



COST TREND UPDATE BULLETIN – MARCH 2021

This edition of the Cost Trend Update Bulletin shows national averages for the U.S. from January 2015 to January 2021 and demonstrates how construction and equipment cost indices have performed over the past six years.

Construction Cost Indices

Through the first half of 2020 we saw flat construction costs that were below historical average increases. This might have been a result of the COVID-19 lockdowns and other disruptions in the economy. However, the second half of 2020 saw larger increases in construction costs. The final annual increases for 2020 were between +1.4% and +6.1% depending on the index. Steel prices, a leading indicator of construction indices, stabilized at \$662 per metric ton in 2016, increased to an average of \$767 per metric ton in 2017, jumped up to an average of \$907 per metric ton in 2018 and dropped significantly in 2019 to \$668 per metric ton. Through August 2020, steel sat at \$664 per metric ton for the month and

had been relatively flat. The second half of 2020 saw substantial increases in the price of steel to \$1,126 per metric ton in January of 2021. Overall, this represents an increase in steel prices of approximately 70% between August 2020 and January 2021.¹ With regards to labor, wages continue to rise and more experienced individuals are entering the workforce, however, there is a limit to the availability of qualified individuals. Given the delay in construction projects due to the shutdowns, there is increased demand for contractors, labor and materials. The average wages for those working in construction have increased at an annual rate of 2.8% over the last 12-month period.²

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| ENR – Building Cost Index ³ | 1.70% | 2.90% | 3.30% | 3.20% | 1.74% | 3.96% |
| FM Global – US Industrial Buildings Average ⁴ | 1.90% | 1.60% | 1.20% | 5.20% | 1.73% | 1.42% |
| RSMeans – 30-City Average ⁵ | 0.10% | 0.80% | 4.00% | 5.50% | 2.05% | 1.71% |
| Marshall & Swift, US Average ⁶ | 0.2 to 0.9% | 0.0 to 0.9% | 2.7 to 3.7% | 3.2 to 6.0% | 0.0 to 1.3% | 3.0 to 6.1% |

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

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Equipment Cost Indices

All three sources for equipment cost indices had significant increases in 2018 compared to the previous three years. The annual increases in 2019 retreated towards historical averages in all three indicators making it consistent with 2020.

Take care when selecting an index to track the rate of cost change for your company's capital equipment. All three indices in the table below track average capital equipment cost change percentages and indicate the differences that have occurred over the past six 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.

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

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--------|-------|-------|-------|-------|-------|
| Marshall & Swift/Boeckh - Industrial Equipment Avg. ⁶ | -1.00% | 0.90% | 2.60% | 4.80% | 0.77% | 2.54% |
| US Bureau of Labor Statistics - Producer Price Index for Finished Goods, Capital Equipment ⁷ | 0.70% | 0.90% | 0.90% | 2.70% | 1.13% | 0.95% |
| FM Global - Industrial Equipment Composite ⁴ | 0.80% | 0.00% | 1.20% | 2.80% | 1.93% | 1.52% |

Sources

¹ MEPS (International), Ltd. All carbon steel products composite price and indice

² U.S. Bureau of Labor Statistics, Employment Cost Indices, Wages and Salaries for Private industry workers in construction, 12-month percent change

³ Engineering News-Record, Monthly Construction Economics Report

⁴ FM Global, Industrial Cost Trends

⁵ RSMeans, Construction Cost Indices, 30-City Average

⁶ Marshall & Swift/Boeckh, Marshall Valuation Service, Quarterly Cost Index

⁷ U.S. Bureau of Labor Statistics, Producer Price Index for Finished Goods - Capital Equipment

CONTACT

Bradley Schulz

Managing Director

+1 312 697 4940

bradley.schulz@duffandphelps.com

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