

RLB | Rider Levett Bucknall

USA
REPORT

QUARTERLY
CONSTRUCTION
COST REPORT

THIRD QUARTER 2011





AT A GLANCE

From the recession low point in January 2010, construction costs have now inched up to about the same level as they were in September 2007 – not the sort of news to cause contractors to dance in the streets – but at least the trend is clear that construction costs are not declining. Of real concern is the fact that bid prices are rising less quickly than the combined cost of labor and materials. Our July 2011 figures show that bid prices are now in danger of (and are very close to) actually falling below the indexed cost of labor and materials. Common sense tells us that this trend cannot continue without serious consequences for the industry – consequences which may include more construction related businesses closing and more projects “going bad”.

For the first six months of 2011 there was a good deal of hope that the corner had been turned and the construction industry was finally recovering. That hope was dealt a hefty blow by the recent debt ceiling / deficit reduction debate at the Federal level, the subsequent downgrade in credit rating by Standard & Poors and the roiling in the stock market. What the construction industry now desperately needs is a sustainable recovery in the general economy; how our country will achieve this, however, remains a matter of debate.

NREL RESEARCH SUPPORT FACILITY GOLDEN, COLORADO

Completed in 2010, the Research Support Facility provides office space for approximately 800 employees at the Golden, Colorado Field Office for the Department of Energy and the National Renewable Energy Laboratory. As an example of the Department’s commitment to sustainability, the 222,000 square foot facility earned LEED® Platinum certification from the U.S. Green Building Council and is expected to be the first Net Zero Energy Building of its kind. The project – envisioned and designed by RNL Design and constructed by Haselden Construction – incorporated energy efficient features such as natural ventilation through operable windows, transpired solar collectors, radiant heating and cooling, and new workstation configurations that allow for maximum daylighting.

Rider Levett Bucknall provided independent cost consultancy and scheduling services to Northstar Project Management.

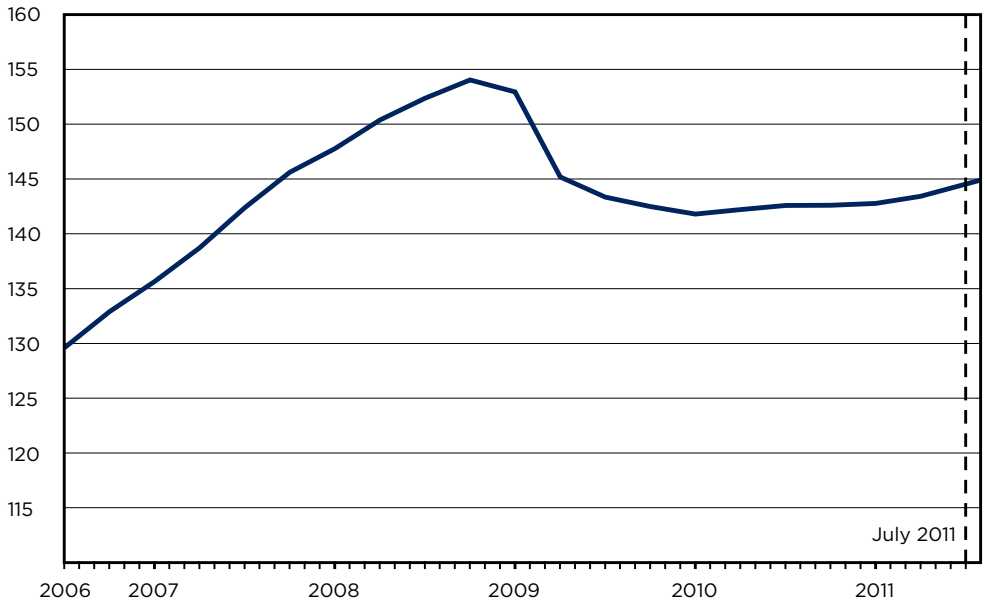
NATIONAL CONSTRUCTION COST INDEX

The National Construction Cost Index shows the changing cost of construction between July 2006 and July 2011, relative to a base of 100 at April 2001. Index recalibrated as of April 2011.

Date	Cost Index
July 2006	129.57
October 2006	132.89
January 2007	135.63
April 2007	138.74
July 2007	142.38
October 2007	145.63
January 2008	147.78
April 2008	150.40
July 2008	152.36
October 2008	154.04
January 2009	152.95
April 2009	145.19
July 2009	143.35
October 2009	142.48
January 2010	141.80
April 2010	142.21
July 2010	142.58
October 2010	142.60
January 2011	142.77
April 2011	143.42
July 2011	144.53

Welcome to the third quarter 2011 issue of our series of Rider Levett Bucknall Quarterly Cost Reports! This issue contains data current to July 1, 2011.

According to the U.S. Department of Commerce, construction put in place during June 2011 was estimated at a seasonally adjusted annual rate of \$772.3 billion, which is 0.2% above the revised May estimate of \$770.5 billion. The June 2011 figure is 4.7% below the June 2010 estimate. During the first six months of 2011, construction spending was \$357.5 billion, 5.4% below the same period in 2010.



KEY UNITED STATES STATISTICS

	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Gross Domestic Product (GDP)	2.5%	2.3%	0.4%	1.3%
Consumer Price Index (CPI)	218.4	219.2	223.5	225.7
Inflation	0.3%	0.3%	1.9%	1.0%
Architectural Billings Index (ABI)	50.4	54.2	50.5	46.3
Construction Put in Place	\$797.3	\$782.9	\$762.6	\$772.3
Unemployment	9.6%	9.6%	8.9%	9.1%
Construction Unemployment	17.2%	20.7%	20.0%	15.6%

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.

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

INDICATIVE CONSTRUCTION COSTS

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 represent hard construction costs based on U.S. dollars per square foot of gross floor area.

LOCATION	OFFICES				RETAIL SHOPPING				HOTELS				HOSPITAL		INDUSTRIAL		PARKING				RESIDENTIAL				EDUCATION					
	PRIME		SECONDARY		CENTER		STRIP		5 STAR		3 STAR		GENERAL		WAREHOUSE		GROUND		BASEMENT		MULTIFAMILY		SINGLE FAMILY		ELEMENTARY		HIGH SCHOOL		UNIVERSITY	
	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
Boston	200	280	175	245	100	180	90	145	210	350	150	220	355	505	70	100	60	80	75	100	135	200	165	250	220	275	240	325	250	350
Denver	140	225	100	150	80	130	65	125	185	280	105	165	330	385	65	110	40	70	60	95	70	185	60	185	115	150	140	175	170	285
Honolulu	205	380	170	285	145	335	120	310	370	540	230	390	340	550	100	160	65	100	95	185	135	320	200	550	240	340	250	350	285	515
Las Vegas	160	285	115	185	115	205	65	145	325	460	140	225	285	450	50	90	50	85	60	150	70	200	90	240	170	300	180	420	235	435
Los Angeles	180	280	120	195	110	195	90	140	250	370	170	245	350	435	70	95	60	95	85	125	135	215	120	260	215	315	280	410	295	410
New York	205	290	165	230	120	180	115	160	320	450	185	265	380	515	95	145	65	105	80	115	140	210	155	255	165	240	220	290	240	360
Phoenix	130	220	90	180	90	160	75	135	200	350	120	180	300	425	55	85	40	60	65	80	75	175	90	325	130	200	175	260	175	325
Portland	165	195	115	150	110	195	90	130	175	265	120	170	320	435	75	110	70	85	85	125	110	190	100	240	180	230	185	245	235	335
San Francisco	195	300	140	220	115	220	110	165	255	375	190	260	350	500	90	105	70	100	90	135	140	230	140	280	215	320	280	410	300	415
Seattle	165	205	115	160	115	200	95	135	185	275	140	180	320	435	75	110	70	85	85	125	120	235	100	235	205	250	230	300	265	395
Washington, DC	175	240	130	185	95	165	75	135	190	285	130	185	455	595	70	85	55	80	65	100	80	165	120	200	175	235	200	250	195	280

SPOTLIGHT ON: NEW MEXICO

The state of New Mexico finally snapped its streak of 31 consecutive months of declining employment by gaining 2,400 jobs in June. Despite good news for the overall job market, the construction employment situation continues to flounder. From June 2010 to June 2011, New Mexico led the U.S. in construction job losses at 10.2% or 4,400 jobs; it was the only state to register a double-digit percent drop.

Reasons behind the drop include the slump in the New Mexican construction industry. Stimulus funding that helped New Mexico firms stay afloat at the start of the recession has been spent and state budget woes are resulting in tighter purse strings. Earlier this year New Mexico state university presidents agreed to enact a two-year moratorium on new construction.

Thus, it's no surprise that survey data from New Mexico contractors released by the AGC of America in February of this year indicated that no one expected the market to grow in 2011 and that 90% of respondents expected bids in 2011 to reflect either the same reduced profit margins of 2010 or even deeper cuts to net smaller profits.

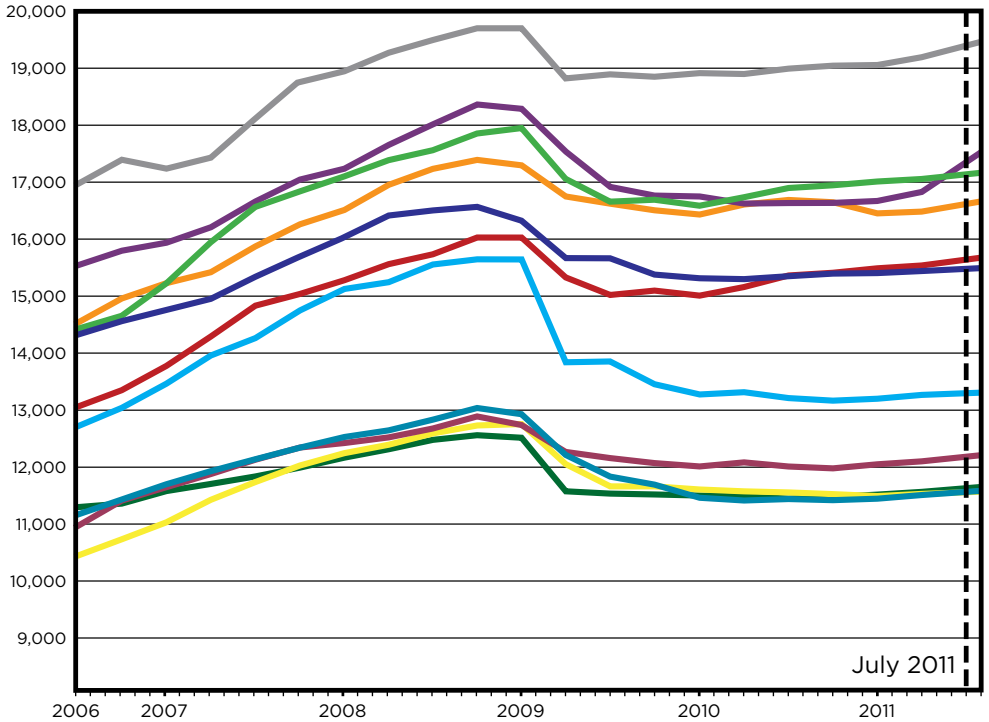
SPOTLIGHT ON: HAWAII BID PRICES

In reviewing this document, you'll notice that the construction cost index for the Hawaii market jumped over 3% in one quarter. To delve into the reasons for the price hike, we anticipate this increase will be an aftereffect of Senate Bill 754, which came into effect on July 1st, 2011.

Senate Bill 754 effectively changed the application of Hawaii General Excise Tax ("GET") as it relates to construction contracts; whereas previously the amounts paid by a General Contractor to Subcontractors and Specialty Contractors could be deducted from the General Contractors income for GET calculation purposes, this is now no longer the case.

With this change, an owner who engages with a General Contractor on a project will effectively now be paying GET twice (or more depending on the number of tiers) on work that is subcontracted from the General Contractor to a Subcontractor or Specialty Contractor. To maintain their current levels of profitability on future projects, General Contractors will now need to build these tax increases into their overhead costs and fees on construction bids.

COMPARATIVE COST INDEX





Each quarter we look at the comparative cost of construction in 11 U.S. cities, indexing them to show how costs are changing in each city in particular, and against the costs in the other 10 locations. This Comparative Cost Index tracks the true bid cost of construction, which includes, in addition to costs of labor and materials, general contractor and subcontractor overhead costs and fees (profit). The index also includes applicable sales/use taxes that standard construction contracts attract.

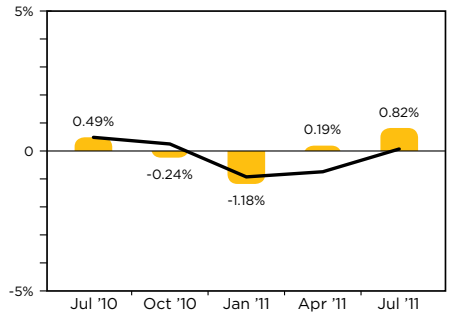
City	April 2011	July 2011	% Change
Boston	16,481	16,616	0.82%
Denver	11,566	11,630	0.56%
Honolulu	16,827	17,349	3.11%
Las Vegas	11,530	11,559	0.25%
Los Angeles	15,537	15,640	0.67%
New York	19,193	19,396	1.06%
Phoenix	11,510	11,565	0.48%
Portland	12,102	12,184	0.68%
San Francisco	17,054	17,136	0.48%
Seattle	13,267	13,295	0.21%
Washington, DC	15,440	15,478	0.24%

Our research suggests that between April 1, 2011 and July 1, 2011 the national average increase in construction cost was 0.78%. For the second consecutive quarter all locations posted positive inflation for the period, with Boston, Honolulu and New York experiencing the greatest quarterly increases – between 0.8% and 3.1%.

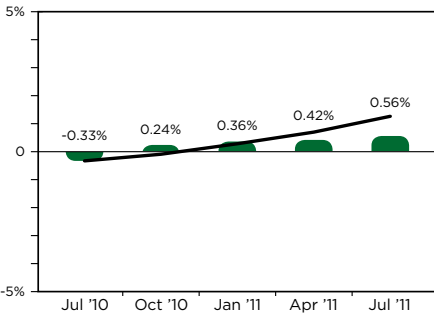
The following escalation charts track changes in the cost of construction each quarter in many of the cities where Rider Levett Bucknall offices are located. Each chart graphs the percentage change per period and the cumulative percentage change throughout the charted timeline.

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

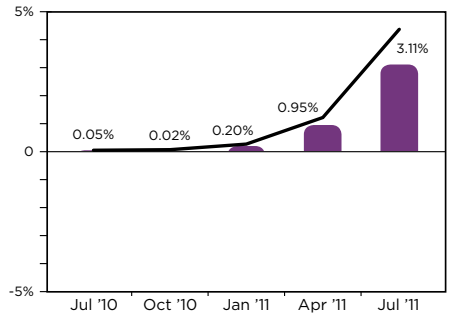
COST INDEX Boston



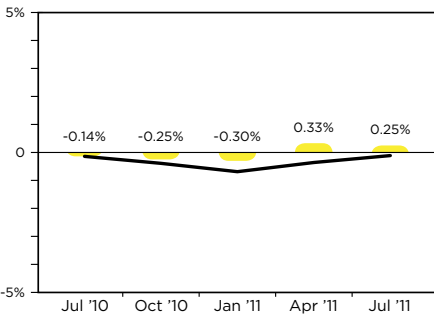
COST INDEX Denver



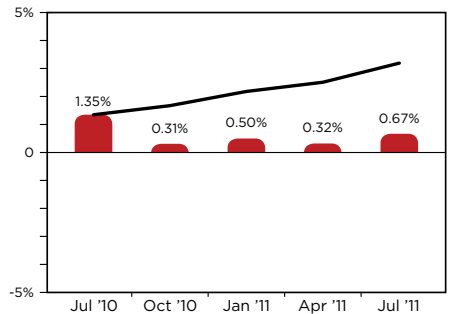
COST INDEX Honolulu



COST INDEX Las Vegas

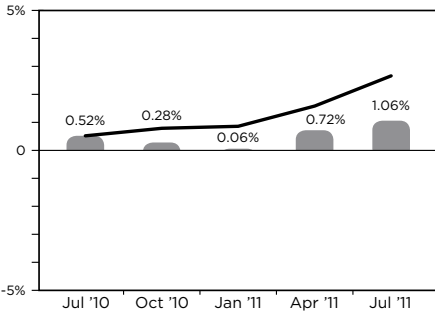


COST INDEX Los Angeles

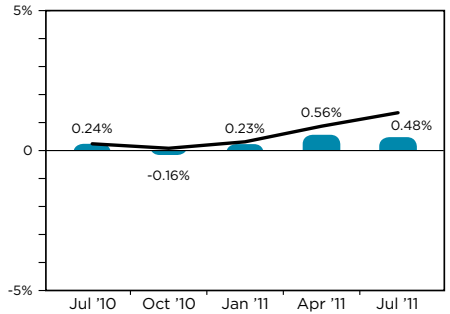


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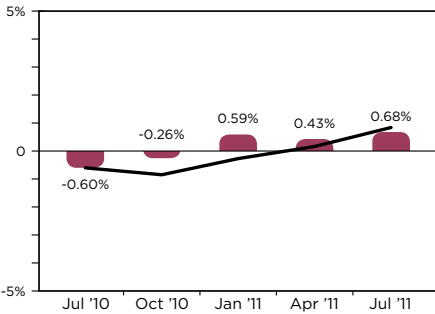
COST INDEX New York



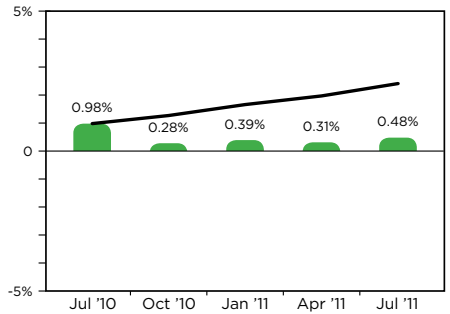
COST INDEX Phoenix



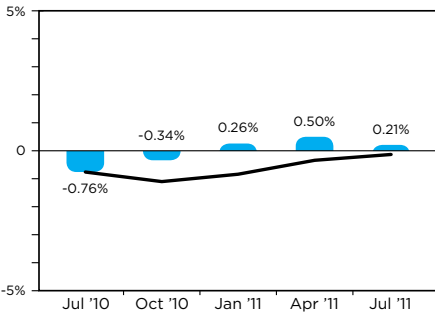
COST INDEX Portland



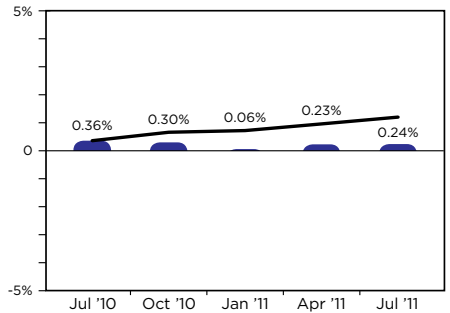
COST INDEX San Francisco



COST INDEX Seattle



COST INDEX Washington, DC



While the information in this publication is believed to be correct, no responsibility is accepted for its accuracy.

Persons desiring to utilize any information appearing in this publication should verify its applicability to their specific circumstances.

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A map of North America, including the United States, Canada, and Mexico, is shown in a light gray color against a dark blue background. Numerous small white dots are scattered across the map, representing various office locations. The dots are concentrated in the United States, with a few in Canada and Mexico. The dots are distributed across the continent, from the West Coast to the East Coast, and from the northern border to the southern border.

LOCATIONS

RIDER LEVETT BUCKNALL

Barbados | Boise | Boston | Calgary
Cayman Islands | Denver | Guam | Hilo | Honolulu
Kennewick | Las Vegas | Los Angeles | Monroe
New York | Phoenix | Portland | San Francisco
Seattle | Tucson | Waikoloa | Washington, DC

CONVENTIONAL WISDOM

Orlando

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