

Biannual Cost Drivers Report

Realignment Implementation

System Expansion Committee

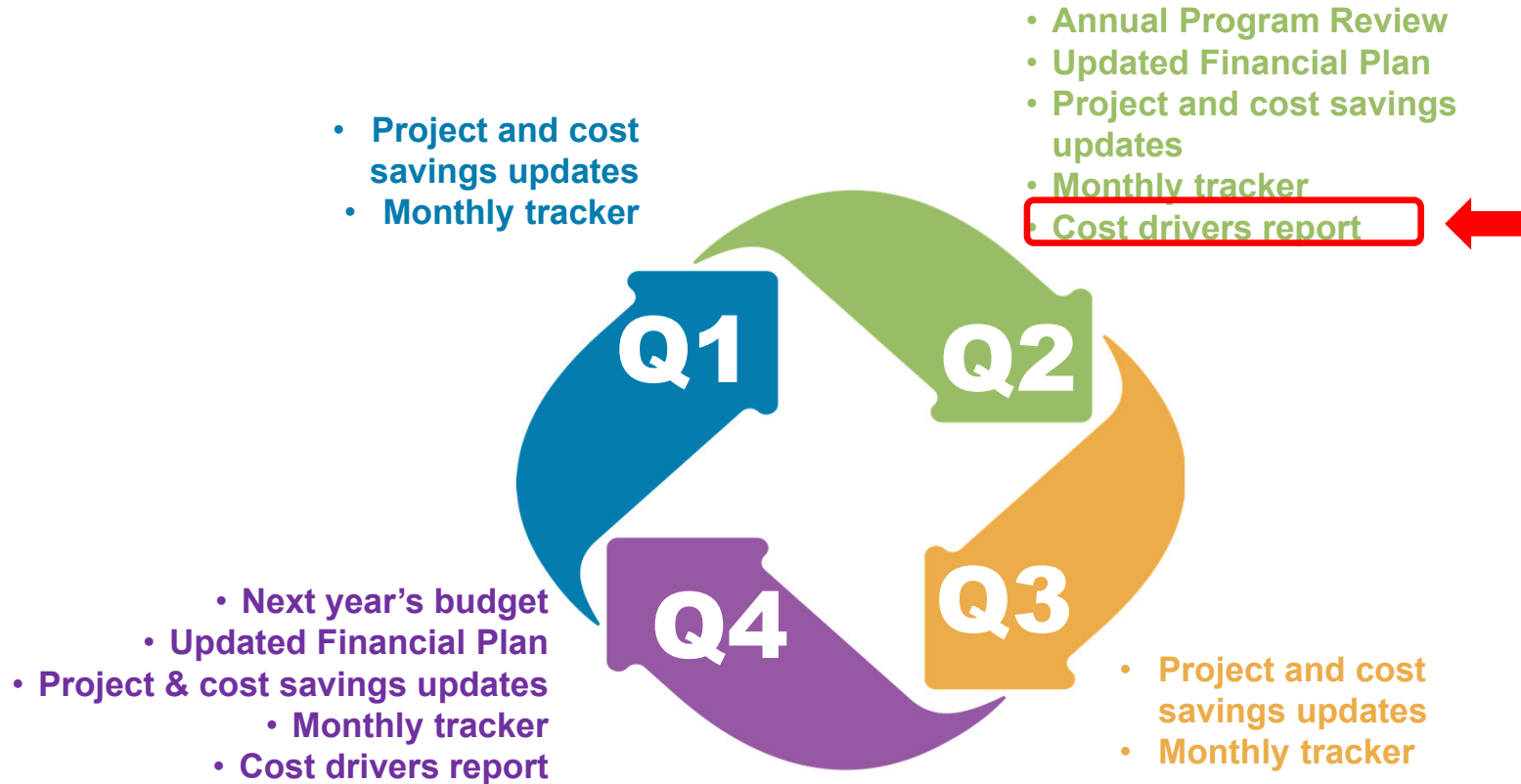
7/14/22



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

Realignment Implementation Annual Cycle



Analyzing the trends

Examine economic indicators that will impact project estimates to identify early mitigation strategies



What to expect

Multiple inputs, one report

- Summarized into sections:



Current cost drivers



Anticipated cost drivers



Next steps

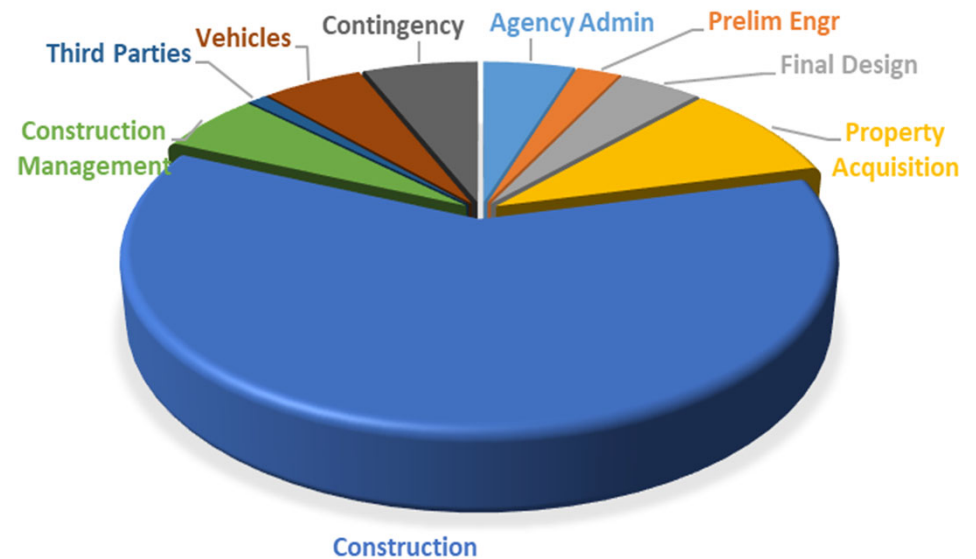
Key takeaway

Costs from construction, property acquisitions and macroeconomic factors are increasing and are anticipated to continue to increase for the immediate future

Cost categories

Current and anticipated trends analyzed:

- Construction
- Property acquisition
- Macroeconomic factors
- Soft costs

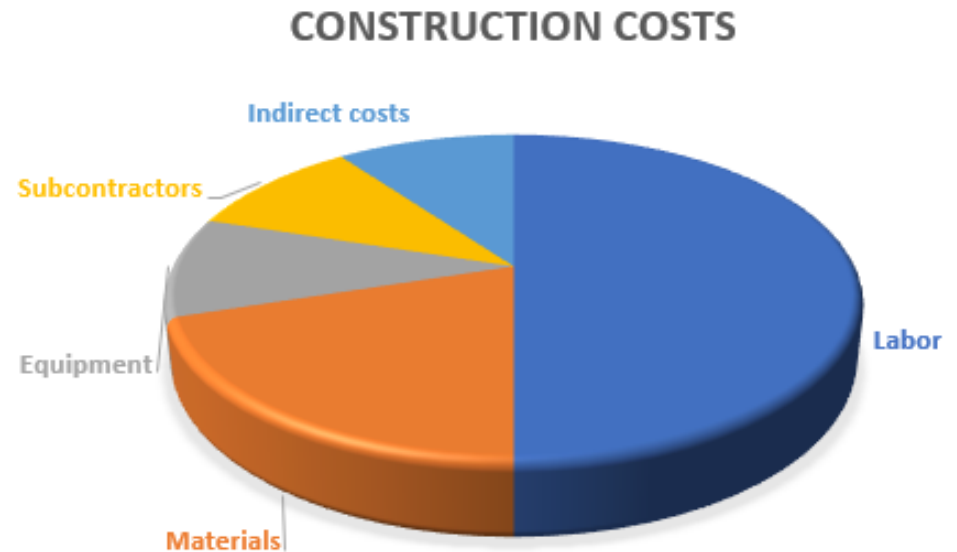


Current cost drivers

- Goal is to analyze what is causing cost estimates to change between two points in time
 - August 2021 and Spring 2022
- During this period **no new estimates** went into the Financial Plan for the Annual Program Review so **no current cost drivers**
- New garage estimates, exceeding Financial Plan, triggered mitigation plan reviewing contracting strategy

Anticipated cost drivers

Construction costs will continue to be the **largest cost component** of project estimates, especially **Materials** and **Labor**



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	
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										

Macroeconomic factors

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

- 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%

Next Steps

- Continue analyzing anticipated trends to develop mitigation strategies during the planning and design process
 - Alternative contracting strategies
 - Early procurements (i.e., properties, materials, equipment)
 - Strategic decision-making (e.g., scope consolidation)
- Use cost driver trends to inform long-range Financial Plan and Annual Program Review updates
- Provide continued reporting on minimum biannual basis.

Thank you.

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