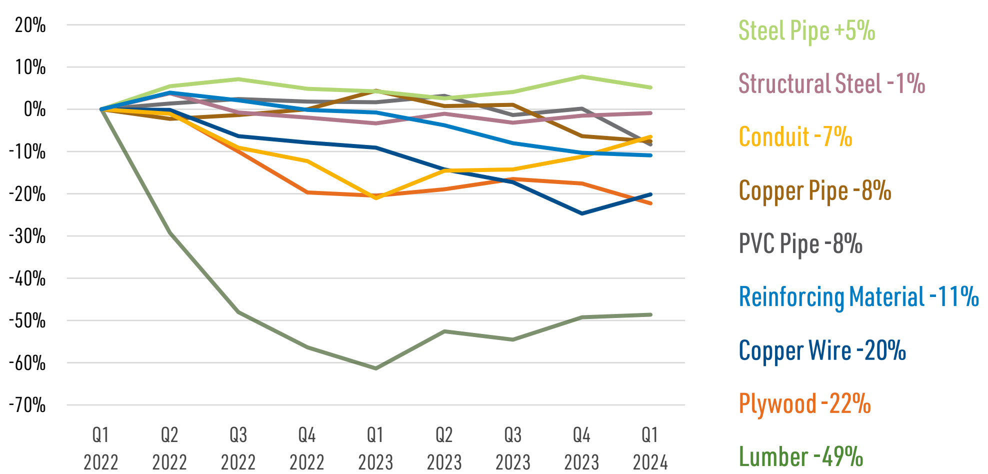


Nonresidential construction employment in the Portland metro region totaled 7,700 in March 2024. This is a decline of 8% (700 workers) compared to March 2023. The cost and procurement of labor is a persistent industry challenge.

Source: Bureau of Labor Statistics
Portland-Vancouver-Hillsboro, OR-WA – Nonresidential Building Construction

MATERIAL PRICING CHANGES

(Cumulative Q1 2022 to Q1 2024)



Prices for commodity-based materials are reported to be mostly stable, although MEP (mechanical, electrical, and plumbing) scopes continue to show material and equipment pricing volatility.