

# Cost Trend Update Bulletin for Year Ended December 31, 2017

## CONSTRUCTION COST INDICES

Construction costs have been relatively stable over the last five years, with annual increases averaging approximately 2.25%. However, that changed during 2017, with an increase of 2.7% to 4% in three of the four indices that we track for U.S. construction costs. The increase was primarily attributable to a rise in material costs including cement, gypsum products, steel and lumber. The large increase in the material costs were offset by the continued low cost of labor. However, this is anticipated to change in 2018 due to the scarcity of skilled workers. With labor prices predicted to rise in 2018, annual construction cost trends are anticipated to continue to increase more than the historical average of 2.25%.

	2014	2015	2016	2017
ENR – Building Cost Index <sup>2</sup>	+2.7%	+1.7%	+2.9%	+3.3%
FM Global – U.S. Industrial Buildings Average <sup>3</sup>	+2.9%	+1.9%	+1.6%	+1.2%
RSMMeans – 30-City Average <sup>4</sup>	+0.5%	+0.1%	+0.8%	+4.0%
Marshall & Swift – U.S. Average <sup>5</sup>	+2.1 to +2.4%	+0.2 to +0.9%	0.0 to +0.9%	2.7 to +3.7%

Note: The range of change shown by Marshall & Swift represents different classes of construction.

## EQUIPMENT COST INDICES

Average equipment cost indices are also trending to above average increases in the 0.9% to 2.6% range.

	2014	2015	2016	2017
Marshall & Swift/Boeckh - Industrial Equipment Avg <sup>5</sup>	+2.0%	-1.0%	+0.9%	+2.6%
U.S. Bureau of Labor Statistics - Producer Price Index for Finished Goods, Capital Equipment <sup>6</sup>	+1.2%	+0.7%	+0.9%	+0.9%
FM Global - Industrial Equipment Composite <sup>3</sup>	+1.6%	+0.8%	+0.0%	+1.2%

Take care when selecting an index to track the rate of cost change for your company's capital equipment. The three indices in the table above all track average capital equipment cost change percentages and indicate the differences that have occurred over the past four years. Developers – as well as insurance brokers, underwriters and valuation consultants – can all recommend appropriate indices for your facilities. Select one that represents your capital equipment as closely as possible; there are significant differences between the average indices shown here and specific industrial-sector indices.

Remember that cost indices are just average indicators of change; they are not absolutes, and there is no average building or assemblage of equipment. After five to seven years, you should establish a new replacement cost basis by using a qualified valuation consultant.

## SOURCES

1. MEPS (International), Ltd, All carbon steel products composite price and index
2. Engineering News-Record, Monthly Construction Economics Report
3. FM Global, Industrial Cost Trends
4. RSMeans, Construction Cost Indices, 30-City Average
5. Marshall & Swift/Boeckh, Marshall Valuation Service, Quarterly Cost Index
6. U.S. Bureau of Labor Statistics, Producer Price Index for Finished Goods - Capital Equipment

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