How to Manage Rising Costruction Costs

By Scott A. Bannett

Everyone in the industry has become concerned over the last few years about the rapid escalation of construction costs.

According to *Engineering News-Record*, the Construction Cost Index (CCI) posted a gain of 4.6 percent last year. The Building Cost Index (BCI) showed an increase of 5 percent for the year, mostly due to higher steel prices. And the Materials Cost Index (MCI) ended the year with a 6.4 percent increase, as material price escalation provided the most fuel for inflation.

Some experts predict these numbers may level off somewhat this year due to record levels in the housing market, and a potential slowdown in China's economy. But even if these optimistic forecasts are accurate, they would simply bring construction costs back in line with typical inflation numbers.

The biggest driver of construction costs is the price of materials. Over the last 18 months, steel prices skyrocketed more than 50 percent. Much of this was due to increased demand from China (two-thirds of the world's construction projects are underway in South China), as well as reduced exports from Russia, the Ukraine, and other major producers. This price inflation led to a ripple effect in the industry - from structural steel to metal studs. Builders who signed fixed-price contracts were forced to pass their costs along to developers. Others hedge by guaranteeing prices for a short time only.

This year's most troublesome hot spots are projected to be oil, plastic and copper-based products. All are expected to remain volatile throughout the rest of the year.

Fortunately, the design/build process provides owners with many opportunities to manage the unpredictable nature of rising materials cost. Because the

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design/build process has a single-source responsible party, there is an ability to manage costs from the project conception to completion. Cost-saving decisions can be made early in the process through value-engineering and value-management.

For example, on a recent redevelopment project, a 450-car parking garage had a preliminary design calling for structural steel and cast-in-place concrete. The Bannett Group re-engineered the project to a pre-cast structure, allowing the parking garage to come in under budget in spite of the escalating steel cost.

One of the greatest advantages in the design/build process is to fast-track so that the project can go from conception to completion in record time. Fast-tracking provides the ability to close vendor contracts at an early stage to lock in the lowest possible price. For example, on a recent retail project in the South Jersey region, we were able to avoid cost increases by developing the steel design and locking in the pricing more than six months ahead of schedule.

Through the design/build process, you can identify the quantity of steel, masonry and other needed materials from the earliest conceptual designs. You can then work with suppliers to order materials at the beginning of the process, thereby locking in the lowest possible price. Suppliers will hold their prices with an order so you can get a guaranteed maximum price.

By value-engineering buildings during the design phase, decisions can be made in a timely manner to help control costs. For example, depending on the market, it may be advantageous to use wood rather than steel or masonry. Load-bearing walls may be more cost effective than steel columns during a period of volatile steel pricing. On several recent retail projects, The Bannett Group design team changed the structure to load-bearing walls to maintain the budget.

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Decisions that are made in the design/build process in the early stages of design have minimal cost impact on the project. The process creates a guaranteed maximum price and eliminates change orders during the construction phase. If these same changes are made during construction phase, costs are considerably higher than if making the same change during the design process.

Single source responsibility saves time and money by expediting the process. Spiraling costs can be controlled through careful planning.

Scott Bannett is President of The Bannett Group, Ltd., a third-generation Design/Builder based in Cherry Hill, NJ. The company currently has more than 30 projects underway in the region, including redevelopment, retail, medical and religious facilities. For more information on managing construction costs, contact Mr. Bannett at 856-751-6800

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