FEATURE | CONSTRUCTION OUTLOOK

Changing construction costs in a changing market

by Mark Augustyn

Anyone involved in the development of a commercial construction project in Illinois within the last 12 months can attest that erratic and unpredictable construction costs have been the industry's nemesis. For more than a year and a half, there has been an unprecedented increase in the price of raw materials, the most noticeable of which has been asphalt and steel. Project budgets using pricing from even a month prior needed to be re-quoted to reflect the current environment. As a rough estimate, a project originally quoted in the spring of 2007 became 12 percent more costly just one year later.

For more than a year now, construction firms have been receiving regular updates from steel suppliers to expect increases in the base price as well as surcharges for every ton of steel. Finally, a September update advised builders that these surcharges would be reduced. Within the fine print though was an unadvertised increase to the base price. Ultimately, the net price went unchanged, but at least the upward spiral in steel pricing had come to a halt.

Unfortunately, we have yet to realize a similar stabilization in asphalt pricing despite oil's falling price per barrel.

The future of construction costs

Making predictions on the future movement of construction costs is difficult, especially given the uncertainty stemming from capital markets and shaky consumer confidence. Nonetheless, it is helpful to know which commodity costs are important as an indicator of construction pricing.

The price of oil is especially critical in construction because it impacts nearly every element of a building. Oil not only powers equipment, but is used in the manufacturing process of building components as well as in the building products themselves. Oil has recently dropped $30 per barrel from its record high, but its pricing remains volatile and difficult-to-predict.

Augustyn

As an example, here's how today's oil price is influencing the cost of asphalt. Currently, there is a perplexing relationship between the costs of these two materials. The overly simplified explanation is that the oil industry has adjusted their refining process to reduce the amount of asphalt product produced per barrel in lieu of other, likely more profitable, products. Thus, there is less asphalt available to match our unchanged demand. This reduced supply has increased asphalt's cost even higher than was expected from oil's rise in cost.

Our buildings include a significant amount of steel and metal products, including concrete reinforcing, steel framing, metal decking, piping, electrical conduits, rooftop equipment, ductwork and more. A big part of the run-up in steel-related price increases is a result of the value of scrap metal because nearly all of the above products are produced from scrap. Fortunately, scrap prices have stabilized or even decreased slightly. Monitoring the value of scrap is a good indication of steel and its related metal products' cost.

Cost-control opportunities

In light of the increases in construction components, what can be done to control the final construction cost of a building? The construction market is very price-competitive. Talented designers and builders realize this and will employ a number of strategies to control costs. The most utilized strategy is finding design efficiencies during the project-planning process. Some specific tactics include maximizing beam and bar joist spans for a building's steel design, minimizing the amount of earthen cut and fill to balance a site and/or identifying any building system redundancies.

Most importantly though, construction costs are most easily reduced during the design and planning process, not after a project breaks ground. As a project moves from the design to construction phase, the opportunity to save money greatly diminishes. During the construction phase, money is usually

Mark Augustyn is chief operating officer and co-founder of design/build general contracting firm Principle Construction Corp. He has more than 20 years of construction experience in a variety of sectors throughout the Midwest.

ANN ARBOR | FROM PAGE 31

"In Michigan there has always been a problem of young people leaving the state, but Ann Arbor is one of the places they would like to live," says McKinely Commercial's Holman.

Local economic developers use this demographic of a young, educated work-force as other cities may use financial incentives to lure businesses.

"Most economic development entities will talk about incentives," says Ann Arbor Spark's Parkinson. "We look at talent. Can a company recruit and retain the staff to grow a business? We have such a pool of qualified and emerging talent."

The aforementioned Aernnova located to Ann Arbor for just such a reason. The Spanish firm underwent a national search, but settled on Ann Arbor where it will invest $10 million into an engineering center that will eventually employ 600.

The university also helps with retail developments as well, says Holman.