



Construction Cost Update

"Fierce competition and negative sentiment should offset expected rises and cause building costs to plateau or even fall", says David Mitchell, Construction Cost expert and Director of Mitchell Brandtman Quantity Surveyors. Sentiment in the market is very pessimistic at the moment and that is having an effect on construction costs. In recent years we have seen costs rise by about 6% per annum but it's likely that in the near future we can expect 0% escalation. David believes that increased competition levels will overpower material price increases, and it is "the feeling that work is going to dry up" that is keeping construction costs down.

The reality is that there is still a fair amount of work in the pipeline. "We probably need to use Sir Joh Bjelke-Petersen's crane index to see that the industry is still busy". The forward book of work shows that there is \$21B worth of construction and infrastructure projects still to be built. However, even though builders and subcontractors still have a lot of current work, they are concerned about what level of work they are going to have next year. This concern is making them sharpen their pencils and think harder about their prices.

The end result according to David is "increased competition". Where in the past we have seen an average of about 4 to 5 tenders come back for a project, we are currently seeing this average escalate to between 13 and 16 tenders received. There are however, differences between locations and industry sectors.

In regional areas demand and confidence in forward workbooks are still outstripping concerns over future supply. However a flow on effect up the coast, and in National material supply agreements, will ultimately see

a reduction in line with Capital city areas.

In the infrastructure sector, tender prices received on large infrastructure projects can be inflated due to a lack of competition and the dominance of a few major players in the sector. This is really interesting though, because while there is a perception that only these "major contractors" are able to work in this infrastructure space, they are using the same subbies as everyone else. These subcontractors are performing the work at the current market rate which can mean a lot of 'cream' for the contractors. It may take some time but as other contracting companies make the shift and move into infrastructure, prices will become more competitive.



What to expect moving forward

Price ahead of relationships: Developers will start to open themselves up to the tender process rather than just trusting that the contractor they have always used is giving them the best price. They will test the contractors tender against the market.

Cost overruns: In this competitive market, contractors will be unable to build high contingencies into their tender prices so they will be more likely to claim for variations.

Projects Running Slower: Contractors will take the time to ensure they are getting the lowest sub contractor price for each trade rather than relying on their regular subbies. This will have a knock on effect on their programme.

Procurement Methods will change: There will be a decrease in D&C in favour of Construction Management and GMP contracts. There will be advantages in developers letting their projects in stages.

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**



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