COST INDEX
MILWAUKEE Q4 2023

Non-Residential Construction Outlook Improving as Costs Remain Flat and Industry Unemployment Falls

The overall outlook for non-residential construction is cautiously optimistic, as flattening construction material costs, lessening oil prices, and confidence in the likelihood of interest rate cuts remain somewhat offset by continued workforce challenges and some continued areas of volatility.

Nationally, nonresidential construction costs tracked by the Mortenson Quarterly Cost Index remained almost flat for the 4th Quarter 2023, increasing by only 0.07% despite continued pressure on labor availability. The increase is the smallest since pre-pandemic business conditions, and follows on the heels of a minimal 0.19% increase in Q3 2023, signaling increased stability in material pricing and buoying the opportunity for building on a market-to-market basis.

Mortenson regional offices reporting cost increases this quarter likewise again saw minimal gains, including nominal increases in Minneapolis (+0.6%), Chicago (+0.15%) and Phoenix (+0.65%). Offices with essentially flat quarters included Milwaukee (0.01%), Seattle (+0.01%) and Portland (+0.01%), with Denver witnessing a stronger decrease in costs of more than three quarters of a percentage point (0.78%).

Subcontract work, which accounts for roughly 51% of the cost index weighted value, increased by 0.3% during the quarter, while construction materials (43% of the cost index) decreased by (0.2)% and labor (6% of the cost index) remained flat.

According to an Associated Builders and Contractors (ABC) analysis of data released by the U.S. Bureau of Labor Statistics, the construction industry added 17,000 jobs on net in December, and on a year-over-year basis, employment has grown by 197,000 jobs, pushing the industry unemployment rate down to 4.4% in December even as unemployment across all industries remained unchanged.

Insights:

Stronger than average wage growth, expanded employee benefit programs, and bonuses and incentives are helping to attract and retain talent. Still, the ABC projects that increased construction spending across 2024 will necessitate an "all of the above" approach to hiring in order to add the 500,000 new workers needed to meet demand.

Continued on next page

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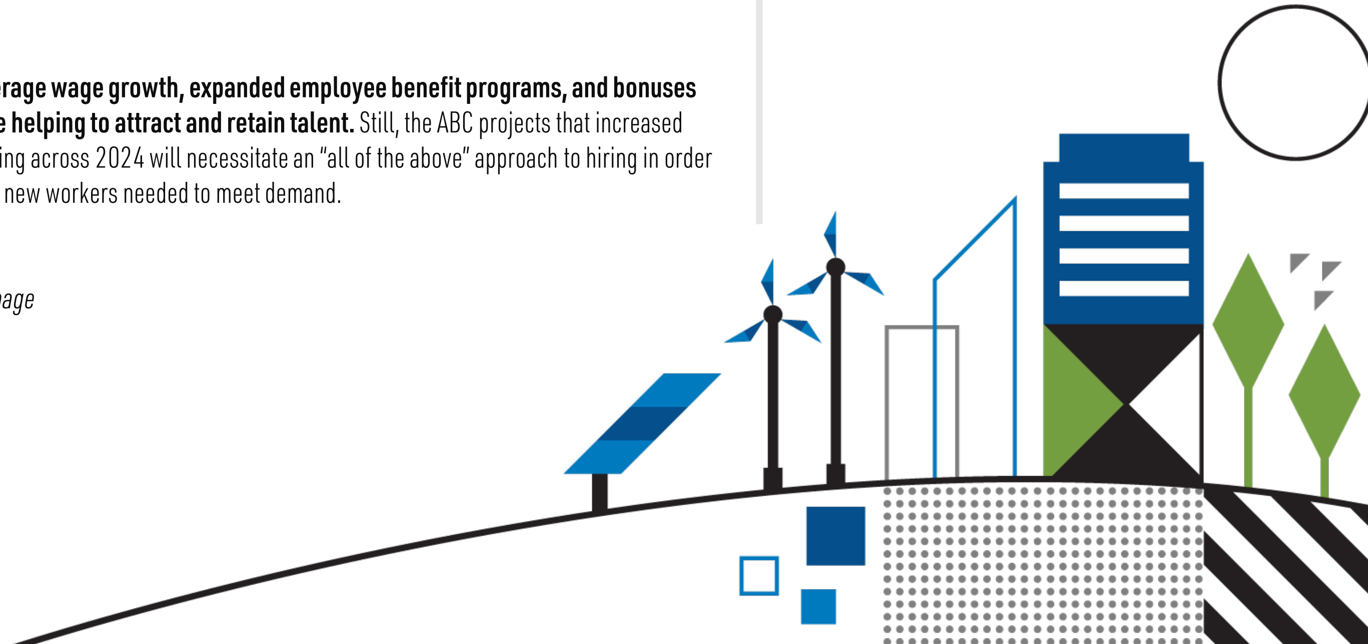


COST INDEX
MILWAUKEE Q4 2023

Mortenson

Continued from previous page

The possibility of interest rate cuts could improve the financing picture and help to trigger new project starts in 2024, particularly toward the second half of the year. Even as hiring continues unabated, inflation has cooled, and market watchers are expecting the U.S. Federal Reserve to cut interest rates by 1% to 1.5% over the course of the year, landing short-term interest rates at approximately 4% by December 2024, based on forecasts.

While the majority of material costs continue to stabilize, the index does show some volatility across mechanical, electrical, and plumbing MEP scopes. Raw material futures suggest that volatility could continue: while aluminum sales plunged in reaction to slowdowns in global industrial and real estate sectors, copper futures have surged as decarbonization projects drive demand for copper-rich electrification systems, prompting miners to warn that long-term supply will fail to keep pace with bullish demand in the coming years

Global shipping costs for both raw materials and finished goods are likely to increase in 2024, as drought in Central America and piracy in the Red Sea complicate passage through the Panama and Suez canals, respectively. Transportation costs stateside continue to improve as oil prices drop and inventories shrink, reducing headwinds facing the trucking industry.

Our construction cost index shows a near flattening of material, labor, and subcontractor costs for the 4th Quarter 2023 and a continued slowdown to the pace of cost increases initially triggered by the COVID-19 pandemic. Based on market data and our insights, we remain optimistic while mindful of trade-specific labor availability on a market-to-market basis. We recommend customers gauge the relative challenge of labor cost while considering project starts on an opportunistic basis in the first half of 2024.

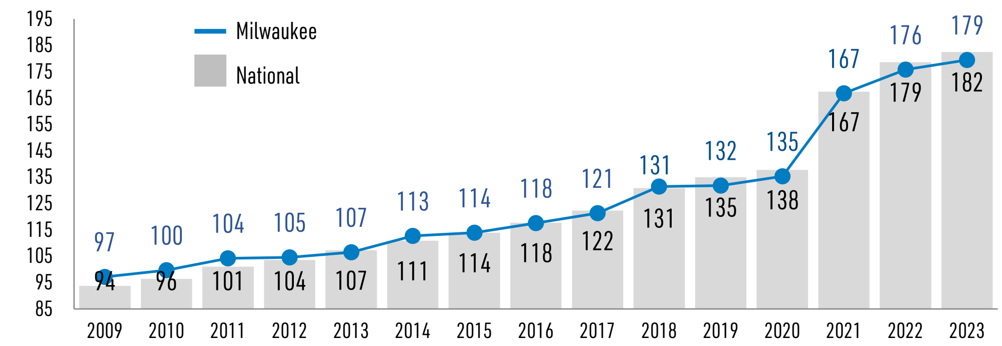
Mortenson tracks and reports on seven metropolitan areas in the U.S. including Chicago, Denver, Milwaukee, Minneapolis, Phoenix, Portland, and Seattle. The Mortenson Construction Cost Index is calculated quarterly by pricing representative non-residential construction projects in various metropolitan 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

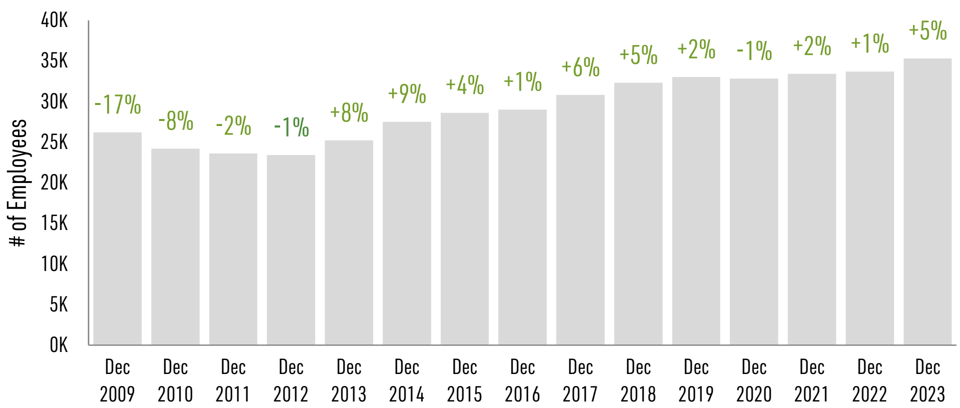
COST INDEX
MILWAUKEE Q4 2023

CONSTRUCTION COST INDEX
(January 2009 = 100)



The Mortenson Cost Index was flat in the most recent quarter. Over the last twelve months, costs increased 2.2% nationally and 2.1% in Milwaukee.

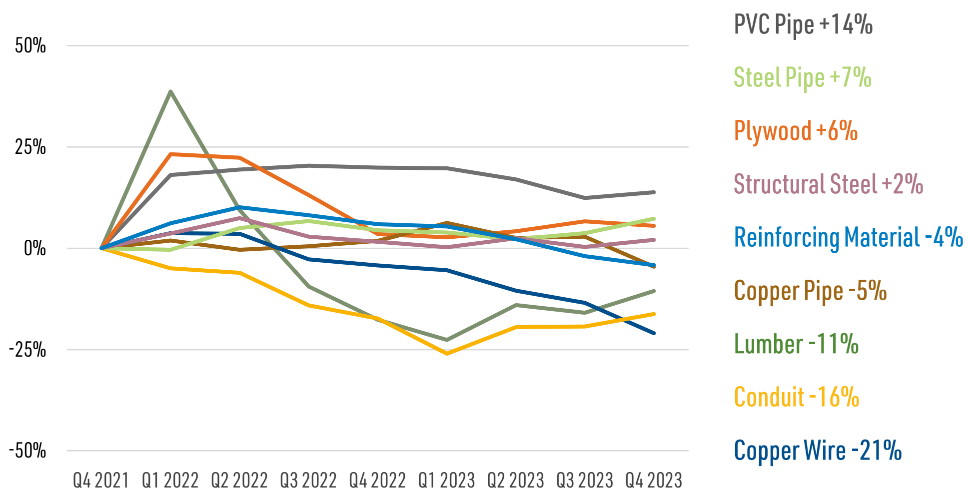
MILWAUKEE CONSTRUCTION EMPLOYMENT
(Number of Employees and 12-Month Change)



Construction employment in the Milwaukee metro region totaled 35,300 in December 2023. This is a 5% increase (1,600 workers) compared to December 2022. Availability and rising costs for qualified workers remains an ongoing challenge.

Source: Bureau of Labor Statistics

MATERIAL PRICING CHANGES
(Cumulative Q4 2021 to Q4 2023)



Prices for commodity-based materials are reported to be mostly stable, although volatility persists in some scopes.