



# Construction Inflation is Running Rampant – What's the Impact on Your Projects?

AGC reports that year-over-year construction inflation (2021 – 2022) is 22%. This is a general insight from Ken Simonson, AGC Chief Economist through [Construction Dive](#), and the situation in your region and jurisdiction of your projects will vary. Suffice it to say, it is unlikely that there is any design or construction project that is not facing significant cost pressure in this period of accelerated construction and overall economic inflation—in large part due to supply-chain issues and material/system/labor availability.

If you have a project in the design phases, consider the following questions for several common project types:

- **Is your project publicly funded** through a referendum, such a school, community center, aquatic facility, police/fire station, or library?
  - When were the project budgets established and funds “fixed” to implement design and construction?
  - Are those funds still sufficient, even with a “normal” contingency established at the time of referendum/funding?
  - How will the owner and their constituents respond to a more expensive project, perhaps 20% or more, or a reduced scope project because the public entity cannot identify additional funds?
- **Is your project a spec office building or retail center** where leasing has begun but construction costs are not yet finalized?
  - Will the developer’s proforma be able to withstand significant higher construction costs?
- **Is your project a single family home** that you started design on a year ago but has not yet been bid?
  - Does the homeowner have the ability to increase their construction budget to accommodate additional costs or do you need to reduce the scope of the project?

## What you can do:

- Proactively communicate with your client.
  - Make them aware of the dramatic cost increases in construction. While these inflationary factors are not within your control, they are widely known in the AEC industry, and the general public is certainly aware how general inflation is impacting their wallets.
  - Verify that your client understands how these increased costs are impacting the viability of their project as well as potential schedule implications due to related supply-chain issues and material/labor availability.
- Include additional cost contingency in your estimates at the design phases if you as the A/E are responsible for cost estimating, as is common in “conventional” design-bid-build professional services agreements.
- Determine if the CM, GC or Design-Builder you may be working with in pre-construction has adequately estimated the increase in project cost and has communicated these issues with the project team.
- Properly communicate critical cost, availability, and schedule factors to the project owner.
- Establish the conditions of the cost basis of the construction contract if it is based on “cost-plus a fee,” especially one without a GMP. This will enable increases in the owner’s project cost due to component and subcontractor pricing.
- Make sure your client understands this potential volatility.

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### A word of caution:

If “value engineering” is applied to your project and product/material/system substitutions are proposed due to availability factors or cost reduction goals, BE CAREFUL of the enhanced risk to the design professional. Understand the implications of substitutions on project QUALITY, COORDINATION, and resultant risk of performance and longevity of the built project.

### Related information:

See AIA Contract Documents article, [Materials: Managing Risks in a Changing Market from Sourcing to Installation](#)

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