



“The Kick in Residential, Commercial and Infrastructure Projects Could See a Return to the 2003 Construction Cost Market”

“It’s going to be an interesting year for the construction industry” says David Mitchell, Director of Mitchell Brandtman Quantity Surveyors. “The market is uncertain and there are a number of different cost scenarios that we could see in the next 12 months and being aware and knowing how to operate will be the key to delivering projects with certainty in a low margin environment”.

The different scenarios we could see are...

- a) Costs will track along roughly the same as now. “And that’s O.K.,” says David, because we know how to operate in this market.
- b) We will see a substantial rise in costs followed by a settling much like we saw in 2003. This is the most likely path that construction costs will follow. Costs have been steadily rising at 0.5% per month and will climb to about 1% per month from July through to December.
- c) A dramatic fall in costs is also a possibility but only if the economy falters. We need to keep our eye on the economy because the only time costs have fallen in the past has been immediately after a recession. So it’s safe to say that wishing for construction costs to fall, is actually wishing for disaster.

After releasing his latest construction cost research for regional and South East Queensland, David’s prediction of the returning 2003 market in the second half of 2008 is backed by rising building approvals and continuing infrastructure activity. David says that “continued residential activity coupled with new starts in infrastructure and commercial construction, points us in the direction of the 2003 market”.

You may recall 2003 was characterised by projects running slow and a high frequency of cost overruns due to high demand for subcontractors. Throughout the years, different markets have seen the profit shift from the developer to the subcontractor and then on to the contractor. As the current wave of construction peaks in the second half of 2008 the demand for subbies will drive prices up.

The material in this bulletin is for general comment only. For further information on research findings, 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**

So...how can we best position ourselves in this market?

“Think like a subcontractor and look at operating differently to what you may be used to,” says David. “Look at what trades are in demand and limit them”. For example, if plumbers are in high demand, consider projects with limited plumbing work like industrial or retail. Really consider whether you should build at all? Commercial buildings require 80% of the work to be done by subcontractors, so why not look at doing subdivisions where only 17% of the work is completed by subbies?

In a rising construction cost climate, ensure you lock in to a lump sum agreement. Try to identify the full scope of work you will require on your project and work out the costs before you go to tender. Release your detailed costings to your builder,

get him to critique them with the goal of agreeing an achievable cost plan. Our team uses this process of reverse tendering with great results. My advice is to work collaboratively with your builder, engage him as a consultant in the early stages of your project so that you can work for savings together.

Here is snapshot of what we can expect with regard to construction costs in our industry...

Costs will increase at a more rapid rate than in recent times

We will see the power shift from contractors back to subcontractors

Cost overruns and delays will return

The credit squeeze will become increasingly apparent in credit policies

Can you build in this environment?

Do you have working relationships in place?

Uncertainty of the market will create opportunities

You need to identify today, what your project will cost in the future

Reverse your thinking and work backwards



