

Chicago Office Construction Cost Trends

CBRE

Office Build-Out Projects Have Become Increasingly Complex

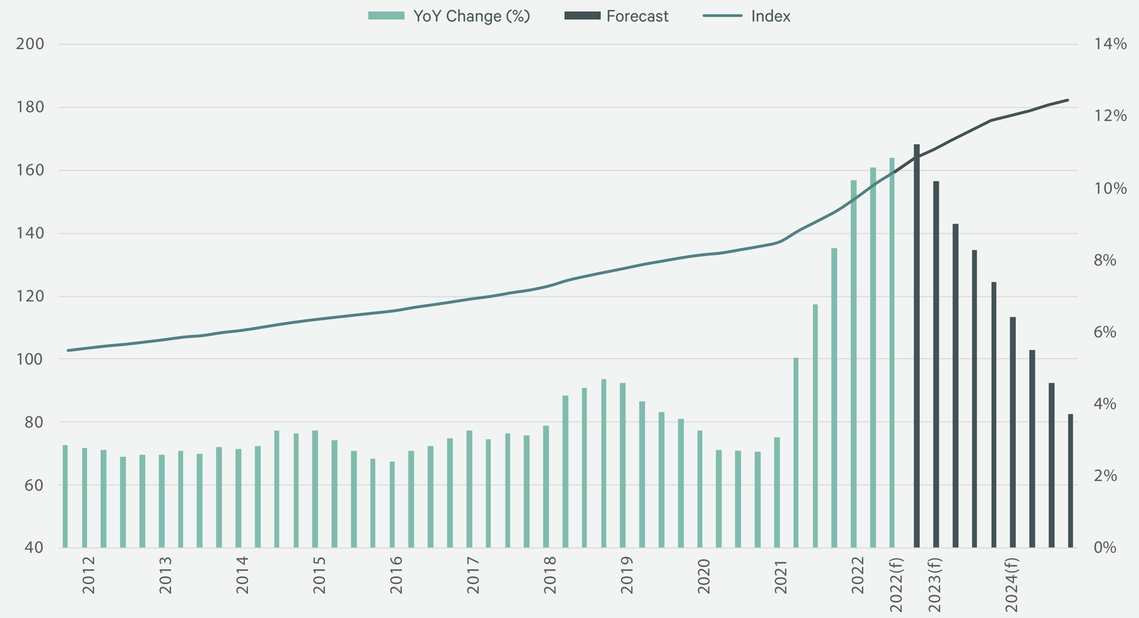
Increasing construction costs and highly variable material lead times have added to the complexity of the deal-making process. Engaging project management services early in a project can effectively combat these issues and help manage client expectations.

To illuminate today's local construction landscape, CBRE Project Management collected data from seven contractor partners on more than 100 office build-outs in the Chicago market from March 2020 to September 2022. Roughly 30% of the projects reported are first generation and the remaining 70% are renovations. **Only hard construction cost is evaluated in this analysis**; soft cost, furniture, fixtures and equipment, AV, security, and technology are not included.

Intended to educate stakeholders and help guide expectations, the data is presented in the following piece along with other prudent project considerations.

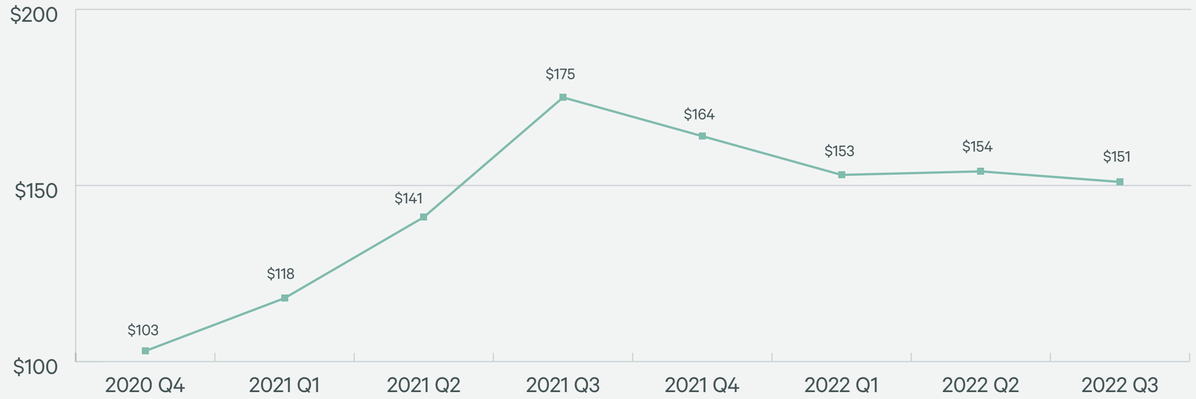


CBRE Construction Cost Index and Quarterly YoY Change (National)



Source: CBRE Cost Consultancy
Note: (E) is an expected values (F) is for forecasted values

Construction Cost PSF Over Time (Chicago PJM data based on purchase date)



Includes new construction and renovation projects

Construction Costs Are Changing

According to projects reported, construction costs in Chicago spiked in Q3 2021 at an average of $175 PSF after steady increases for four consecutive quarters. Likely influenced by pent-up COVID-19 demand and supply chain issues, costs have tempered slightly since then.

On a national level, the CBRE Global Workplace Solutions team is predicting cost increases to peak in Q4 of 2022. Although overall prices aren't expected to drop in 2023 and beyond, the rate of escalation will revert to historical norms of 3-4%. However, in the event of a recession, short-term price reductions may be realized due to competitiveness in the market.

Takeaways

→ Construction cost escalation will ease in 2023

→ Construction costs are not expected to decrease

First Generation vs. Renovation Spaces

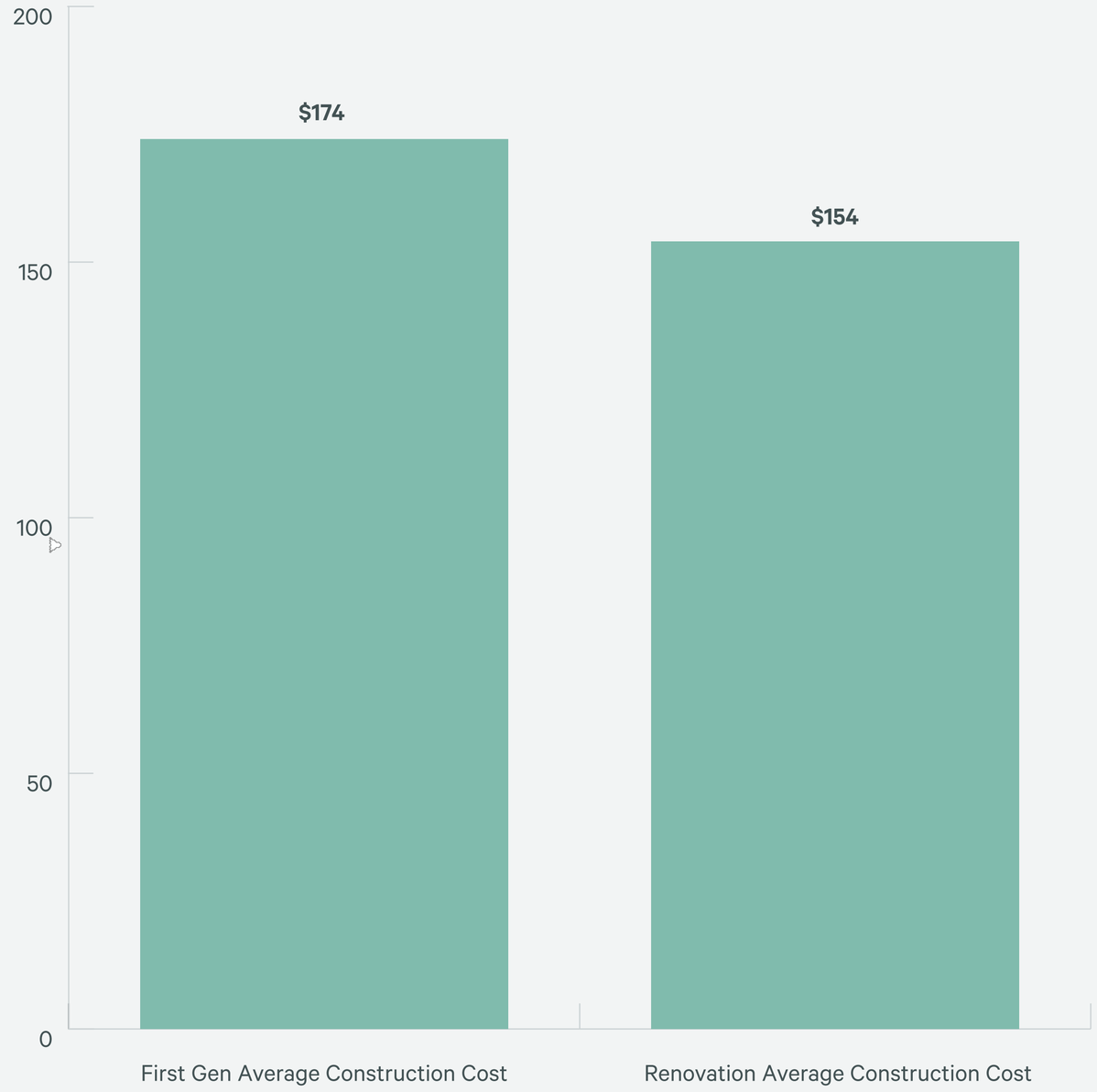
Historically, the premium for first generation space is around $15 PSF, but that may trend higher depending on the building's mechanical system or other factors. However, some upfront cost premiums in HVAC come with the benefit of increased energy efficiency and potential utility cost saving of 5-10% over the term of the lease.

Involving CBRE Project Management in the lease negotiations ensures early identification of these costs and the opportunity to shift to the landlord.

First Gen/ Renovation	Building Address	Size (RSF)	Completion (Month/Year)	Construction Cost/RSF
First Gen	167 N. Green	40,000	Oct-22	$164.03
Renovation	35 W. Wacker	40,000	Jun-22	$141.00

Takeaways

→ First gen spaces have higher initial construction cost.
CBRE Project Management can identify premium costs during lease negotiations, which can be shifted to the landlord.



Legal Leads Industries in PSF Construction Costs

Legal services has the highest PSF construction cost on average at around $200 PSF for first generation space, with higher density of private offices, upgraded acoustical requirements, and an elevated level of finish in client-facing spaces coming at a premium.

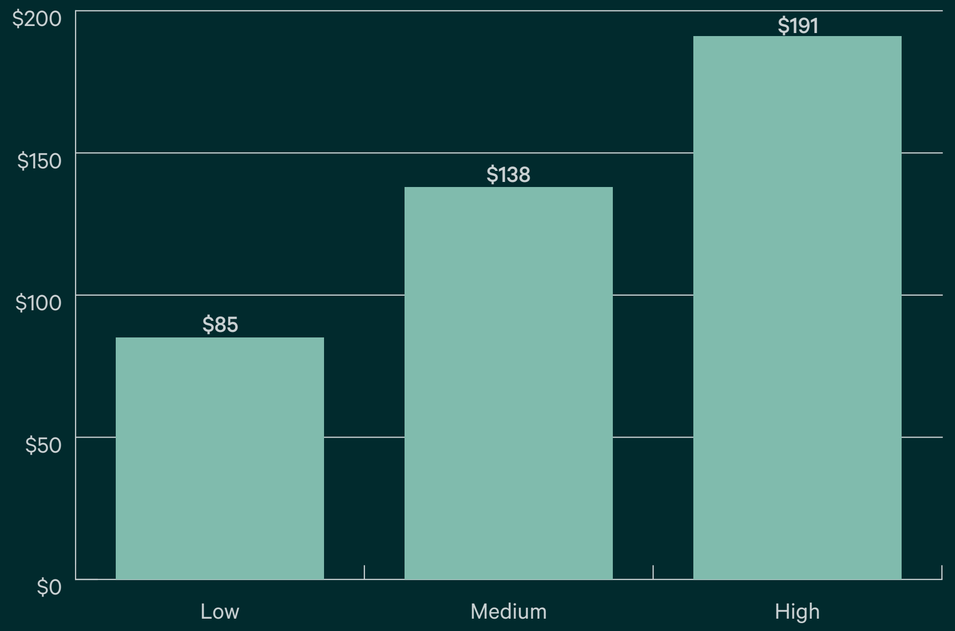
Technology companies, financial clients, and trading firms have special requirements that drive cost increases, such as data infrastructure, supplemental cooling, and enhanced amenities created in pursuit of talent recruitment and retention.

Growing preferences for increased flexibility and more private meeting spaces contributed to cost increases for all tenants. General office cost was still lower at $140 PSF on average for first generation build-outs.

Client Sector	Building Address	Size RSF	Completion (Month/Year)	Construction Cost/RSF	First Generation/ Renovation
Legal	110 N. Wacker Drive	60,000	March 2022	$248.74	First Generation
Financial	401 N. Michigan	23,000	February 2023	$155.00	Renovation
Technology	1375 W. Fulton	52,000	June 2022	$147.00	First Generation
General Office	111 S. Wacker Drive	26,500	September 2022	$137.98	Renovation

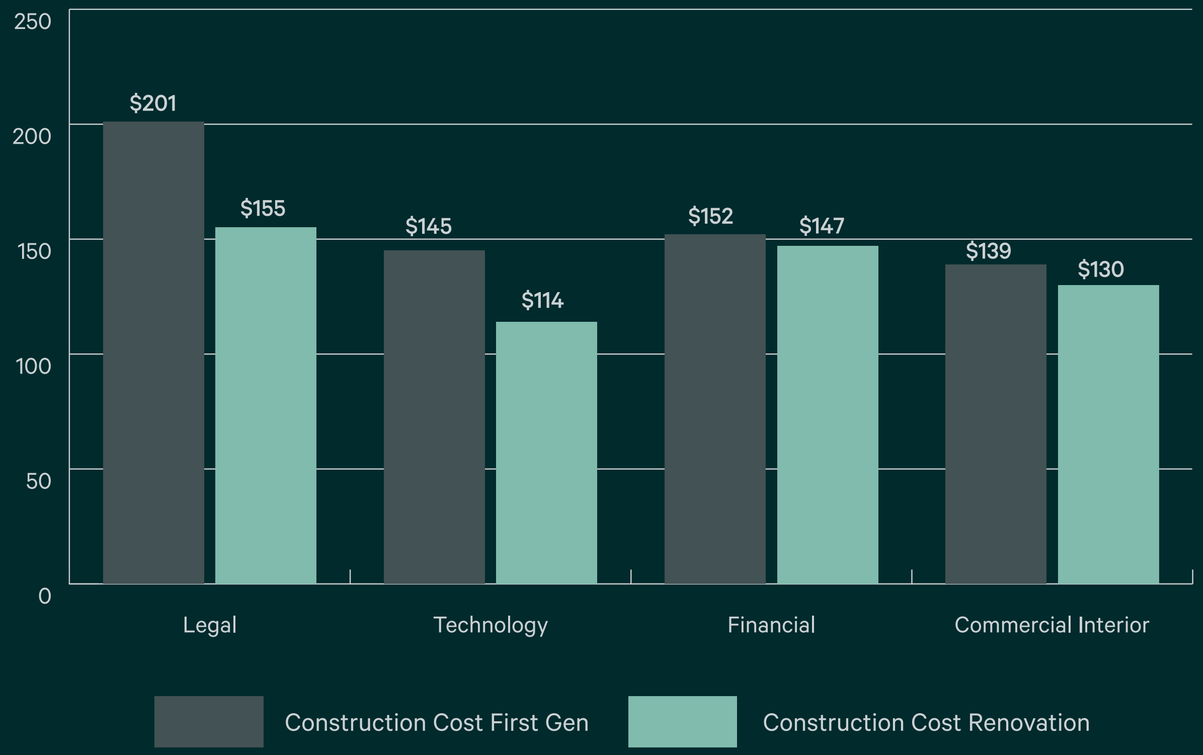
Actual costs of specific projects

Average Construction Cost PSF by Level of Finish



Includes first generation and renovation projects

Average Construction Cost PSF by Industry



Size (RSF)	Building Address	Completion (Month/Year)	Construction Cost/RSF
8,000	167 N. Green	May-22	$160.00
28,000	227 W. Monroe	Mar-20	$136.08
55,000	320 N. Sangamon	Mar-22	$130.00
192,000	433 W. Van Buren	Nov-20	$122.93

As Project Size Increases, Average Costs Tend to Decline

The majority share of hard construction costs — 50% to 70% — are for unseen infrastructure expenditures, such as mechanical, electrical, plumbing, or fire protection. These expenditures are necessary and cannot be reduced, and larger spaces are able to spread these costs out with greater efficiency.

Since finishes make up a greater portion of the construction budget in larger projects, these projects have more opportunity to reduce cost through value engineering.

Takeaways

- → Concealed infrastructure accounts for 50-70% of hard construction costs and cannot be reduced
- → Large spaces have greater opportunity to achieve savings due to volume of spend

Lead Times and Material Costs Increasing

With a host of supply chain issues disrupting the global economy, the Producer Price Index (PPI) for net inputs to construction industries is up 17.4% compared with 2021[1]. As a result, material costs and lead times are a central challenge while executing a build-out.

AV components, wood doors and door hardware, and electrical components are among affected materials.

In addition, the Russian war in Ukraine has increased petroleum costs and reduced the availability of aluminum and other supplies, affecting semiconductor and chipmaking industries.

These factors contribute to longer construction durations, which result in higher project cost.

[1]Source: CBRE US Construction Market Trends Q3 2022

Takeaways

- → Commodity prices are volatile
- → Lead times are inconsistent
- → Source local or domestic products when possible

Divisional Commodity Changes (%)

DIVISIONAL COMMODITY PRICE MOVEMENT			2020 JUN	2020 SEP	2020 DEC	2021 MAR	2021 JUN	2021 SEP	2021 DEC	2022 MAR	2022 JUN
Metals	Steel Mill Products	Quarterly (%)	-3.82%	-2.09%	10.97%	35.09%	28.90%	21.86%	7.44%	-16.23%	11.61%
	Iron and Steel	Quarterly (%)	-3.37%	0.84%	12.43%	26.66%	21.46%	14.30%	6.78%	-8.23%	3.85%
	Fabricated Structural Metal Bar Joists & Reinforcing	Quarterly (%)	-0.23%	0.19%	0.37%	11.37%	21.25%	13.64%	2.26%	4.25%	7.20%
	Fabricated Structural Iron & Steel	Quarterly (%)	-0.25%	0.08%	0.49%	10.82%	25.07%	14.31%	2.07%	4.37%	6.36%
Woods, Plastics, & Composites	Softwood Veneer and Plywood	Quarterly (%)	5.20%	53.48%	-11.65%	40.08%	56.97%	-57.04%	16.85%	55.70%	-16.51%
	Plywood	Quarterly (%)	3.08%	32.08%	-8.44%	28.22%	44.26%	-44.57%	11.40%	36.52%	-11.22%
Thermal & Moisture	Thermoplastics Resins & Plastics Materials	Quarterly (%)	-8.86%	6.92%	8.63%	21.65%	14.64%	4.85%	-4.62%	-3.66%	7.74%
	Aluminum Sheet, Plate, and Foil Mfg	Quarterly (%)	-10.47%	7.64%	3.60%	5.69%	13.22%	7.15%	-1.21%	18.82%	-7.90%
HVAC & Mechanical	Copper & Copper Alloy Sheet, Strip & Plate	Quarterly (%)	1.61%	13.81%	8.96%	8.18%	6.19%	0.39%	-0.17%	13.61%	-3.74%

Lead Time Changes

Trade Item / Material	Current Lead Time	Change from Prev. Quarter	Delta to Pre-Covid
Wood Doors	18-20 weeks	No change	+233%
Aluminum Storefront Glazing	30-36 weeks	+14 weeks	+433%
Drywall/Metal Studs	14-16 weeks	+6 weeks	+600%
Carpet	10-12 weeks	-2 weeks	133%
Plumbing Fixtures & Equipment	8-12 weeks	+2 weeks	+67%
HVAC AHUs and RTUs	36-52 weeks	+2 weeks	+267%
Electrical Panels, 120/208V	10-14 weeks	+2 weeks	+100%
Electrical Panels, 480V	27-40 weeks	+4 weeks	+300%
Lighting and Controls	16-20 weeks	No change	+100%
Network Switches	24-32 weeks	No change	+800%

Construction Is Only One Slice of the Pie

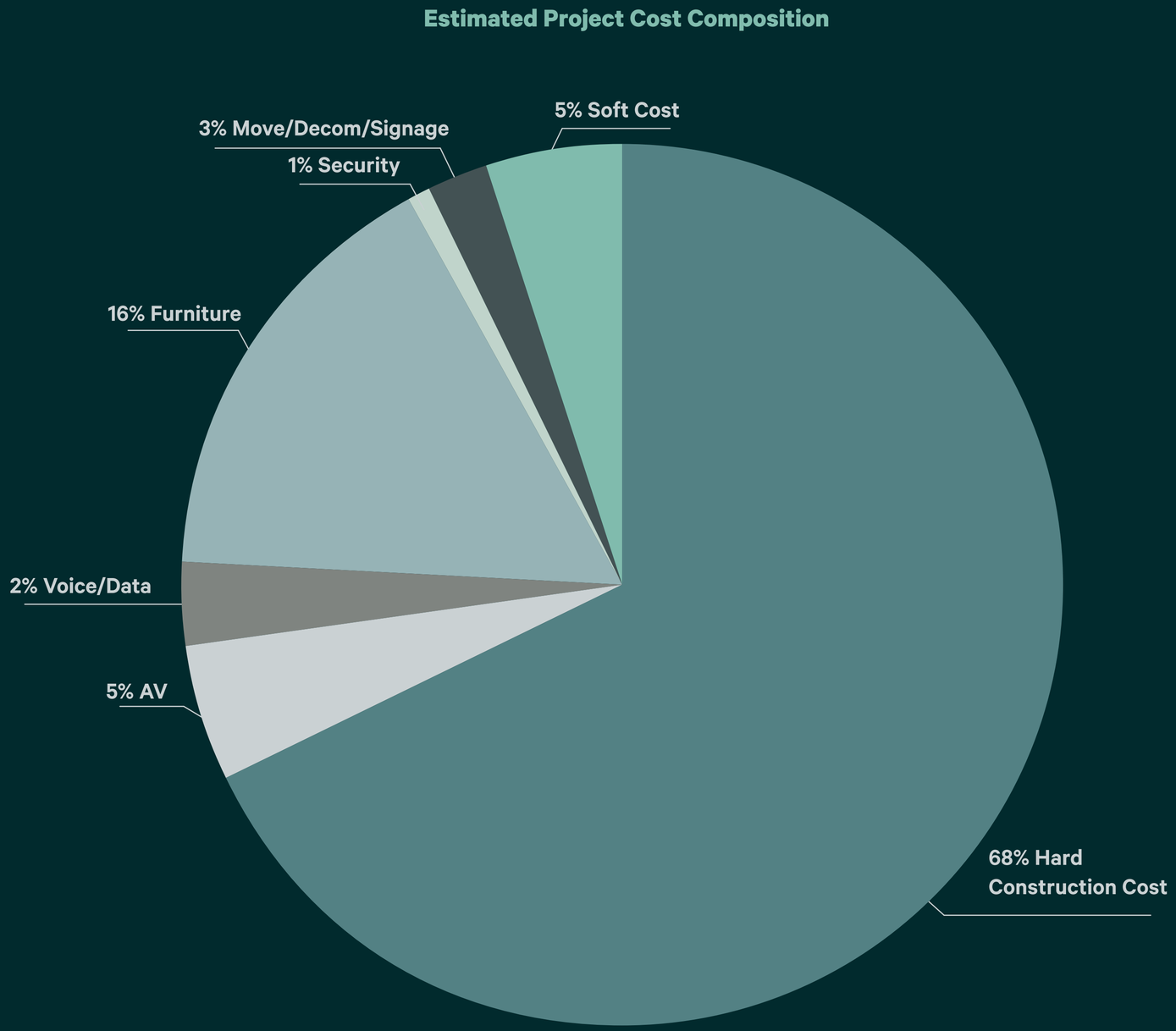
The preceding data focused on the hard construction costs associated with office build-outs. It's important to note that these costs make up only one portion of total project expenditures. To offer a more holistic picture, the total rough cost composition for a typical build-out is presented on the right.

The relative availability of skilled labor in the Chicago market is favorable as compared to other markets. While some markets are struggling to staff construction sites and are unable to keep up with demand, Chicago continues to maintain a healthy workforce.

CBRE Cost Consultancy projects construction escalation to drop to 3.9% by Q4 2024, which is roughly aligned with the average increases from 2017-2018.

The aforementioned is dependent on factors ranging from Federal Reserve interest rate changes, the construction market's supply and demand cycles, and global economic conditions. The best approach for clients executing an office build-out is to engage project management professionals as early on in the process as possible.

Reach out to the CBRE Project Management team to help plan and mitigate the risks.



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