



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

Emblematic of trends across Mortenson's major US markets, construction costs in Seattle were essentially flat for the quarter (+0.01%). Indeed, even as year-over-year construction costs in Seattle edged upward in 2023 by 2.64%, costs across the third and fourth quarter accounted for only +0.03% of the total, illustrating the speed of deceleration in cost increases for the market.

Like other regions reporting into the cost index, the overall outlook for non-residential construction in Seattle is cautiously optimistic, as flattening construction material costs, lessening oil prices, and confidence in future 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.

Other 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%). In addition to Seattle, offices with essentially flat quarters included Milwaukee (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.

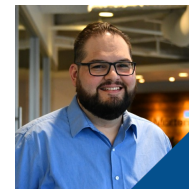
According to an Associated Builders and Contractors (ABC) analysis of data released by the U.S. Bureau of Labor Statistics, the construction industry added 17,000 jobs on net in December, and on a year-over-year basis, employment has grown by 197,000 jobs, pushing the industry unemployment rate down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

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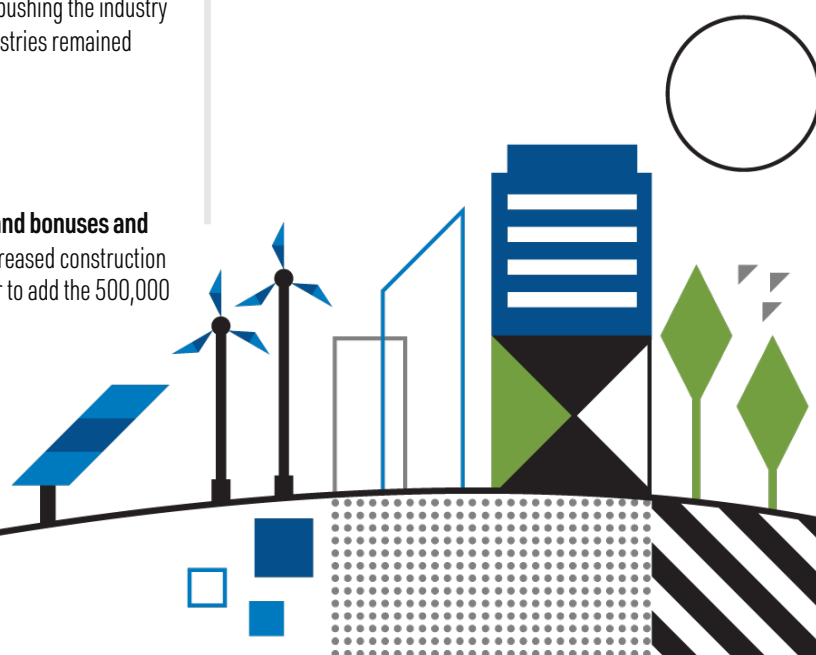
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The possibility of interest rate cuts could improve the financing picture and help to trigger new project starts in 2024, particularly toward the second half of the year. Even as hiring continues unabated, inflation has cooled, and market watchers 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.

Recently named as one of Urban Land Institute's Top 10 Markets to watch, Seattle is likely to see continued interest from project investors as financial conditions improve. Classified among other "Multitalented Producer" markets by ULI's 2024 Emerging Trends in Real Estate report, Seattle was noted for its significant tech presence and substantial science, technology, engineering, and mathematics (STEM) employment base, as well as a diversified economy producing a wide range of goods and services.

Mass timber continues to gain favor in the Seattle market as a low-carbon alternative construction method. In December, Mortenson topped off the Kaiser Borsari Hall at the Western Washington University campus in Bellingham. When completed, the 54,000-square-foot mass timber building will be the region's first carbon net-neutral collegiate facility.

Across the broader Q4 cost index, some material cost volatility is still evident in mechanical, electrical, and plumbing MEP scopes. Raw material futures suggest that volatility could continue for copper-dependent MEP trades: copper futures have surged along with demand for copper-rich electrification systems, prompting miners to warn that long-term supply is unlikely to keep pace with demand in the coming years

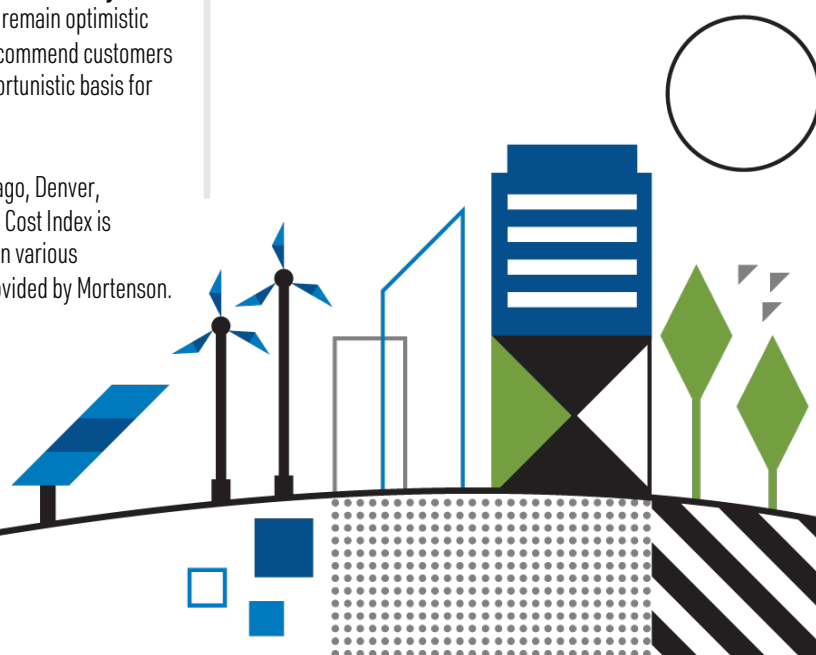
Global shipping costs for both raw materials and finished goods are likely to increase in 2024, as drought in Central America and piracy in the Red Sea complicate passage through the Panama and Suez canals, respectively. Transportation costs stateside continue to improve as oil prices drop and inventories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



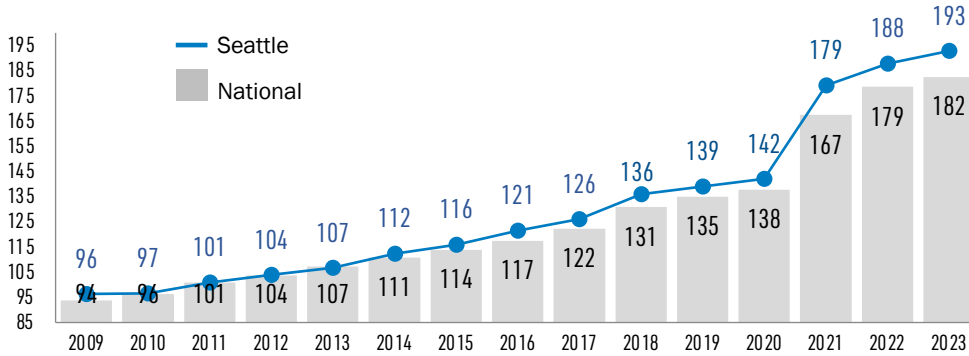
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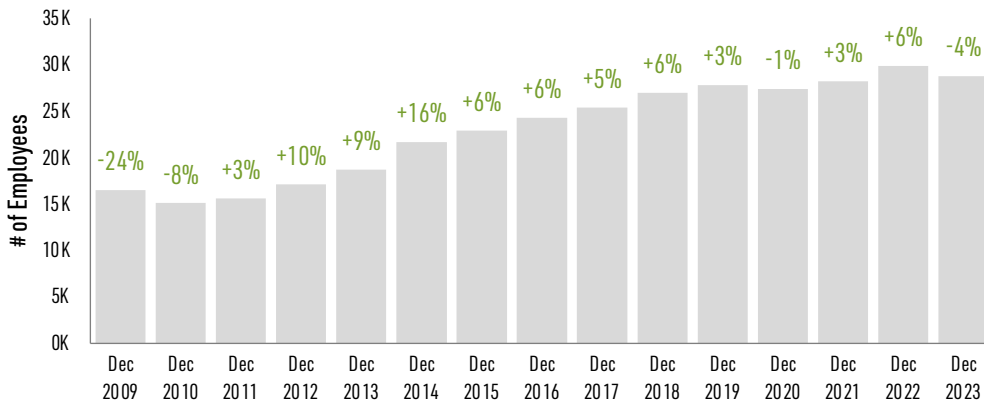
(January 2009 = 100)



The Mortenson Cost Index was flat in the most recent quarter. Over the last twelve months, costs increased 2.2% nationally and 2.7% in Seattle.

SEATTLE CONSTRUCTION EMPLOYMENT

(Number of Employees and 12-Month Change)

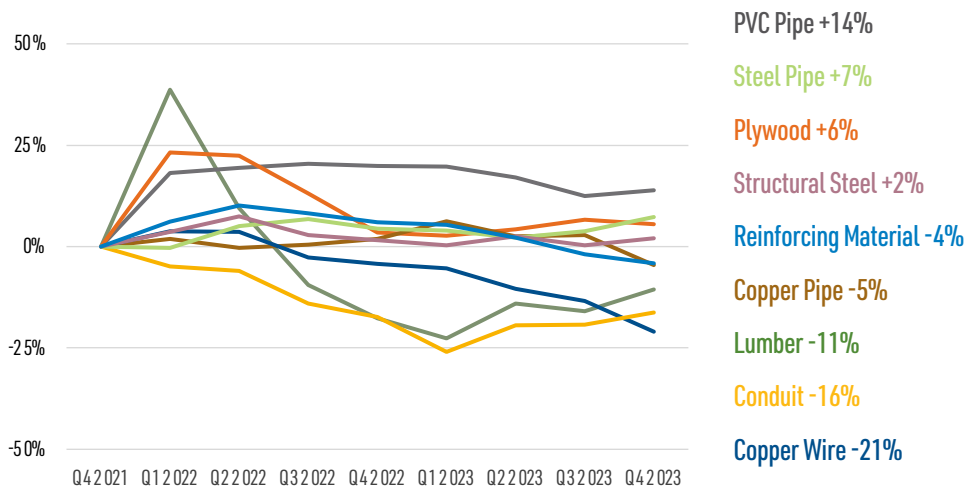


Construction employment in the Seattle metro region totaled 28,800 in December 2023. This is a 4% decrease (1,100 workers) compared to December 2022. Availability and rising costs for qualified workers remains an ongoing challenge.

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.