

Construction Costs Are up Dramatically — So What about Our Fees?

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Over the last year and a half, construction costs around the United States have increased dramatically. In New York, many sources indicate the overall cost of construction has soared from 16-20%. The correction in costs was relatively sudden. Costs began raising in late 2003, and jumped the following year. In 2005, increases have stabilized, as costs have edged up at a slower pace.

Obviously, the construction boom in China and other developing markets is a significant, perhaps leading, factor contributing to cost increases. As Engineering News-Record reported in December 2004, "After years of hype, the reality of the huge Chinese economy could not be denied in 2004. For perhaps the first time, China became the main driver of international construction cost trends..."

Steel is a global commodity, and China's demand for construction materials has made steel much more expensive here in the US. In June 2004, The Steel Institute of New York and New York Construction magazine held a panel to discuss the rising costs of steel. One panelist reported a 40% increase in the mill price of steel during the previous six-months. Another commented that rebar had doubled in price during the same period.

The world's increased demand for steel is only part of the story. As Lawrence Weiss, Chairman of the Board of Trustees of the Steel Institute of New York, said at the panel, "Even a 50% increase in the cost of raw material would work out to maybe a 10% increase in the price for the steel for the job because the erection and fabrication are larger factors."

If increased demand for steel only adds up to a 10% increase in the cost of steel construction, what accounts for the remaining 6-10%? While experts cite other factors such as higher insurance

costs, higher fuel costs, and higher wages, the overall increase is far more dramatic than even these factors would indicate. Gensler's Washington, DC, office hosted a panel in May with leading construction firms and developers in the DC area. The panel found many basic materials (precast concrete, drywall, millwork, carpet) had increased by 50% or more in the last 12-18 months. Is the demand for drywall and carpet in China really impacting construction costs in the US? It seems unlikely.

The increase in construction costs here is not simply a result of high demand for raw materials overseas; it's a long-term correction in construction costs in the US. Before the jump in costs that began in late 2003, construction costs had remained relatively stable for ten years or more, even though insurance, wages, and other costs had risen steadily. In this period, a number of contractors went out of business. The correction in costs may be necessary in order to enable the surviving construction companies to stay in business.

Which begs the question: Does the correction in construction costs herald an impending correction in the other costs associated with commercial development—such as consultant fees? Design fees are generally the same now as they were 10 years ago. This means, in the new construction cost environment, design fees are an even smaller percentage of the overall cost of a project. In relative terms, design fees have actually decreased as a percentage of construction costs!

One can argue that, over the past 15 years, design services have undergone a technological revolution. Increases in productivity due to the implementation of CADD drafting and rendering tools, as well as a reduction in the costs of communicating and transferring documents due to the Internet revolution have lowered costs. In addition, in the last few years architects and designers have explored cutting costs through offshoring, working with low-cost

drafting services in emerging markets to prepare construction documents and renderings for a fraction of what they would cost here. Now that we've wrung all the savings we can out of technology and offshoring, is it finally time for our fees to go up?

Or, has design actually become a commodity? If one service provider is as good as another, why would clients pay more for design?

It's possible that parts of what we do—namely, documentation services—have been commoditized by technology. But we all know that design is not a commodity, and that the parts of what we do that require intelligence, inspiration, and creativity provide real value, and are worth more. The challenge is to find those parts of the process that can not be commoditized, those parts that provide lasting value for clients, and to place a higher value on these.

Some would say that we do it to ourselves, keeping our fees low by undervaluing our services to our clients in order to stay competitive. As Kimberly D. Patton, AIA, of GBBN Architects was quoted as saying in an Architectural Record article on offshoring in January 2005, "Architects are skittish about all sorts of things. There is shame in making money in this industry."

Let's not be skittish or shameful. Let's follow the lead of the contractors, and look for opportunities to charge what our services are worth.

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