COST INDEX
MILWAUKEE Q3 2023

Mortenson

Non-Residential Construction Outlook is Mixed as Costs Flatten But Tighter Lending Requirements and Higher Rates Challenge Starts

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.

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.

Indeed, Mortenson regional offices reporting cost increases this quarter likewise saw below 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%), with the Denver office showing a decrease this quarter of almost half a percentage point (0.47%).

Both the Phoenix and Portland markets saw flatter material costs offset 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% after many collective bargaining agreements increased labor costs last quarter. 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%.

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.

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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

COST INDEX
MILWAUKEE Q3 2023

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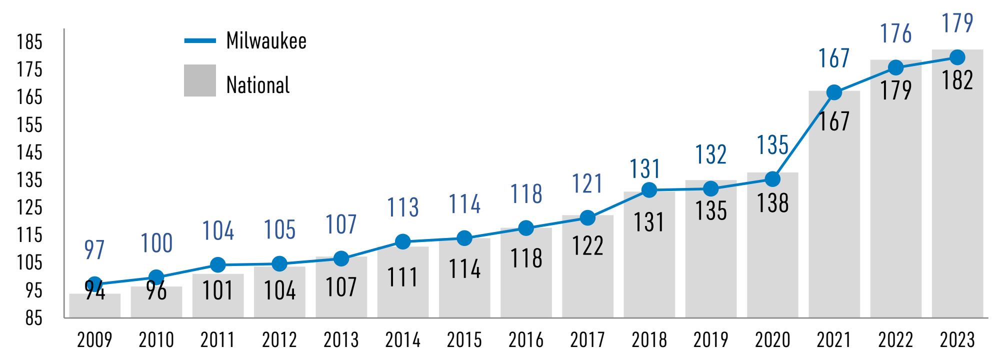
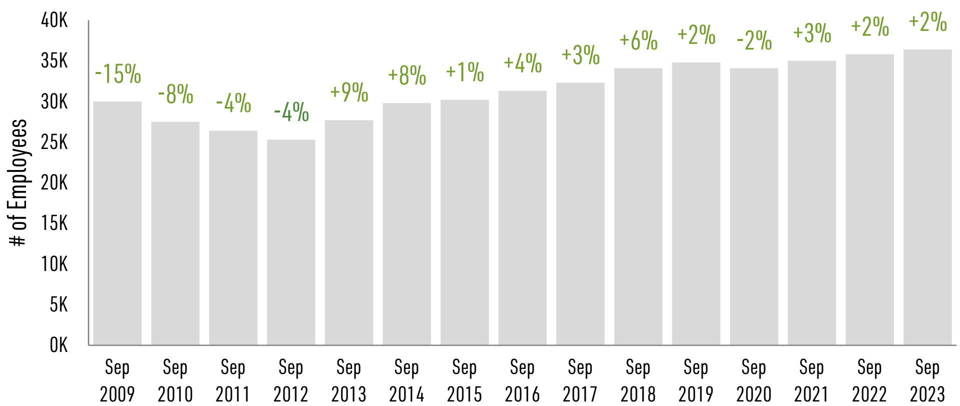
CONSTRUCTION COST INDEX
(January 2009 = 100)



The Mortenson Cost Index is showing a single quarter increase of 0.2% nationally and 0.1% in Milwaukee. Over the last twelve months, costs increased 2.3% nationally and 1.3% in Milwaukee.

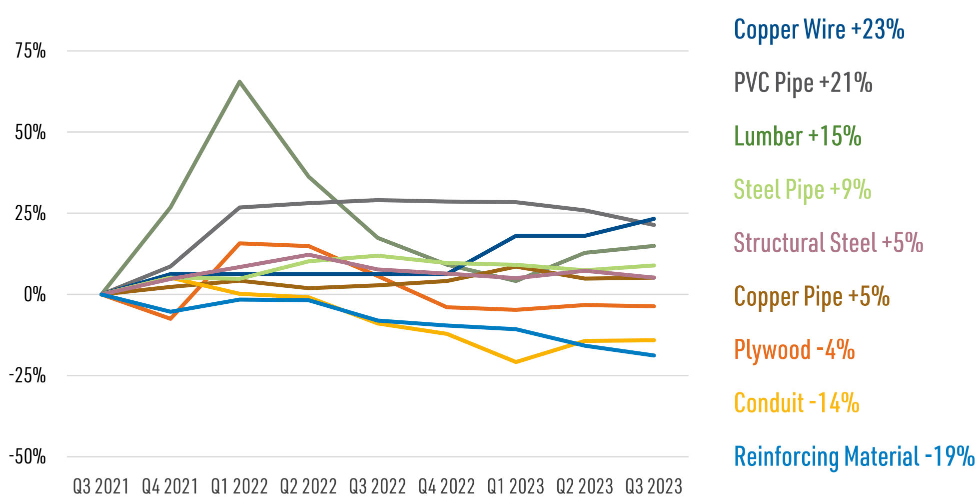
MILWAUKEE CONSTRUCTION EMPLOYMENT
(Number of Employees and 12-Month Change)



Construction employment in the Milwaukee metro region totaled 36,400 in September 2023. This is a 2% increase (600 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.