

Construction Cost | How to Plan For 2020

The Cost Question

“How I can be the best shepherd of a project in this changing environment?” Experts in the industries of Architecture, Engineering, and Construction find ourselves called to answer this question under new conditions of uncertainty amid COVID-19. Our team has collaborated with industry partners and fellow researchers to explore opportunities that may be available in the months to come. As planners, if we can proactively manage to mitigate impact, there is potential to create opportunity for clients.

Architectural Design Activity

As the economy hits the pause button in response to the pandemic, it is no surprise that The American Institute of Architects (AIA) reported a decrease in the Architectural Billing Index (ABI) from February 2020 to March 2020. The measure of design activity by architectural firms is a leading indicator of future construction volume. Put simply, lower design effort leads to lower construction activity. The AIA suggests the lag between a change in design activity and construction activity averages 7 to 11 months.

Affect on Construction Costs

The charts on this page show the historical correlation between the ABI and dips in construction costs. The conclusion to draw from this, is that there will be less construction work in the coming months, which will ease the skilled trades labor shortages, increase competition, and lead to lower construction costs. But unique circumstances may temper this normal supply/demand balance. There is a possibility that construction sites will become more heavily regulated for worker health which could lead to offsetting costs. In addition to this, there may be available liquidity in the economy that might make the recovery of costs occur much faster than experienced following the 2009 drop.

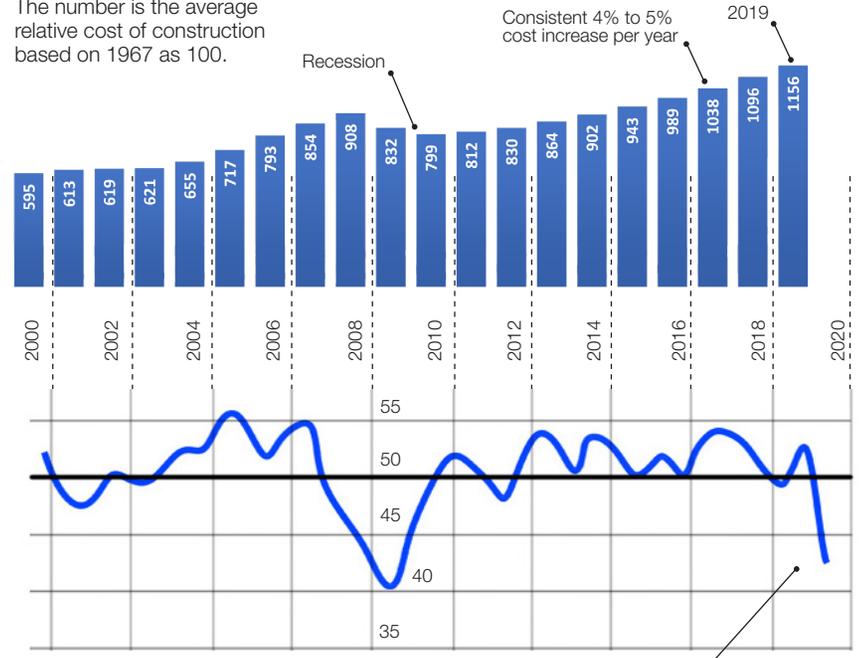
If Possible - Be Ready

If you're an owner, what this means for you, is that there will likely be competitive pricing in the construction industry. To take advantage of these cost-saving opportunities, planning and design will have to occur now to best prepare and position your institution for the more cost-competitive construction market going into the next year. While working on a stopped project may be counter-intuitive, in the current situation this could be effective planning to control construction costs, and ultimately, save you project dollars.

Turner Construction Cost Index

(represented by the blue bar)

The number is the average relative cost of construction based on 1967 as 100.



AIA Architectural Billing Index (ABI)

(represented by the blue line)

Above 50 indicates an increase from the previous month. A score below 50 indicates a drop in billings/contracts from the previous month.

Recent decline in ABI likely predicts a reduction in available construction work to bid and therefore opportunity for better pricing.

“ Meyer Najum has formed the opinion that December 2020/Jan 2021 will be the time that lower construction prices will be available and being ready to bid is the right strategy. ”

Tim Russell | President
Meyer Najum Construction

“ History tells us that the reduction in available projects will lead to reduced construction costs, and that will be true now. But there are unique factors in this drop that are not yet clear. ”

Martyn Blundall | Cost Estimating
Blundall Associates

“ As far as a sweet spot for bidding projects, it's really hard to tell given that there are so many market factors that impact costs- labor availability, prices on commodities, local construction market activity, etc... I would recommend to owners that proceeding with design as we have planned is the best option. As the situation unfolds we will have a better idea on what the market is looking like. ”

Daniel Fetz | Preconstruction Manager
F.A. Wilhelm Construction

Historical Perspective

In 2009, the ABI dropped in a similar fashion and remained below 50 for 24 months. During that same time frame, the Turner Construction Cost Index showed a combined 12% drop in construction costs which remained flat through 2012 and then began to climb through 2019. During the Recession of 2009, costs dropped the fastest when the construction industry still had a larger capacity and was trying to fill it. Eventually, the capacity of the industry was reduced to match the demand.