

By IVAN J. BECICA, PE

Construction Inflation Peaks at 10%

Inflation alone does not account for dramatic increase in cost

ENR, a McGraw Hill construction publication, reports in its March 21, 2005 edition that the annual inflation rate for general building construction held at 8.5% for the second consecutive quarter. This rate of inflation is up from the 3.8% rate of increase experienced in the first quarter of 2004. Other indexes, which tracked similar building cost increases, report a 10% increase for this quarter.

The inflation trend in building construction cost, however, appears to have moderated and is now slipping on what appears to be a downward cycle. The building cost index as measured by

Subcontractor indexes reported by Lee Saylor report increase as high as 14.1% with cost increases for wood studs at 32%, 29% for structural steel, 23% for rebar for reinforced concrete, and 20% for wallboard (drywall). None of these indexes report contractor cost increases for general conditions, such as cost of insurance premiums.

ENR's compilation reflects national trends. Local trends (New Jersey, eastern Pennsylvania) are further impacted by microeconomic conditions not represented by cost factors reported by ENR.

A Wall Street Journal article on March 23, 2005, quotes an economist for Turner Corporation, one of the

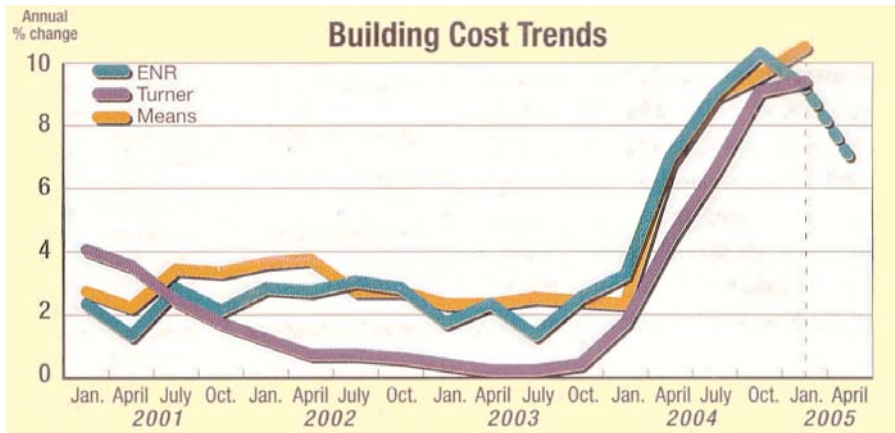


Bridgeton Public Schools
Buckshutem Early Childhood Center

ket already experiencing robust activity. Southern New Jersey construction cost targets set by NJSCC averaged \$174 per square foot in May of 2004. In their June 30, 2003 edition, ENR reported a national average of approximately \$110 per square foot.

Cost data from Becica Associates for 2002-2003 shows average construction cost of \$120/SF. Today, cost estimates are as high as \$225/SF, an 87% increase in two years! The impact of these unpredictable factors on construction budgets established a year ago are causing owners to downsize construction programs and value engineer design decisions.

As part of an overall management strategy, Becica Associates routinely addresses all factors of cost for its clients.



SOURCE: ENGINEERING NEWS-RECORD, MARCH 21, 2005, P. 34.

ENR is now down to 7% in March. It appears that the volatility caused by sudden increase in materials cost nationwide may be settling down in the second and third quarter of 2005.

The past decade has seen construction industry inflation ranging between 1% and 3%. The current increases as reported by ENR are reflecting what they believe to be the effects of a 31% increase in steel prices.

Indexes reported by other organizations such as the Commerce Department, Means Construction Cost, Turner, Marshall and Smith and others are reporting similar trends.

largest construction companies in the U.S. "It's not just the cost of materials and labor. There's enough optimism in the market to start to drive cost up." And with demand strong for construction services, contractors are continuing to raise their prices. Fred Smith, Supervisor for construction for Las Vegas schools says, "We are getting fewer bidders, which automatically raises prices."

In New Jersey, the New Jersey Schools Construction Corporation initiated a statewide \$8.6 billion school construction program in 2000, placing huge demands on the construction mar-

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