FOURTH QUARTER 2019

NORTH AMERICA

QUARTERLY CONSTRUCTION COST REPORT

RLB Rider Levett Bucknall

ON THE COVER

SLS – BEVERLY HILLS

LOS ANGELES, CALIFORNIA

SLS Hotel at Beverly Hills is a luxury hotel featuring exclusive world-class designs and custom furnishings, a renowned culinary program, and custom-curated retail. The $22 million renovation encompassed nearly 300 guestrooms and suites, living areas, modern bathrooms, secluded terraces, and an oversized luxury 1,900 SF presidential suite. Two other site enhancement projects included the development of a private dining restaurant, SOMNI, which has been hailed as one of Los Angeles' most unique culinary experiences, and a large indoor/outdoor luxury event space, the Garden Terrace.

Rider Levett Bucknall provided a full suite of cost estimating and project management services. This visionary collaboration is a part of The Luxury Collection Hotels & Resorts, a pronounced ensemble of the world's finest hotels and resorts in more than 26 countries.

NORTH AMERICA

With the presidential race taking shape—and the field thinning out—the conversation about how the outcome of the election will affect the construction industry is warming up. As each candidate rolls out her [or his] position on trade, tariffs, infrastructure, the environment, labor, and other issues that have impacted the business community for the past three years, what might we expect looking forward?

Not unexpectedly, the parties differ on policies and priorities. In the name of regulatory relief, the current administration has rolled back the environmental review process for infrastructure construction and repealed efficiency standards for water and energy use. Tightening trade, it has imposed tariffs on steel and aluminum as well as Canadian lumber that reportedly add over $1,300 to builders' costs for a single-family home. Meanwhile, a proposal from the Department of Housing and Urban Development redefines the way local jurisdictions would be required to promote fair housing in order to receive federal funding and the Department of Labor has proposed high-quality apprenticeship programs—but in its current state, those exclude the construction industry.

Across the political spectrum, green building standards are widely supported while both trade agreements and punitive tariffs are proclaimed as putting people over profits. As far as housing is concerned, some candidates favor subsidy programs, while others target the construction of affordable housing stock.

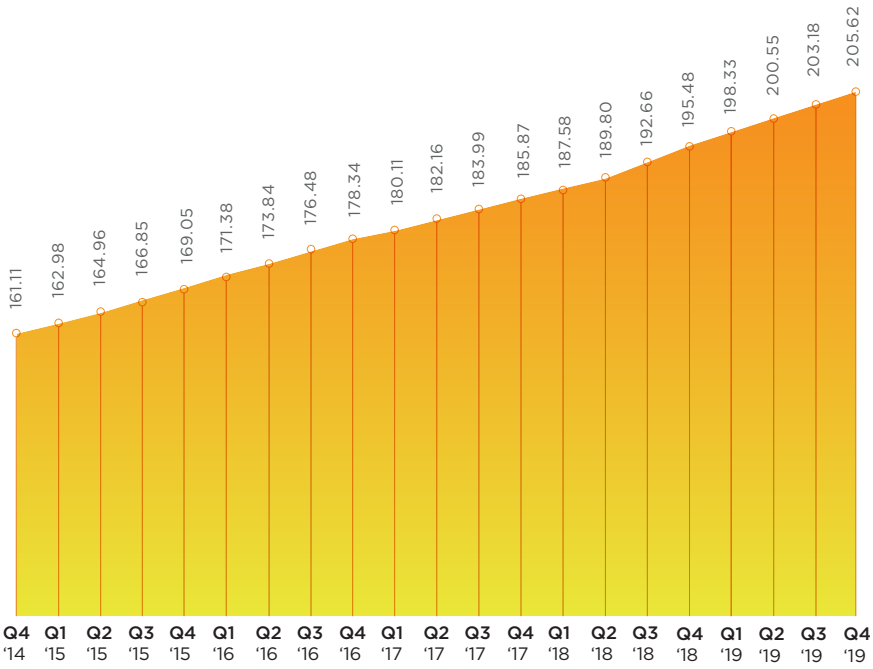
There is, it's important to note, a common denominator across the various points of view: economic uncertainty. Despite the robust performance of the stock markets, the possibility of a recession has nagged at investor confidence around the globe for several years. Warning signs exist: The 2019 federal budget deficit totaled $984 billion, and the Treasury Department estimates it will hit $1 trillion in 2020. Recent developments on the international stage, such as Brexit and the volatility in the Middle East conflict, will impact the domestic economy, as well as international markets.

While construction may be a lagging economic indicator, the time to size up the potential consequences of a downturn —to check your parachute, if you will—to the industry is now.

Julian Anderson FRICS
President,
North America

UNITED STATES

NATIONAL CONSTRUCTION COST INDEX



Welcome to the fourth quarter 2019 issue of the Rider Levett Bucknall Quarterly Cost Report! This issue contains data current to October 1, 2019.

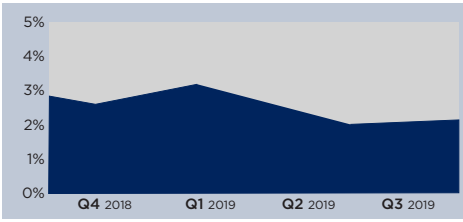
$1,291.1 billion According to the U.S. Department of Commerce, construction-put-in-place during October 2019 was estimated at a seasonally adjusted annual rate of $1,291.1 billion.

0.8% below the revised September estimate of $1,301.8 billion.

1.1% above October 2018 estimate of $1,277.4 billion.

The National Construction Cost Index shows the changing cost of construction between Ocotober 2014 and October 2019, relative to a base of 100 in April 2001. Index recalibrated as of April 2011.

KEY UNITED STATES STATISTICS

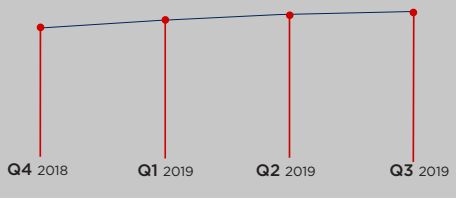


Gross Domestic Product* (GDP)

GDP holds steady at 2.1%, a nominal increase from 2.0% in Q3.

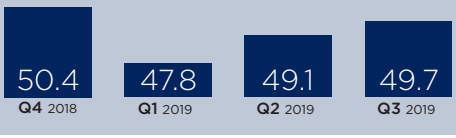
Consumer Price Index (CPI)

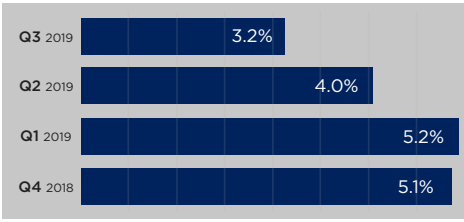
CPI is 256.8, a year-over-year increase from 252.4 in 2018.



Architectural Billings Index (ABI)

ABI scores are trending just below 50, the indicator for billings growth.



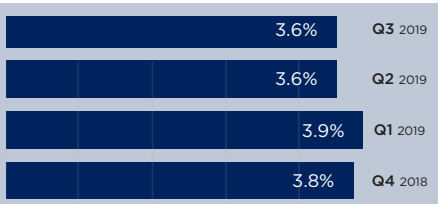


Construction Unemployment

Construction unemployment drops to 3.2%, down from the last quarter's 4.0%.

National Unemployment

National unemployment rates continue to be low and steady, reporting 3.6% - unchanged from last quarter.



GDP represented in percent change from the preceding quarter, seasonally adjusted at annual rates. CPI quarterly figures represent the monthly value at the end of the quarter. Inflation rates represent the total price of inflation from the previous quarter, based on the change in the Consumer Price Index. ABI is derived from a monthly American Institute of Architects survey of architectural firms of their work on the boards, reported at the end of the period. Construction Put-in-Place figures represent total value of construction dollars in billions spent at a seasonally adjusted annual rate taken at the end of each quarter. General Unemployment rates are based on the total population 16 years and older. Construction Unemployment rates represent only the percent of experienced private wage and salary workers in the construction industry 16 years and older. Unemployment rates are seasonally adjusted, reported at the end of the period.

* Adjustments made to GDP based on amended changes from the Bureau of Economic Analysis.

Sources: U.S. Bureau of Labor Statistics, Bureau of Economic Analysis, American Institute of Architects.

UNITED STATES

INDICATIVE CONSTRUCTION COSTS

	OFFICES				RETAIL SHOPPING				HOTELS				HOSPITAL	
	PRIME		SECONDARY		CENTER		STRIP		5 STAR		3 STAR		GENERAL	
LOCATION	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
USA														
Boston	350	550	225	325	200	300	150	240	400	580	275	390	425	675
Chicago	280	450	175	280	185	290	135	220	400	660	290	410	380	720
Denver	200	260	165	200	95	150	80	175	285	370	200	275	390	480
Honolulu	295	540	250	405	215	500	185	440	525	760	330	555	485	775
Las Vegas	160	295	105	190	115	480	80	145	350	550	150	300	350	455
Los Angeles	240	360	175	260	155	345	130	190	380	545	280	365	560	870
New York	400	600	300	400	275	425	175	300	400	600	300	400	500	750
Phoenix	200	300	140	195	120	200	80	150	350	520	175	250	425	525
Portland	220	300	165	220	170	270	155	225	300	400	220	320	445	590
San Francisco	330	525	280	400	275	400	240	350	460	660	390	530	490	725
Seattle	210	255	145	205	140	310	115	165	275	390	230	260	430	550
Washington, D.C.	325	550	225	325	175	300	140	225	400	600	265	390	500	750
CANADA														
Calgary	235	295	190	285	220	310	110	160	300	450	190	245	550	720
Toronto	220	300	190	280	230	280	120	160	400	500	205	265	500	700

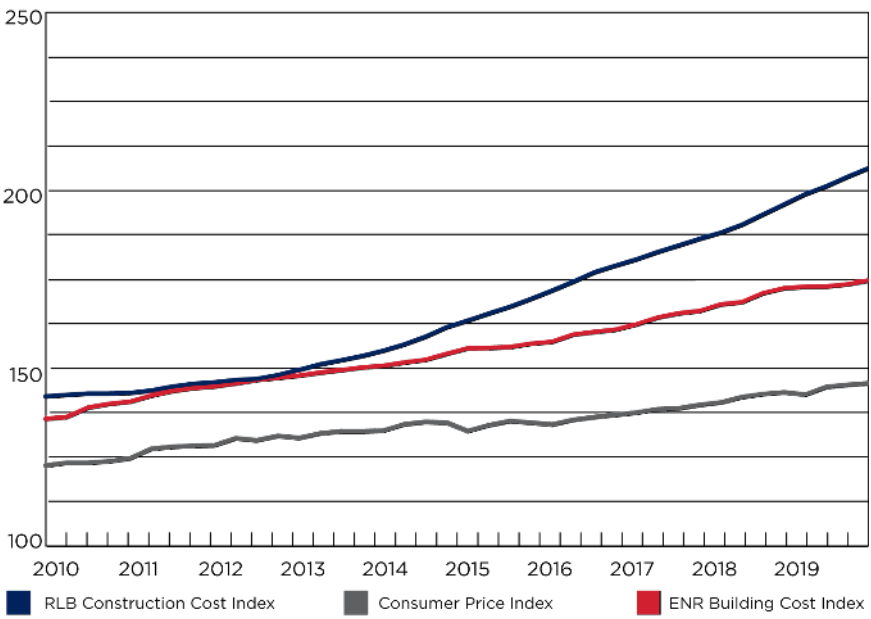
INFLATION INDEX COMPARISON

The chart on the following page demonstrates the relative differences in inflation between the cost of general goods and services (represented by the U.S. Bureau of Labor Statistics' Consumer Price Index), the cost of construction materials and labor (represented by Engineering News-Record's Building Cost Index) and the bid cost of construction (represented by Rider Levett Bucknall's National Construction Cost Index).

The distance between the cost of labor and materials (reflected in the ENR Building Cost Index) and the 'bid cost' (reflected in the RLB Index) indicates the relative health of the construction market; the bigger the gap, the more buoyant the construction industry. In times of recession, the gap usually closes up as contractors and sub-contractors cut overhead and profit to win work.

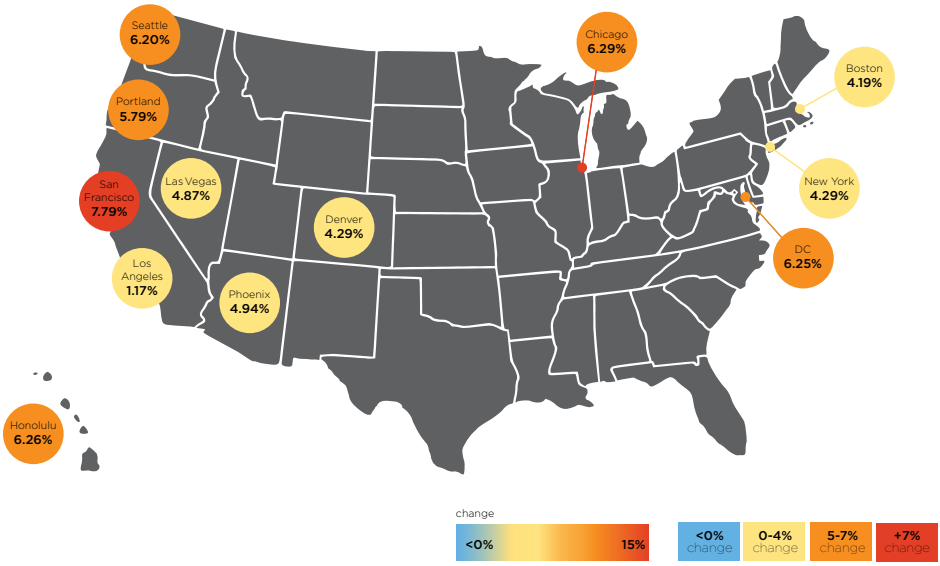
The data in the chart below represents estimates of current building costs in each respective market. Costs may vary as a consequence of factors such as site conditions, climatic conditions, standards of specification, market conditions, etc. Values of U.S. locations represent hard construction costs based on U.S. dollars per square foot of gross floor area, while values of Canadian locations represent hard construction costs based on Canadian dollars per square foot.

INDUSTRIAL		PARKING				RESIDENTIAL				EDUCATION					
WAREHOUSE		GROUND		BASEMENT		MULTI-FAMILY		SINGLE-FAMILY		ELEMENTARY		HIGH SCHOOL		UNIVERSITY	
LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
110	190	85	140	100	160	185	315	260	360	350	475	375	500	375	600
110	185	80	125	125	170	165	400	220	420	265	380	300	405	350	600
90	150	75	100	100	135	90	200	90	410	250	315	275	330	305	420
150	235	105	150	145	270	205	455	290	775	350	485	415	620	455	735
60	100	50	85	60	150	90	405	100	350	180	315	200	455	275	455
120	185	105	125	130	190	225	370	205	365	365	480	300	550	455	615
115	200	95	175	125	200	200	375	275	400	425	550	465	600	450	650
60	100	45	70	70	110	90	210	120	450	190	300	250	400	300	450
100	160	115	150	130	215	160	250	140	295	290	360	305	365	330	465
150	200	140	160	260	300	375	550	260	440	350	430	350	460	450	620
100	130	100	120	140	200	165	275	170	290	300	330	390	500	440	480
120	190	90	130	110	140	200	350	300	400	300	400	325	420	350	500
85	145	75	95	75	120	140	215	125	315	185	260	220	310	300	450
115	150	75	110	115	150	190	230	200	375	220	245	235	275	235	355



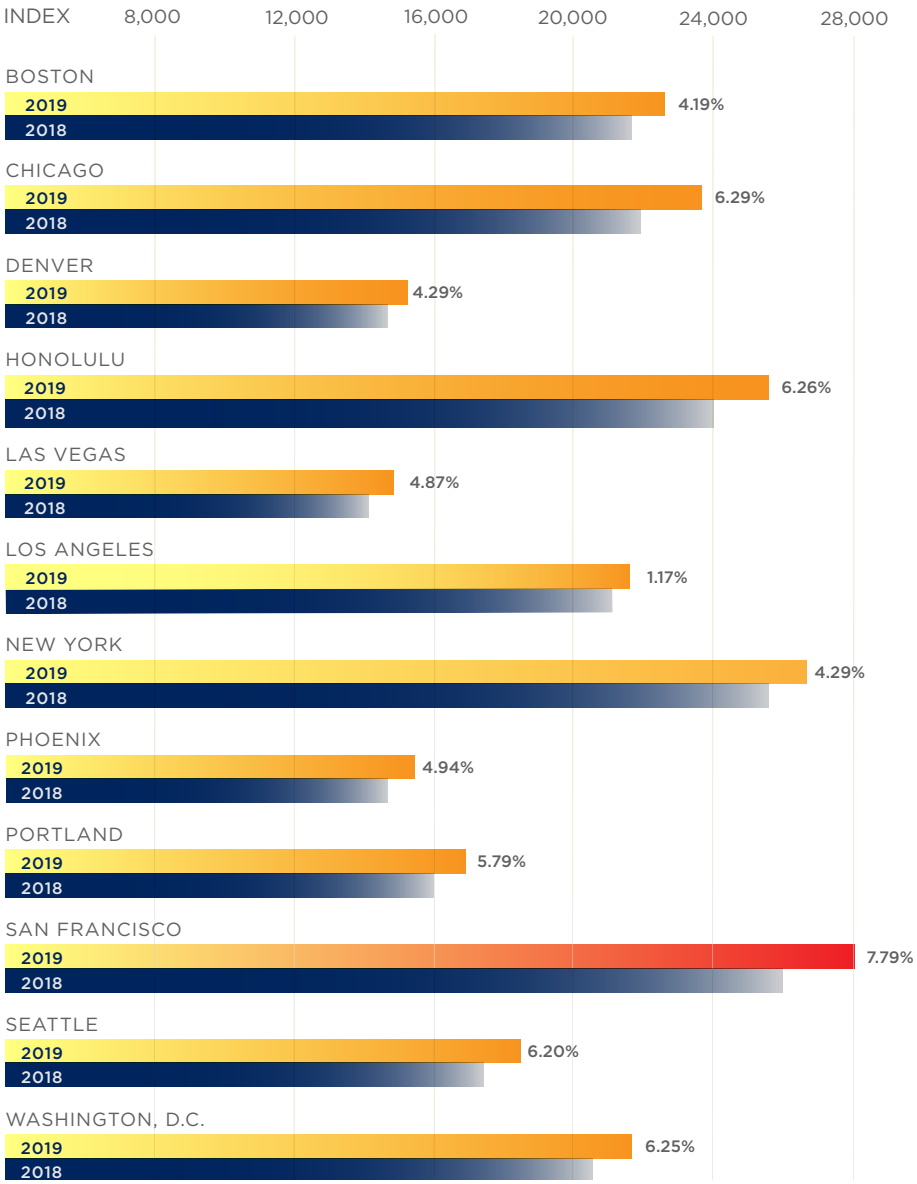
UNITED STATES

COMPARATIVE COST INDEX



City	October 2018	January 2019	April 2019	July 2019	October 2019	Annual % Change
Boston	22,086	22,267	22,480	22,741	23,012	4.19%
Chicago	22,416	22,789	23,269	23,652	23,826	6.29%
Denver	14,937	15,096	15,253	15,407	15,578	4.29%
Honolulu	24,520	24,812	25,192	25,609	26,055	6.26%
Las Vegas	14,503	14,674	14,834	15,023	15,209	4.87%
Los Angeles	21,567	21,792	21,526	21,769	21,819	1.17%
New York	26,000	26,244	26,524	26,771	27,116	4.29%
Phoenix	15,013	15,203	15,376	15,578	15,754	4.94%
Portland	16,315	16,630	16,843	17,023	17,259	5.79%
San Francisco	26,294	26,844	27,516	28,030	28,341	7.79%
Seattle	17,810	18,120	18,402	18,690	18,915	6.20%
Washington, D.C.	20,987	21,528	21,617	21,846	22,299	6.25%

Comparative Cost Map and Bar Graph Indicate percentage change between October 2018 and October 2019.



Each quarter we look at the comparative cost of construction in 12 US cities, indexing them to show how costs are changing in each city in particular, and against the costs in the other 11 locations. You will be able to find this information in the graph titled Comparative Cost Index (above) and in the Cost and Change Summary (right).

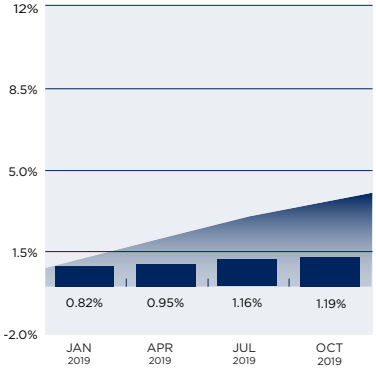
Our Comparative Cost Index tracks the 'true' bid cost of construction, which includes, in addition to costs of labor and materials, general contractor and sub-contractor overhead costs and fees (profit). The index also includes applicable sales/use taxes that 'standard' construction contracts attract. In a 'boom,' construction costs typically increase more rapidly than the net cost of labor and materials. This happens as the overhead levels and profit margins are increased in response to the increasing demand. Similarly, in a 'bust', construction cost increases are dampened (or may even be reversed) due to reductions in overheads and profit margins.

UNITED STATES

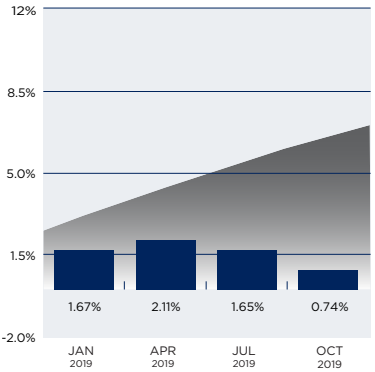
The following escalation charts track changes in the cost of construction each quarter in many of the cities where RLB offices are located. Each chart illustrates the percentage change per period and the cumulative percentage change throughout the charted timeline.

Percentage change per quarter — Cumulative percentage change for the period shown

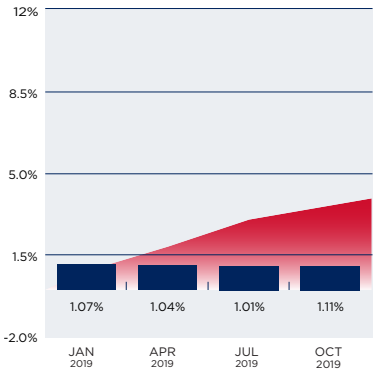
COST INDEX BOSTON



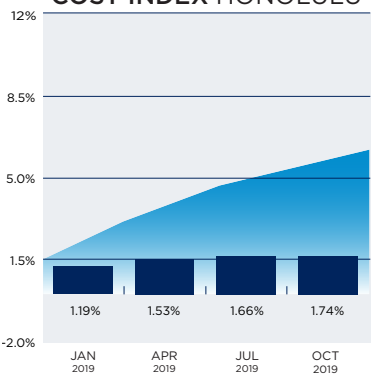
COST INDEX CHICAGO



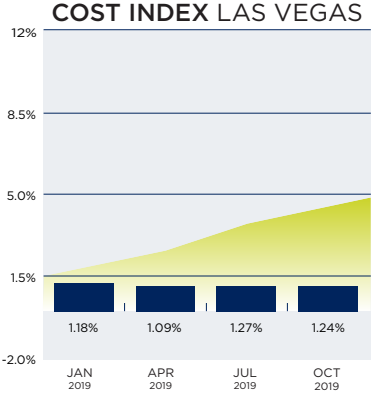
COST INDEX DENVER



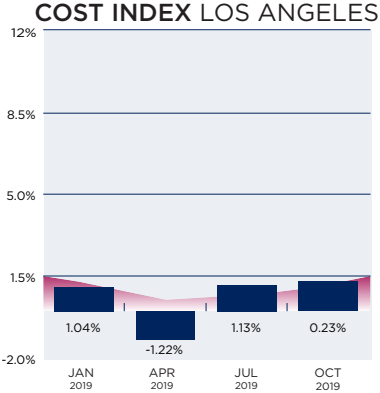
COST INDEX HONOLULU



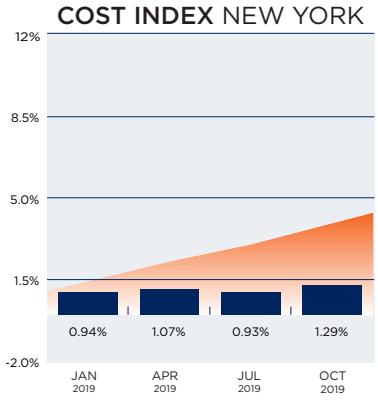
COST INDEX LAS VEGAS

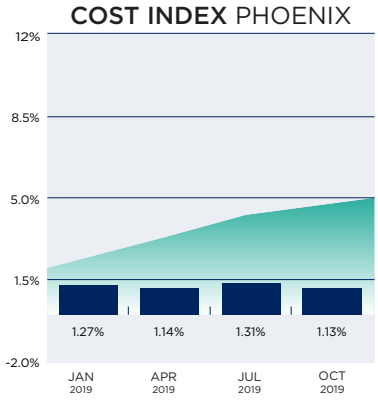


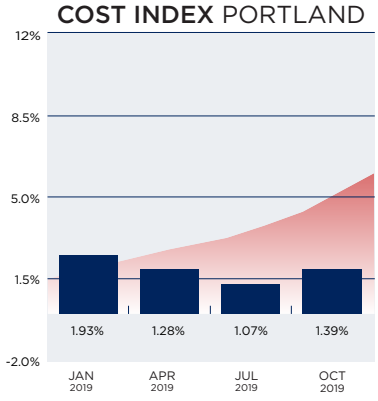
COST INDEX LOS ANGELES

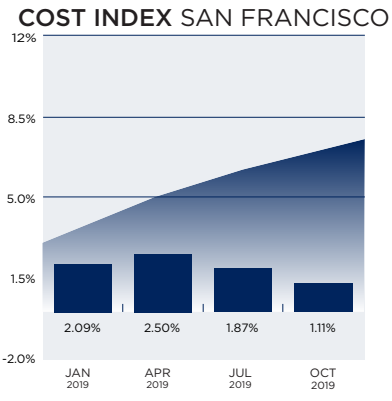


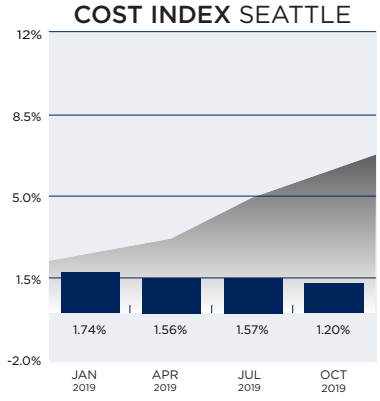
Our research suggests that between July 1, 2019 and October 1, 2019 the national average increase in construction costs was approximately 1.20%. Honolulu, Las Vegas, New York, Portland, and Washington, D.C. all experienced increases greater than 1.20% in the quarter. Seattle had an increase of approximately 1.20%, which is in-line with the national average. Other locations reported increases below 1.20%, including Los Angeles at 0.23%.

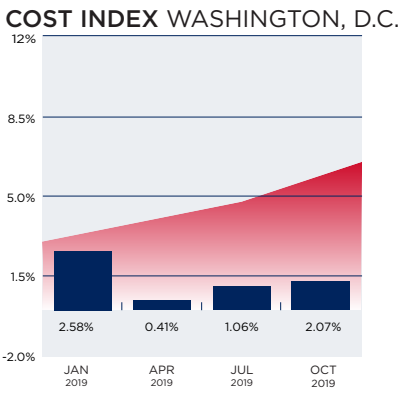






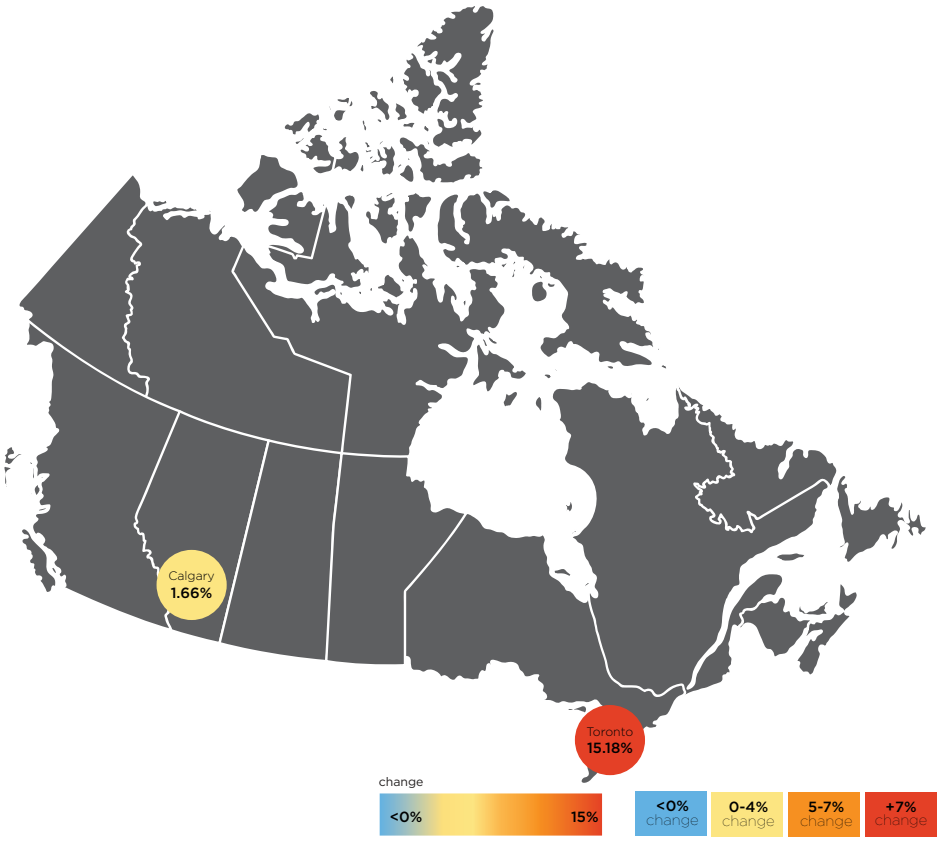






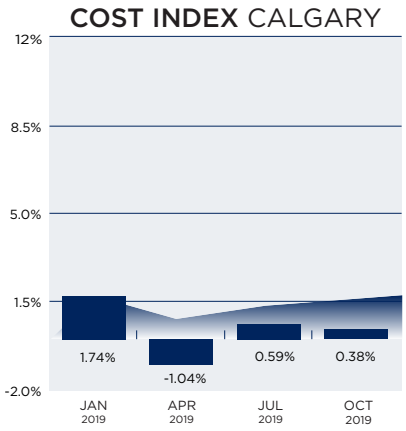
CANADA

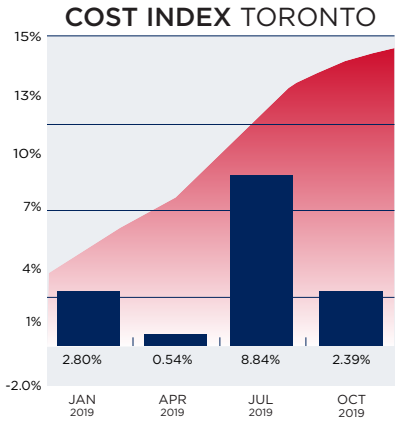
COMPARATIVE COST INDEX



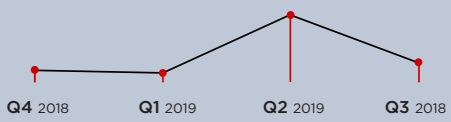
City	October 2018	January 2019	April 2019	July 2019	October 2019	Annual % Change
• Calgary	19,247	19,582	19,379	19,493	19,567	1.66%
• Toronto	20,232	20,798	20,909	22,759	23,303	15.18%

The construction market continues to be busy with current work, and there is a lot of significant infrastructure projects that are now out to market coast to coast. The general trend remains, however, of shortages of labor driving trade pricing to its highest ever levels – a look at the ratio between Journeymen and Apprentices in a few Toronto unions typically shows 1 to 1, which is historically low. This would indicate the labor shortages (unionized) will persist for some time to come which is fueling construction cost inflation far in excess to the stated annual inflation rate of Canada. There are a number of large infrastructure projects on the market, with Infrastructure Ontario announcing in September their biggest ever pipeline for projects to the tune of $65bn, many smaller public sector projects are now being re-tendered after undergoing redesign and the market sector for public works remains exceptionally busy.





KEY CANADIAN STATISTICS

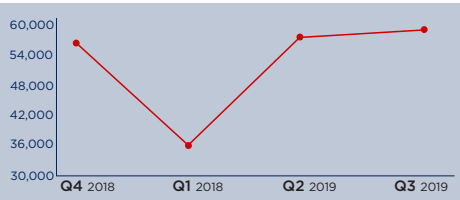


Gross Domestic Product (GDP)

GDP drops sharply to 0.33%, down from the previous quarter's 0.86%.

Consumer Price Index (CPI)

Canada's CPI holds steady, reporting an inflation rate of -0.07% during Q3.

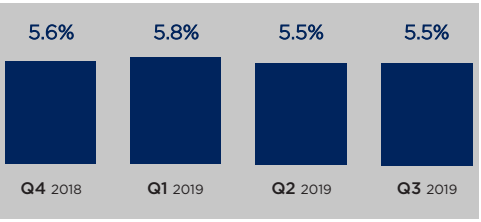


Housing Starts

Housing starts remain level, with a slight uptick of 193 projects over the previous quarter.

Unemployment

The national unemployment rate remains steady, with Q3's rate sitting at 5.5%.



GDP represented in percent change from the preceding quarter, seasonally adjusted at annual rates. CPI quarterly figures represent the monthly value at the end of the quarter. Inflation rates represent the total price of inflation from the previous quarter, based on the change in the Consumer Price Index. General Unemployment rates are based on the total population 16 years and older. Construction Unemployment rates represent only the percent of experienced private wage and salary workers in the construction industry 15 years and older. Unemployment rates are seasonally adjusted, reported at the end of the period.

Sources: Statistics Canada

ABOUT RIDER LEVETT BUCKNALL

Rider Levett Bucknall is an award-winning international firm known for providing project management, construction cost consulting, and related property and construction advisory services – at all stages of the design and construction process.

VOTED #1
COST CONSULTANT
IN WORLD ARCHITECTURE
MAGAZINE 2016-2019

bd WA 100 2019

This issue was compiled by Taryn Harbert with contributions from Cassie Idehara, Catherine Stoupas, Chris Harris, Daniel Junge, Edd Hamzanlui, Emile le Roux, Evans Pomegas, Grant Owen, James Casey, Lucy Liu, Maelyn Uyehara, Paul Brussow, Peter Knowles, Philip Mathur, Robin Kankerwal, Scott Macpherson, and Simon James.

If you have questions or for more information, please contact us.

BOSTON
Phone: +1 617 737 9339
E-mail: BOS@us.rlb.com
Contact: Michael O'Reilly

CALGARY
Phone: +1 403 571 0505
E-mail: YYC@ca.rlb.com
Contact: Terry Harron

CHICAGO
Phone: +1 312 819 4250
E-mail: ORD@us.rlb.com
Contact: Chris Harris

DENVER
Phone: +1 720 904 1480
E-mail: DEN@us.rlb.com
Contact: Peter Knowles

HILO
Phone: +1 808 934 7953
E-mail: ITO@us.rlb.com
Contact: Kevin Mitchell

HONOLULU
Phone: +1 808 521 2641
E-mail: HNL@us.rlb.com
Contact: Erin Kirihara
Cassie Idehara

KANSAS
Phone: +1 816 977 2740
E-mail: MCI@us.rlb.com
Contact: Julian Anderson

LAS VEGAS
Phone: +1 702 227 8818
E-mail: LAS@us.rlb.com
Contact: Paul Brussow

LOS ANGELES
Phone: +1 213 689 1103
E-mail: LAX@us.rlb.com
Contact: Brian Lowder

MAUI
Phone: +1 808 875 1945
E-mail: OGG@us.rlb.com
Contact: Kevin Mitchell

NEW YORK
Phone: +1 646 821 4788
E-mail: NYC@us.rlb.com
Contact: Paraic Morrissey

PHOENIX
Phone: +1 602 443 4848
E-mail: PHX@us.rlb.com
Contact: Julian Anderson
Scott Macpherson
John Jozwick

PORTLAND
Phone: +1 503 226 2730
E-mail: PDX@us.rlb.com
Contact: Daniel Junge
Scott Usher

SAN FRANCISCO
Phone: +1 415 362 2613
E-mail: SFO@us.rlb.com
Contact: Ryan Bosworth

SAN JOSE
Phone: +1 650 943 2317
E-mail: SJC@us.rlb.com
Contact: Joel Brown

SEATTLE
Phone: +1 206 441 8872
E-mail: SEA@us.rlb.com
Contact: Craig Colligan

ST. LUCIA
Phone: +1 758 452 2125
E-mail: UVF@us.rlb.com
Contact: David Piper

TORONTO
Phone: +1 905 827 8218
E-mail: YYZ@us.rlb.com
Contact: Terry Harron

TUCSON
Phone: +1 520 777 7581
E-mail: TUS@us.rlb.com
Contact: Josh Marks

WAIKOLOA
Phone: +1 808 883 3379
E-mail: KOA@us.rlb.com
Contact: Kevin Mitchell

WASHINGTON, DC
Phone: +1 410 740 1671
E-mail: DCA@us.rlb.com
Contact: Kirk Miller

RLB.com