



# ONESF

Building Our Future

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There's only one San Francisco. Let's take care of it.



## 2016 Annual Infrastructure Construction Cost Inflation Estimate

October 19, 2015

# Annual Infrastructure Construction Cost Inflation Estimate (AICCIE)

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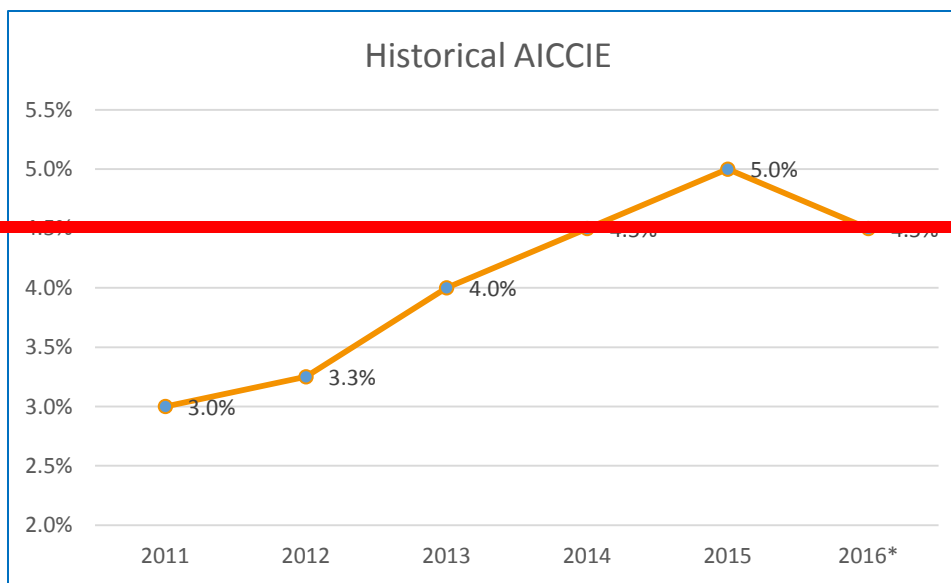
- Today's Action item: Adopt the AICCIE for CY 2016
  
- AICCIE: projected rate of construction cost escalation for the upcoming calendar year, used to:
  - Forecast costs for the 2-Year Capital Budget & 10-Year Capital Plan
  - Annually adjust developer impact fees
  - Update FRRM and other city forecasting tools

# AICCIE Recommendation CY2016

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~~■ CPP recommends an AICCIE of 4.5% for CY 2016~~

~~■ Reflects continued escalation being driven by a competitive local market.~~



**■ UPDATE: CPC Adopted an AICCIE of 5.0% for CY 2016**

# Escalation Indices

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Construction Index	Description	2009	2010	2011	2012	2013	2014	2015
<b>Turner Building Cost Index</b>	Change in costs of non-residential building construction nationwide	-8.4%	-4.0%	1.6%	2.1%	4.1%	4.6%	4.5%
<b>BLS New Construction PPI</b>	Change in output price of new non-residential construction	2.0%	-0.1%	2.8%	2.9%	1.9%	3.1%	1.7%
<b>BLS Maintenance Contractor PPI</b>	Change in costs of price for work done to maintain and repair non-residential buildings	1.8%	0.4%	2.2%	1.9%	1.7%	2.8%	2.0%
<b>BLS SF Metro CPI</b>	Change in cost of local cost of consumer goods	-	1.0%	2.9%	2.8%	2.0%	3.0%	2.6%
<b>BLS SF Metro Employment Cost Index</b>	Change in employment cost (averages Total Compensation and Wages/Salaries)	-	-	-	-	-	4.5%	2.2%
<b>ENR CCI – San Francisco</b>	Change in SF <i>common</i> labor and materials	4.6%	1.9%	2.8%	1.7%	5.3%	4.9%	2.4%
<b>ENR BCI – San Francisco</b>	Change in SF <i>skilled</i> labor and materials	2.8%	2.5%	6.0%	1.5%	3.7%	3.0%	2.6%
<b>TBD Consultants Bid Index</b>	Change in construction bid cost for an indexed building project scope in SF	- 26.2%	4.3%	14.8%	7.6%	6.4%	4.2%	12.5%
<b>Local Expert Average</b>	Estimated cost escalation rate for the coming year	-	-	-	-	-	-	5.1%
<b>AICCIE</b>	City of SF estimate for escalation in the calendar year listed (i.e. 2015 AICCIE is the estimate made in October 2014 for 2015)			3.0%	3.25%	4.0%	4.5%	5.0%

- ▣ 2015 average across all listed indices: 3.95%
- ▣ 2015 average across all local indices (shaded rows): 4.56%

# 2015 SF Experts Projected Escalation

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Organization	Description	Cost Escalation Estimates for 2016
<b>Stanford University</b>	Estimated escalation rate on capital projects within campus	3.0%
<b>Cummings Construction</b>	Estimated escalation rates on SF construction	5.5%
<b>Davis Langdon/AECOM</b>	Estimated escalation rates on SF construction	6.0%
<b>Leland Saylor Associates</b>	Estimated escalation rates on SF construction (includes SFUSD)	4.0%
<b>M. Lee Corporation</b>	Estimated escalation rates on SF public sector construction	6.0%
<b>TBD Construction Consultants</b>	Estimated escalation rates on SF construction	5.0% minimum
<b>Turner Construction</b>	Estimated escalation rates on SF construction	5.0% - 6.0%
<b>Webcor</b>	Estimated escalation rates on SF construction	6.0%

**Industry experts are estimating SF 2016 escalation in the range of 4% – 6%**  
**Average: 5.1%**

# Contractor/Project Manager Perspective

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With so many projects, contractors can afford to be pickier and build in higher profit margins

**Skyrocketing costs are giving some contractors pause about starting new projects**

Empty labor halls and unrelenting demand lead some to hire “travelers” from out of town, which can bring higher costs and risks

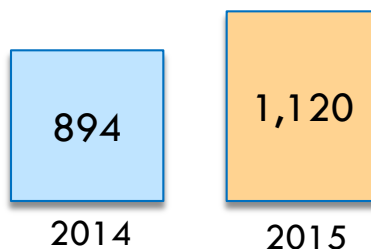
**Active mega-projects and demanding tech clients are sapping resources, making timelines more difficult to meet**

Contracting with a complex client like the City/Bidding on more unusual projects becomes less desirable when there are more straightforward options

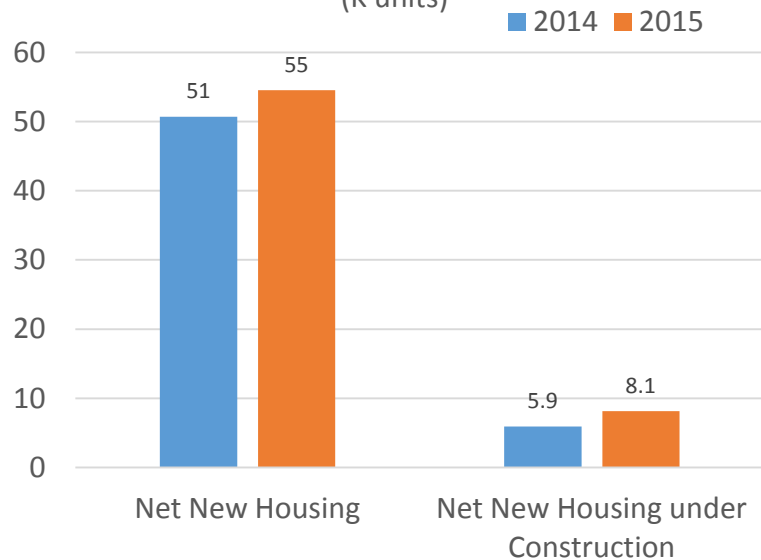
# SF Planning Pipeline Statistics

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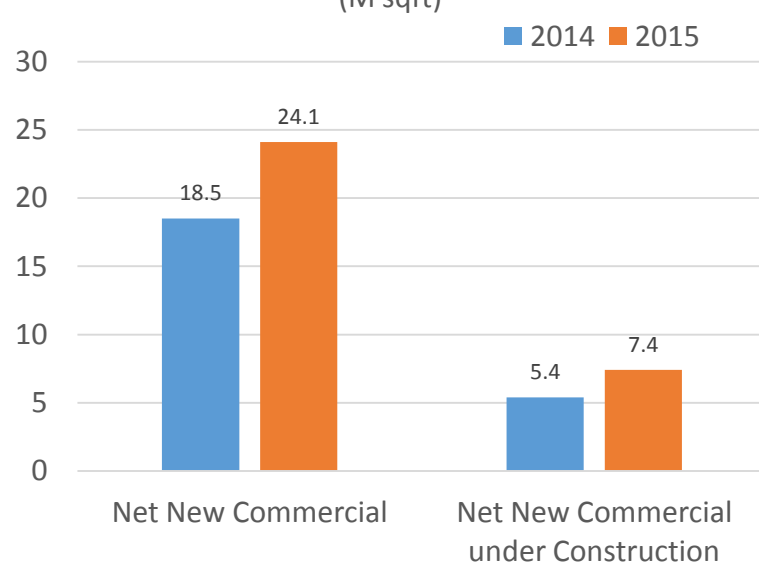
## Projects in Pipeline



### YOY Housing Construction Growth (K units)



### YOY Commercial Construction Growth (M sqft)



# Impact of # of Bids on Costs

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- SF is in the same cost multiplier band as last year, although at **4.1 average bids per construction project**, close to the next band.

Journal of Construction Engineering & Management (National, 2005)	
# of Bids	Low Bid Deviation From Estimate
1	1.15
2	1.11
3	1.07
4	1.01
5	0.95
6	0.91
7	0.89
8	0.88

Saylor Consulting (Bay Area, 2015)	
# of Bids	% Differential (estimate vs. bid)
1	+25% to 50%
2-3	+10% to 25%
4-5	0% to 10%
6-7	0% to -10%
8 – 10	-10% to -20%

**Current SF Market**

Source: Saylor Consulting Market Trends 2015 Construction Forecast



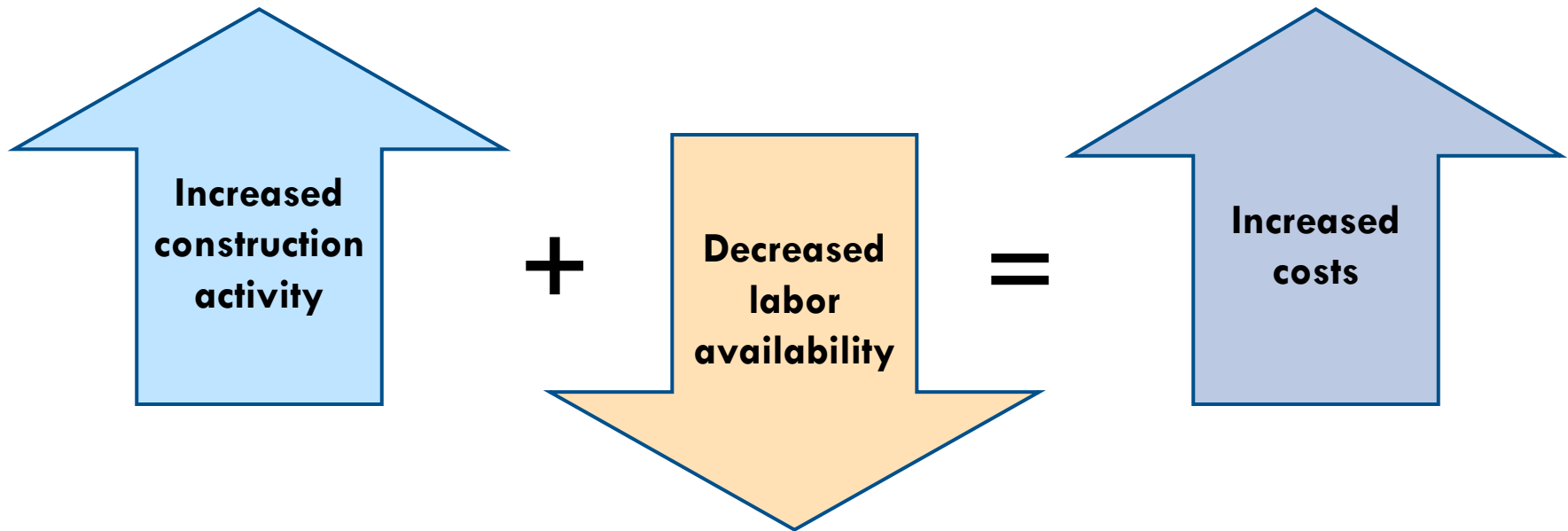
# Local Cost Spike

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From 2014 to 2015, San Francisco had the biggest increase in construction costs of any city in the country

# Local Labor Considerations

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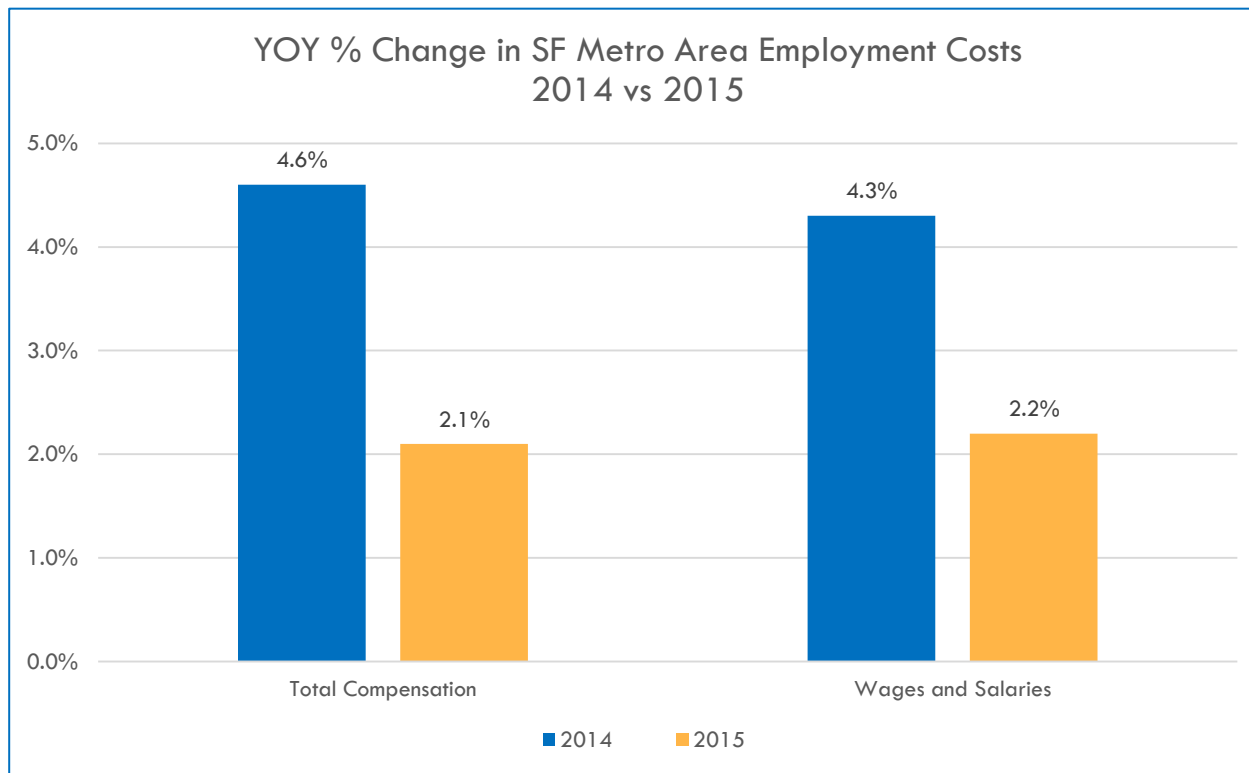
- ▣ SF unemployment: 3.5%, down 20% from 2014
- ▣ SF area construction employment up 4.7% from 2014
- ▣ SF metro wages up 2.2% in 2015 after 4.3% rise in 2014
- ▣ Shortages in specialized subcontractors and labor

SF unemployment: 3.5%  
US unemployment: 5.3%

# Local Private Industry Employment Cost Index

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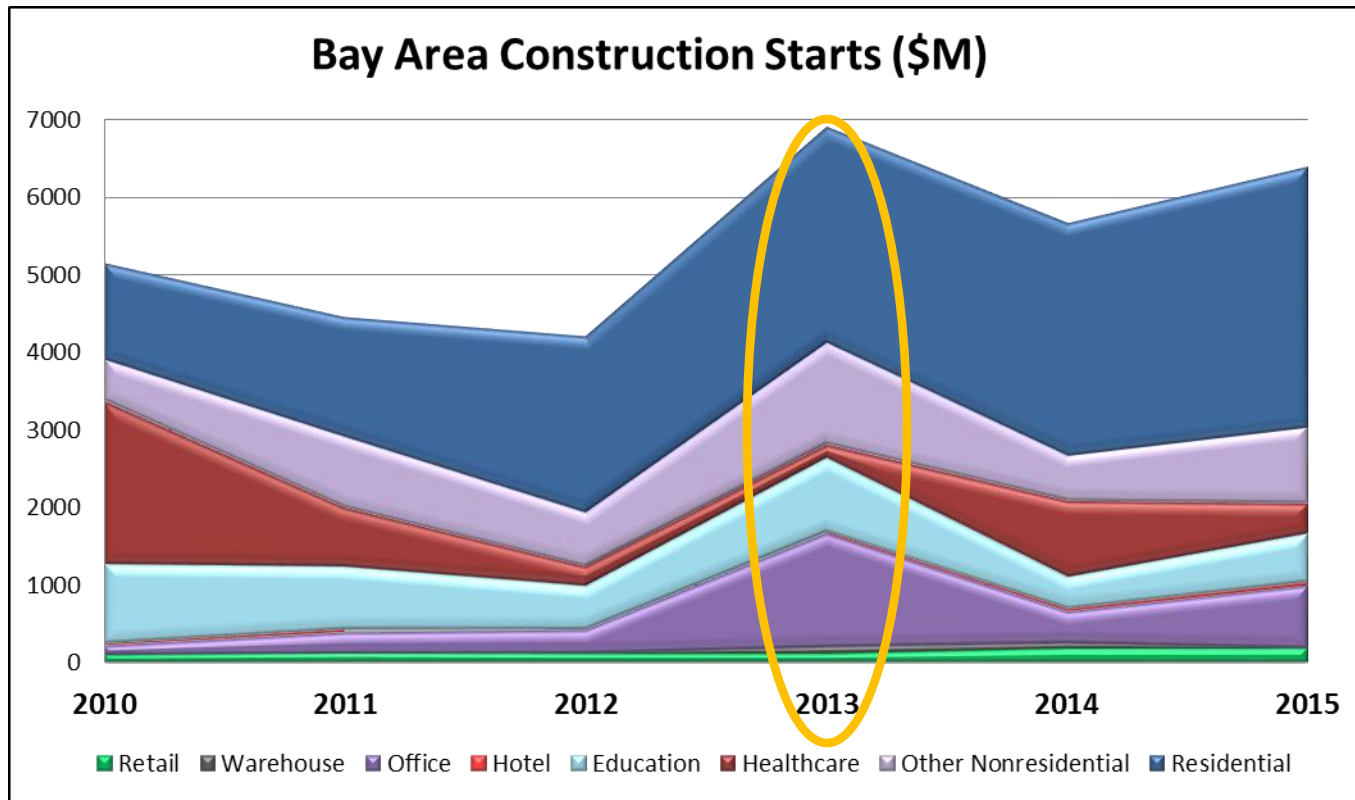
- Continued rise in cost of both total compensation and wages and salaries, but less steep than last year



# Local Construction Cycle Perspective

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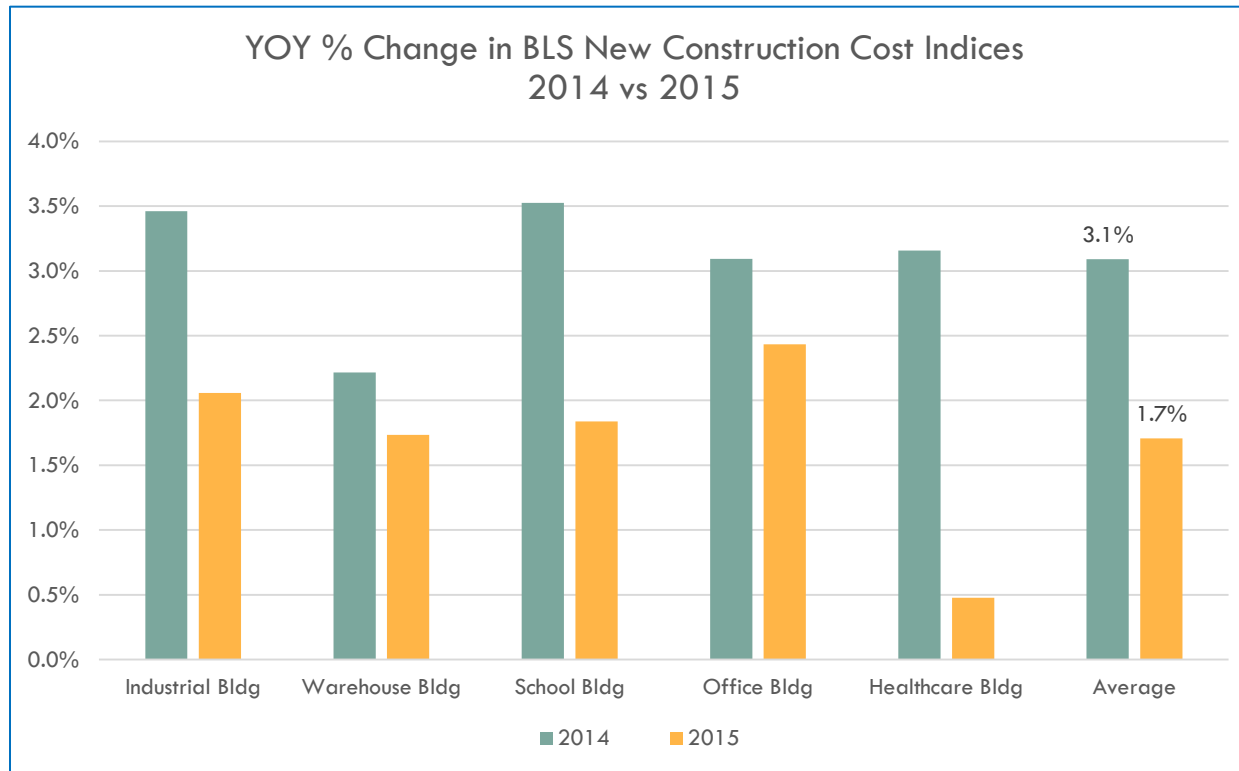
- 2013 construction starts peak may help explain why average bid counts are not coming in lower.



# New Construction Cost Indices

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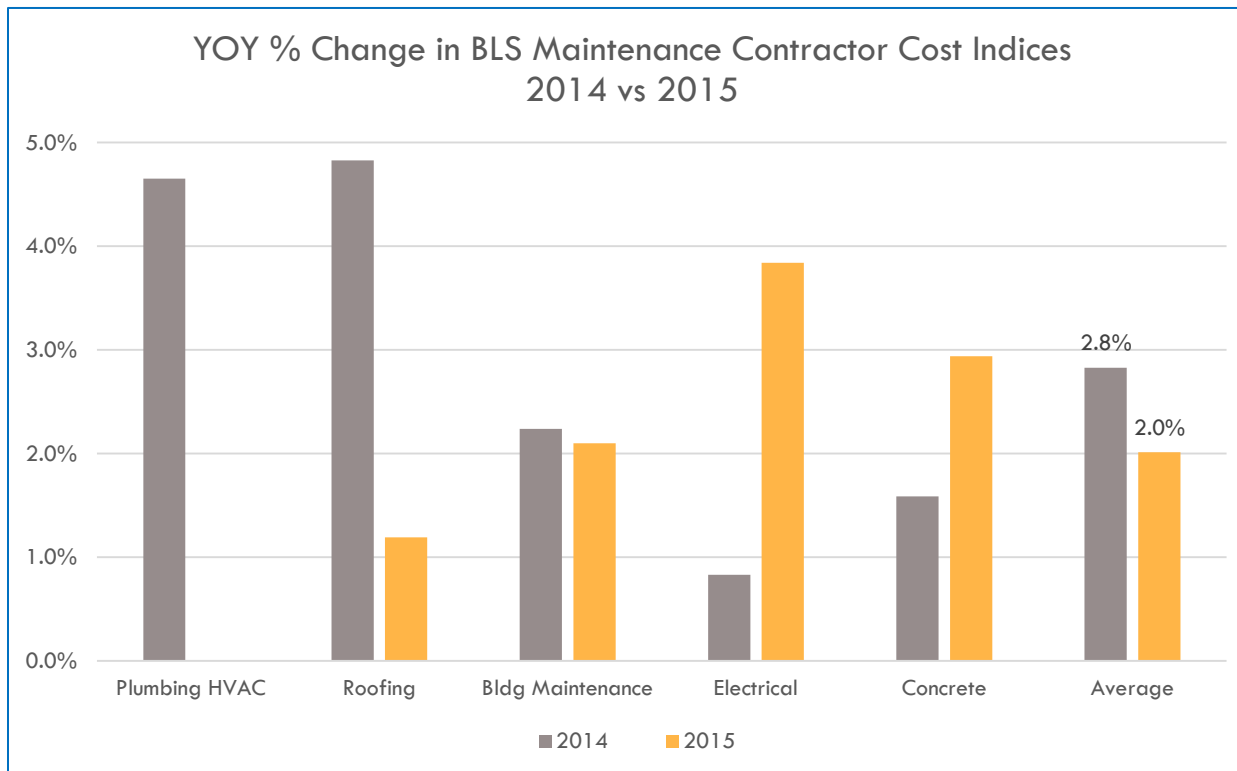
- Continued rise in cost of new construction across non-residential building types, but less steep than last year



# Maintenance Contractor Cost Indices

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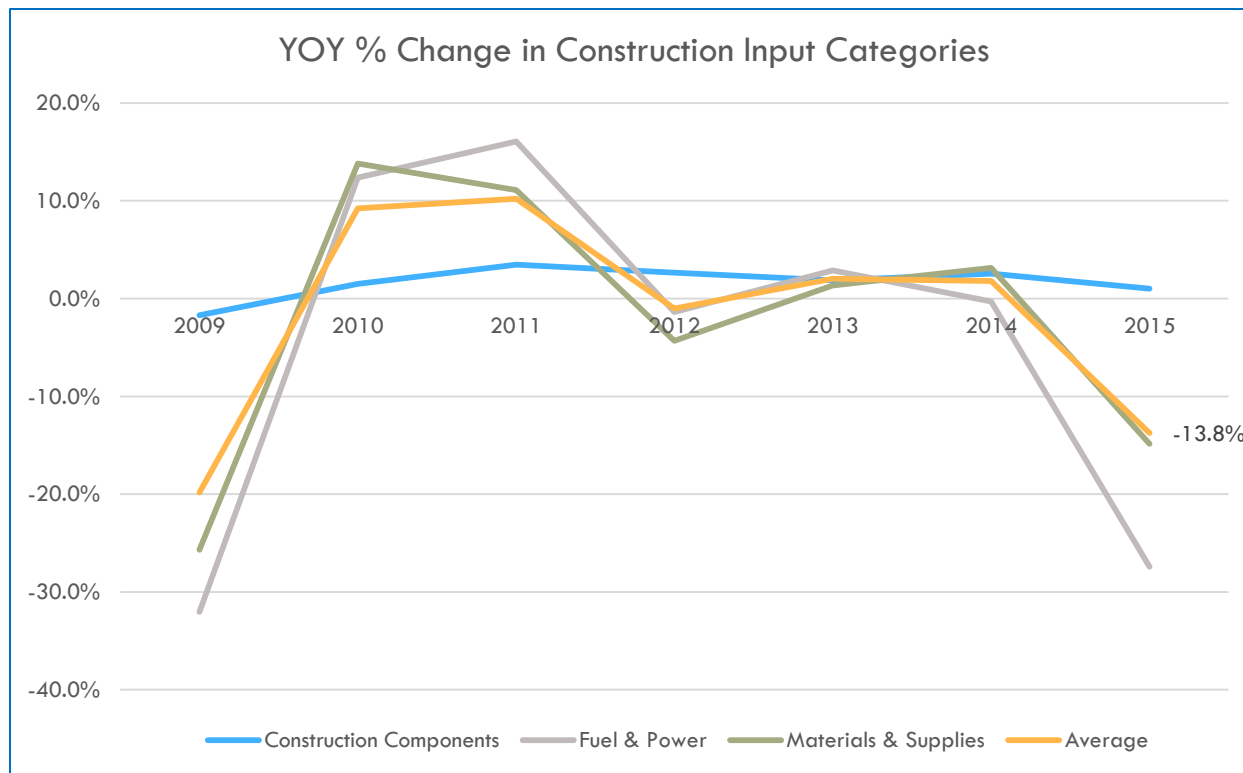
- Continued rise in cost of maintenance contractors, but less steep than last year



# Materials Costs – Combined Categories

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- Significant drop in energy prices and materials, but not in all construction costs



# Local Sector Forecast

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## SF REGION CURRENT MAJOR PROJECTS (\$750+M)

Apple Campus 2 (Cupertino)  
Transbay Transit Center  
Treasure Island  
SalesForce Tower  
Parkmerced  
City Place (Santa Clara)  
Third Street Light Rail  
Seawall Lot 337 Mixed Use  
Mineta Airport Roads/Parking (SJC)

- Annual average of 8.2% increase in local construction volume over the next 3 years
- Annual construction volume forecast to hit \$31.4B (+7.2%) in 2016
- Robust residential growth @ 23.1% in 2015 and 9.1% in 2016
- 181 projects submitted for permitting or breaking ground in SF alone



# Relevant Local Legislation

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## ▣ TSP/TSF (if approved)



▣ Applies to most non-residential development, market-rate residential development creating 21 or more units, and large non-profit private universities with Institutional Master Plan

▣ Proposed \$7.74 per gross sqft residential, \$18.04 per gross sqft non-residential, and \$7.61 per gross sqft PDR

▣ Prop A Affordable Housing Bond on the ballot in November

▣ Public Health & Safety Bond on the ballot in June (if approved)

# SF Debt Program and Enterprise Fund Projects

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<b>Enterprise Fund Projects</b>
Central Subway
Transit Optimization Program
Pier 70
Sewer System Improvement
SFO On-Site Hotel
<b>Active GO Bond Programs</b>
2008 and 2012 Neighborhood Parks & Open Space
2010 and 2014 ESER
2011 Road Resurfacing & Street Safety
2014 Transportation
<b>Other Major Public Building Projects</b>
Mosccone Expansion
Rehabilitation & Detention Facility

# Conclusion

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- Strong demand continues to be major construction cost escalation driver
  - Raw material prices mostly dropping with some important exceptions and little translation to lower supplies costs
  - Bidding environment remains favorable for contractors/subcontractors
    - Labor: high demand, tight supply
    - Subcontractor trades continue to increase profit margins
    - TBD Bid Index shows 12.5% increase in local bid estimates over the past year, triple last year's increase
  
- Local experts are using 2016 escalation rates of 4.0% to 6.0%
  
- CPP's recommendation of **4.5%** is in line with experts' predictions. It is higher than cost and material indices suggest due to the strong effects of high activity, limited locally available labor resources, and contractor selectivity.

# Questions or Comments?

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The screenshot displays the ONESF website interface. At the top left is the ONESF logo with the tagline 'Building Our Future'. A navigation bar includes links for Home, About Us, The Plan, Current Projects, Staff Resources, Documents, and F.A.Q., along with a search bar. A 'News Blog' section features a post titled 'Discussion on Public-Private Partnerships' with a video thumbnail of street construction. To the right, a 'Follow Us' section lists social media icons and a 'Highlights' section with links to 'Street Resurfacing Financing', 'Loma Prieta: 180 Seismic Projects Since 1989', 'Plan & Budget' (including 'FY 2012-2021 Draft Capital Plan' and 'FY 2010-2011 Capital Budget'), 'Capital Planning Committee' (including 'CPC Meetings & Actions' and 'Site Archives'), and 'Did you know?'. Below the main content are three smaller image tiles: 'I'm OneSF' with a woman's portrait, 'Seismic Retrofits' with a yellow background, and another 'I'm OneSF' tile with a construction worker's portrait. The footer contains logos for BFPUC, SFPUC, PORT of San Francisco, Golden Gate Park, SFMTA (Municipal Transportation Agency), SFO (San Francisco International Airport), and 311 (San Francisco at your service).

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