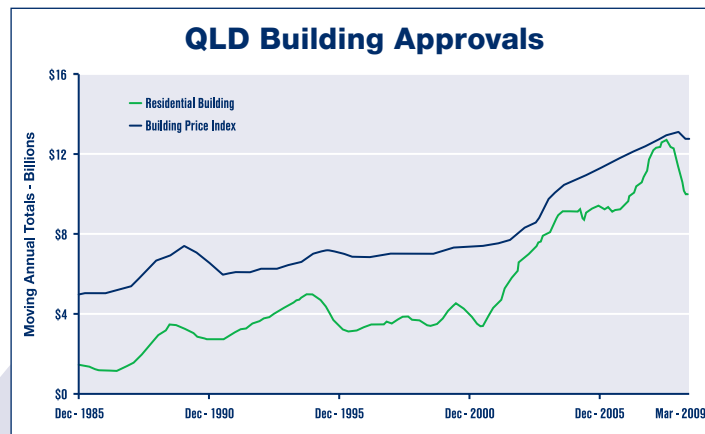




Will Construction Costs Rise or Fall in 2010?

“There is a lot of focus at the moment on the timing and the depth of the decline in construction costs”, says David Mitchell, Director of Mitchell Brandtman Quantity Surveyors. “However the focus should really be on when the costs will start to rise and what this means to your tenders”.

So far this year we have already seen a 5% decrease in construction costs and are confident that this trend will continue, with a negative escalation rate of 0.85% per month leading to a total decrease of 10% for the calendar year 2009. Into 2010 our overall forecast is for a small decline, however it will be a year of two distinct periods. Firstly, a gradual slowing in the decline, followed by a period of flat costs as the fall bottoms out against rising market confidence. Looking forward the leading indicators to the timing of the recovery will be an increase in residential sales, leading to an increase in building approvals and the recovery of the residential construction market.



Activity (or lack of it) in the Residential market has been a defining factor in all of the significant cost movements over the last 30 years. While Residential Building approvals have come off their 2008 peak, in value terms they are still at 2007 levels and well above the previous highs seen between 2003 and 2005. Approvals may continue to fall in the short term due to consumer confidence, however the majority of forecasters agree that underlying demand in this sector will cause a rapid correction.

It is this correction that is the key risk point for all parties in this current cost cycle. While competitive hard dollar tendering and fixed price contracts are King in the market right now, it is important that ongoing relationships are not put in jeopardy. The best long term result is gained by collaborating and developing long term relationships. These relationships will help both sides to smooth out the ups and downs. However, that doesn't mean that they can't be tested against the market. It is the way this testing is done that will determine if the approach destroys relationships or strengthens them.

A cost per m² approach ... does it always cut it?

Smaller projects require greater interrogation than that offered by a standard cost per m² approach.

At feasibility stage, generally, most building costs are formulated on a cost per m² basis that has been derived from either a cost book, a previous project or simply industry 'hear say'. This approach can be very dangerous if you don't understand exactly what the rate is based upon (ie: GFA or FECA?, does it include for the basement and the balcony areas?). This can lead to significant impacts on your project's feasibility. Plus or minus a few \$/m² could result in your project not making it past feasibility stage, or worse, costing you time and money to develop the design only to find out that it just doesn't stack up.

This lack of understanding can have a larger impact on smaller scale projects because they are more cost sensitive. For example, when you look at Social Housing projects, there are usually more units within a similar building area. Although the cost per unit may be less than that of more conventional housing or residential projects, the cost per m² can be significantly higher due to the inclusion of additional dividing walls, kitchens, more fittings etc. These factors need to be considered at the feasibility stage to avoid cost blow-outs. Quantity Surveyors are construction cost experts and it's important to get them involved in the early stages of your project so a more accurate cost estimate can be obtained.

The material in this bulletin is for general comment only. For further information contact **David Mitchell** on **07 3327 5000**. If you would prefer to receive our bulletin via email, or do not wish to receive our information in future, please email **Lisa Veneran**, Marketing Manager at **lveneran@mitbrand.com**



MitchellBrandtman

Quantity Surveyors & Construction Cost Managers

Email bne@mitbrand.com

www.mitbrand.com

