

# RISKY BUSINESS

What You Need To Know About...



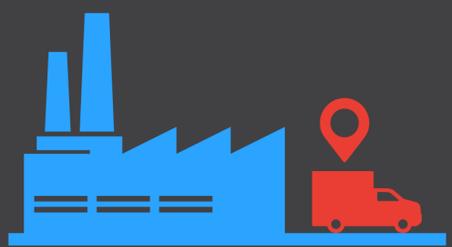
## Construction Costs

Historically, construction costs have had minor fluctuations from year to year, but they have risen drastically over the past 24 months. This significant increase is due to several factors and is applicable to both new construction, renovations and repairs to existing structures. Costs include those required during construction, such as materials, labor, site development, legal fees, insurance and regulatory costs.

### IMPACT OF THE COVID PANDEMIC:



Labor costs have continued to increase due to the lack of available workers for COVID-related safety enhancements. In addition, there has been an **18 percent decrease** in labor productivity due to COVID-related issues.<sup>1</sup>



Pandemic **supply chain disruptions** are driving up costs. The production of lumber and masonry were stopped or slowed due to worker shortages, creating material shortages and thereby increasing costs.<sup>2</sup>

### EMERGING TRENDS:



Changes at the federal level, combined with international climate protocols, are expected to increase the costs for **environmental upgrades** in the future.

The increase in the frequency and size of **natural hazard events** impacts both material costs and their availability. The effects of climate change will cause this trend to continue and possibly increase.



**Trade tariffs** have caused cost increases in structural components such as aluminum and steel. This is expected to continue for the foreseeable future.

### FACTS:



General construction costs have historically risen from two to four percent per year and it is anticipated that larger increases will occur in the upcoming years.<sup>3</sup>



There has been a dramatic increase in both masonry and softwood costs adding approximately \$17,000 to the cost of an average single-family dwelling.<sup>4</sup>



A 10 to 20 percent increase has been reported in equipment costs.<sup>5</sup>

### IMPACT ON EQUIPMENT BREAKDOWN:

1



The actual cost to repair or replace equipment/components has increased over the past two years and will likely continue to rise.

2



The largest impacts in terms of cost may be with the business income line of coverage and supply chain-related delays. Replacing HVAC equipment and parts can now take up to six to eight months. These delays are exacerbated by both a shortage of skilled repair technicians and the cost of COVID-related precautions.

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#### References

- <sup>1</sup><https://www.constructiondive.com/news/study-finds-COVID-19-protocols-led-to-a-7-loss-on-construction-projects/583143/>
- <sup>2</sup><https://www.uschamber.com/series/above-the-fold/new-study-finds-commercial-construction-facing-shortages-due-covid>
- <sup>3</sup><https://edzarenki.com/2020/08/27/pandemic-14-impact-on-construction-inflation/>
- <sup>4</sup><https://eyeonhousing.org/2020/10/softwood-lumber-prices-surge-a-record-29-in-september-building-materials-up-4-4-in-2020/>
- <sup>5</sup><https://www.hvac.com/blog/tariffs-and-their-impact-on-the-hvac-industry/>