

II Summary

The research project "Price Differences in New Residential Dwellings: Variations and the Causes" was undertaken in 1996 by GEWOS on behalf of the German Ministry of Planning, Construction and Urban Development. The aim was to examine variations in prices for new residential accommodation and the reasons why these occurred, since these are important issues for buyers, sellers and policy makers.

This particular study concentrated exclusively on construction costs which had to be examined on a regional basis. Because of this and the relatively limited nature of secondary information sources, the research relied upon two main methods: firstly, a survey involving 500 of the leading construction firms and secondly, detailed interviews with a selection of 30 of these firms. The survey covered such issues as: company characteristics, sub-contractor relationships, market conditions and competition, price setting etc. These are all commercially sensitive issues, nevertheless, the study was able to obtain a very high response rate (75%), thus enabling the project to benefit from quality information. The research took place in 12 regions: six agglomerations, three urban areas and three rural areas.

The project resulted in a number of conclusions which are summarised below:

In comparison with other countries, construction in Germany is expensive. The high construction costs considerably restrict the demand for public sector construction as well as interest by the private sector.

The report confirms that regional price differences do exist, however, the variations are comparatively speaking relatively small, namely +/-10%. The research indicated that the construction firms were generally aware of the existence of regional price variations. There appears to exist a degree of transparency in relation to the suppliers' price structures.

Based on our research, three factors stand out with respect to the reasons for the regional differences in construction costs. These are respectively: differences in costs, competition and construction capacity. Our analysis revealed that the variation in prices is partly explained by the differences in demand and capacity.

With respect to the influence of cost variation on price differences, no clear conclusion could be reached. Theoretical analysis combined with the information obtained from the firms approached during the course of the project suggest that, above all, payroll / wage costs impact upon the price variations.

Additionally, it also became clear during the course of the project that competition has little impact on price differences. Competition is generally intense across all regions covered by the research, which in turn means that the construction companies have limited capacity to vary prices according to the level of potential suppliers in the market.

That said, the structure of those commissioning new residential construction does have an impact on the prices. Public sector organisations commissioning residential dwellings are regarded as relatively less strong negotiators in making construction deals, as compared with private sector organisations. This has an effect on prices.

In general, the GEWOS research project concluded that on the basis of the regional comparison that was undertaken, little or no scope for achieving construction savings appears to exist since the market for residential construction does not appear to exhibit major structural distortions.

The results provide some evidence with respect to the theme "Costs and Space Saving Construction Methods". Because of a background of intensive competition in the construction sector, savings can be attained above all through the client's negotiation skills as well as its flexibility with respect to its requirements.