

# THE LACY LEDGER

Construction news and trends, plus a little light-heartedness

Winter 2006

## Managing Construction Costs:

# The Time To Build Is Now

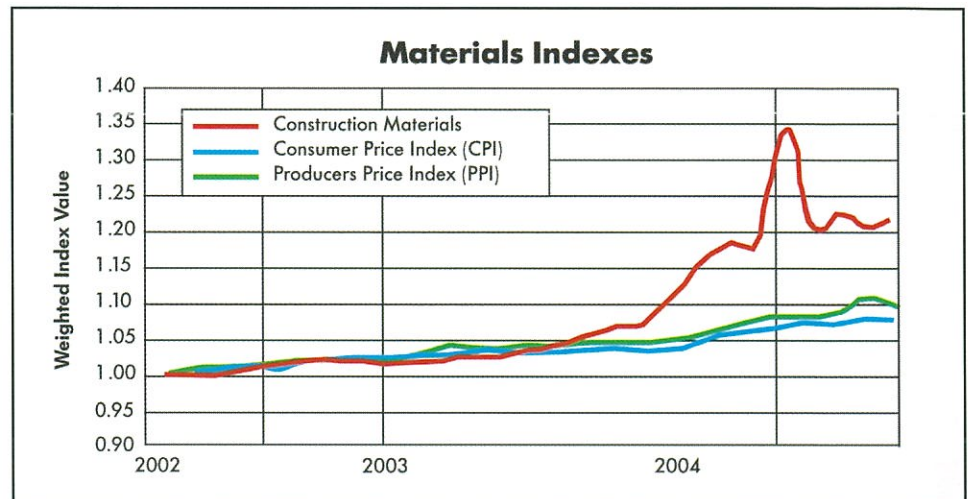
**W**hat's the story with construction costs? Perhaps the following scenario will help to illustrate the challenges the construction industry has been facing with market escalation—or rapidly increasing costs—and show how construction executives are working to control costs and stay in business in the face of one of the most extreme inflationary periods in the industry's history.

A well-regarded architect is awarded a commission for a public works project, which has a generous—but not excessive—budget set by the client. He, along with his team, designs the project and, in the process, relies on relatively recent historical prices for similar projects, incorporating those numbers into his design to meet the client's specifications.

Then, when his design is approved and the go-ahead is given, he puts the drawings out to bid to several construction firms. The prices that come back are a staggering 25%-50%—even 100% more than the budget the client had originally allocated for the project. The designer is embarrassed—and angry. The client is upset. The finger-pointing begins and, in the end, the construction firms who quoted the project get a black eye, accused of predatory pricing, profiteering, and in some cases, even accused of lacking loyalty to a sector that had taken care of them in the past.

As time goes on, of course, the situation only gets worse. A year-and-a-half later, when the project is finally getting built, costs have continued to climb, resulting in price overruns and even more upset people—construction executives included.

So, what's going on?



One of the great untold stories of the late 1990s and early 2000s is that global competition for raw materials such as steel, lumber, plywood, concrete, drywall and insulation—coupled with a scarcity of skilled labor and skyrocketing premiums for health care and construction defect insurance—blindsided the construction industry, causing double-digit increases in building costs. In fact, construction costs have outstripped inflation for the last three years in the West, causing some analysts to call it “a correction” for the inflation the industry experienced in the late 1990s but which many firms simply absorbed, rather than passing on to clients.

According to Rider Hunt Levett & Bailey, in 2004, “Hawaii and California...experienced

the greatest (average construction cost) increases of between 11% and 12%.” Even those figures seem tame compared to the 50% increases in the price of steel, 300%-500% increases in insurance premiums, and double-digit increases in the cost of skilled labor in parts of the West.

“The tough part about rising prices is that architects and clients have fairly stringent budgets to begin with,” says Walter Estay, AIA, a manager for Tate Snyder Kimsey Architects in Reno, Nevada. “Then, by the time the project goes through the design process and on to construction, it could be two, three, even five years later, with little, if any, adjustment for inflation or

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# Thoughts For The New Year

**T**he start of the new year is often a time of reflecting back, and last year gave us a lot to think about. Whether you've had family or friends affected by the hurricanes and the continuing war in Iraq, or simply been moved by the television images of suffering and devastation, we've all felt the impact.

But tragedy also has a way of forcing us to focus on the blessings in our life. Here at Lacy Construction, we are fortunate to have a successful business; dedicated, hard-working employees; an outstanding group of consultants, subcontractors and suppliers; and, of course, a long list of loyal clients who we appreciate, and who value the work we do for them.

Combine this with the love and support of our friends and families and we're a very lucky group. All of us at Lacy Construction hope you and yours had a wonderful holiday season and ask that you, too, take a moment to count your own blessings and try to assist those in need of help.

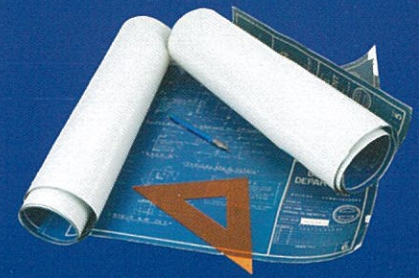
## Managing Construction Costs...

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rising costs. We then have to either cut square footage, which impacts the intended purpose of the building, or we have to cut the quality of the materials used, which impacts the overall real and perceived quality of the structure. To avoid this, we're seeing more architecture firms instituting a contingency fee—typically around 3% per year—but even that hasn't been enough in an escalating market."

The good news, however, is that the escalation period is starting to taper off, and if you're thinking about building, the time to build is now. Davis Langdon, whose analysis firm focused on the California market, was optimistic for the near term, saying, "We anticipate 2005 will begin to stabilize to a healthier rate of 6% per annum."

So, how does a quality-minded construction firm manage those hard-to-come-by construction dollars? "The key is for construction executives to ensure their operations are as efficient as possible," says Jerry Huismann, president of Lacy Construction. "Scheduling becomes important. Locking in prices early becomes important. And, for our architect and designer friends, we advise them not to rely on old estimates to be realistic in the current market. Give us a call. We're happy to share our experience and expertise with anyone who asks us."



## What's Happening At Lacy Construction?

### *Projects in Progress*

- CNH Renovation  
Grand Island, Nebraska
- Town and Country Bank  
Kearney, Nebraska
- Franklin School Addition  
Franklin, Nebraska
- Equitable Bank Renovation  
Grand Island, Nebraska

### *Projects Recently Completed*

- McDonalds Restaurant  
Kearney, Nebraska
- Lexington Library  
*New building*  
Lexington, Nebraska
- Xenon School of Hair Design  
Grand Island, Nebraska

### *Planning A Project?*

Lacy Construction Company can be a valuable resource during the planning stages. Call Jerry Huismann at 800-321-5229 to discuss where we can save you time and money in a building project.

*Visit our website at [www.lacygc.com](http://www.lacygc.com)*



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