

SPECIAL ISSUE

brief



SUMMER 2020

Seniors Housing Construction Cost Update

**AMERICAN
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ASSOCIATION**

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TABLE OF CONTENTS

Click link below to go direct to page.

SENIOR LIVING CONSTRUCTION MARKET	1
LABOR	2
MATERIAL	2
PRICING	2
EXPLANATION OF HOW THE INDEX WORKS	3
CONTACT US	7

Seniors Housing Construction Cost Update

SENIOR LIVING CONSTRUCTION MARKET

The current ENR Construction Industry Confidence Index (CICI) dropped to 36 which is 20 points lower than the previous quarter, and the lowest point since Q2 2010. The CICI measures executive sentiment of the current market and where it will be in the next 3 to 6 months and over a 12–18 month period. A rating of 50 or higher shows a growing market, and we are far from that. The senior housing sector is in better shape than many other sectors, as there have been significant drops in the hospitality, entertainment, retail, office and petroleum sectors.

In many conversations with various groups across the country, we have gathered the following:

- Projects under construction continue to move forward and adapt to the new normal, finding ways to keep on track with active monitoring of workers as they enter the jobsite, virtual inspections, and adjusting material delivery schedules due to shortages, shutdowns and longer lead times.
- Most renovation projects on active campuses have been shut down.
- Additions to existing campuses continue to move forward with keen awareness to stay clear of occupied spaces.
- Most new developments continue to move forward as many owner and developers believe a vaccine will be developed before their future project begins construction. A few owners have shelved projects temporarily until the dust settles from the pandemic.
- Some projects that have moved forward have been delayed due to city and county offices being temporarily shut down. We've seen a few developments change their strategy by phasing their project into smaller pieces until they fully understand the long term impact of the pandemic.
- One development opened a sales office in February 2020, and despite the pandemic, is far exceeding their anticipated sales pace and expects to hit its target in half the time.

LABOR

Many people expect the labor shortage to soften due to layoffs in other industries, but we have not seen a shift of workers from those industries into the construction trades. Unlike the previous recession when the construction industry tanked, workers took pay cuts and construction unemployment was 25–30%. We are NOT seeing that today. Current unemployment in construction is relatively low and good labor is still hard to find. Most union contracts are multi-year agreements and thus locked into previously set increases. Nonunion markets tend to follow the same trend. According to a recent survey, over two-thirds of construction companies plan to give raises in 2020.

MATERIAL

Commodities such as lumber, steel and concrete fluctuate based on demand, tariffs, and natural disasters. Both lumber and steel have seen significant decreases in the past 18 months but will most likely increase as they typically don't stay low for very long. Cement continues to increase but at a much slower rate than in recent years.

Managing material deliveries to jobsites during the pandemic has become more complicated as some factories have reduced production capacity or shut down completely. Lead times are longer on many products and equipment items.

PRICING

Subcontractors appear to be nervous about the future and eager to fill their backlog, and we are seeing better subcontractor coverage in all of our offices. Pricing varies depending on location. Some areas have seen inflation go flat while others are still seeing increases, however at a lower rate than previous years. The biggest factor affecting the inflation rate is subcontractor margins as they tighten their fees in an effort to secure backlog. Over the past several years we have seen the annual inflation rate in the 4–7% range depending on the market area, however now we are seeing rates in the 2–4% range.

Construction Costs per Gross Square Foot

	Mid-Level		High-Level		Indianapolis IN Mid Level/City Index 93.4	
	Low	High	Low	High	Low	High
Independent Living	\$158	\$186	\$194	\$261	\$147	\$174
Cottages	\$125	\$147	\$189	\$234	\$117	\$138
Assisted Living	\$183	\$234	\$267	\$315	\$170	\$218
Skilled Nursing	\$210	\$245	\$289	\$368	\$196	\$229
IL Commons	\$258	\$326	\$365	\$448	\$241	\$304
Under Building Parking	\$91	\$123	\$135	\$171	\$85	\$115
Sitework	Excluded		Excluded		Excluded	

Notes:

Costs are full burden and include general conditions, insurance, tax, bond and fee, but do not include site costs.

*The above costs are based on a city index of 100. Each city carries a different index, for examples: Indianapolis has an index of 93.4, which translates to a cost range of \$147–\$174 per sf for Independent Living; Boston has an index of 115.5, which translates to a cost range of \$183–215 per sf for Independent Living. These coupled with local market conditions are essential when comparing overall pricing.

Definitions

Mid-Level projects: generally are wood-framed construction with standard amenities and finishes, and typically target the moderate income senior.

High-Level projects: generally are of steel or concrete construction with high-end luxury amenities and finishes, and typically target the higher income senior.

EXPLANATION OF HOW THE INDEX WORKS

We capture the final completed construction cost from all of our senior living projects and historize them in our cost database, applying the city's index and a time modifier.

We extract City Indexes from RS Means, an annual publication. The Index is derived from compiling various material commodities and labor costs from a variety of cities. Then a national average is derived and indexed to a value of 100. Each city is then given an Index (multiplier) relative to the national average (100).

[Click here to return to Table of Contents.](#)

Below is a snap shot of one city's index.

	Indianapolis		
	Mat.	Inst.	Total
Site & Infrastructure, Demolition	103.1	95.3	97.7
Concrete	97.2	87.6	93.0
Masonry	98.7	82.4	88.7
Metals	91.7	75.9	87.1
Wood, Plastics & Composites	101.7	88.5	94.4
Thermal & Moisture Protection	103.8	85.0	95.6
Openings	101.4	84.3	97.4
Finishes	94.1	87.5	90.5
DIVS. 10-14, 24, 28, 41, 43, 44, 46	95.1	97.1	95.5
Fire Suppression, Plumbing & HVAC	101.8	82.4	94.2
Electrical, Communications & Utility	106.1	90.5	98.4
Weighted Average	98.8	86.0	93.4

Even though the composite city index for Indianapolis is 93.4, you can expect a little lower cost on finishes and bit more on electrical. Each system has its own index and is weighted for Material and Labor (Installation). By knowing specific information about a project, the estimate can be refined to fit the proposed building parameters much more closely.

Variables the RS Means does not account for:

- Competitive conditions in the given market
- Contingencies
- Code differences. For example: If the project is in a hurricane zone it will require impact rated glass and more expensive roofing products than a project in the Midwest, which may have vinyl windows and asphalt shingles.

- Site conditions. Even though site costs are not considered in this report, the impact can affect the building cost. For example: an urban location with difficult site logistics, street closures, requiring coordination of delivery times, hoisting times, lack of staging areas etc. all impact the overall building cost. This, compared to a suburban or more rural location with easier access and mobility around the site.
- Impacts due to tariffs, pandemics, and environmental disasters such as hurricanes, fire, earthquakes etc.

Although the single city index is helpful to derive a high level estimate, there are many variables that weigh into calculating an estimate. **Knowing a few of these specific variables, the estimate can be refined to generate a more accurate figure.**

Below are some parameters and variables that can help refine the number.

Sample Project				
Area of Use	# Units/Beds	Areas	Structure Type	Mechanical System
Independent Living	120	180,000	Wood Frame, sits over commons level	Split System
Commons (IL)		30,000	Wood Frame, with some steel at long span areas	RTU, AHU
Assisted Living	36	35,100	Load Bearing Metal Studs with long span deck	Split System
Memory Care/Skilled Nursing	36	28,800	Load Bearing Metal Studs with long span deck	Split System

Number of floors: 4 story wood frame for the Commons and Independent Living, 2 story metal frame at the Assisted Living, Memory Care and Skilled Nursing.

Floor Heights: First floor of the Commons/IL building is 14 ft, the floors of the ILU are 11 ft floor to floor. The Health Care building will have 14 ft floor height on the first floor and 12 ft floor height on 2nd level.

Finish Level: Mid-range at the units, high end at the commons/public areas.

Building Enclosure: Vinyl windows, a blend of masonry and cement board siding, asphalt shingles roofing. All the IL Units will have balconies, one common balcony at the Health Care building.

Sample Project Indianapolis IN

	System Corrections	Sample Project 273,900 AIA gsf	120 IL 180,000 AIA gsf	36 AL 35,100 AIA gsf	36 SN & MC 28,800 AIA gsf	120 Commons 30,000 AIA gsf
Substructure	93.0	1,069,000 3.90	0 0.00	323,000 9.20	307,000 10.66	439,000 14.63
Shell – Structure	94.4	7,459,000 27.23	4,698,000 26.10	865,000 24.64	744,000 25.83	1,152,000 38.40
Shell – Enclosure	95.6	5,735,000 20.94	3,479,000 19.33	697,000 19.86	604,000 20.97	955,000 31.83
Interior Finishes	90.5	11,638,000 42.49	6,649,000 36.94	1,623,000 46.24	1,539,000 53.44	1,827,000 60.90
Conveying Systems	95.5	496,000 1.81	210,000 1.17	88,000 2.51	74,000 2.57	124,000 4.13
Plumbing	94.2	4,159,000 15.18	2,715,000 15.08	609,000 17.35	477,000 16.56	358,000 11.93
HVAC	94.2	4,608,000 16.82	2,534,000 14.08	645,000 18.38	664,000 23.06	765,000 25.50
Fire Protection	94.2	1,029,000 3.76	623,000 3.46	138,000 3.93	145,000 5.03	123,000 4.10
Electrical	98.4	6,344,000 23.16	3,290,000 18.28	997,000 28.40	1,010,000 35.07	1,047,000 34.90
Services Subtotal		16,636,000 60.74	9,372,000 52.07	2,477,000 70.57	2,370,000 82.29	2,417,000 80.57
Equipment & Furnishings	95.5	2,510,000 9.16	1,573,000 8.74	206,000 5.87	101,000 3.51	630,000 21.00
Sitework (excluded)		0 0.00				
SUB TOTAL Burden: General Conditions, Permits, General Liability Builders Risk Insurance Performance Bond, Fee		45,047,000 164.47	25,771,000 143.17	6,191,000 176.38	5,665,000 196.70	7,420,000 247.33
TOTAL CONSTRUCTION COSTS		\$51,685,000	\$29,568,543	\$7,103,288	\$6,499,779	\$8,513,390
COST PER AIA GSF AS NOTED	93.4	\$188.70	\$164.27	\$202.37	\$225.69	\$283.78

*Costs are in Today's Dollar (July 2020), no escalation is included.

CONTACT US

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