

MEET YOUR LOCAL EXPERT



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Erin KiriHara is Executive Vice President of Rider Levett Bucknall's North American Practice and Director in Charge of RLB in the Hawaii Region. Throughout her more than 15-year career with RLB, Erin has managed construction ranging from \$1 million to \$800 million in Hawaii and the U.S. mainland, developing an exceptional track record for delivering projects on time and on budget to complete client satisfaction.

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COST CONSIDERATIONS THINGS TO WATCH OUT FOR



CONSTRUCTION CYCLE Hawaii's pipeline of potential projects moving from design and into construction in the next 12-24 months remains robust; although with rising interest rates constraining access to capital for some owner entities, the gap between project completions and new project starts is widening. As a result of the stagnant demand for labor, construction activity and costs show a flattening for the reported period.



MATERIALS Costs for raw materials are tapering and experiencing lower rates of increases than previous quarters, but have not returned to pre-COVID level prices. Notably, lumber pricing has decreased in Q4 2022, which will benefit neighbor island construction that is primarily stick frame.



BIDDING ENVIRONMENT The lag in new construction starts in Hawaii is resulting in large general contractors sharpening their pencils to win new work, and therefore, there is still some competitiveness in the bidding market.



LOGISTICS Globally, per-container ocean shipping rates have come down from peak pricing observed in 2021; however, current pricing remains higher than the rates were pre-pandemic. While costs for commodities including diesel have softened, long lead times remain a key factor to consider when developing project schedules.

CONSTRUCTION COST DRIVERS

SELECT MATERIALS	APPROX. CHANGE FROM Q3 2022
Rebar	▼ -8.1%
Structural Steel	▲ 5.2%
Ready-Mix Concrete	▲ 1.1%
Lumber	▼ -27.3%
Copper	▲ 11.3%
Plumbing Fixtures	▼ -2.0%
Diesel	▼ -19.4%

Source: U.S. Bureau of Labor Statistics
Producer Price Index

HONOLULU COST INDEX



COMPARATIVE MARKET TRENDS

5.06%
Honolulu YOY
escalation rate

8.35%
National YOY
escalation rate



Source: RLB Quarterly Construction Cost Report,
Q4 2022

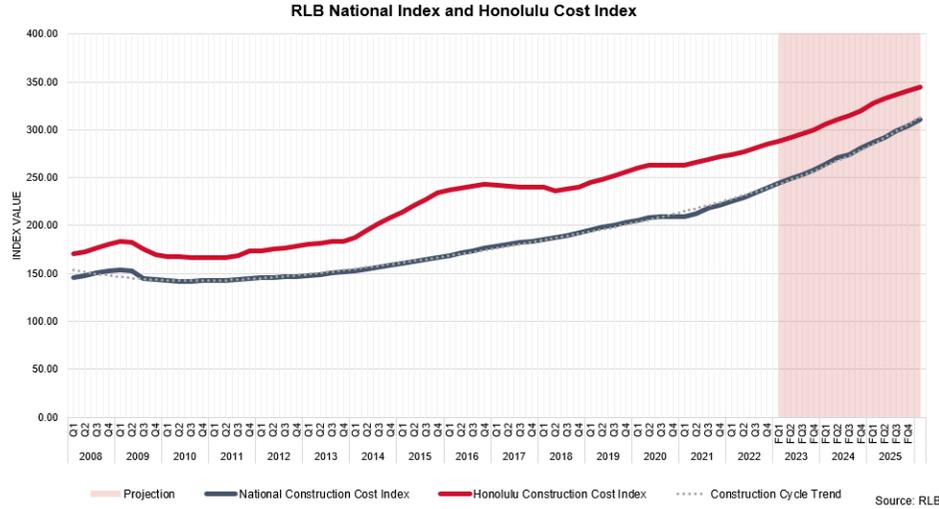
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CONSTRUCTION COST INDEX, ESCALATION, AND TRENDS



ABOUT THE CHART

The annual cost change in Honolulu continues to trend at a lower year-over-year rate than other U.S. markets, and although the 5.06% increase between Q4 2021 and Q4 2022 is unchanged from the previous reporting period, it is still a higher rate of escalation than Honolulu would see in a typical year. That said, baseline costs in Hawaii remain higher than most other North American markets, as demonstrated by the red line for the Honolulu Construction Cost Index that consistently hovers above the blue line depicting the National Construction Cost Index. Neighbor island per-annum escalation is typically 6-8% higher than Oahu since the baseline costs start higher, and will follow a similar trend.

WHAT THIS MEANS FOR YOU

Despite the lagging demand for new construction that is resulting in a transitory flattening of costs, RLB maintains its forecast that the Honolulu market will experience gradual increases to the rate of escalation over the next two years. Therefore, owners who have their permits in hand and are ready to bid may capture optimal value in the next three- to six-months before other anticipated projects start construction in the second half of 2023.