

THE REPLACEMENT COST GAP

Why quality, location and a hard-to-recreate basis matter more than the rate on the day you close.

Marcus & Millichap

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GROUP

Costs kept rising. New product got selective.

Material and service prices for new commercial construction have risen sharply since 2020 and have not retraced. Higher costs and tighter capital have not stopped development; they have narrowed it to the strongest locations with the strongest credit.



Index of material and service prices for new commercial construction, 2020 = 100 — up 52.3% since August 2020. Sources: BLS/FRED and Census/FRED.

-23.0%

Private commercial construction spending

From its Sept. 2023 peak through July 2026

WHAT CHANGES

Debt cost · Loan terms · Cap rate sentiment · The narrative

WHAT YOU OWN

Location · Site productivity · Building condition · Your basis

Less new product means less competition for your tenants.

Costs reset higher and kept climbing.

Normalized to August 2020 = 100. Concrete, asphalt and wages all moved higher across the four checkpoints — and none of them retraced.

COST MEASURE	2020	2022	2024	2026
New nonresidential construction prices	100.0	136.7	136.7	152.3
Ready-mix concrete	100.0	117.1	135.7	138.8
Asphalt paving mixtures	100.0	128.3	130.4	142.0
Construction wages	100.0	108.3	116.5	124.1

+8.9%

Prices accelerated again

Aug. 2025 to Aug. 2026

+5.0%

Construction craft wages

Aug. 2025 to Aug. 2026

3.1%

Construction unemployment

Aug. 2026 — a record low

CURRENT ONE-YEAR PRESSURE

Diesel fuel	+77.8%
Aluminum mill shapes	+27.3%
Steel mill products	+23.4%
Copper and brass mill shapes	+20.9%
Liquid asphalt	+16.4%

BLS series: WPUIP231200, PCU327320327320, PCU324121324121, WPU08, ECICONWAG.

NUANCE THAT STRENGTHENS CREDIBILITY

- Aggregate prices plateaued from 2022 to 2024 — they did not reverse.
- Lumber stayed volatile while the broad index held above its August 2020 level.
- The nonresidential price index excludes labor, capital investment and imports.
- The defensible message: costs reset higher, then accelerated again.

Waiting does not remove the cost.

If a \$300/SF project rose in line with construction material and service prices, it would approach \$457/SF today. Higher replacement costs make existing assets increasingly difficult and expensive to replicate.

\$300

PER SF

Earlier-cycle build basis

\$457

PER SF

In line with 2026 prices

WHAT THE GAP IS WORTH

BUILDING SIZE	AT \$300/SF	AT \$457/SF	THE GAP
5,000 SF	\$1.50M	\$2.29M	+\$785K
10,000 SF	\$3.00M	\$4.57M	+\$1.57M
25,000 SF	\$7.50M	\$11.43M	+\$3.93M

An asset already standing at the older basis is not cheap. It is unrepeatable.

The \$300/SF basis is illustrative, escalated in line with material and service prices (+52.3%) — a cost-of-replacement construct, not an appraisal.

DEMAND

Consumers are spending. Space stays occupied.

Supply discipline only matters if demand holds. Sales are still growing, vacancy sits near historic lows, and the best-run portfolios are as full as they have ever been.



RETAIL VACANCY



PUBLIC SHOPPING-CENTER REIT PORTFOLIOS



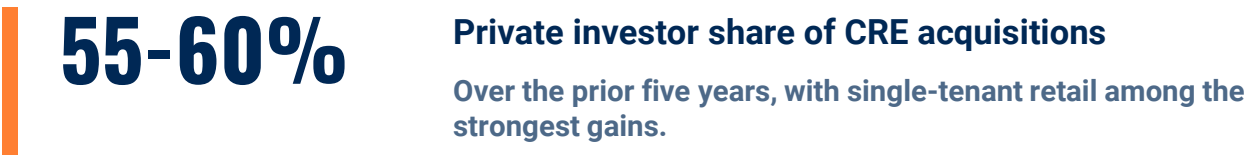
Vacancy near record lows means a tenant has few good alternatives to your location.

Sources: U.S. Census Bureau; NAR Commercial Real Estate Market Insights, July and Sept. 2026 (CoStar data); Kimco Realty and Regency Centers Q2 2026 reporting.

Buyers are transacting.

The pause narrative is not what the transaction counts show. Deal volume is running ahead of the pre-pandemic baseline across every size band, and **private capital is doing most of the buying.**

DEAL COUNT vs. PRE-PANDEMIC FIRST-HALF AVERAGE



WHAT THAT MEANS FOR A SELLER

Buyer depth is real	1031 capital, private families and small funds are all active at once.
Size is not a barrier	Every band is running ahead of the pre-pandemic pace, not just the large deals.
Pricing is set by competition	Clearing price comes from how many qualified buyers show up, not the ask.

Capital is not waiting for a better headline. It is buying quality now.

Four questions to run against your own asset.

The report only becomes useful at a specific address. This is the sequence we work through with owners — and the answer to each one moves pricing.

01 What would it cost to rebuild this today?

Land plus current construction inputs at this site's coverage. If that exceeds your basis, a new competitor must clear a higher bar than you did.

02 Could this site even be replicated?

Coverage, parking, curb cuts, signalized access and zoning. Many of the best corners cannot be re-entitled easily or at a cost-effective price.

03 How does the lease create value for the next buyer?

A long-term lease with a strong guaranty and scheduled increases offers durable income. A shorter or below-market lease can offer control, rent-reset potential and value-add upside.

04 Who is the buyer today?

1031 investors, private family capital, and smaller funds evaluate the same asset through different tax, return, and holding-period objectives. The final sale price is determined by the depth and competitiveness of the buyer pool.

Four answers turn a market thesis into a price.

Buy quality now. Sell scarcity well.

The same cost dynamics that make a finished asset attractive to a buyer are what give an owner leverage in a sale. The posture differs; the underlying fact does not.

FOR BUYERS

Own the finished real estate

- Income from day one
- Modern building and long lease term
- Potential contractual growth
- A basis a new build cannot repeat

FOR SELLERS

Bring scarcity to market

- Quality attracts selective capital
- Lease term is still meaningful
- Value-add offers opportunity
- Buyer demand is visible now
- Fewer competing new completions

The asset-specific question: what will buyers pay for your quality today?

Where the thesis is vulnerable.

A credible case should carry its own caveats. Three conditions would weaken the argument above, and each is worth monitoring asset by asset.

01 Construction costs retrace

A sustained fall in materials and labor costs would narrow the replacement gap and re-open the development pipeline.

02 Demand softens unevenly

National sales and public-portfolio occupancy are averages. A weak trade area can underperform a strong national print.

03 Credit and cap rates move together

If financing costs rise faster than rents, entry pricing has to absorb it – the basis argument does not offset every rate scenario.

None of these are reasons to wait. They are reasons to underwrite the specific asset.

SOURCES AND METHODOLOGY

BLS via **FRED**: nonresidential construction prices, ready-mix concrete, asphalt, diesel, aluminum, steel, copper and construction wages. **U.S. Census Bureau**: commercial construction spending; retail and food-service sales.

NAR Commercial Real Estate Market Insights, July and Sept. 2026, with NAR historical vacancy data from CoStar. **Kimco Realty** and **Regency Centers** Q2 2026 reporting. Take 5 comparables: offering memoranda and Apto records, as of Sept. 14, 2026. The \$300/SF basis is illustrative, indexed at +52.3% - not an appraisal.

Let's value your asset against today's replacement cost.

Every conclusion in this report becomes useful only when it is run against a specific address, a specific lease and a specific basis. That is the work we do.

- An asset-specific evaluation of where your property prices today
- A read on buyer depth for your location, lease term and guaranty

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