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SEATTLE Q2 2024

Non-Residential Construction Outlook Cautiously Optimistic as Material Prices Stabilize, Inflation Cools, and Confidence in Future Conditions Shows Positive Momentum

The overall outlook for non-residential construction is cautiously optimistic as industry indices and forward-looking indicators show signs of more robust market conditions for starts ahead. While availability of skilled labor remains a challenge across many markets, stabilization in material prices and availability, coupled with the prospect of interest rate cuts, is boosting confidence in near-term project starts.

The Seattle regional office reported a minimal cost increase of +1.08% for the quarter, joining other Mortenson offices who saw modest cost movement, including Minneapolis (+2.46%), Denver (+0.99%), Portland (+0.72%), Milwaukee (+2.15%), Chicago (+0.83%) and Phoenix (+0.76%).

Nationally, nonresidential construction costs tracked by the Mortenson Quarterly Cost Index for the 2nd Quarter 2024 increased by +1.24%, a +1.85% increase over the previous twelve months following a Q1 cost increase of +0.34% after several quarters of relatively flat cost movement.

Over the past twelve months, overall material costs have decreased by 0.9%, continuing a stabilization trend as global supply chains become more reliable for most products and materials. For Q2, the top three material packages seeing price decreases were Structural Steel and Metal Decking (-3.1%), Reinforcing Steel Material (-3.0%), and Floor and Wall Tile (-2.2%).

Across all markets, pricing volatility has been mostly limited to MEP (mechanical, electrical, and plumbing) scopes dependent on wiring, conduit, and piping. On a trade-by-trade basis, Plumbing contractors reported the highest spike in Q2 material costs (+ 6.1%).

Starts in Seattle have responded to the broader stabilization in pricing, and are projected by Dodge Data & Analytics to reach $17.4 billion this year after 2023 saw only $11.8 billion in spending.

Trade partner work, which accounts for roughly 51% of the cost index weighted value, increased by 1.8% during the quarter, while construction materials (42% of the cost index) increased only slightly by (0.2)% and labor (7% of the cost index) increased by 4.2%. Labor costs have increased an average of 5.3% over the last 12 months, contributing in part to a similar year over year cost increase of 3.7% for trade partner work.

Stretched skilled labor pools continue to impact regional costs for craft workers as projects look to attract and retain available talent. In markets with pre-negotiated labor rate increases, Q2 cost increases edged even higher, including Minneapolis (11%), Seattle (7%), Milwaukee (3.75%), and Chicago (3.5%).

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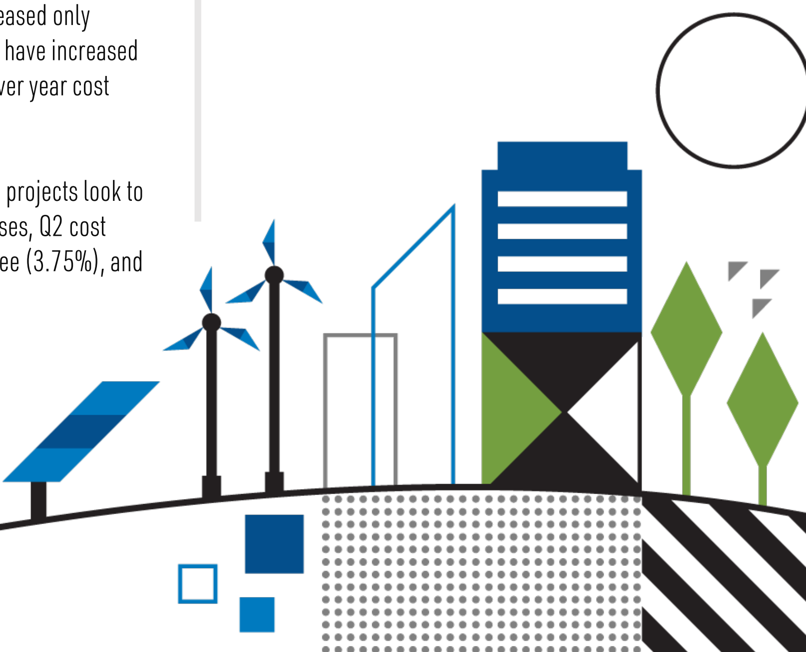

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After several mega projects in the energy sector pushed the value of construction starts up 10% in May, total starts fell back 19% in June, to a seasonally adjusted annual rate of $1 trillion, according to the Dodge Construction Network. Beyond commercial construction, single-family residential starts remain robust, and are a positive forward-looking indicator of future demand across all construction sectors.

"Growth in single-family will incentivize further demand for retail, health, and education starts," says Dodge Construction Network Chief Economist Richard Branch. "And stability in the Dodge Momentum Index (DMI), which tracks projects in planning, underscores this optimism." Despite the volatility in starts, the DMI increased by 10.4% in June, with commercial planning increasing 14.5%. "Planning momentum indicates confidence in 2025 market conditions," Branch says, noting the DMI is up 43% from pre-pandemic levels.

That confidence is evident across the Seattle region, where Dodge Data & Analytics estimates the total value of new contracts to Increase 11% into 2025, with the value of non-building starts alone jumping 12%.

Even as material prices moderate, challenges to International and Domestic freight rates could add upward pressure on shipping costs across the second half of 2024. After Q2 diesel fuel prices hit their lowest point since January 2022, price increases noted by an Associated Builders and Contractors' (ABC) analysis of U.S. Bureau of Labor Statistics data point towards a bottoming-out of both rates and availability for domestic trucking.

Likewise, the stalemate over a renewed labor deal between the International Longshoreman's Association and nearly 85,000 dockworkers across the Gulf and other East Coast ports has the potential to result in a strike if a deal isn't reached by October.

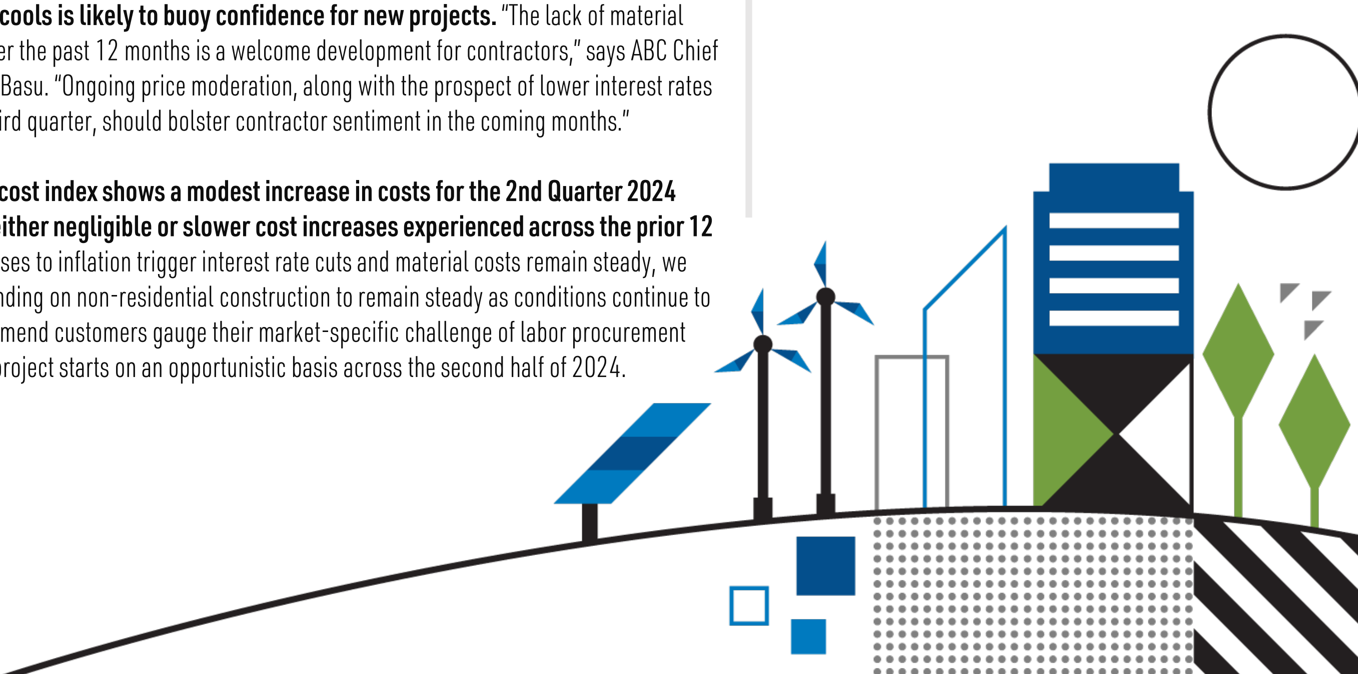
Still, ABC notes that stabilization in cost inputs, coupled with anticipated cuts to interest rates as inflation cools is likely to buoy confidence for new projects. "The lack of material price escalation over the past 12 months is a welcome development for contractors," says ABC Chief Economist Anirban Basu. "Ongoing price moderation, along with the prospect of lower interest rates by the end of the third quarter, should bolster contractor sentiment in the coming months."

Our construction cost index shows a modest increase in costs for the 2nd Quarter 2024 after a period of either negligible or slower cost increases experienced across the prior 12 months. As decreases to inflation trigger interest rate cuts and material costs remain steady, we expect overall spending on non-residential construction to remain steady as conditions continue to improve. We recommend customers gauge their market-specific challenge of labor procurement while considering project starts on an opportunistic basis across the second half of 2024.

VIEW THE FULL CONSTRUCTION COST INDEX

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.



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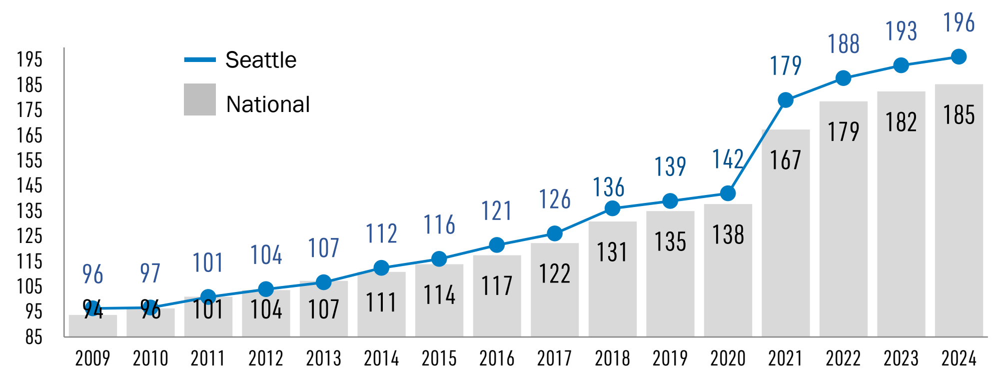
CONSTRUCTION COST INDEX

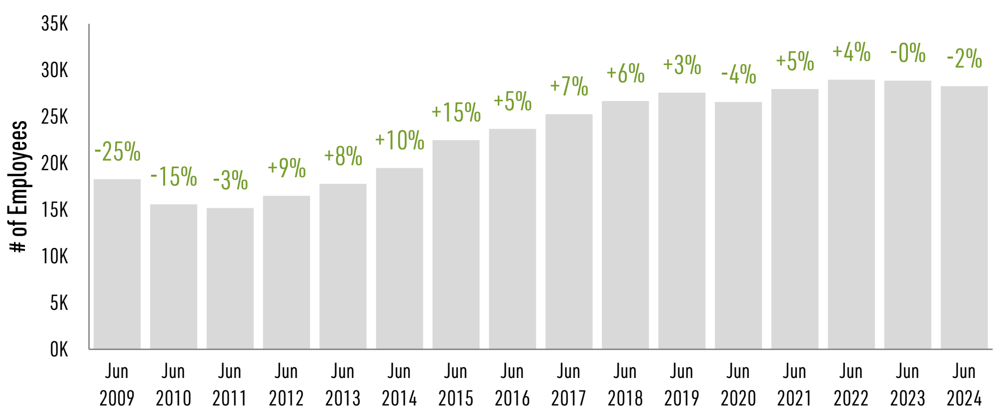
(January 2009 = 100)



Nationally, the Mortenson Cost Index increased by 1.2% in the 2nd quarter of 2024, a 1.9% increase over the previous twelve months. Costs in Seattle increased 1.1% in the most recent quarter and 1.8% over the last twelve months.

SEATTLE CONSTRUCTION EMPLOYMENT

(Number of Employees and 12-Month Change)

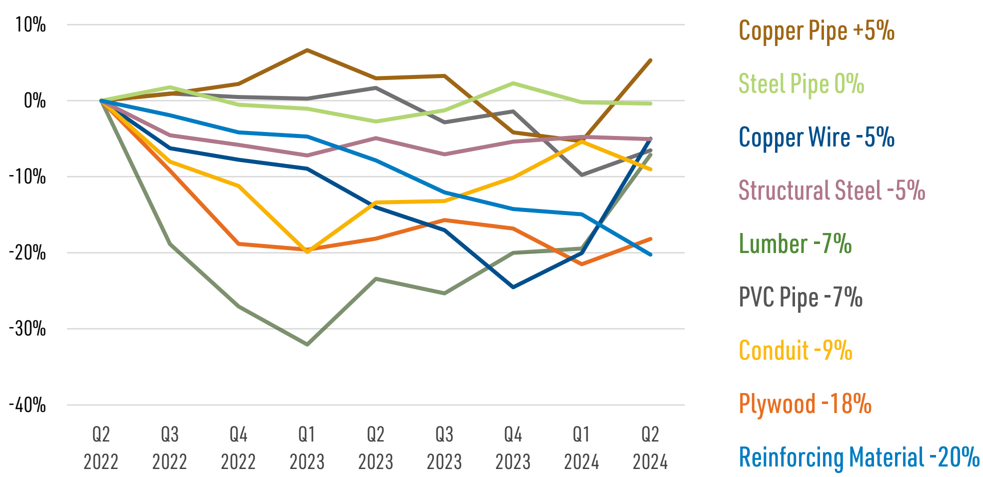


Building construction employment in the Seattle metro region totaled 28,300 in June 2024. This is a 2 % decline (600 workers) compared to June 2023. Labor availability continues to be a challenge for the industry.

Source: Bureau of Labor Statistics
Seattle-Bellevue-Everett, WA – Construction of Buildings

MATERIAL PRICING CHANGES

(Cumulative Q2 2022 to Q2 2024)



Commodity-based materials prices are reported to be generally stable, although MEP (mechanical, electrical, and plumbing) scopes continue to show material and equipment pricing volatility.