DUFF & PHELPS

COST TREND UPDATE BULLETIN

July 2017

CONSTRUCTION COST INDICES

After a decade of dramatic volatility for construction costs, the last four years have been relatively stable, although we are seeing a slight uptick in the quoted trends for the most recent 12-month period. Steel prices, a leading indicator of construction indices, declined to an average of $640[1] per tonne in 2015 and stabilized at $662 per tonne in 2016; however, they have averaged $721 per tonne for the last six months. The continued lower cost of fuel has also contributed significantly to construction cost stabilization. With labor rates predicted to increase 2.7% to 3.0% in 2017, overall annual construction cost trends are anticipated to be in the range of 2.0% to 3.0% for 2017, though they may end up below that level if material prices continue to decline.

	2014	2015	2016	7/2016 - 7/2017
ENR – Building Cost Index[2]	+2.7%	+1.7%	+2.9%	+3.3%
FM Global – US Industrial Buildings Average[3]	+2.9%	+1.9%	+1.6%	+2.2%
RSMeans – 30-City Average[4]	+0.5%	+0.1%	+0.8%	+3.0%
Marshall & Swift, US Average[5]	+2.1 to +2.4%	+0.2 to + 0.9%	0.0 to +0.9%	+2.0 to +2.4%

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

EQUIPMENT COST INDICES

Equipment cost indices have not shown the same volatility as construction cost indices. Average equipment cost indices continue to show moderate year-on-year changes in the 0.4% to 2.6% range.

	2014	2015	2016	7/2016 - 7/2017
Marshall & Swift/Boeckh - Industrial Equipment Avg.[5]	+2.0%	-1.0%	+0.9%	+2.6%
US Bureau of Labor Statistics - Producer Price Index for Finished Goods, Capital Equipment[6]	+1.2%	+0.7%	+0.9%	+0.9%
FM Global - Industrial Equipment Composite[3]	+1.6%	+0.8%	+0.0%	+0.4%

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 professionals – can all recommend appropriate indices for your particular 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 professional.

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 & Swift Valuation Service, Quarterly Cost Index
6. US Bureau of Labor Statistics, Producer Price Index for Finished Goods - Capital Equipment