

## **Planning for Construction Cost Escalations**

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Construction costs are rising. Materials are in short supply. Projects are seemingly always under-funded. Nationally, and here locally, owners are dealing with cost escalation issues that seem poised to only get worse.

Since late 2003 construction costs nationwide have been rising faster than the rate of general inflation. The same has been true in Colorado. Various indexes have put national construction cost increases at 4 to 10 percent over the past year, and at just over 2 percent in Denver. Moreover, material costs nationwide have increased more than 2 percent just this September alone. And, with the impact of the recent hurricanes now being felt, construction costs are expected to rise 5 to 10 percent nationwide in the future.

### *Why is Colorado feeling the pinch?*

Increasing construction costs in Colorado can be attributed to two major factors: an increase in new construction starts, and a shortage of materials.

Current and planned construction starts in Denver metro alone are currently at \$1.5 billion. The effect is that architects, general contractors, engineers and sub-contractors have an abundance of work from which to choose, and therefore can now be more selective than in past years. Accordingly, competition is less price-sensitive. Since we have emerged from the “contractor surplus” seen in the early 2000’s, there is now a relative “shortage” of qualified professionals to fulfill the demand of current and future projects.

Material shortages are another reason for construction cost escalations. Local material shortages are now being compounded by the nation-wide effect that the natural disasters in southeast United States have brought on. Material shortages not only add to the direct costs of materials, but can also add additional lead time to procurement. This can potentially extend the duration of project construction and additional costs in areas such as general conditions as well.

### *What should owners do to put themselves in the best position for a smooth project?*

The following are the three most important concerns an owner should be aware of when beginning a new construction project:

- 1. Pick a sharp design firm.** You want to ensure that the design firm you choose can give you the design aesthetics and functionality you desire, but is also looking for cost-effective solutions behind the scenes.
- 2. Pick a contractor with strong preconstruction services.** Preconstruction is responsible for setting costs, scheduling, and determining alternative methods solutions. A reputable Construction Manager/General Contractor (CM/GC) will identify long-lead times associated with certain materials and plan for them accordingly so that there are no interruptions in construction. Also, if there are materials that are about to rise in cost, your CM/GC can order early to lock in a lower price. Additionally, it is in the preconstruction phase where your schedule is

reviewed to identify if a possible shortening or shifting will enable you to realize additional savings.

- 3. Involve your contractor early in the process.** Many projects in Colorado are set forth with an under-funded budget. You need to have accurate, real-time costs and data to properly prepare a budget for a project. Too often, budgets rely on dated or inaccurate information. This is why it helps to bring a contractor in early on. While owners, architects and contractors all work together as a team, architects naturally have more control over design, while contractors have more control over costs. The earlier you bring all parties together, the less budget problems you will have later down the line.

Construction cost escalation is an issue that is not going away soon. There is no way to completely negate the issue, but with proper planning and the right construction and design teams, budgetary issues can be identified early on, and alternative method solutions can be pursued to keep your project moving forward on time and on budget.

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