



Non-Residential Construction Outlook Improving as Costs Decrease and Industry Unemployment Levels Fall

While construction costs remained largely static across Mortenson's major US markets, costs in Denver decreased by more than three quarters of a percentage point (0.78%). Indeed, even after construction costs in the region edged upward in Q2 2023 by 1.84%, decreases in Q3 and Q4 helped to mitigate the year-over-year to only 0.34%, illustrating the speed of cost deceleration for the market.

Like other regions reporting into the cost index, the overall outlook for non-residential construction in Denver is cautiously optimistic. Even with decreasing costs and rising confidence in future interest rate cuts, building sentiment remains 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.

Other Mortenson regional offices reporting cost increases this quarter 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%), Portland (+0.01%), and Seattle (+0.01%).

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.

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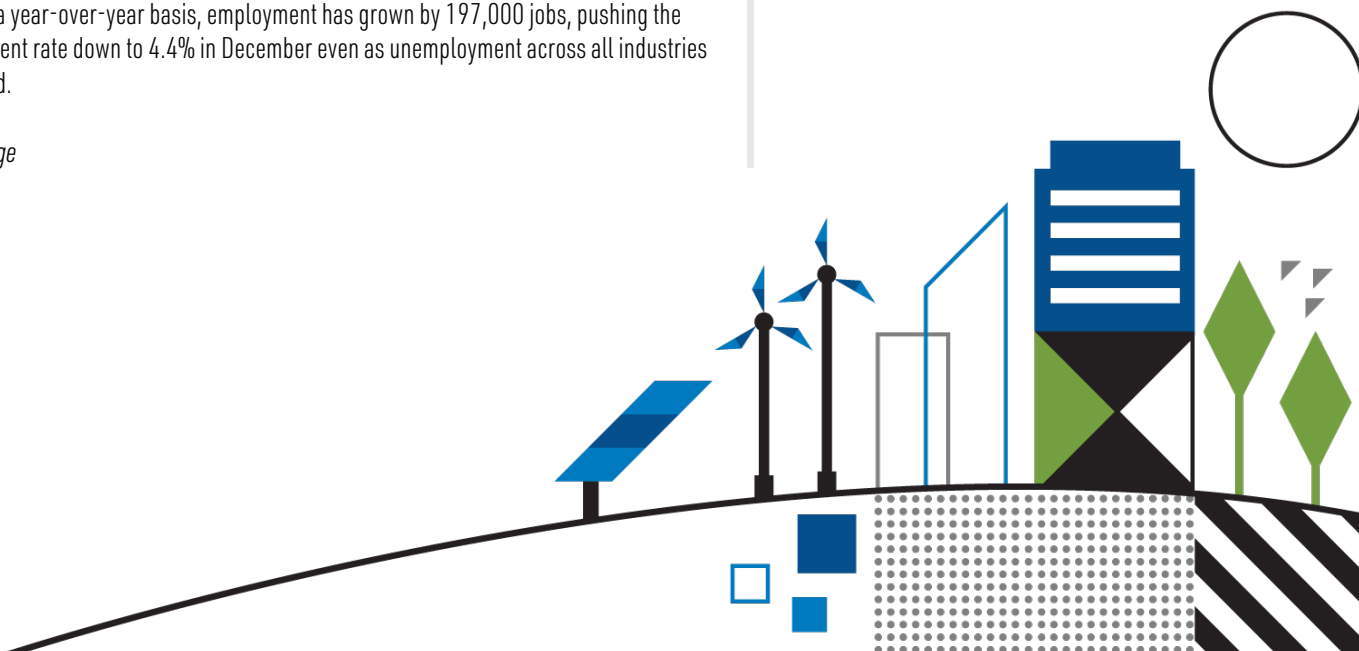
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Insights:

Stronger than average wage growth, expanded employee benefit programs, and bonuses and incentives are helping to attract and retain talent. Nevertheless, with construction spending projected to surge throughout 2024, ABC anticipates that meeting demand will necessitate a comprehensive hiring strategy to address the industry's demand for an estimated 500,000 new workers, amidst existing labor shortages.

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.

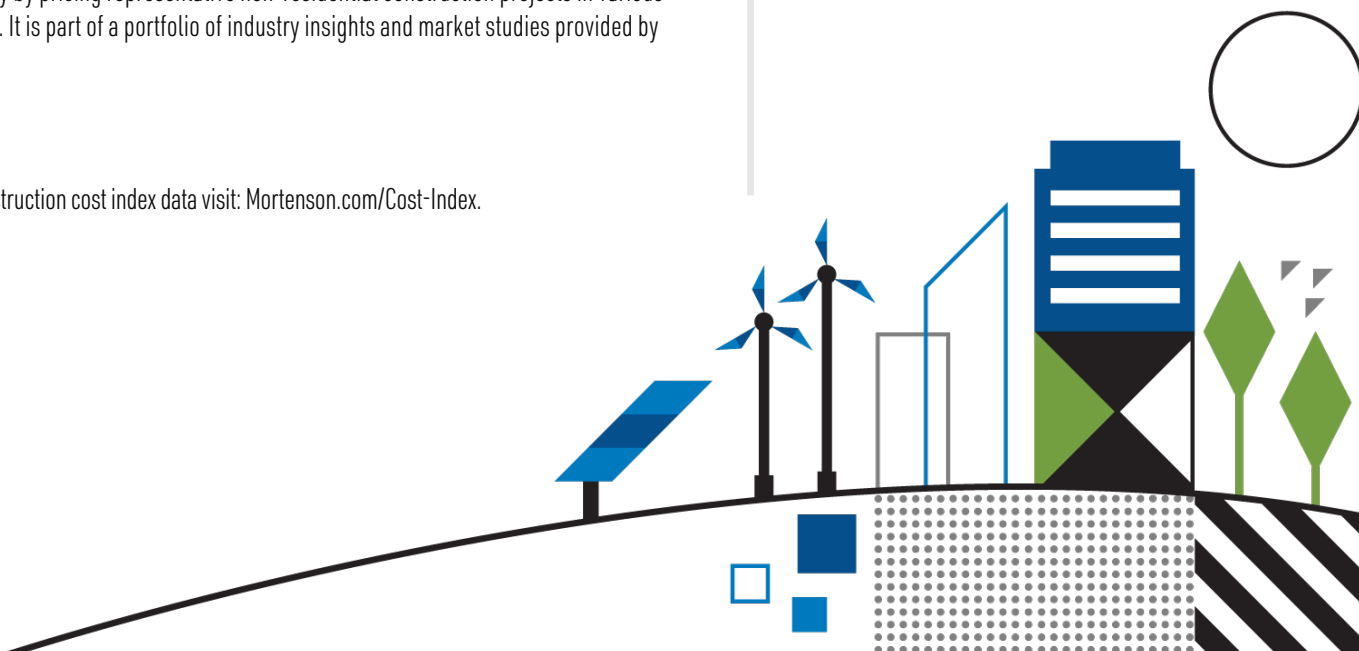
Global shipping costs for both raw materials and finished goods are likely to increase in 2024, as drought in Central America and piracy in the Red Sea complicate passage through the Panama and Suez canals, respectively. Transportation costs stateside continue to improve as oil prices drop and inventories 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. Drawing on market data and our insights, we maintain an optimistic outlook while remaining cognizant of trade-specific labor availability across different markets. We advise customers to assess the varying challenges posed by labor costs and to seize project opportunities strategically for the remainder 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



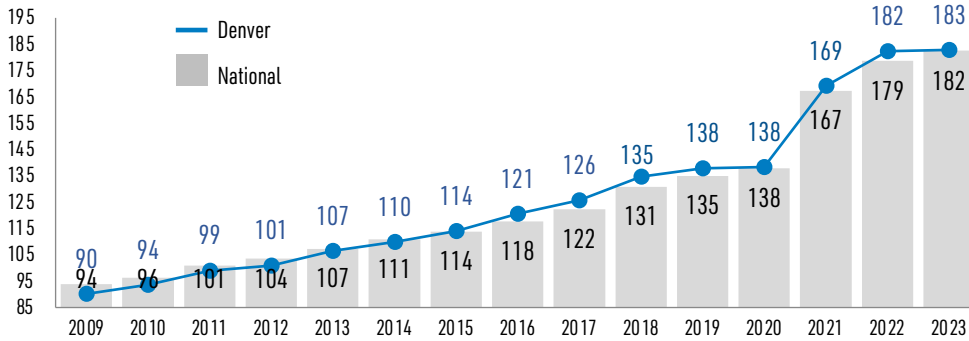
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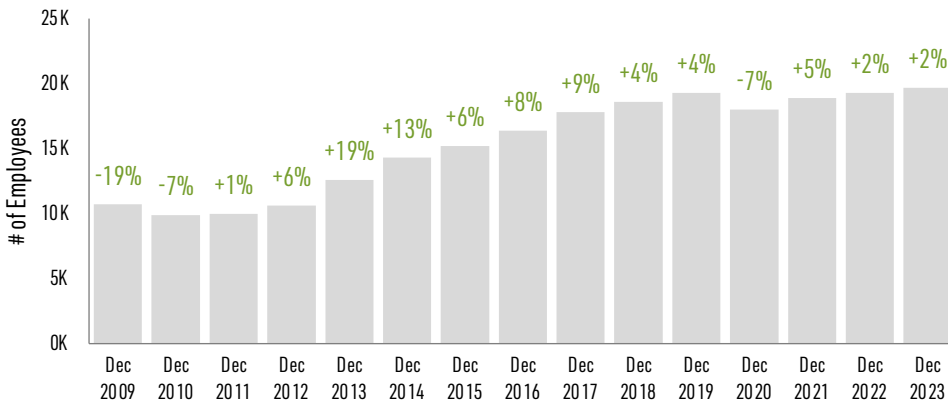
(January 2009 = 100)



The Mortenson Cost Index was flat in the most recent quarter. Over the last twelve months, costs increased 2.2% nationally and 0.3% in Denver.

DENVER CONSTRUCTION EMPLOYMENT

(Number of Employees and 12-Month Change)

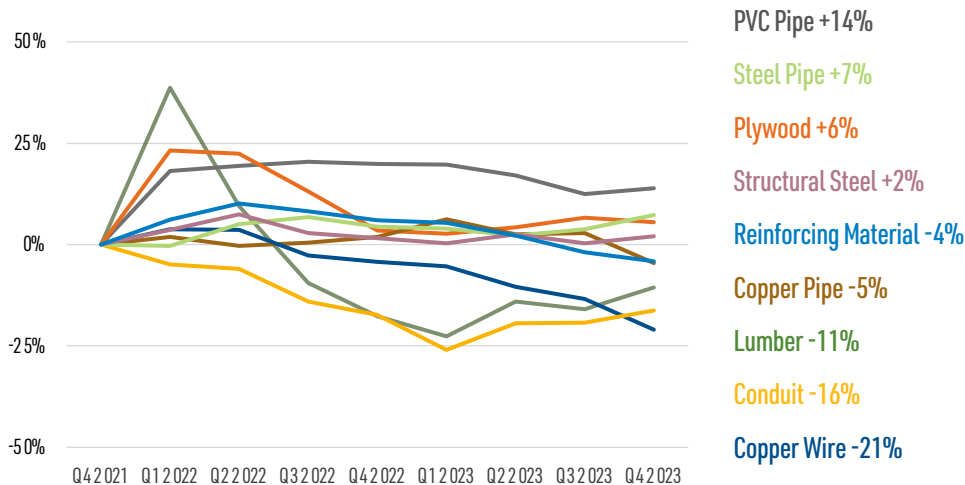


Building construction employment in the Denver metro region totaled 19,700 in December 2023. This is 2% higher (400 workers) compared to December 2022. Availability and rising costs for qualified workers remains an ongoing challenge.

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.