COST INDEX
PORTLAND Q2 2023

Non-Residential Construction Outlook Sees Some Price Alleviation for Materials and Supply But Remains Cautious as 2023 Q2 Costs Increase Slightly

Nationally, nonresidential construction costs increased this quarter by +1.28%, and year over year cost increases continue to flatten, slowing to +2.94% over the previous 12 months. Mortenson regional markets with an overall observed increase in Q2 include Milwaukee (+0.96%), Seattle (+1.54%), Chicago (+1.9%), Phoenix (+1.42%), Minneapolis (+1.52%), and Denver (+1.87%), with only the Portland regional market showing a slight decrease in costs (-0.15%).

Our construction cost index shows a continued flattening of material costs, suggesting pandemic, supply-chain, and inflation-related increases experienced over the last two years have largely abated. The overall pace of labor cost increases slowed in the second quarter to 3.2% relative to the 12-month trailing average, and at +1.3% and +0.7 percent, respectively, the costs of subcontract work and materials are providing stability to project costs.

Insights:

While the overall outlook for non-residential construction remains cautiously optimistic, increasing labor costs are beginning to offset the stabilization (and in some cases, the decrease) in prices paid for materials and transportation. Economic headwinds are also present as the Federal Reserve raised the fed funds rate to its highest level in 22 years, increasing the cost of debt used to cash-flow construction starts.

Over the past twelve months, material costs edged 1.1% higher and labor increased 5.2% in the same time frame. In markets with substantial construction activity, competition for workers is catalyzing cost increases as projects pull from shallow labor pools, and markets are also seeing additional, anticipated wage bumps as pre-negotiated labor rates are recalibrated to meet the market during Q2.

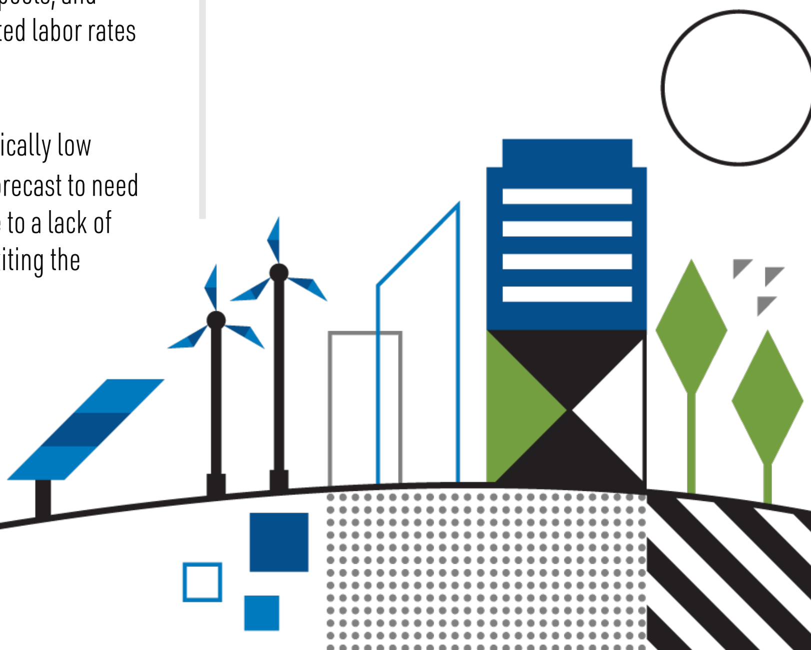
These labor challenges will continue to persist in 2023. Despite a historically low industry unemployment rate of 4.6% in 2022, the construction industry is forecast to need 546,000 additional workers on top of the normal pace of hiring in 2023 due to a lack of people entering the workforce and a disproportionate number of workers exiting the workforce.

Continued on next page

For a more specific update or questions regarding this report, please contact:

Gabriel Fox LEED AP
Chief Estimator
971.202.4147
gabriel.fox@mortenson.com

Mike Clifford
Vice President / General Manager
971.202.4103
mike.clifford@mortenson.com



Continued from previous page

Construction starts remain in positive territory, though, with spending increasing 8 percent between April and May of Q2, and 12-month trailing starts at the end of May 2023 clocking in 9 percent higher than the 12 months ending May 2022, according to Dodge Construction Network.

According to industry economic data, transportation and material cost volatilities driven by inflation and supply chain disruptions over the past two years have softened, and in some cases, the movement of goods has gotten cheaper, with a $2.00 per gallon dip in diesel prices year-over-year reducing rates for domestic freight. International shipping rates are likewise slowing down or holding steady as global demand is expected to remain flat across 2023, according to the United Nations Conference on Trade and Development (UNCTAD).

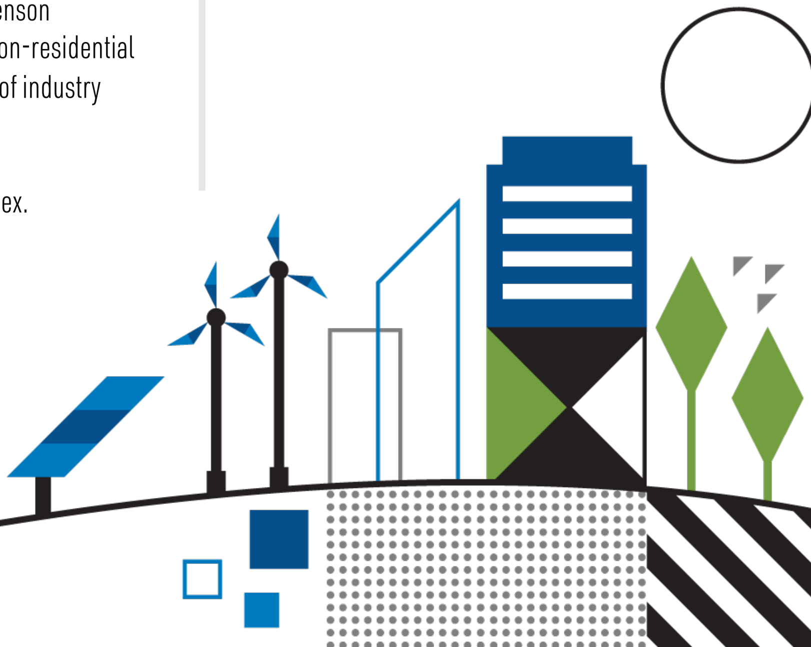
Weather-related events appear to be a possible outlier to impact future 2023 material costs, and price watchers continue to gauge the impact of Canadian wildfires on lumber supplies. In China, where output capacity for aluminum has increased significantly, severe drought has led to multi-decade lows in the hydroelectric power output needed for production.

Based on these insights and market data, we remain cautiously optimistic as demand for construction remains strong even with labor costs continuing to impact project budgets. We recommend customers measure the positive growth in construction activity and mitigation in material prices against sustained high demand and corresponding higher costs for accessing thin labor ranks across the balance of 2023.

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.

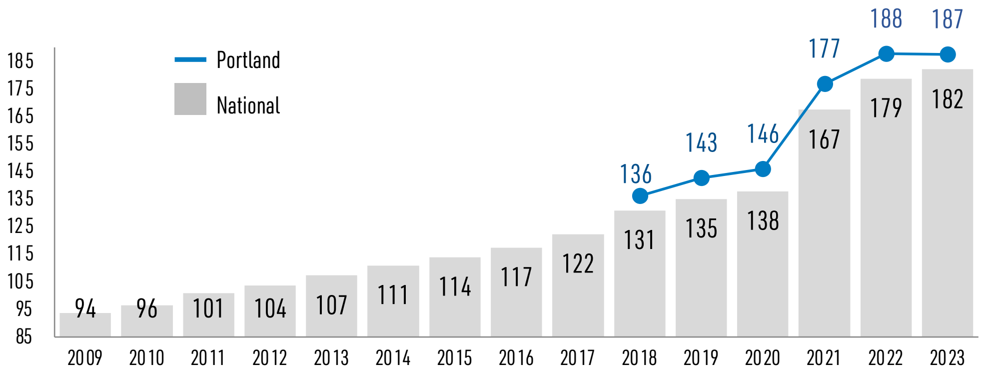
For nationwide construction cost index data visit: Mortenson.com/Cost-Index.

VIEW THE FULL CONSTRUCTION COST INDEX



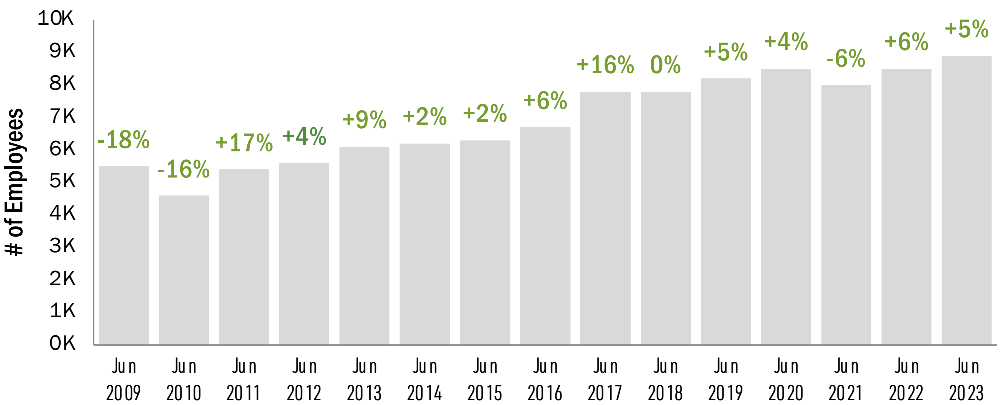
COST INDEX
PORTLAND Q2 2023

CONSTRUCTION COST INDEX
(January 2009 = 100)



The Mortenson Cost Index is showing a single quarter increase of 1.3% nationally, while costs in Portland declined -0.2%. Over the last twelve months, costs increased 2.9% nationally and 0.8% in Portland.

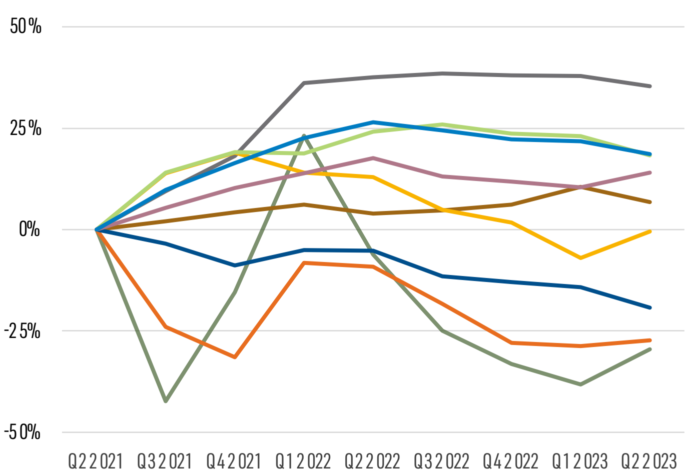
PORTLAND CONSTRUCTION EMPLOYMENT
(Number of Employees and 12-Month Change)



Nonresidential construction employment in the Portland metro region totaled 8,900 in June 2023. This is a 5% increase (400 jobs) compared to June 2022. Availability and cost of qualified workers is a continued challenge for the industry.

Source: Bureau of Labor Statistics

MATERIAL PRICING CHANGES
(Cumulative Q2 2021 to Q2 2023)



PVC Pipe +35%
Reinforcing Material +19%
Steel Pipe +18%
Structural Steel +14%
Copper Pipe +7%
Conduit +0%
Copper Wire -19%
Plywood -27%
Lumber -30%

Prices for commodity-based materials are beginning to level off, and the challenges related to product lead times and material shortages are stabilizing.