ESCALATION EXPLANATION

By Sandra Matson

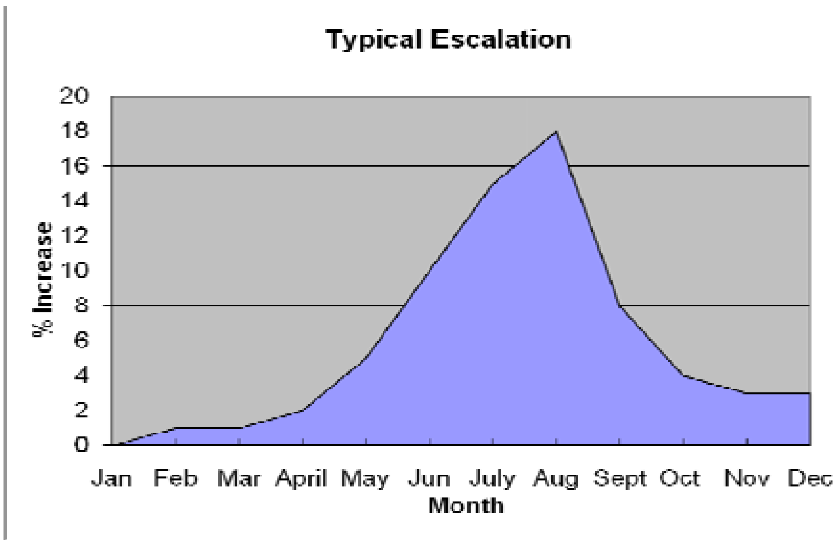
The Definition of Escalation is the amount of money added to the cost at bid to reflect future price increases. A budget estimate is priced at today's cost at bid then "escalated" to the bid date. As the building design progresses, the escalation factor decreases because the estimate is updated at each phase to reflect "today's" costs. "Inflation" is the cost increase of a project based upon actual history (Past/Fact). "Escalation" is future cost increase based upon inflation and other factors (Future Projections).

Escalation typically looks at the cost of construction from January one year to January the next year and compares the two. This annual percentage will vary from Contractor to Contractor and Agency to Agency.

Escalation Spikes: If escalation were measured from January to July it would show 15% to 40% depending on the year. Escalation as a rule does not take this spike into account and it can cost a project its life! We advise all of our clients to NOT bid during these busy months. If you have a project scheduled to bid this May through August – you will actually save money by waiting to bid until October or even better is February.

We interviewed multiple Seattle and Spokane area large General Contractors and asked them what their take on the varying bid environment was and what could an owner do to fix it. They all said the same thing:

> ***The number one thing that they all warned about was the time of year of the bid****:* They suggest bidding October through March. Anytime else and you can throw the budgets out the window. The GC's will get fewer sub-bid, the material suppliers may experience back ordering and projects suffer with long lead items which will increase the material costs during the busy time of year.



So how does anyone putting together a budget take into account the summer bid spike? You don't – All you can do is use the basic escalation showing the average over a years time and add summer bidding contingency.

Sandra Matson is a Principal with Matson Carlson & Associates specializing in construction cost estimating/control and can be reached at sandra@costestimates.com