

Biannual Cost Drivers Report

Realignment Implementation Program

System Expansion Committee – 6/9/22



Why we are here

- To report twice a year, per Realignment Resolution R2021-05, on *current* and *anticipated cost drivers* for Sound Transit capital projects.
- No Board action required.

Current and anticipated cost drivers

Current estimate drivers

- Comparing estimates prepared since
- the last report.
- This report compares final
- realignment (Aug. '21) to current (May '22).

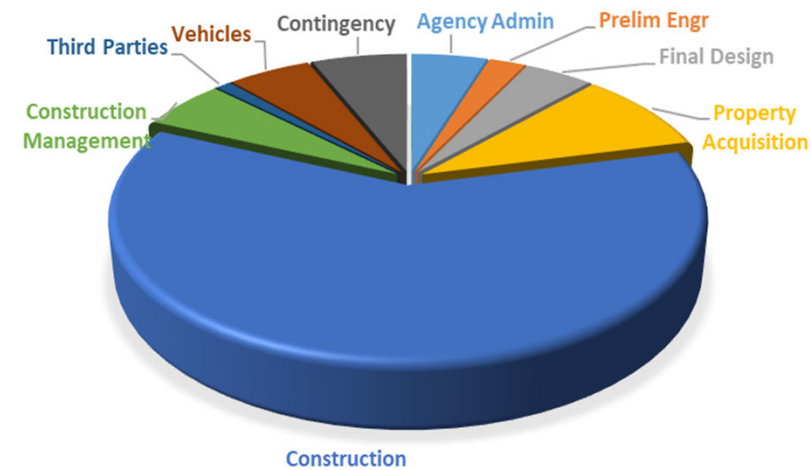
Anticipated estimate drivers

- Current trends that are monitored and reported but that are not included in current estimates.
- This report compares estimates after current (May '22).

Cost categories analyzed

For both current and anticipated, we'll review actual and potential drivers associated with:

- Construction
- Property acquisition
- Macroeconomic factors
- Soft costs



Current estimate cost drivers

- Compare estimates from the last report (Aug. '21) to current (Spring '22).
- Project cost estimates are developed on their own schedules; no coordination of all estimates at one time.
- No new estimates into the Financial Plan for the Annual Program Review so no current cost drivers:
 - Construction
 - Property acquisition
 - Soft costs
- New garage estimates, exceeding Financial Plan, triggered mitigation plan reviewing contracting strategy.

Macroeconomic factors

- ST uses 3 indices to inflate system expansion project costs in the long-range financial plan: Consumer Price Index (CPI), Construction Cost Index (CCI), and Right-of-Way Index (ROWI).
- Spring 2022 financial projections include higher inflation forecasts for all three indices than in the 2021 final realigned plan.
- Capital program 2017-2046 has grown \$2.1 billion due to inflation from final realigned plan to Spring 2022.

Inflation Compound Annual Growth Rate, 2017-2046		
Index	Final Realigned Plan	Spring 2022 Update
CPI	2.44%	2.55%
CCI	3.81%	3.94%
ROWI	4.21%	4.28%

Anticipated cost drivers

Construction

Largest cost component of project cost estimate.

- On average:
 - Labor is largest component of construction cost estimate.
 - Materials are second largest component of construction cost estimate.
- Soft costs are calculated as a percentage of construction.

Anticipated cost drivers

Construction: Labor

Labor is the largest component of construction cost estimates, typically more than 50% of the estimate.

- ***Wages may need to be right-sized in upcoming periods to help bridge the gap between inflation and wage increases.***
- Construction wages have only moderately increased in the past year.
- Current Inflation in the range of (6-8%) through 2021 into 2022.
- AGC Master Agreement (through 2024) is approximately 3-5% in the upcoming.

Anticipated cost drivers

Construction: Materials

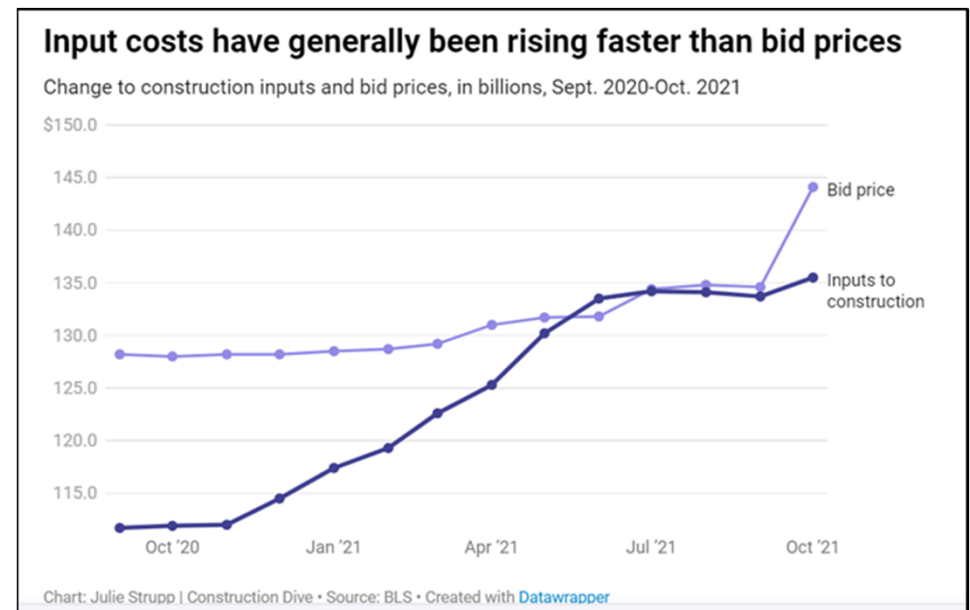
Materials are second-largest component of construction cost estimates.

- ***Prices in 2022 will challenge peak prices of 2021.***
- Material costs through 2021 were significantly increasing.
- Material costs in first quarter 2022 have leveled off but are still increasing in certain major elements:
 - Steel (structural and rebar)
 - Fuel (gas, diesel, other)
 - Lumber
 - Plumbing materials

Anticipated cost drivers

Construction: Market conditions

- Contractors no longer willing to take risk of cost escalation; now putting that risk back on owners.
- Project bid prices have not kept up with inflation, material pricing.
- Contractors have absorbed cost increases in past to win projects.



Anticipated cost drivers

Property acquisitions

Latest value growth rates continue to climb above normal.

HISTORIC ANNUAL REAL ESTATE VALUE GROWTH RATES										COMPOUND ANNUAL GROWTH RATE - Q1 13 - Q1 22
Q1 2013 - Q1 2014	Q1 2014 - Q1 2015	Q1 2015 - Q1 2016	Q1 2016 - Q1 2017	Q1 2017 - Q1 2018	Q1 2018 - Q1 2019	Q1 2019 - Q1 2020	Q1 2020 - Q1 2021	Q1 2021 - Q1 2022	Q1 2022 - Q1 2023	
King County										
SFR	9.5%	8.4%	15.9%	10.5%	15.4%	-0.4%	5.8%	12.4%	13.0%	9.9%
Industrial	7.6%	9.1%	10.2%	10.9%	10.6%	13.0%	9.7%	8.8%	14.2%	10.4%
Multifamily	6.0%	11.8%	9.5%	8.4%	5.5%	7.5%	9.2%	1.8%	10.6%	7.8%
Close-In	6.0%	11.9%	8.9%	8.0%	5.1%	6.6%	9.1%	0.6%	9.6%	7.3%
Outer County	6.5%	12.0%	12.3%	9.9%	7.5%	10.7%	9.6%	6.5%	14.3%	9.9%
Office	12.5%	8.9%	8.2%	4.8%	5.7%	5.2%	5.5%	-1.5%	4.2%	5.9%
Retail	4.9%	15.3%	6.4%	4.5%	3.2%	4.5%	6.4%	4.1%	7.3%	6.2%
Sources:										
Commercial Property Data - CoStar Analytics										
Single-Family Residential Property Data - Northwest MLS										

Anticipated macroeconomic factors

High inflation expected to continue with corresponding increases in future financial plan updates.

- **Consumer Price Index (CPI)** High inflation seen in 2021 likely to continue and worsen due to prices driven up by increased demand and supply chain constraints.
- **Construction Cost Index (CCI)** Construction inflation is experiencing unprecedented increases in materials costs, supply chain disruptions, and a tight labor market.
- **Right-of-Way Index (ROWI)** Residential properties in the Puget Sound region continue to experience the largest value gains in years, a trend that appears to be continuing into 2022.

Next Steps

- Continue monitoring anticipated trends and evaluate mitigation strategies during the planning and design process:
 - Alternative contracting strategies
 - Early procurements (i.e. properties, materials)
- Continue to monitor current and new trends.
- Provide continued reporting on minimum bi-annual basis.

Thank you.



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