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Best Practices for Addressing Rising Construction Material Costs

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Construction

Due to reduced production during the COVID-19 pandemic, increased housing demand and climate events such as the Texas freeze and subsequent utility crisis, construction material costs have increased dramatically over the past year. According to Cummings, a nationally recognized consulting firm, lumber and plywood prices have risen 56% in the last year, copper and brass over 30%, steel over 10% and precast concrete over 4%. In March, *The Wall Street Journal* noted that crude oil, “a starting point for paint, drain pipe, roof shingles and flooring,” was also up around 10%. If that were not enough, supply chain issues and production bottlenecks have only exacerbated the problem.

While there are many theories as to when, and if, prices will drop, it appears certain that the cost of materials will continue to rise or hold steady for at least for the rest of this year. Thus, with no immediate relief in sight, below are a few best practices for handling the inevitable material cost increases on your project.

Best Practices for Addressing Increasing Materials Costs

1. **Balancing Overall Project Costs.** One obvious way to lessen the impact of increased material costs is to reduce costs elsewhere. An option to consider is to work with your contractor to see if they can partially absorb material cost increases through adjustments in labor rates or reductions in fees. This collaboration requires give and take from owners, contractors and design professionals.
2. **Alternative Materials.** Another way to address material cost increases is to consider use of alternate materials, which have experienced smaller price increases than other more common materials. Sourcing options should also be considered. Alternate materials, which are more readily available, may result in lower overall costs when compared to more common, but harder to find, materials.
3. **Contractual Safeguards.** Contract terminology may also lend protections for unanticipated cost increases. Owners should consider possible inclusion of provisions which shift risks to other parties or language which places limitations on change orders for material cost increases. Finally, if possible, contracts which set an overall guaranteed maximum price should be considered.
4. **Modular Construction.** Modular building methods can alleviate some burdens associated with material cost increases by streamlining the construction process. The streamlined nature of this building method typically lends itself to reduced labor costs further helping your bottom line. In addition, modular construction is also much more efficient than traditional methods leading to less wasted materials. However, in some larger metropolitan markets, this will require a sign-off from unions which may be difficult.
5. **Technology.** Another option to counteract material cost increases is through the use of new technologies. Advanced technology such as new software, drones and 3D programs can give all parties a better understanding of the project early on. This results in better coordination amongst trades, a fully evaluated design which contemplates potential issues before they arise and more comprehensive material estimates on the project. Additionally, communication technology is equally important.

Ease of communication can allow the parties to make split second decisions on design changes. Keeping the project team fully informed can reduce the need for further rework issues in the future and the need for additional materials.

6. **Pre-construction.** Pre-construction work is an essential phase for every project. During this phase, all parties can work together to successfully plan the construction phase of a project. Some of inherent benefits of pre-construction work are: (i) increased project knowledge and understanding of specific goals amongst parties; (ii) thorough development of the project early on; (iii) early detection of possible interferences; (iv) better coordination; and (v) increased project planning and development. Although the foregoing is by no means an all-encompassing list of benefits, pre-construction work makes your project more efficient, cost effective and reduces the need for additional materials.
7. **Think Outside the Box.** Finally, as we mentioned previously, all parties should remember to be flexible, especially given these uncertain and albeit unique times. By working together, owners and contractors can develop solutions that work for both sides and produce a successful project. Owners may have to consider modifying the scope of their projects, and contractors and designers may have to consider smaller profits during this difficult time.

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