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AXIOM

# Mitigating Rising Workplace Construction Costs





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“Construction costs are rising at the fastest annual pace since 2005.”

That’s according to [CoreLogic’s Cordell Construction Cost Index \(CCCI\)](#) for Q4 2021, with construction costs increasing 7.3% in 2021. The report also mentions that the increases are driven mainly by timber, but other segments, like metal, also remain volatile.

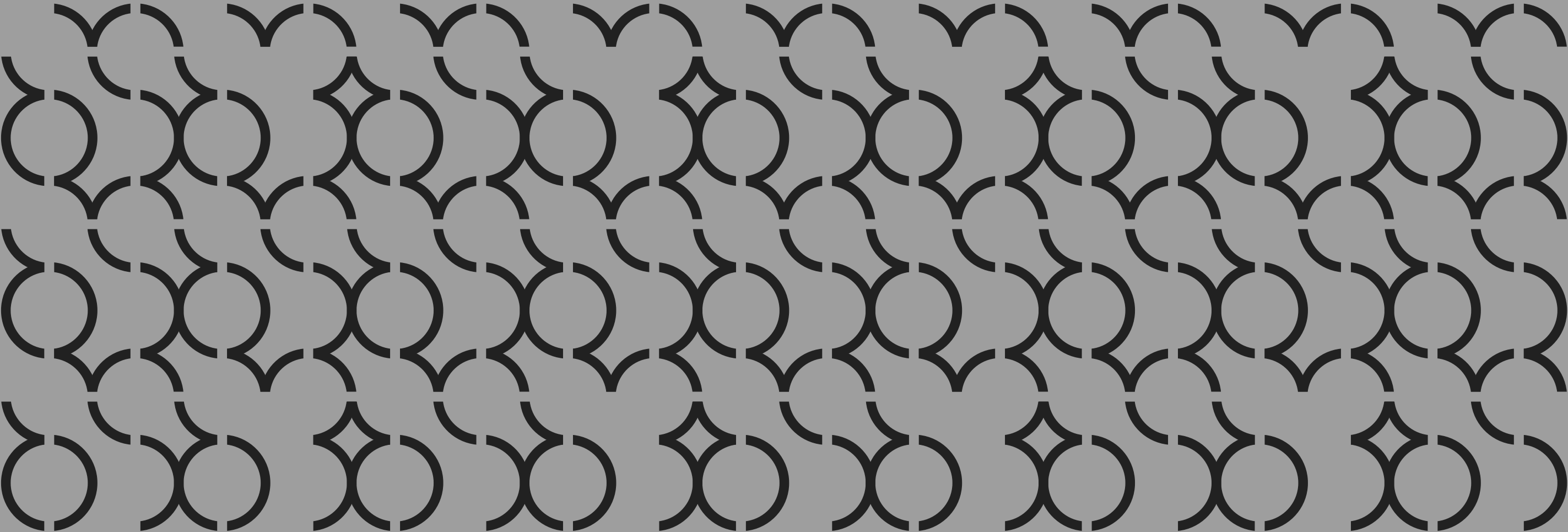
This increase in material prices has significantly impacted the costs of workplace construction, with office-fit outs experiencing a jump in prices in Australia and across the Asia Pacific region. The increases are especially evident in [cities that depend on imported materials](#) for workplace construction projects.

In a recent interview with Light, Head of Client Relations at [Axiom Workplaces](#), he mentioned that the overall material price increases are driving up the average cost of fit-outs across any industry, any building. “It’s not specific to a set channel or style of construction since it’s really the raw material costs that are increasing significantly, which is driving everything up. But essentially, we’ve probably seen a 30% increase in the average cost of fit-outs over the last 12 months,” said Light.

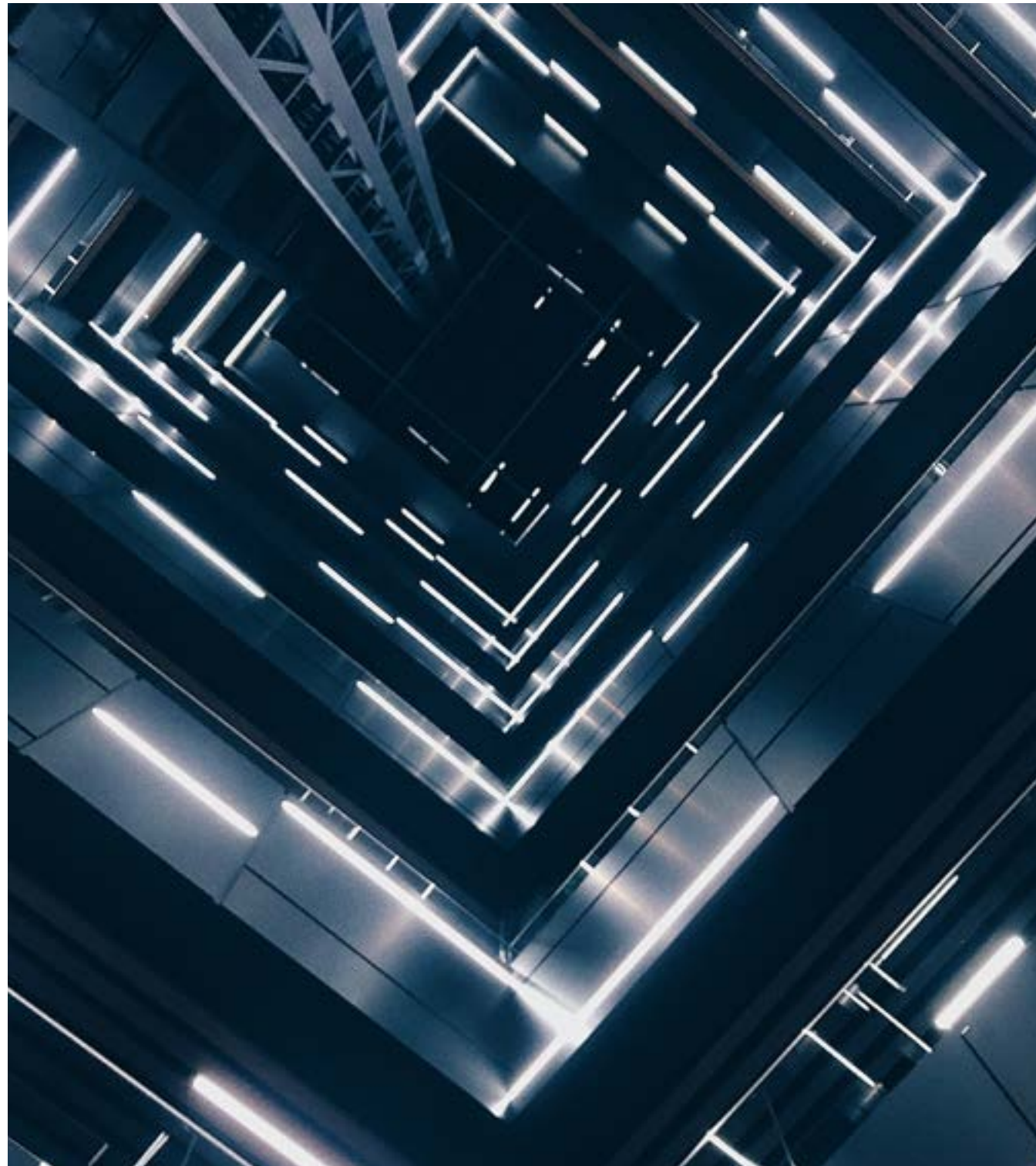
**So, how can your workplace manage rising construction and fit-out costs?**

In this ebook, we will help your business understand why costs have risen for office constructions, learn how you can mitigate the risks, and develop a workplace strategy that can not only save money but also give you a quicker speed to market.

Factors Driving Up Workplace Construction Prices







With material costs at all-time highs, 2022 is turning out to be another uncertain and volatile year and 2023 is on a similar trajectory. But why are costs going up? Here, we look at the major factors driving up construction prices and causing chaos for office projects across any sector or industry.

#### COVID-19 pandemic

For over 2 years, the pandemic has been strongly impacting workplace construction projects, with persistent supply chain disruptions, labour issues and materials shortage. Although many countries have lifted lockdowns and opened borders, the long-term effects of COVID-19 continue to drive up material and construction prices.

In Australia, where [fit-out costs increased an average of 8% in 2021](#), the COVID-19 response measures, including lockdowns and border closures, led to uncertain material delivery lead times, labour shortages, and extended project timelines.

#### High demand

As countries start to 'live' with the COVID-19 virus, lift restrictions, and open up borders - the focus has been to revitalise economies and get construction projects going again. Light said demand has been "just astronomical because of the huge backlog of projects in Sydney and Melbourne that went on hold due to the lock downs. There were a lot of projects waiting on both trades and materials." This increased demand has not only created a price war among construction firms, but also put a strain on material supply, naturally pushing prices up.

#### Supply chain disruptions

Disruptions in supply chains both locally and globally have placed further pressure on the construction industry. Increased transport and shipping costs, higher container prices, and port congestion brought about by high demand - all contributing to the increased construction material costs.



This image illustrates the extent of supply chain disruptions and [why deliveries around the world have been delayed](#). It shows thousands of ships sitting idly and stuck around the port of Shanghai, China. Around 10% of the world's items and materials are reportedly stuck in China's ports.





### Focus on sustainability

Many workplaces are now focusing [sustainability](#), and this is making an impact on construction and fit-out costs. Light highlighted that the use of sustainable products, lighting solutions and air conditioning systems are great for the environment. “They’re more efficient, but to actually do a fit-out with those infrastructures in place is more costly.” So, in new or premium grade buildings with Green Star ratings, fit-out projects can become more expensive with more consultants to engage, more items to check, plus more design and planning time to integrate the sustainable solutions within the workplace.

### Shortage of raw materials

The increased demand on construction projects and current global supply disruptions are causing severe shortage of materials, and driving up workplace construction costs. According to [The Property Tribune](#), “Australia is in the midst of its worst timber and steel shortage in over 40 years.” Aside from the national timber and steel shortage, the country is experiencing significant delays in sourcing tiles, vinyl, glass and aluminium due to pandemic-related backlogs. The article also mentions that steel prices have risen by 15% and lead times are now taking up to eighteen months.

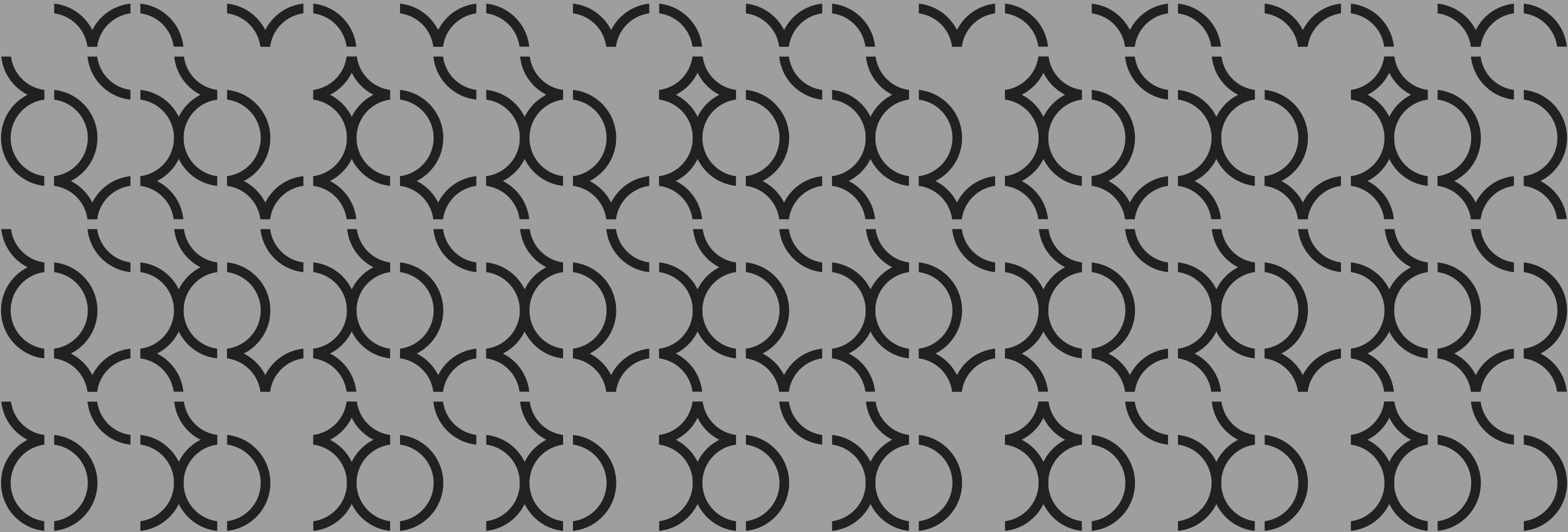
### Changing regulatory requirements

Another factor driving up workplace construction costs is the evolving compliance and certification requirements. Regulatory requirements are part of any construction project. And they are regularly updated to adapt to any changes in the business environment or to respond to any construction related incidents.

According to Light, there will be a new set of certification requirements released by Standards Australia to improve fire safety in offices and buildings. “Incidents like the fire that destroyed [Grenfell Tower](#) in the UK really put a lot of focus on the materials that were being used in workplaces. Everything had to be checked and replaced with fire retardant materials. There are also new guidelines on how regularly you have to put in smoke detectors and sprinklers, etc.”

As certification or regulatory standards change, there’s a need to check and update materials and designs to comply with those requirements - thus, driving up the cost of construction projects.

Why Office Fit-Out Costs Will Remain High







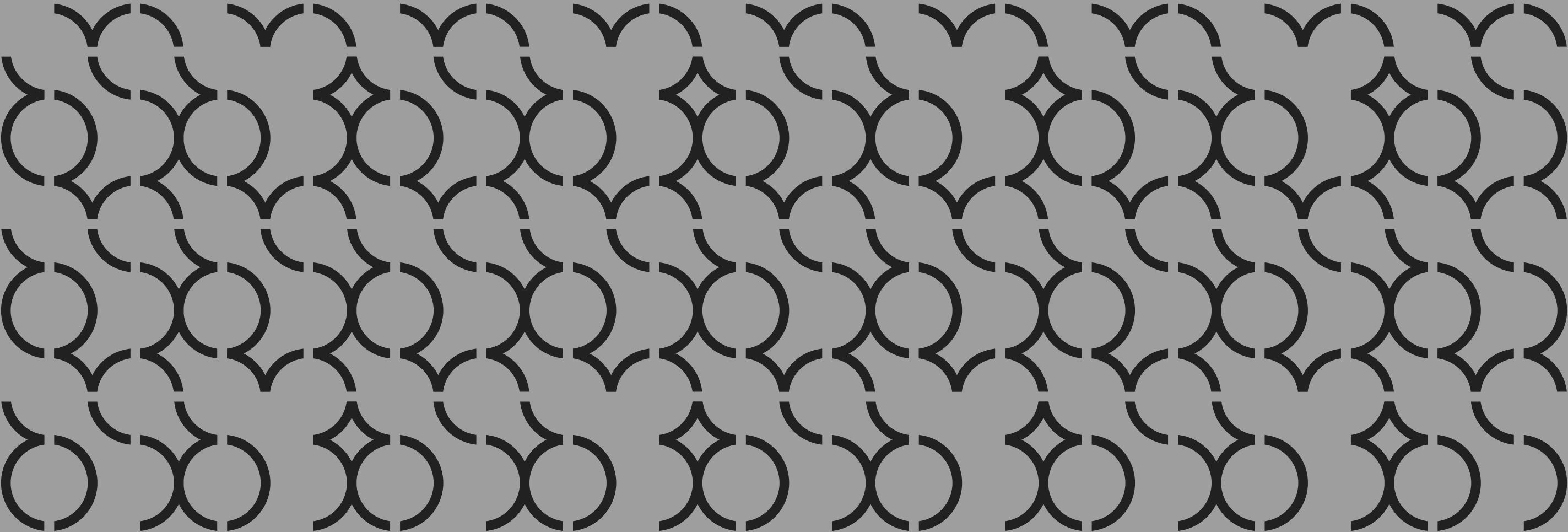
More than 80% of market leaders believe that [office fit-outs will remain high in 2022](#) and beyond. Continued material and labour shortages, supply chain disruptions, and now the war in Ukraine impacting fuel and energy prices - all these are predicted to drive up construction costs.

The [Australian Financial Review](#) believes that higher building costs will be a permanent part of Australian construction as the industry's inflation will hit 9.5 per cent over the year to June 2022, and 6 per cent over the year to December 2022. Even after inflation stabilises, construction materials and labour costs will not come back down to previous levels, but will even continue to rise from the second half of 2022.

The article also highlighted that, aside from [rising inflation](#) and global events, the strong demand for Australian domestic construction plus the flood rebuilding and more infrastructure projects will continue to drive up material and construction prices, now and in the near future.



Ways To Mitigate Rising Workplace Construction Costs





With fit-out prices predicted to remain high, most workplaces will continue to face challenges in reducing risks and working with strict budget constraints to deliver successful projects. But it's not all doom and gloom. In this section, we cover some clever ways companies can employ to help mitigate rising workplace construction costs.

### 1. Plan and execute early

There's a lot of benefit in planning early, [especially in mitigating rising material costs](#) with fitouts or workplace construction projects. Procuring materials well in advance can result in significant cost savings, help manage any stock availability issues, and ensure the supply arrives when needed.

Also, assembling your team of contractors, architects and other stakeholders early in the design process can ensure that schedules can be planned well, supply can be sourced, and budgets can be set for each step of the project. This not only enables the team to anticipate any future risks, but also allows them to collaborate early and make better decisions.

A workplace strategy and design partner, like Axiom, has the expertise, resources and connections to ensure you benefit from early planning.

### 2. Develop a detailed risk matrix

Identifying and assessing market risk factors can help [mitigate material shortages and supply chain disruptions](#) that can significantly impact project costs. There are a number of risks you need to consider, including:

- Labour shortages at the every aspect of the project, from the materials manufacturing level to supply distribution and installation.
- Construction materials availability and delivery lead times which can significantly affect costs and timelines.
- Compliance and regulatory requirements including project reviews, inspections and gaining the necessary permits and certifications which can cause project delays.

Developing a detailed risk matrix can help identify the risks involved, and determine a mitigation strategy. For instance, if there are long lead times for certain materials that could delay the project, a mitigation plan could include procuring and getting pre-commitment from suppliers early in the process.

### 3. Budget correctly

Although the risk matrix will help, it is still very difficult to accurately plan for every issue or problem which may occur across the project lifecycle. Material price increases, for example, are impossible to predict. So it is important to set the budget at the beginning of the planning process with an additional 10-15% as contingency to absorb rising costs due to supply issues and inflationary pressures. Also, progressively reviewing the budget through the entire project is essential to keep on top of any unexpected price hikes.





#### 4. Explore alternative materials (and buy locally if possible)

Another way to help [mitigate rising costs](#) is to expand your options and explore alternative materials for every construction component. This is a good opportunity to challenge architects, project planners and engineers to find new, creative and even unconventional materials to complete your workplace construction projects - without compromising quality and safety.

One possible option is to use locally produced and manufactured materials to not only manage any supply issues, but also control any cost blow outs, which could easily happen with imported supplies. Another option is to work with any pre-existing fitout and recycle what you can - not only will this keep costs down, but it's also a more sustainable strategy.

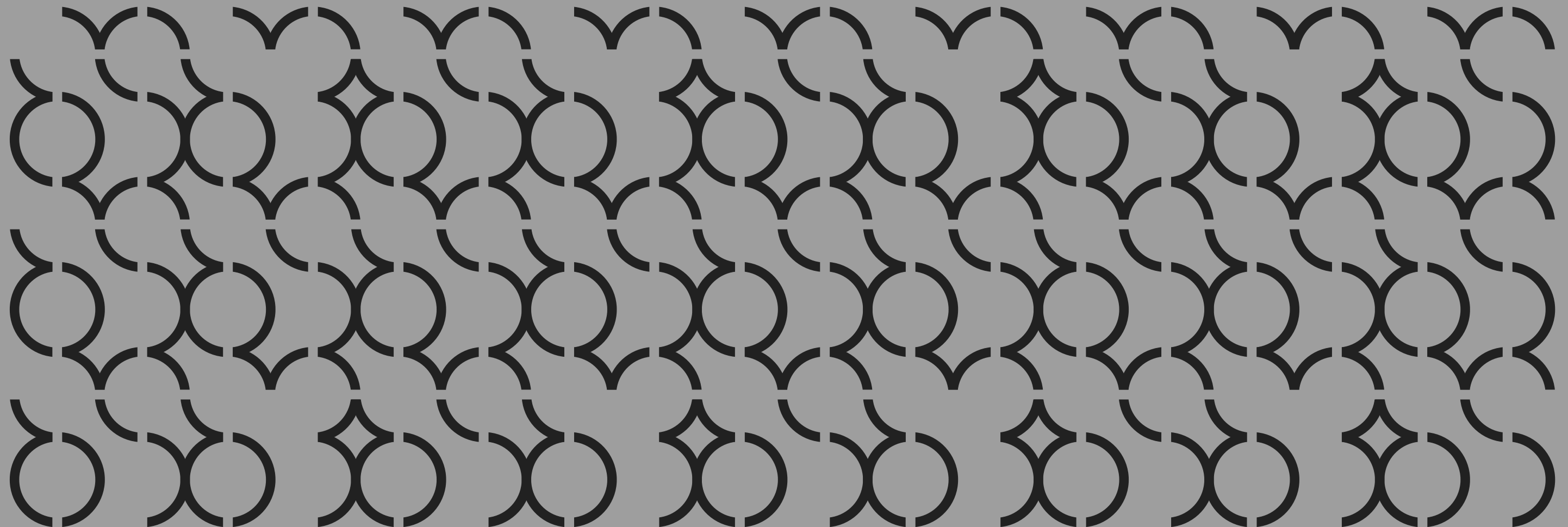
#### 5. Build strong relationships with partners and contractors

It goes without saying that building strong relationships with your partners, suppliers and contractors will help deliver a seamless and successful project. Being able to work and collaborate well with your team can identify risks, including pricing or supply risks, earlier in the process and plan out a mitigation strategy effectively across each stage of the project.

Also, if you are looking to mitigate rising costs of imported materials, it would be a good idea to develop relationships with local manufacturers and suppliers.

At Axiom, we are able to lean on 25 years of relationships with partners, suppliers and contractors to ensure our clients receive the best outcomes.

## How An Evidence-Based Workplace Strategy Can Help







Every workplace is different. And the way you mitigate rising construction costs needs to be tailored to the needs and preferences of your current office and that of your workers. Any workplace construction project or redesign has to be specific to you and your organisation.

This is where an [evidence-based workplace strategy](#) can help. It is a process that designs and configures your office around your culture and the way you work - by collecting qualitative and quantitative data through situational studies, staff surveys, workshops and interviews. This data is then analysed to create a customised plan and office design that works for you and your organisation.

#### **Optimising timelines and enabling a quicker speed to market**

According to Light, an evidence-based workplace strategy “helps businesses make not only data-driven decisions, but also understand the key areas that are going to make the highest impact.” The office design team can focus on these key areas to streamline the budget. They can also prioritise long lead time items to hasten the process and avoid any wasted time or dollars.

Axiom, for instance, develops a workplace strategy by understanding business priorities, culture, ways of working, current real estate metrics and drivers for change through workshops, surveys and interviews. The data is then analysed using Axiom’s [wkrx™ data and strategy toolset](#) to guide the workplace design process.

Light added that they use the wrkx INDEX to identify the key priorities for staff. “We can then plot by team, by neighbourhood or department, and understand what’s important to them - what’s working and what’s not. This then helps us to prioritise where the budget will be spent.”

Axiom clients also deal with only one project manager who coordinates all the different disciplines. This significantly streamlines communications and enables the team to focus on key priorities to move the project quicker at every stage of the project.

Need help identifying the rising construction cost risks for your next project? We have created a risk mitigation template to help you determine and reduce risks. [Download the template.](#)



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# Thank you

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