

STAY UNDER BUDGET:

Top 5 Tips to Eliminate Price Escalation in Construction

In today's economic conditions, the following best practices can help project owners avoid cost overruns and set the foundations for a successful construction project.



1 Prioritize Contract Transparency

- Set proper expectations and keep contract language clear on allowances pertaining to potential price escalation.
- Carefully consider audit, shared savings and contingency clauses that could involve escalation.



2 Review Proper Subcontractor Bid Documentation

- Ensure that subcontractor bids and especially all supplier pricing ties into the scope of the project.
- Require dated supplier quotes with pricing and quantities that specifically name the project.
- Understand whether fixed pricing and labor and equipment rates account for escalation.
- In the case of price escalations, review the revised supplier quotations carefully — they should compare and reference the original pricing.

3

Minimize Contract Allowances

- Work with the contractor to stay within the guaranteed maximum price—having fewer allowances is preferable.
- Be specific in defining which scopes of work and costs are subject to price escalation.
- Track all contract allowances monthly.
- Require monthly project budget updates from the contractor and audit the project budget regularly.



4

Address Price Escalation Concerns Early

- Explore all options to lock in material pricing.
- Challenge your contractor to be creative in looking for any way to minimize potential price increases.
- Compare off-site and on-site storage options.
- Ask if paying additional fees or potential material deposits upfront can prevent future escalation.




5 Be Wary of Proposed “Deals”

- Carefully examine lump-sum offers that might be intended to cover future price escalation.
- Avoid fixed-price deals that don't offer transparency, especially if the deal is subject to potential escalation.
- Carefully examine offers that could include potential hidden overcharges and additional markups.
- Question price reduction offers that might be tied to contract conversions or change contract language.



Set Your Construction Project Up for Success

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