COST INDEX

MINNEAPOLIS Q1 2023

ADVICE FOR BUILDING OWNERS

The overall outlook for non-residential construction remains positive, with cost increases continuing to slow or remain flat and material availability and lead times showing greater stability than in previous quarters.

After a slow beginning to the year, construction starts rose 19% in March, according to Dodge Construction Network, with gains in manufacturing and other sectors lifting non-residential building starts by 33%. That's on top of a 2022 year-over-year 15% increase in starts compared to 2021.

Although higher interest rates continue to weigh on the construction sector and the broader economy, recent signals by the Federal Reserve indicate the current cycle of rate increases may have concluded. Despite the interest rate environment, employers continued to add jobs across Q1, with the unemployment rate remaining at a 3.5% low in March.

Inflation and interest rate increases are having an impact on certain construction costs, decreasing lumber prices by nearly 18 percent. Waning consumer demand and lower import volumes have also decreased the cost for domestic freight, easing supply chain woes as capacity becomes available in tandem with demand continuing to slow from the pandemic's peak.

Still, labor issues in the construction industry continue to be a concern, with reports of tight labor markets or even worker shortages in many regional markets. As construction starts increase and larger projects compete for laborers, many projects are paying incentives to secure workforces.

Nationally, nonresidential construction costs increased this quarter by +0.6% which represents a +5.0% increase over the previous twelve months, with the majority of cost increases occurring in Q2 of 2022. Continuing a trend from the previous quarter, Mortenson regional markets reported little to no change in total construction costs, with some markets remaining flat or even showing slight decreases.

The regional markets with an overall observed increase in Q1 include Milwaukee +1.1%, Seattle +1.1%, Chicago +1.0%, and Phoenix +1.5%. Geographic markets showing slight decreases in Q1 included Denver (-0.3%) and Minneapolis (-0.1%), with Portland reporting flat costs overall for the quarter.

Our construction cost index shows a continued slowdown of the cost increases experienced over the last two years. Based on market data and our insights, we remain cautiously optimistic as demand for construction remains robust despite broader softness in the economy. We recommend customers remain adaptive relative to local markets, as growth in construction activity will continue to create stronger demand for labor and affect broader workforce availability 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.

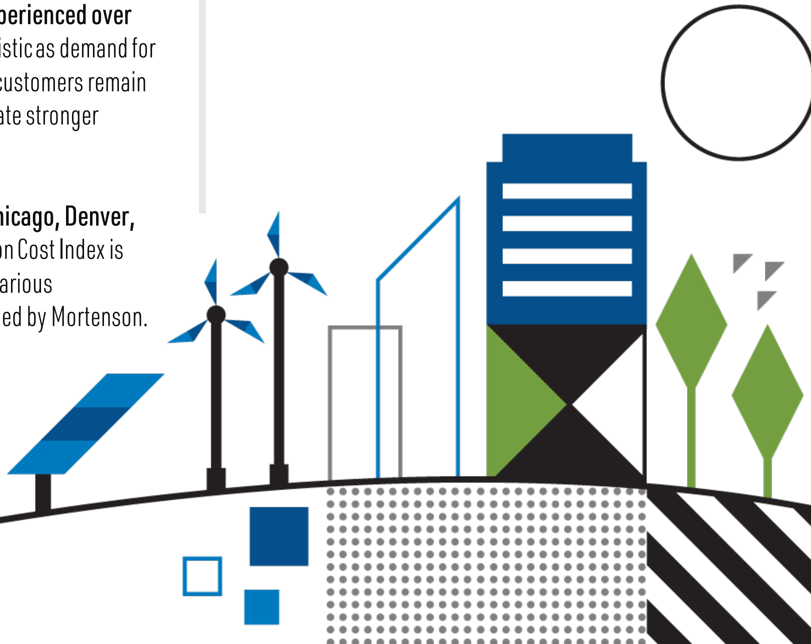
For nationwide construction cost index data visit: Mortenson.com/Cost-Index.

For a more specific update or questions regarding this report, please contact:

Frank Kosmach
Chief Estimator
763.287.5641
frank.kosmach@mortenson.com

Kelly McNamara
Vice President Operations
763.287.5915
kelly.mcnamara@mortenson.com

VIEW THE FULL CONSTRUCTION COST INDEX



COST INDEX

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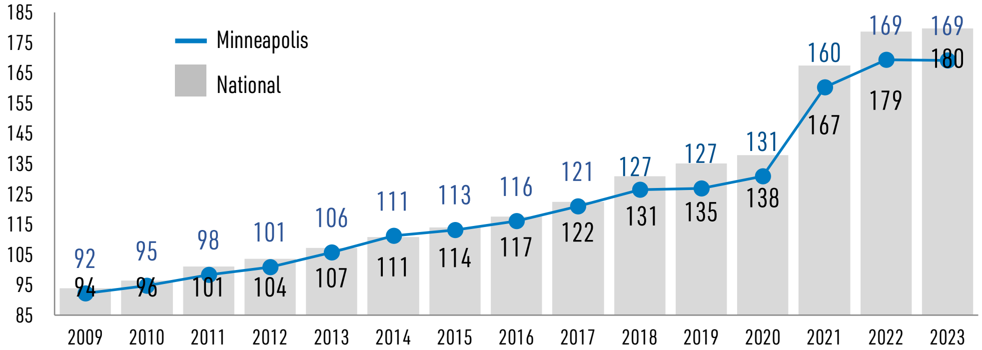
CONSTRUCTION COST INDEX

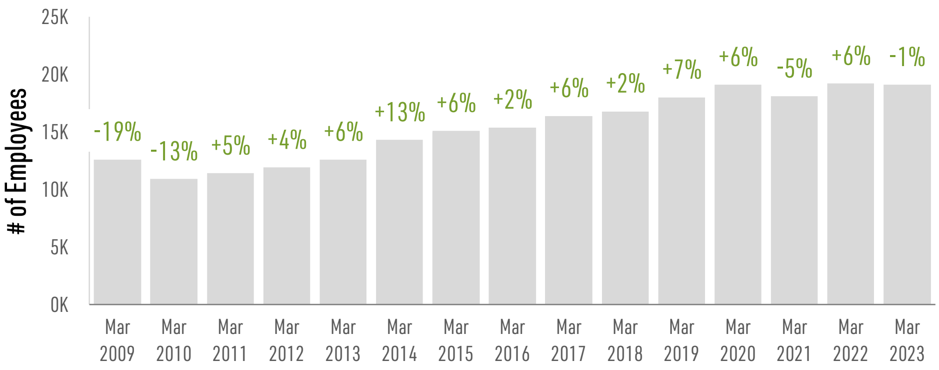
(January 2009 = 100)



The Mortenson Cost Index is showing a single quarter increase of 0.6% nationally and a decrease of 0.1% in Minneapolis. Over the last twelve months, costs increased 5.0% nationally and 3.1% in Minneapolis.

MINNEAPOLIS CONSTRUCTION EMPLOYMENT

(Number of Employees and 12-Month Change)

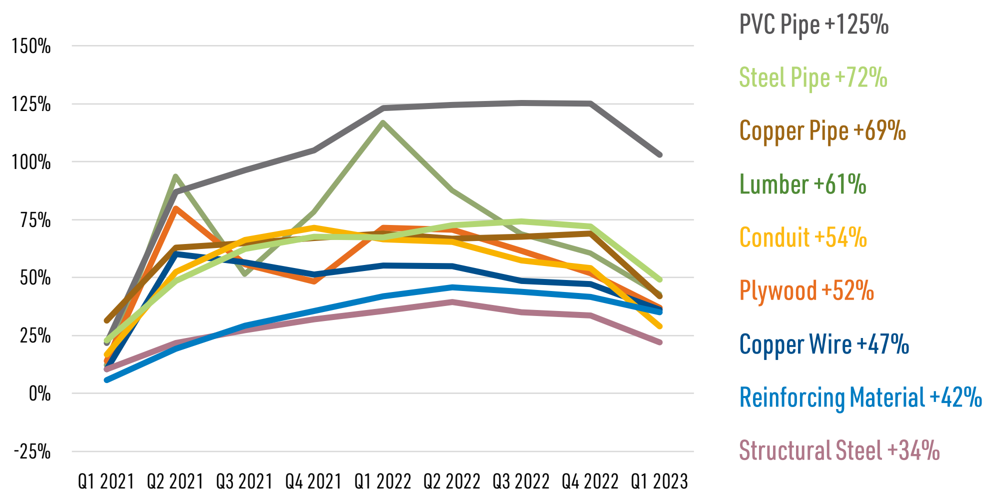


Building construction employment in the Minneapolis metro region totaled 19,100 in March 2023. This is a decrease of 1% (100 jobs) compared to March 2022. Labor availability is a continued challenge for the industry.

Source: Bureau of Labor Statistics

MATERIAL PRICING CHANGES

(Cumulative Q1 2021 to Q1 2023)



Prices for commodity-based materials are beginning to level off, but challenges have persisted with product lead times, material shortages, and transportation logistics.