2026 Annual Infrastructure Construction Cost Inflation Estimate

December 1, 2025

Overview

The Annual Infrastructure Construction Cost Inflation Estimate (AICCIE) is the projected rate of construction cost escalation for the upcoming calendar year.

The rate is used to:

- Forecast costs for the 2-Year Capital Budget & 10-Year Capital Plan
- Update Facility Resource Renewal Model (FRRM)
- Prepare construction budget estimates, unless departments rely upon their own escalation rate
- Calculate the backlog

Note: With the passage of modified development impact fee indexing in 2023, AICCIE will no longer be used to determine those fees, which will now increase at a flat 2% each year.

Today's action item: Adopt rate for CY 2026 – *proposing 4.5%*

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- Construction Cost Measures
- Labor Market
- Construction Activity
  - National & Regional Construction Output
  - Architecture Billings
  - SF Development Pipeline
- Other Economic & Political Factors
- Summary of Survey Findings

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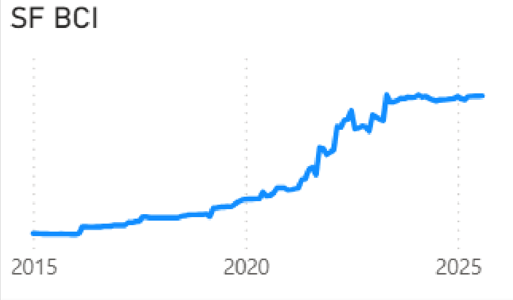
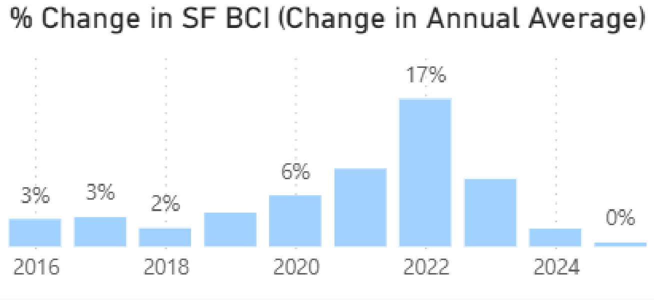
Construction Cost Measures

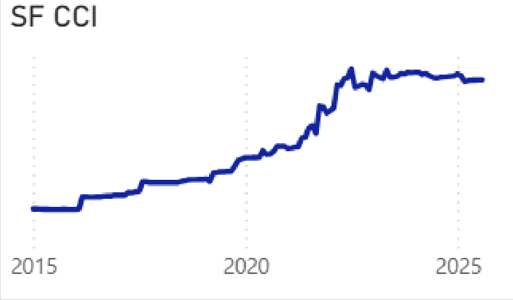
At the local level, construction cost indices generally show small changes to cost

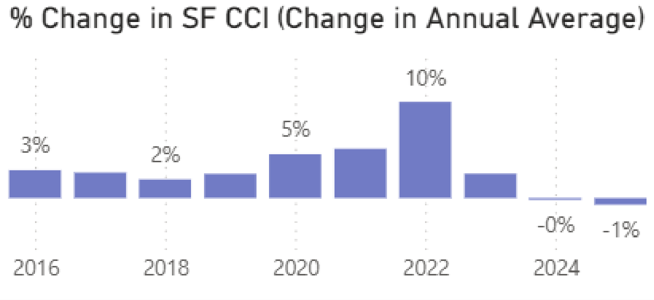
ENR Building Cost Index (BCI) (San Francisco)
Cost of skilled labor, structural steel, cement, lumber
->**minimal changes**, slight increase



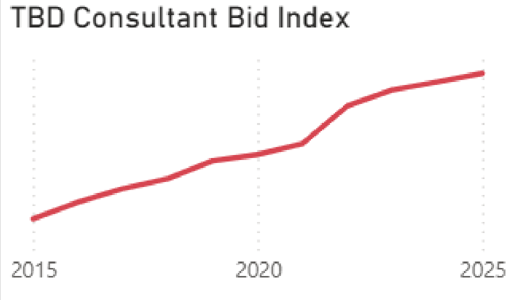


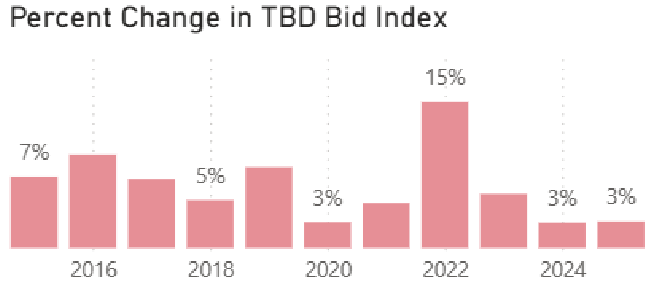
ENR Construction Cost Index (CCI) (San Francisco)
Cost of common labor, structural steel, cement, lumber
->**minimal changes**, slight decrease





TBD Consultants Bid Index (San Francisco)
Change in construction bid cost for an indexed new construction project in SF
->**Increasing at 3%**



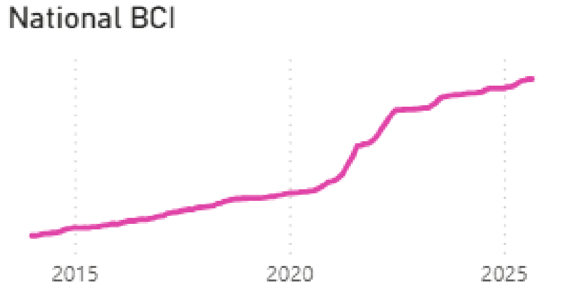


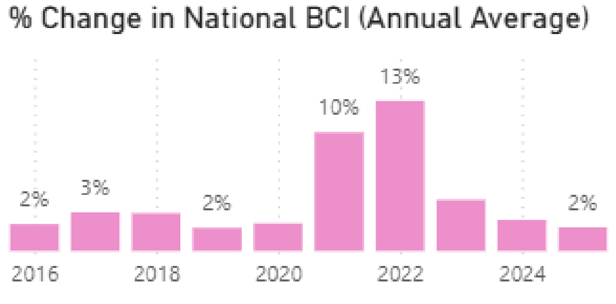
"After three years of rapid, often double-digit increases in the materials market, the supply chain has finally caught up to demand and brought stability to the materials market." – *Saylor Consulting*

Source: Engineering News-Record Construction Cost Index & Building Cost index from 2015- Aug 2025; TBD Index through Q2 2025

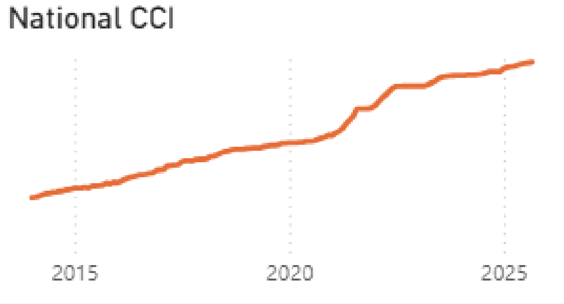
Nationally, construction cost indices show modest increases

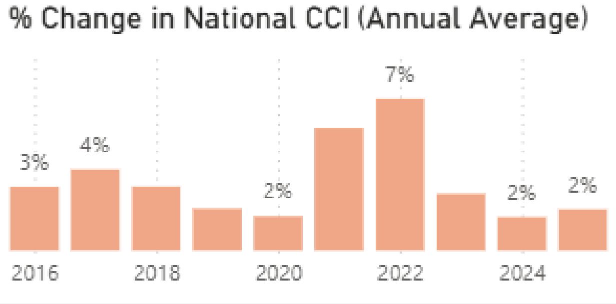
ENR Building Cost Index (BCI) (US)
Cost of skilled labor, structural steel, cement, lumber
->**Increasing at about 2%**



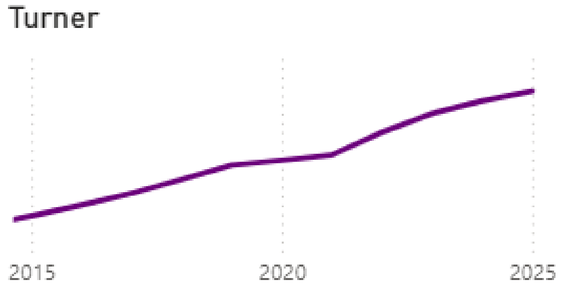


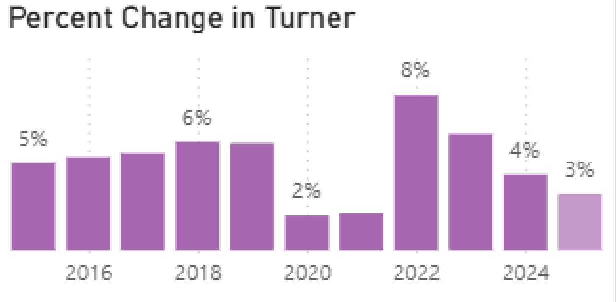
ENR Construction Cost Index (US)
Cost of common labor, structural steel, cement, lumber
->**Increasing at about 2%**





Turner Building Cost Index (US)
Labor rates, productivity, material prices, and the competitive condition of the marketplace
->**Increasing at 3%**





Source: Engineering News-Record Construction Cost Index & Building Cost index from 2015-Aug 2025; Turner Index through Q2 2025

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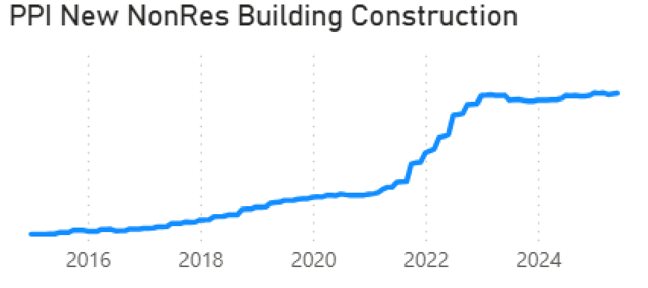
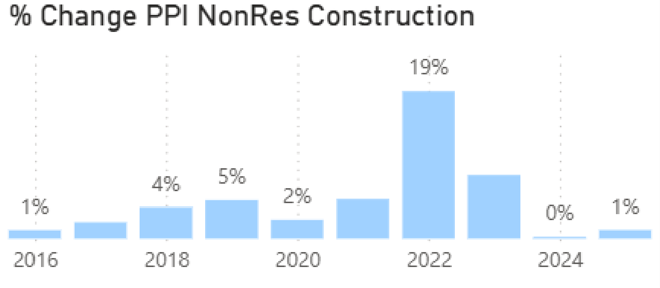
Construction cost PPIs (from the BLS) show modest increases

US New Non-Residential Building Construction Producer Price Index (PPI)

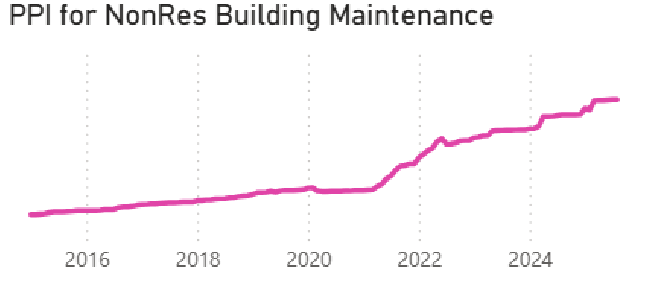
->**minimal changes**, slight increase

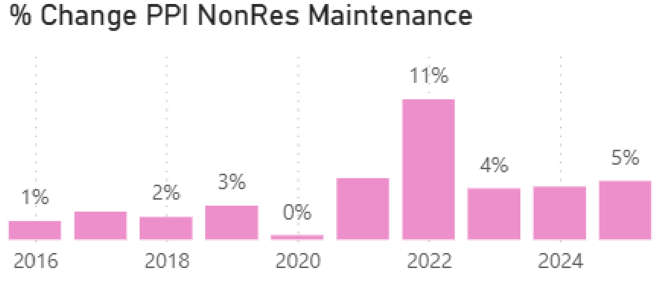




US PPI Industry data for Non-Residential Building Maintenance & Repair

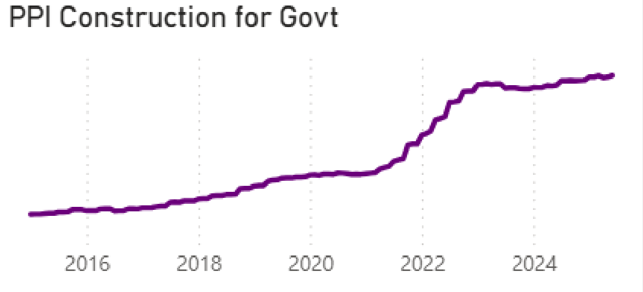
->**increasing by about 5%**

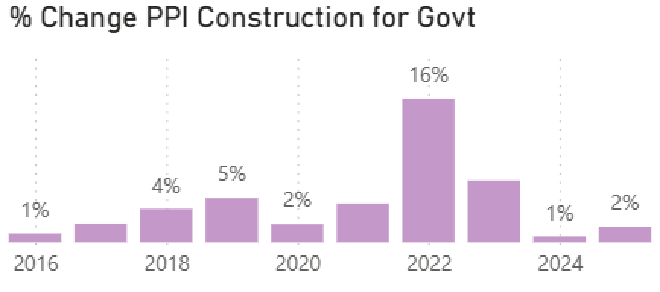




US PPI Commodity data for Final demand-Construction for Government

->**increasing by 2%**





BLS = Bureau of Labor Statistics; PPI = Producer Price Index, measures the average selling prices

Source = Source: Bureau of Labor Statistics, various Producer Price Indices, 2015 – June 2025

Labor Market

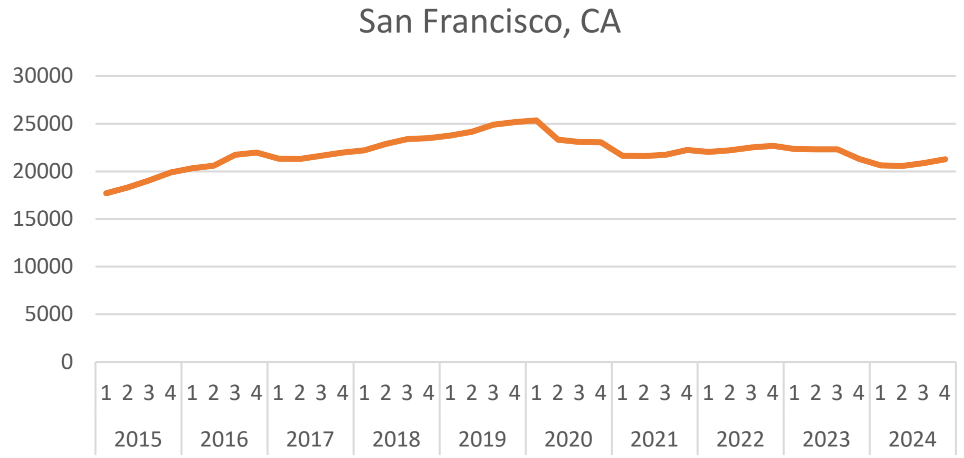
Construction labor employment remains lower than 2019 levels and trends are uncertain

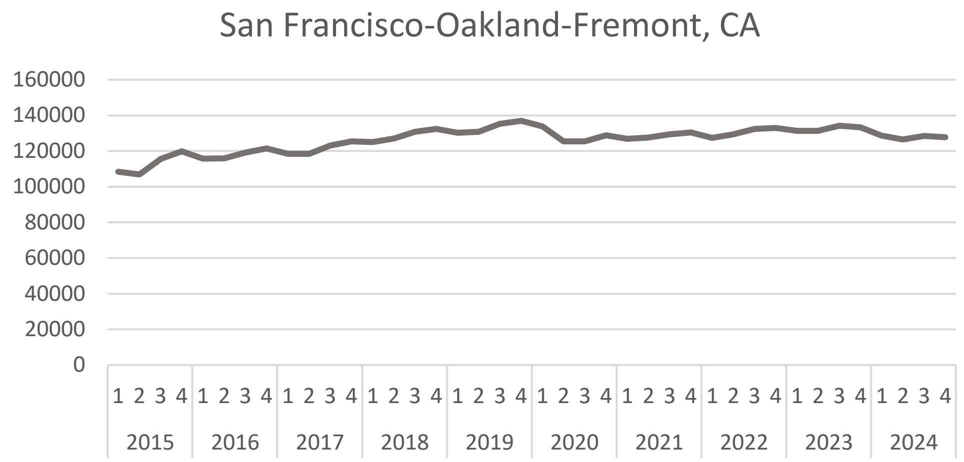
- Slight decline in employees in the construction sector in San Francisco Bay Area
- Local unemployment has risen to 5.2%
- Potential impacts from tariffs and immigration policy

> [One of the main drivers of escalation] “Labor availability given the aging workforce/retirements and immigration regulations. Electrical being the most impacted trades …”
> *– Clark Construction Group*

Construction Sector Employment:

Estimate of the total number of jobs on the first day of the reference quarter.





Source: US Census Bureau, [Longitudinal Employer-Household Dynamics data](), 2015-2024

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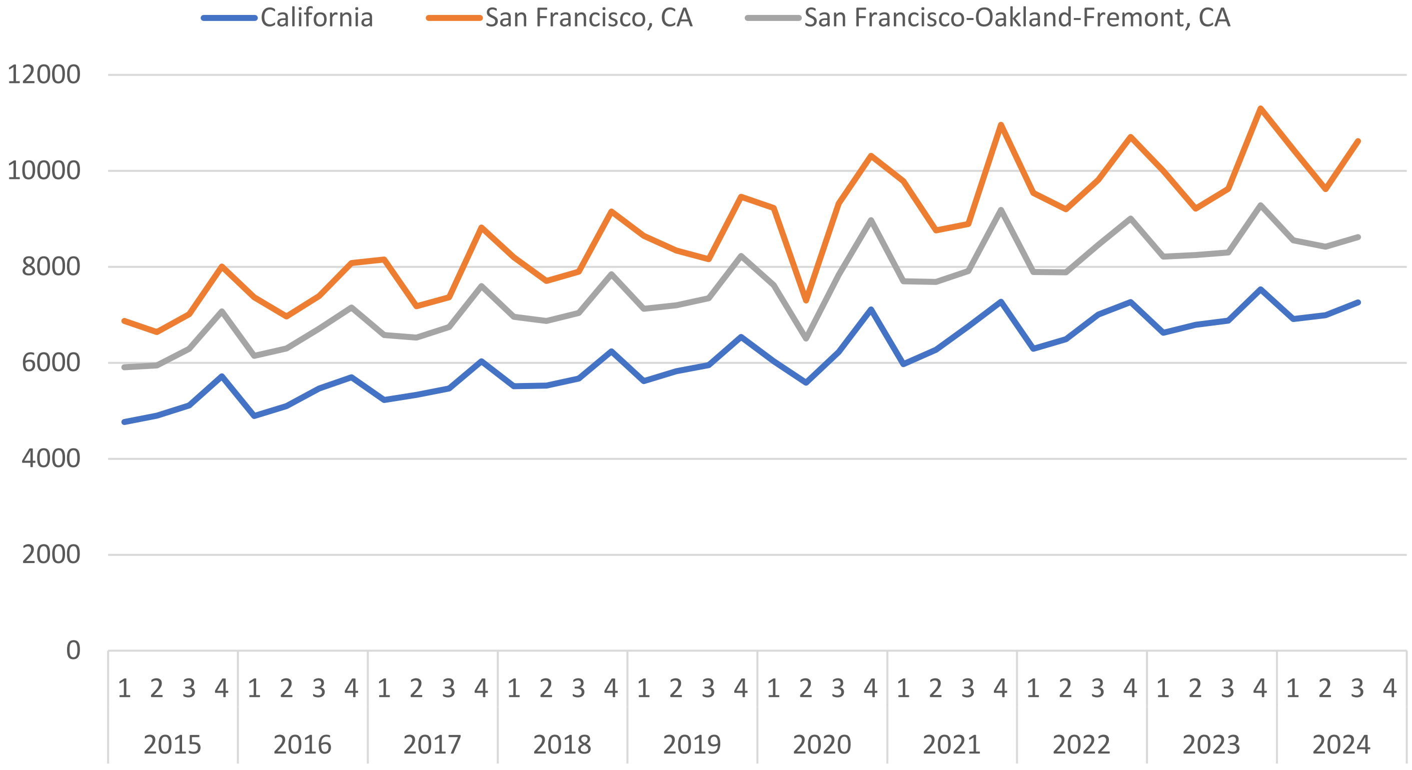
Construction labor costs continue to rise

- Construction sector earnings continue to rise (about 2% increase annually since 2022)
- SF Public employee union agreements include two wage increases in 2026:
  - 1.5% increase in January
  - 2% increase in July

> "We also expect labor to become more expensive as labor resources become scarce."
> – *Gordian Consulting*

Construction Sector Earnings:
Average monthly earnings of employees with stable jobs (i.e., worked with the same firm throughout the quarter).



Source: US Census Bureau, [Longitudinal Employer-Household Dynamics data](), 2015-2024

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Construction Activity

Total US construction activity is slightly lower than last year, but not for public spending

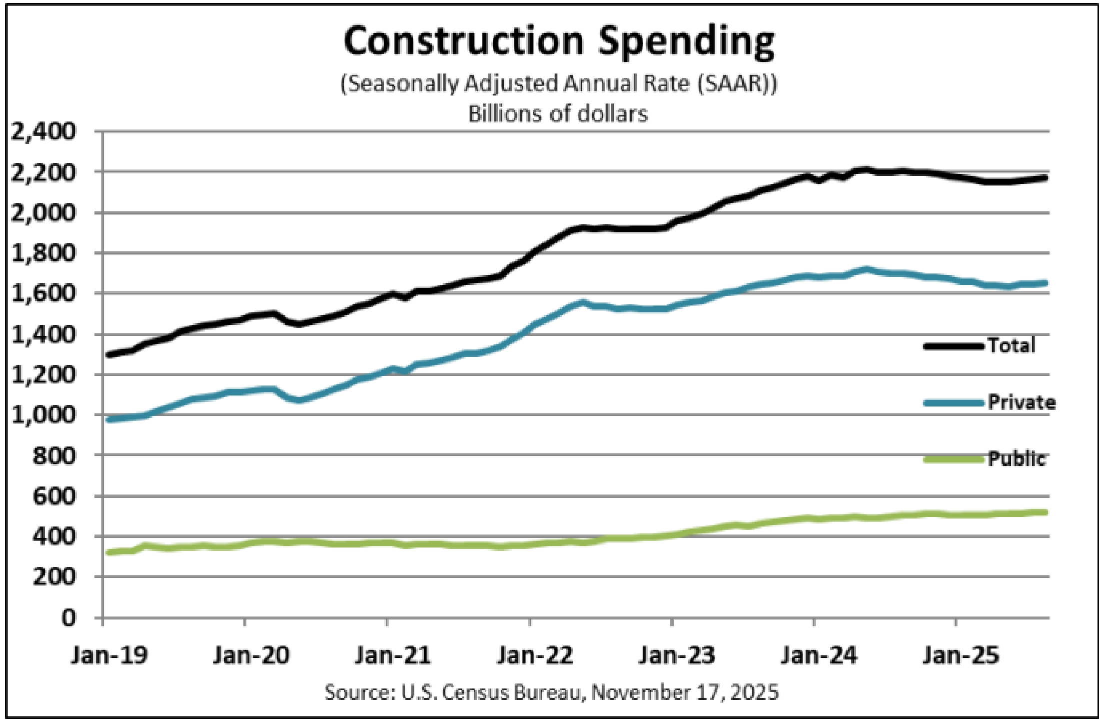
CONSTRUCTION SPENDING

AUGUST 2025 **$2,169.5 billion**

JULY 2025 (revised) **$2,165.0 billion**

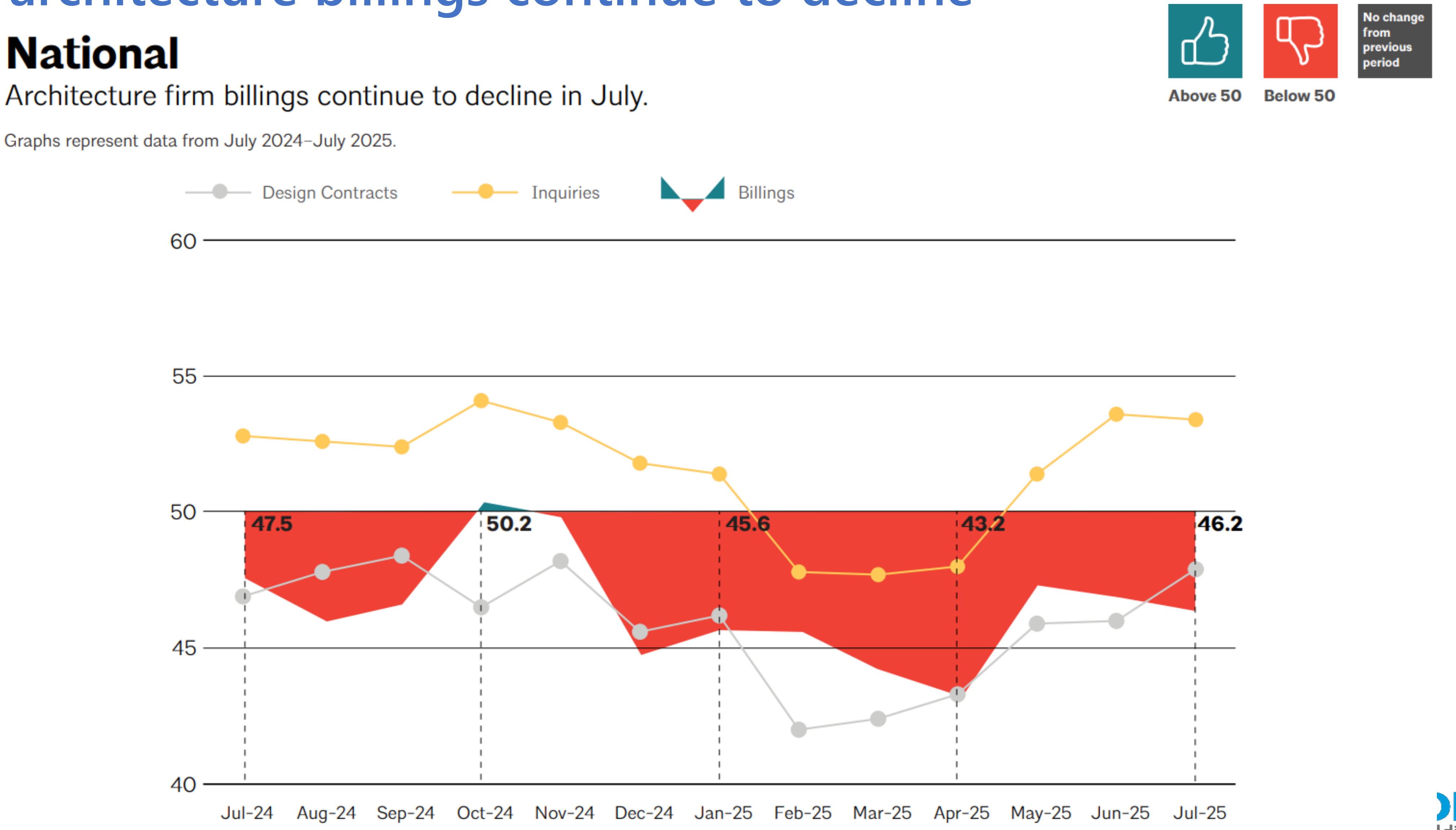
Next release: TBD

Seasonally Adjusted Annual Rate (SAAR)
Source: U.S. Census Bureau, November 17, 2025



Source: US Census Bureau, "Monthly Construction Spending, August 2025"

US architecture billings continue to decline

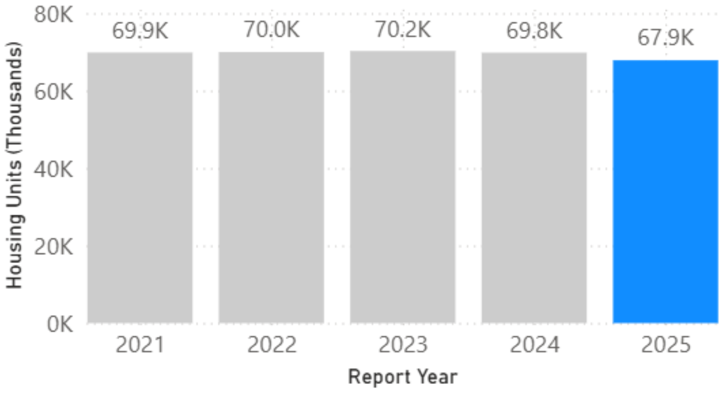


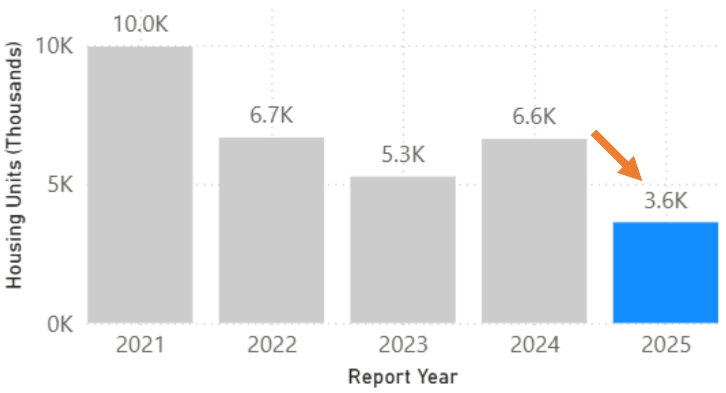
Source: AIA, ABI Monthly Reporting "ABI July 2025: Business at architecture firms remains soft"

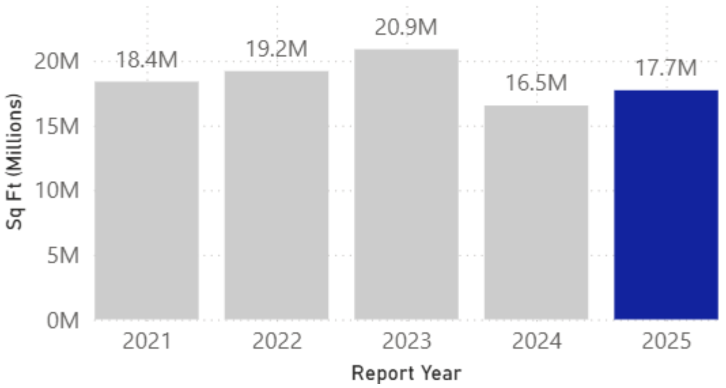
Local development pipeline shows decrease in construction

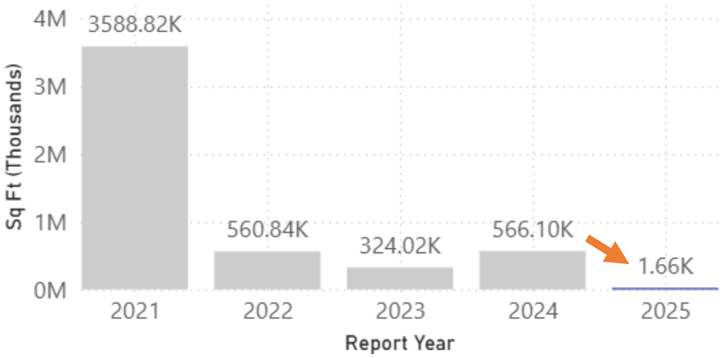
Totals Represent a Snapshot of the Development Pipeline in Q2 of the Report Year

Note: Projects may be in the pipeline for many years.



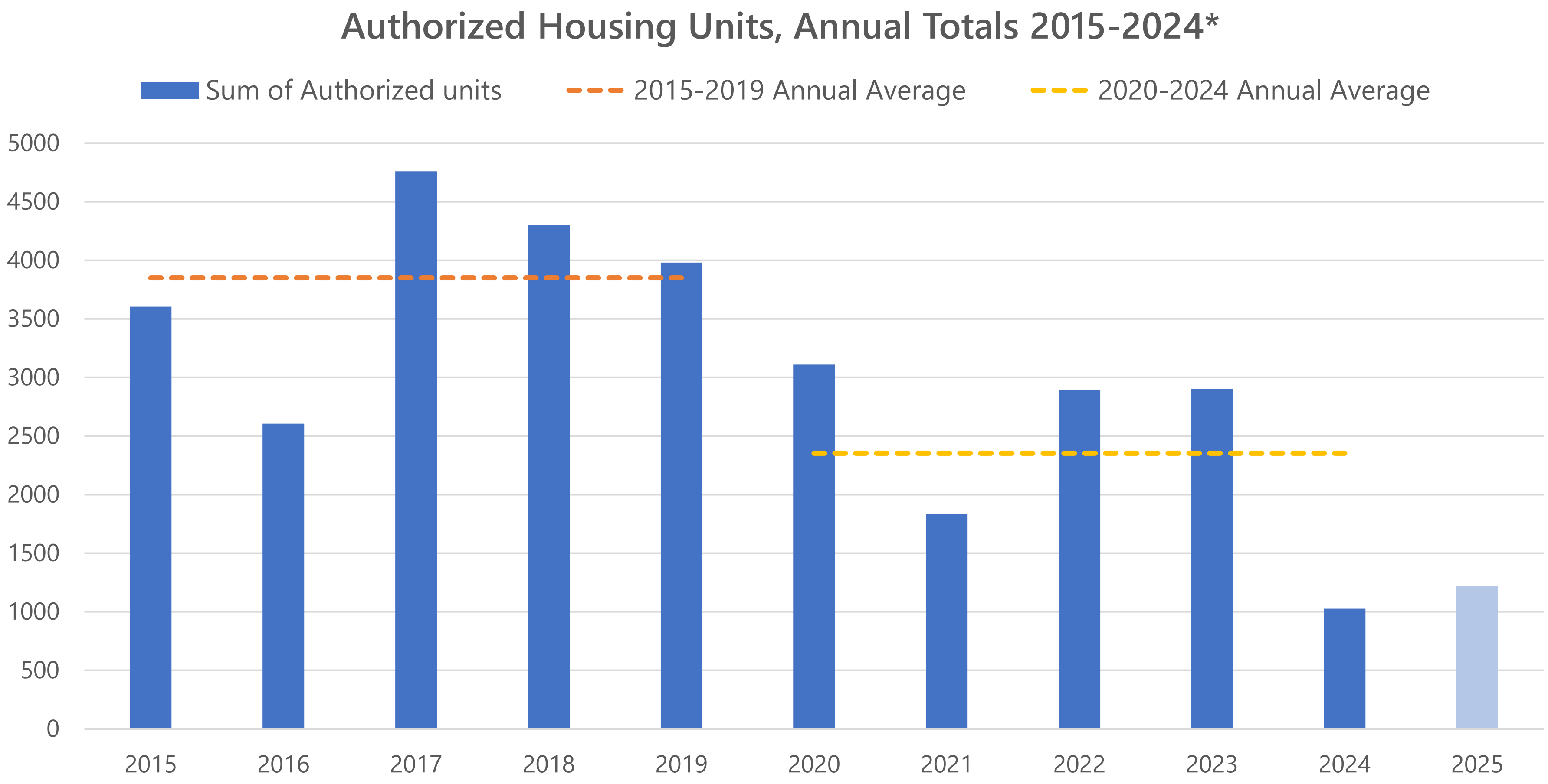






Source: SF Planning Development Pipeline, https://data.sfgov.org/d/6jgi-cpb4

Housing permits remain lower than pre-pandemic levels

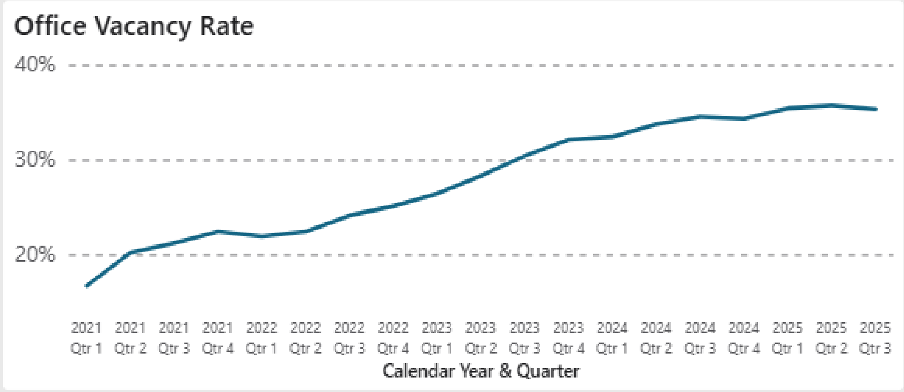


**The 2025 data is preliminary and only through August 2025*
Source: Data from the SF Planning Department, provided by the Controller's Office of Economic Analysis

Demand on office space continues to be low

Office vacancy rate remains high (as of Q3 of 2025)

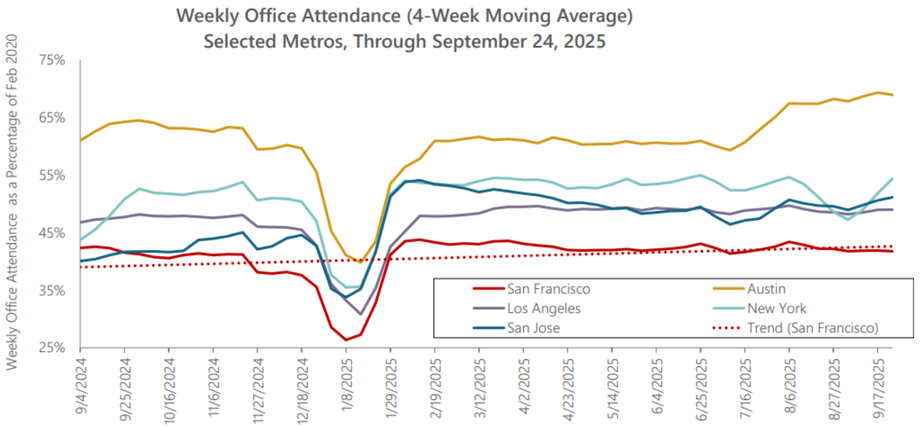
- 35.3% of office space vacant



Source: [San Francisco Scorecards], through Quarter 3 of 2025

In-Office work rates are steady

- About 40% of pre-pandemic levels



Source: Data from Kastle System, Visual from the City Economist September 2025 Status of the San Francisco Economy Report

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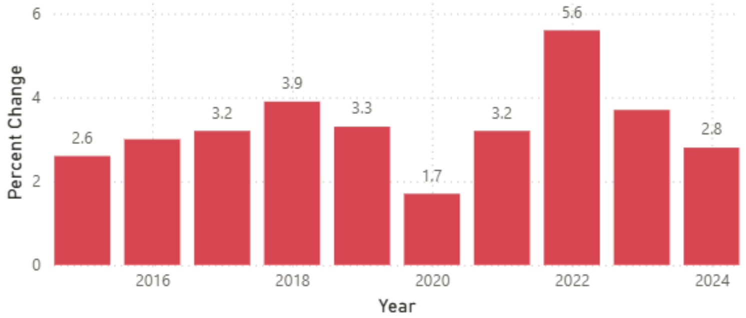
Other Economic & Political Factors

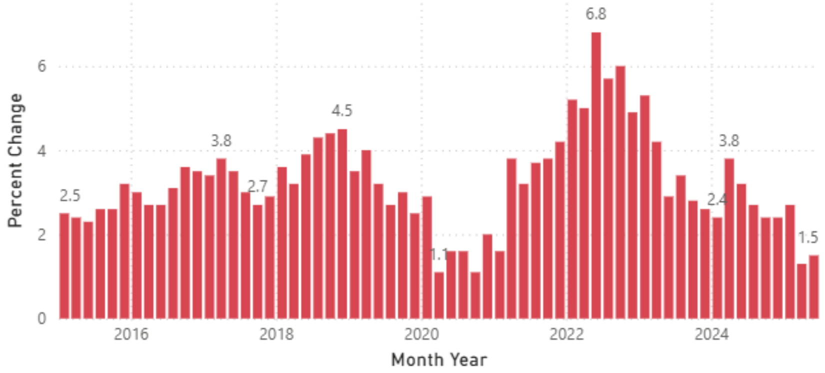
Consumer prices increasing at a lower rate, but interest rates remain relatively high

Consumer Price Index for All Urban Consumers (CPI-U)
All items in San Francisco-Oakland-Hayward, CA
All urban consumers, not seasonally adjusted
2015-June 2025

Percent Change in CPI (Annual change from prior year)



Percent Change in CPI (Monthly change from same month, prior year)



Source: Local Metro Area CPI from BLS, through June 2025

Federal Funds Effective Rate

Source: [Federal Funds Effective Rate (FEDFUNDS) | FRED | St. Louis Fed](), through Aug 2025

"Coupled with higher interest rates which may depress multi-family housing, we expect construction growth to be muted in the 2027-2029 period" – *Saylor Consulting*

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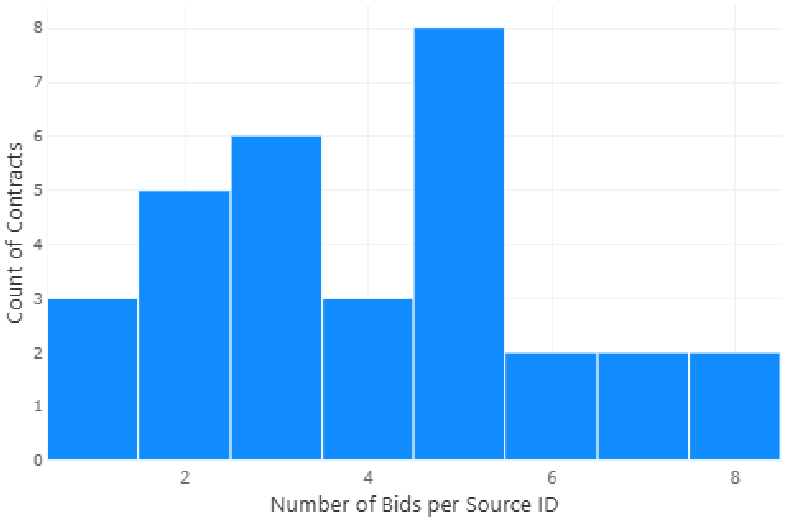
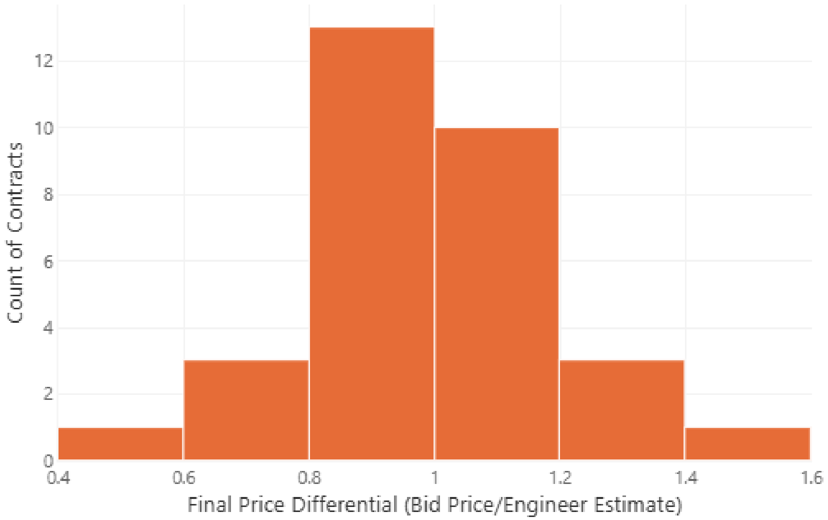
Bid environment is similar to prior year's reporting

- DPW received an **<u>average of 4.03 bids and a median of 4 bids</u>** (for the 31 successful solicitations with a contract awarded)
- Winning bids were an average of .99x the engineer's estimates

Histogram of Total Contracts by Number of Bids Received



Histogram of Total Contracts by Award Price Differential



Source: DPW Bid Data FY24-25, as of Aug 2025

Expected Price Impacts of Bids Received

Bid count	Differential from Eng. Estimate
1	25% to 50% above estimate
2-3	10% to 25% above estimate
4-5	0% to 10%
6-7	0% to -10% below estimate
8-10	-10% to -25% below estimate

Source: Saylor Consulting, Market Conditions Report

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Tariffs are the biggest uncertainty for construction

- Tariffs impact the cost of construction in multiple ways
  - Directly impact the price of construction inputs (materials, components)
  - Impact the broader economy which can then impact the labor market, investment in development, and the supply/demand of construction
- Cited as a key source of uncertainty by almost all experts

> "Construction employment is projected to suffer the greatest percentage job losses in the near term"
> *- Controller's Office Report, "Potential Impacts of New Federal Tariffs on the San Francisco Economy" (slide 20)*

Long-Term Average Employment Differences (versus Baseline) by Industry and Region

	San Francisco	Rest of California	Rest of United States
Total	**-1.6%**	**-0.3%**	**-4.2%**
Construction	-7.6%	-3.9%	-9.0%
Manufacturing	38.9%	20.5%	8.1%
Trade and Transportation	-3.6%	-3.1%	-5.3%
Information	-2.9%	-3.5%	-4.4%
Financial Activities	-1.4%	-1.2%	-3.0%
Business & Professional Services	-2.0%	-1.3%	-3.0%
Education and Health Services	-1.8%	-1.2%	-2.9%
Leisure & Hospitality	-1.9%	-0.9%	-2.8%
Other Services	-2.4%	-2.1%	-3.9%
Government	-0.9%	1.1%	-1.4%

Source: SF Controller's Office Report, "Potential Impacts of New Federal Tariffs on the San Francisco Economy" Sept 2025

Summary of Survey Findings

SF Experts Projected Escalation (as of Sept 2025)

Organization	2022 Estimate	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
Builders					
Pankow	5-10	5	2-3	3-4	4[2]
Cumming Construction	5.6	4.8	5	4.68	5.35
Clark Construction	4.5-5.5	5.5	3.5-4	4-5	4-5
Jacobs	6-10	8	7-8	4-5	6-8
Turner	-	-	-	-	3.65-4.65
Webcor	-	-	-	-	4.5[2]
Market Consultants					
TBD Construction	4-5	6-7	6	4.5	4
Saylor Consulting Group	5	7	3-5	4	4.5
Martin Lee Corporation	8	8	5	5	4
Gordian[1] (5-year avg.)	3.8	5.88	6.27	5.68	4.49
				Average	**4.60**

[1]*Uses Gordian 5-year average as of the end of prior year*
[2]*Base escalation, but also estimating a potential tariff add-on*

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SF Experts Projected Escalation (as of Sept 2025)

Organization	2026 Estimate
Builders	
Pankow	4[2]
Cumming Construction	5.35
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Turner	3.65-4.65
Webcor	4.5[2]
Market Consultants	
TBD Construction	4
Saylor Consulting Group	4.5
Martin Lee Corporation	4
Gordian[1] (5-year avg.)	4.49
Average	**4.60**

[1]Uses Gordian 5-year average as of the end of prior year
[2]Base escalation, but also estimating a potential tariff add-on

What are the main drivers of the escalation rate in the next year?

"We expect City of San Francisco projects to be on the higher end of the range, due to their nature of utilizing complex, sophisticated building systems, high rates of unionization, and complex bidding requirements, which can limit the City labor pool." – Saylor Consulting

"Tariffs [are a] primary concern." – Pankow

"current market conditions, supply chain issues, tariffs and re-alignment of goods manufactured in the U.S. along with labor shortages and increased wage rates"
– Jacobs

"1) The tariffs… 2) Labor availability… 3) National and Geopolitics" – Clark Construction Group

"1. Skill labor shortage
2. Uncertain and changing tariffs and trade policies impacting material and equipment costs
3. Immigration policy impacting the supply of labor
4. High interest rates - more costly to do business …" – M Lee Corporation

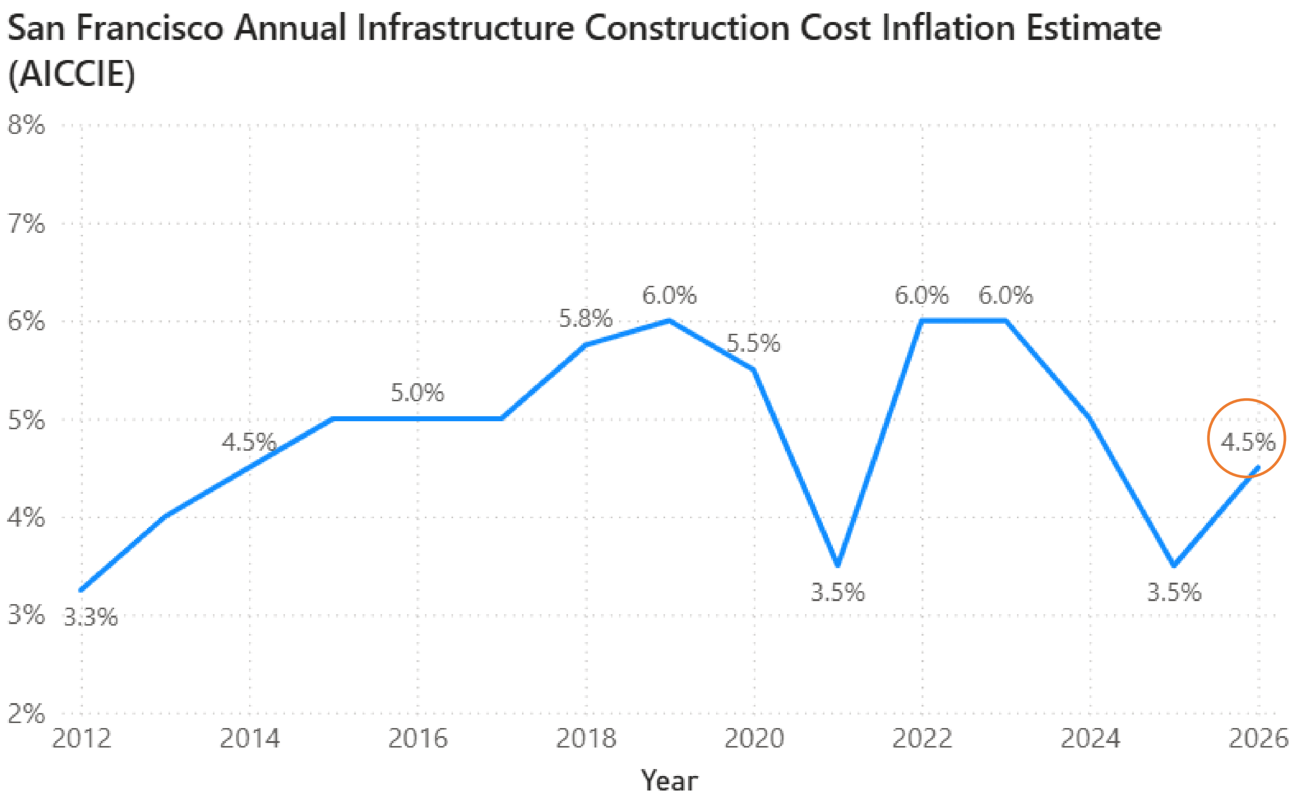
"Tariff impact uncertainty continues to put upward pressure on material costs. Additionally, a general shortage of the workforce continues to put upward pressure on wage rates." – TBD Consultants

SF Department Projected Escalation (as of Sept 2025)

Department	2026 Estimate	Notes
SFO	4.5	This is the base escalation estimate; additional market factors may be added for certain projects (for example, for specific tariff impacts).
SFPUC	4	This is the base escalation; for projects starting construction in the next 3 years, estimating a 5% tariff market condition factor to the total raw construction cost when applicable.
REC (Custom Work)	5-7	Use professional cost estimators for project-specific escalation. 5-7 is the historical average for the last 2 years.
PORT	-	Use professional cost estimators for project-specific escalation.

Considering the current market conditions, we propose 4.5%

Proposed: 4.5% for CY26



Key Considerations: Labor Costs, Tariff Impacts, and Current Market Conditions

Thank You

An official website of the City and County of San Francisco

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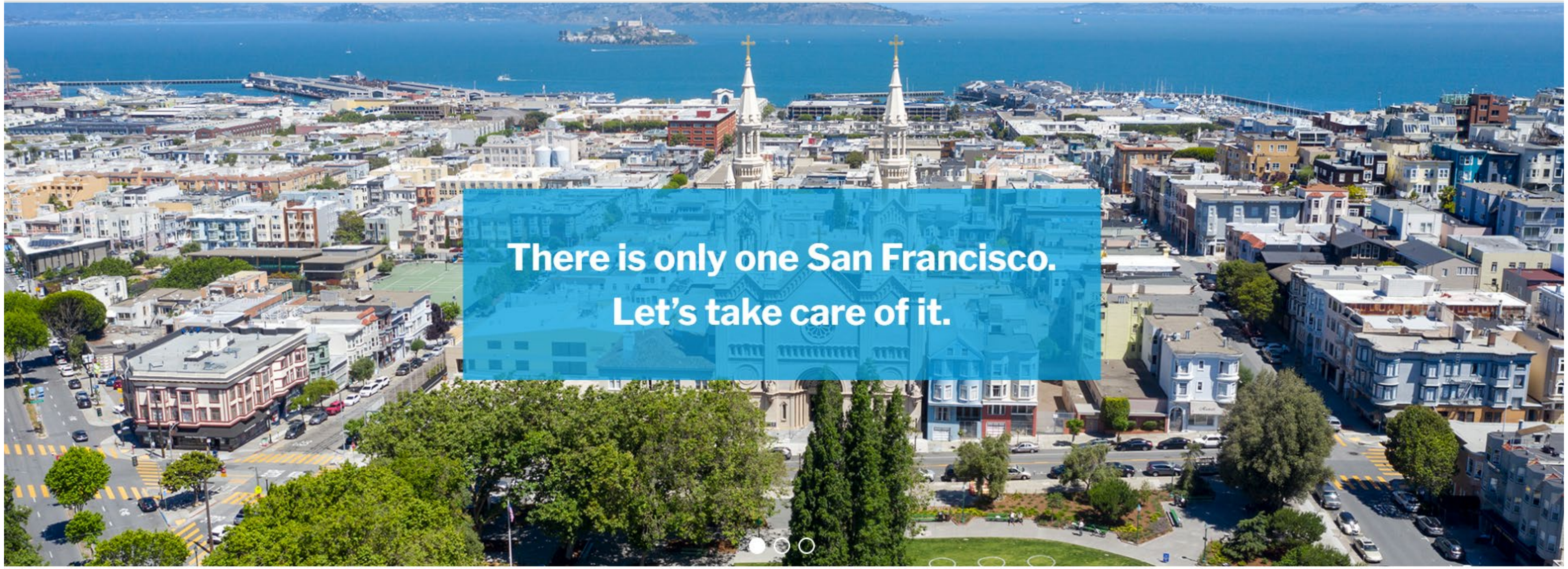
PLANS AND BUDGETS PROGRAMS ABOUT US COMMITTEES DATA AND RESOURCES



The Office of Resilience and Capital Planning is the City and County of San Francisco's program to plan and finance projects that strengthen the integrity and resilience of San Francisco's infrastructure, neighborhoods, and residents.

www.onesanfrancisco.org

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Appendix: Additional Data & Methods

AICCIE Legislation Text

The AICCIE "shall be updated on an annual basis…in order to establish a reasonable estimate of construction cost inflation for the next calendar year for a mix of public infrastructure and facilities in San Francisco."

"The Controller shall review the amount of each development fee established in this Article and shall adjust the dollar amount of any development fee on an annual basis every January based solely on the AICCIE…"

Methodology

Review indices

- Bureau of Labor Statistics (Indices and Commodities)
- Engineering News-Record
- Turner Index
- TBD Bid index

Gether input from local experts

- Construction Firms
- Market Consultants
- SF Gov departments
- SF Chief Economist

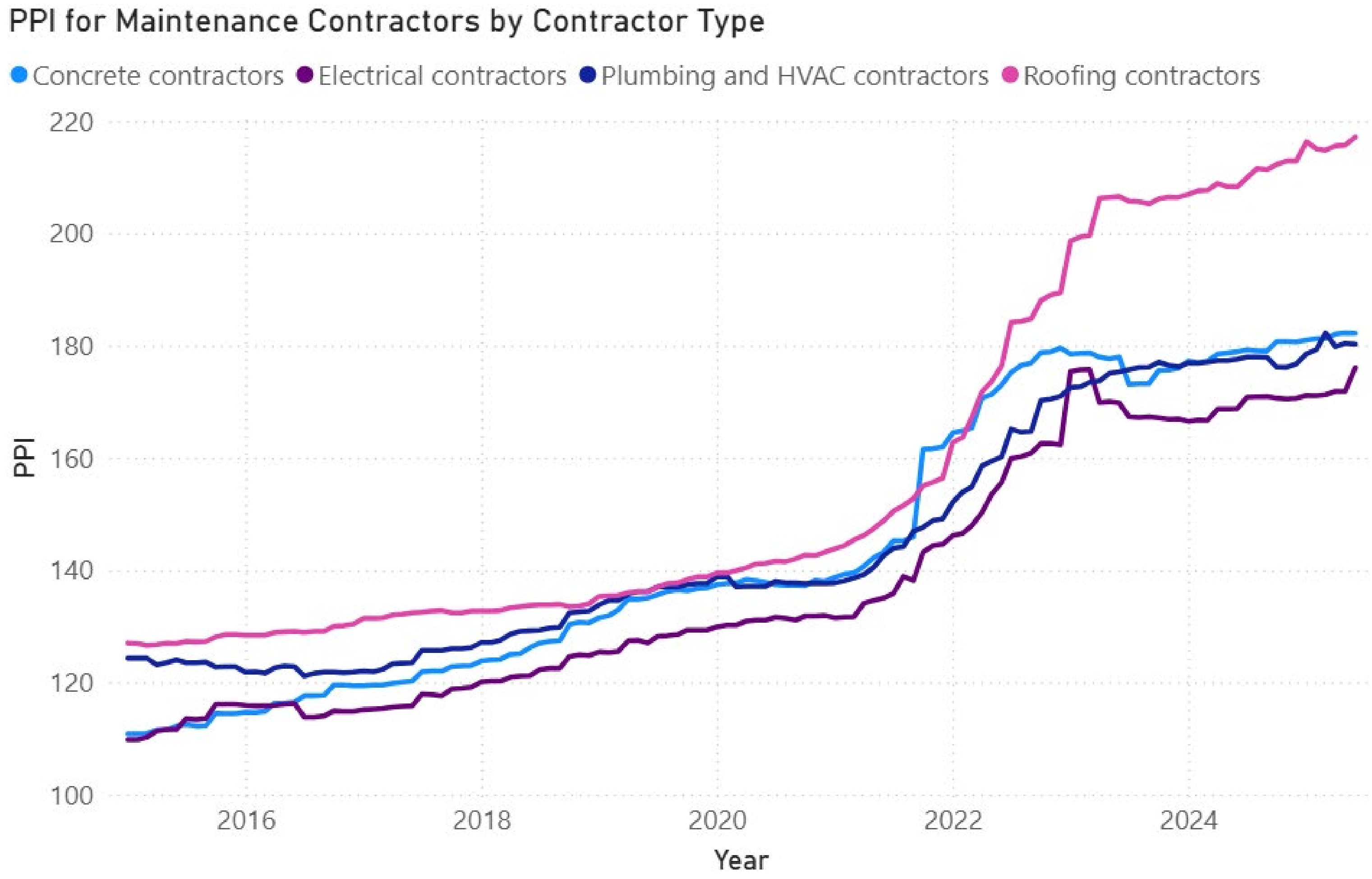
Understand SF public construction market

- Development pipeline
- Bid competition & validity of engineer's estimate
- Local labor considerations

Contextualize with market and sector trends

- Resources:
  - Major construction and construction-related cost indices
  - Bureau of Labor Statistics (BLS) data
  - Market reports from industry experts (RLB Reporting, Cumming Market Analysis, etc.)
  - Conversations with project managers, construction consultants/economists, and those working in the field
  - Public reports of local construction activity

Roofing contractors have a comparatively higher PPI, and increasing faster than other maintenance contractors



BLS = Bureau of Labor Statistics; PPI = Producer Price Index, measures the average selling prices

Source = Source: Bureau of Labor Statistics, Producer Price Indices for Non Residential Maintenance Contractors, 2015 - 2025

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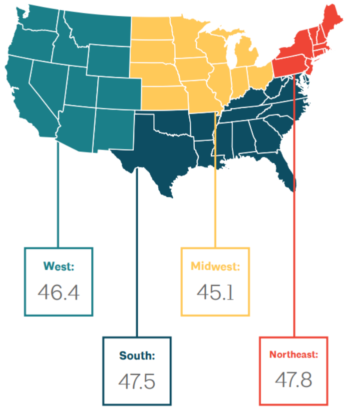
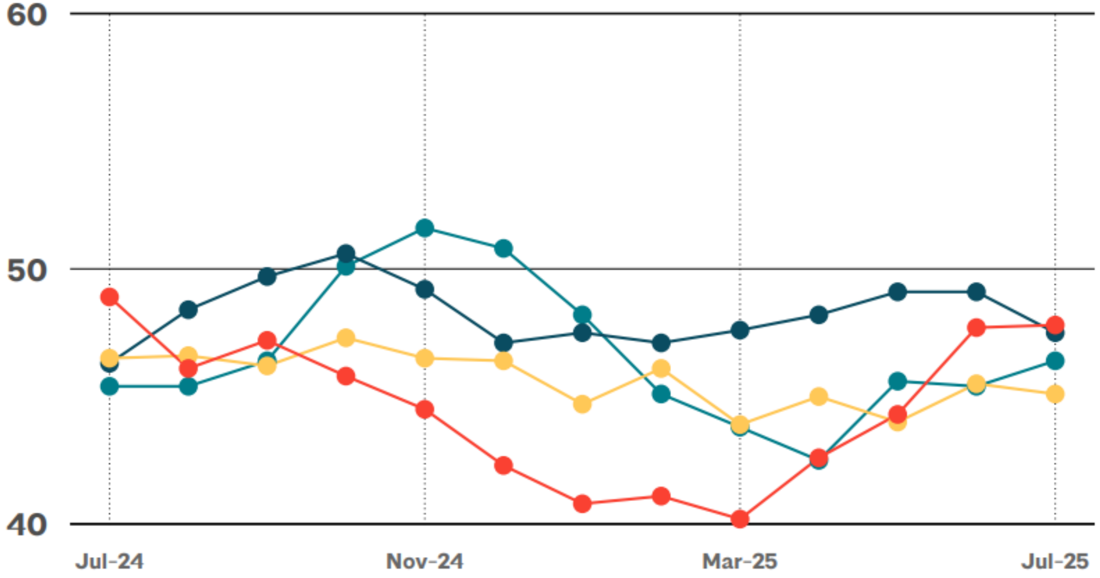
Architecture billings decline in our region, but one sector may grow soon

Regional

Firms in all regions report softening business conditions.

Graphs represent data from July 2024–July 2025 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.

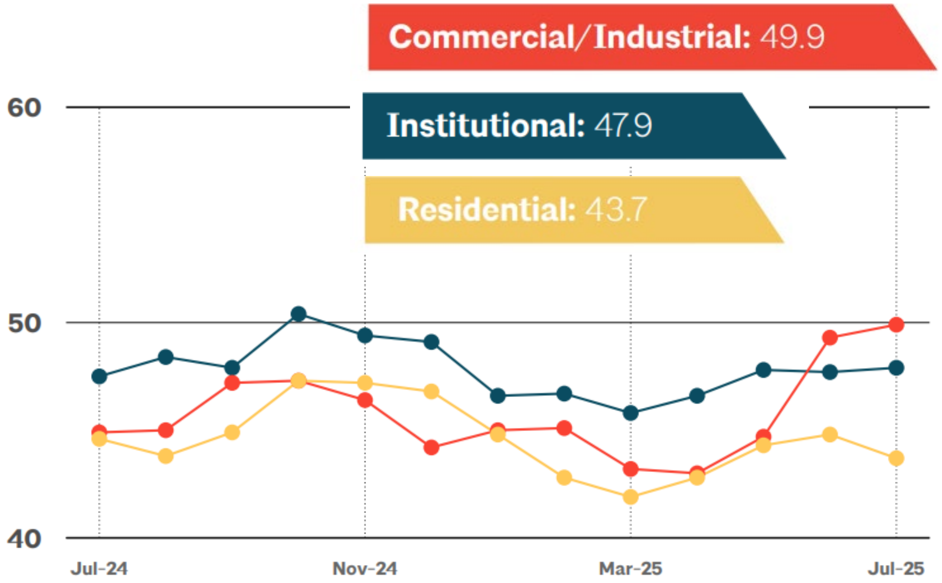




Sector

Firms with a commercial/industrial specialization may return to growth soon.

Graphs represent data from July 2024–July 2025 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Source: AIA, ABI Monthly Reporting "ABI July 2025: Business at architecture firms remains soft"

So far in 2025, we've seen the biggest price increases for lumber, heater exchangers, and more recently, iron and steel

% Change in PPI For Specific Commodity Groups through July 2025 (% change from prior year)

Commodity Group or Type	2025
Softwood lumber	9.4
Heat exchangers and steam condensers	8.1
Lumber	7.8
Asphalt and tar paving	6.7
Concrete ingredients	6.0
Lumber and plywood	5.3
Air conditioning	2.7
Gypsum bldg materials	2.5
Sheet metal	2.2
Elevator parts	1.8
Constr machinery and equipment	1.7
Asphalt and tar roofing/siding	1.0
Plastic construction products	-1.6
Iron and steel	-1.9
Iron and steel for bldgs	-3.4
Asphalt	-3.7
No. 2 diesel fuel	-14.4

% Change in PPI For Specific Commodity Groups through July 2025 (% change from prior year)

Year	2025						
Commodity Group or Type	January	February	March	April	May	June	July
Softwood lumber	9.5	10.9	12.6	8.6	9.1	7.7	7.7
Heat exchangers and steam condensers	7.8	8.0	8.3	8.7	7.6	7.7	8.4
Lumber	7.2	8.4	10.6	7.7	7.6	6.5	6.7
Asphalt and tar paving	10.7	10.8	12.1	2.9	3.9	3.7	2.8
Concrete ingredients	6.2	6.4	5.9	5.8	5.9	6.1	5.6
Lumber and plywood	3.9	5.5	7.6	4.9	5.4	4.6	5.1
Air conditioning	1.5	1.1	1.4	2.0	3.1	4.5	5.2
Gypsum bldg materials	5.5	4.4	2.8	3.0	1.1	0.5	0.3
Sheet metal	0.6	0.3	1.3	2.3	2.8	3.9	4.5
Elevator parts	-1.4	-0.6	1.1	2.2	3.1	3.9	4.5
Constr machinery and equipment	0.5	0.6	0.8	1.4	2.1	3.0	3.2
Asphalt and tar roofing/siding	1.7	-0.3	-0.6	0.7	1.7	2.4	1.3
Plastic construction products	-1.1	-1.7	-1.7	-1.8	-1.6	-1.5	-1.7
Iron and steel	-15.3	-14.0	-2.5	2.1	6.3	4.0	6.2
Iron and steel for bldgs	-34.1	-29.5	4.4	9.4	8.1	9.4	8.6
Asphalt	4.2	10.5	-3.5	-2.2	-9.7	-11.6	-13.7
No. 2 diesel fuel	-6.6	-18.4	-24.4	-27.5	-9.6	-6.9	-7.2

Source: Bureau of Labor Statistics, various Producer Price commodity indices, 2015 - 2025

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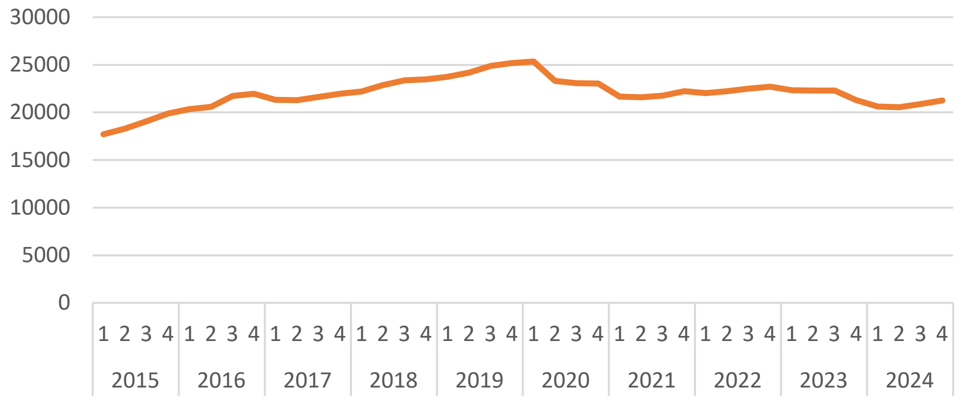
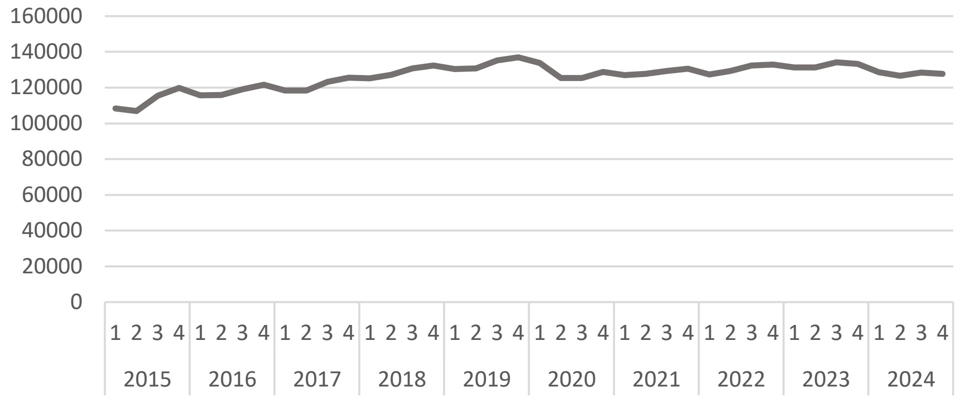
Construction labor employment remains lower than 2019 levels and trends are uncertain

Construction Sector Employment:

Estimate of the total number of jobs on the first day of the reference quarter.





Construction Employment: Annual Percent Changes

	San Francisco, CA		San Francisco-Oakland-Fremont, CA	
Year	Average Employment	Percent Change	Average Employment	Percent Change
2015	18,731		112,633	
2016	21,154	13%	118,079	5%
2017	21,551	2%	121,357	3%
2018	22,979	7%	128,857	6%
2019	24,487	7%	133,334	3%
2020	23,688	-3%	128,355	-4%
2021	21,808	-8%	128,609	0%
2022	22,357	3%	130,517	1%
2023	22,056	-1%	132,523	2%
2024	**20,824**	**-6%**	**127,859**	**-4%**

Source: US Census Bureau, Longitudinal Employer-Household Dynamics data, 2015-2024

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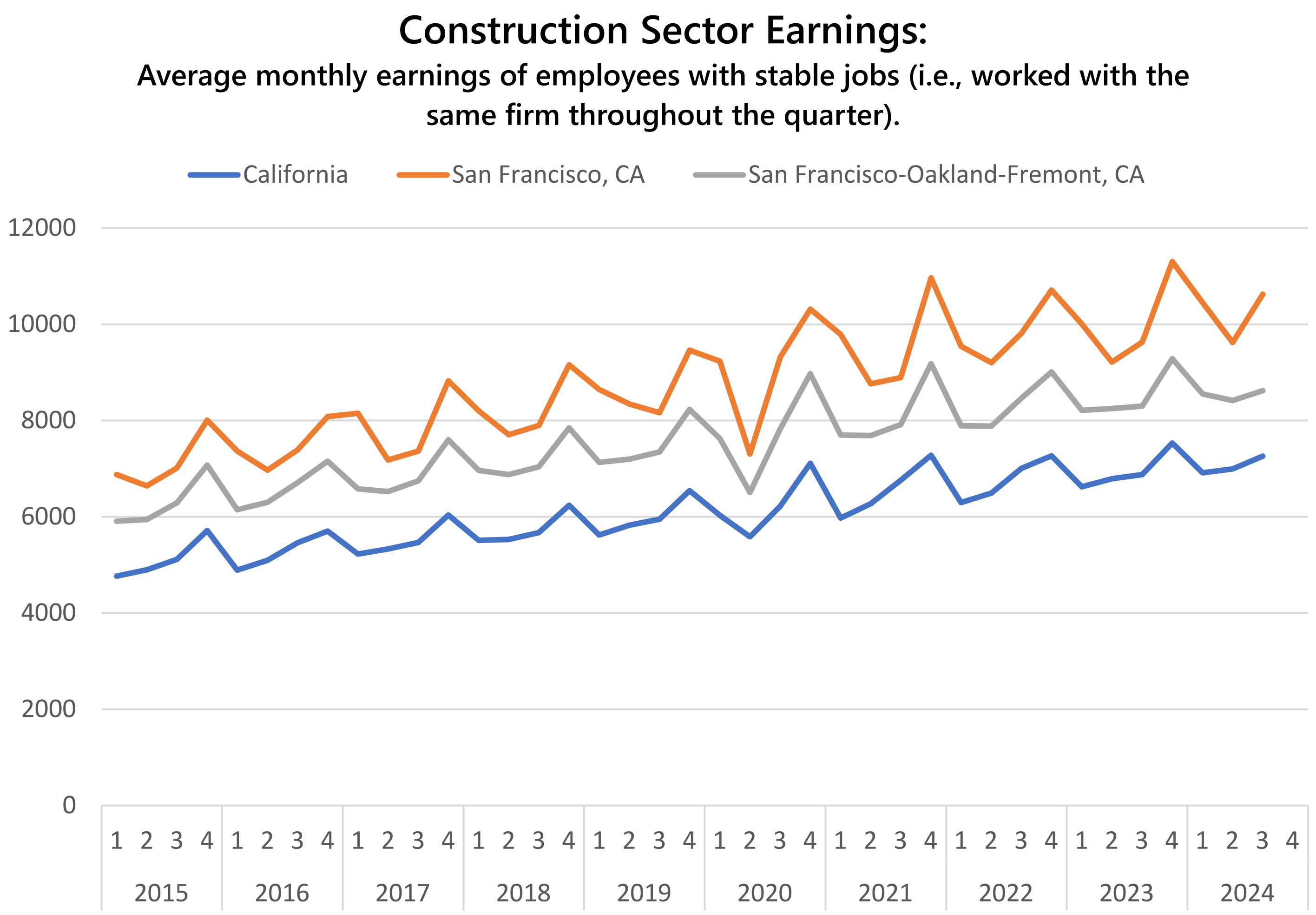
Construction labor costs continue to rise



San Francisco Construction Sector Earnings: Annual Percent Changes

Year	Average of Monthly Earnings	Percent Change from Prior Year
2015	7,133	
2016	7,450	4%
2017	7,878	6%
2018	8,239	5%
2019	8,653	5%
2020	9,040	4%
2021	9,601	6%
2022	9,816	2%
2023	10,035	2%
2024	**10,229**	**2%**

Source: US Census Bureau, Longitudinal Employer-Household Dynamics data, 2015-2024

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