

Combined Results Summary from Cost Escalation Survey
 Sent to Members and Associates of North Florida AACEi
 October 2008

(Note: Results are quantified where possible as percentages; in other cases, comments are summarized or listed in random order. Any quotes from or other use of this survey should be referenced to the North Florida AACEi. Copyright © 2008 North FL AACEi. All rights reserved.)

Question	Combined Results Summary
1. What percent general cost escalation do you think will occur in the next year or two?	25% of respondents say 3-4% 50% say 5-6% 25% say 10% and over
2. Do you think the value of the dollar will increase or decrease in that time?	75% say decrease/extreme decrease 25% say increase/moderate increase
3. What effect, if any, would trade with and construction in China and India have on cost escalation?	87.5% say China and India growth rates will increase domestic cost escalation rates, by as much as 5-9%/year. 12.5% say costs will increase but be mitigated by adverse domestic market conditions.
4. What effect will the recent increase in concrete to \$25/CY have on current and new construction projects? How about the current price of copper to \$2.75 per lb.?	<u>Reply samples:</u> --additional escalation of 1-2% more; --supply shortages result in price increases; --costs will moderate due to demand during a recession; --market conditions will drive contractors to higher competitiveness/lower overhead costs/margins; --it would raise potential for alternative construction materials; --it might mean a large reduction in non-government/non-industrial construction and an increase in government construction; --due to rapidly increasing prices, a new economic model should be developed to project rapidly-evolving global environment impacts and risk drivers; --the more materials are used, the higher the prices. --Our concrete prices are now \$85/CY.

<p>5. Do you see the price of steel increasing in the next year or two?</p>	<p>87.5% say price of steel will increase 12.5% say no increase</p>
<p>6. Do you see unemployment insurance rates increasing?</p>	<p>100% say unemployment insurance rates will increase, one by as much as 25%.</p>
<p>7. What other trends do you see happening in cost escalation?</p>	<p>43% say materials and labor will increase 57% say cost escalation may slow or stabilize for various reasons, including recession pressure</p> <p><u>Sample comments:</u></p> <p>All materials and labor increasing.</p> <p>If USA'S recession deepens & USA'S dollar remains the same, cost escalation may slow down to normal 204% per year.</p> <p>If production increase and more people are working, cost will level out.</p> <p>The recession will put pressure on construction costs to stay stable.</p> <p>Would expect the effects of tough market conditions to largely mitigate the effects of high levels of Arabian Gulf/Asian construction with resultant low to moderate average escalation rates.</p> <p>Financial disruption will delay new starts for the next year, then focus will be on key industry and government infrastructure.</p> <p>Some markets such as automobiles, housing and new industrial project development may have a downturn. Then, commodities such as fuel, food and materials may escalate even more.</p>
<p>8. How can cost control reduce escalation effects?</p>	<p><u>Comments included:</u></p> <ul style="list-style-type: none"> --reducing money, time and resources wasted; --lock in material prices for new projects; --more focus on procurement/contracting strategies, value management/value engineering; --alternate construction methods/materials;

<p>8. Continued</p>	<p>--early cost planning and detailed control with current market conditions from in-country sources;</p> <p>--limited preorder long lead time items with low cost stable capital backing through only bonded suppliers;</p> <p>--stockpile essential supplies with credit lines;</p> <p>--ensure that companies get best value for their money.</p>
<p>9. What sources of cost information do you use as most reliable?</p>	<p><u>Replies included:</u></p> <p>--various cost indexes;</p> <p>--the KSC cost index and personally created resources;</p> <p>--ENR magazine;</p> <p>--vendors;</p> <p>--reliable in-country sources;</p> <p>--relying on your own balance sheet;</p> <p>--various real-time labor, labor productivity and industrial cost surveys, quantity feedback from design engineering, return costs from projects,</p>
<p>10. Comments</p>	<p>--Good cost engineering and cost analysis is critical for successful design, construction, activation, use, and deactivation.</p> <p>--The new administration will have a lot to do with future escalation.</p> <p>--Escalation forecasting will be unusually difficult in the next year or two due to the layering in of the global recession, on top of the usual considerations.</p>