



Be Construction Cost Savvy

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ers have little control. However, materials costs, while significant, are only one part of the equation when determining the total project costs.

It has been said that a low bidder is a contractor who is wondering what he omitted. To get the most accurate contract price, an important question to ask is what scope of work is excluded by the contractor. It is also important to note that developers and owners should be wary of allowances offered by the contractor. These allowances—the costs of labor, material products or services loosely incorporated into the plans or specifications—are deceiving for several reasons. First, oftentimes they are based on a “best guess” number with little explanation and there is little to no guarantee that the allowance will pay for what is needed. Second, sometimes the items, products or services do not meet the owner's expectations. For example, the contractor's allowance for tile in the building's bathrooms may cover plain, inexpensive floor tiles, while the owner is assuming the allowance will include high-grade patterned tile.

To obtain accurate comparisons, all bids should demonstrate how all the major systems in a building are assembled and how those prices were derived with full clarification of inclusions and exclusions. For example, most architectural plans rarely include designed life-safety and fire-sprinkler systems. Consequently, contractors often estimate the amount, and in some cases exclude it altogether, in order to achieve the lowest possible bid. Other items that may be excluded in a bid are FBO (furnished by owner), which can include the installation of wall coverings, light fixtures or energy management systems.

There is no question that spiraling construction costs have impacted the economics of real estate development in Southern California and across the nation. The problem has been driven, in most part, by increasing material costs. For example, although it has shown some signs of stabilizing, the cost of steel, which includes everything from beams to brackets, has increased more than 50% over the past 36 months.

Arguably, materials costs are line items for which small to mid-size developers and property owners

Barring exceptional situations, such as unique soil conditions, weather or environmental considerations, contractors should be able to provide construction timelines with their bids that are appropriate for similar project types in size and scope. Otherwise it is likely that you may end up overpaying for overhead that will needlessly drive up the project's cost.

Paying more attention to the issues and consequences associated with the construction process can be one of the single most effective means of ensuring a project makes financial sense. This brings us to the construction schedule. Most construction schedules are viewed by contractors primarily as a guide to where construction has been and where it is going. A schedule needs to be more than a guideline. It needs to be a detailed road map with specific and measurable milestones. One way to avoid possible construction delays is to ask the contractor to submit mini schedules of three to four weeks ahead and compare them to the original schedule. In doing so, contractors can better anticipate and prepare for such things as a labor shortage or inclement weather. These mini schedules will allow a contractor to re-sequence work and start an activity sooner to ensure the project gets completed in a timely and cost effective manner.

Take for example, a project that is delayed by rain. By anticipating the possibility of rain through the use of a mini schedule, a contractor can schedule five 10-hour workdays prior to the period of expected rain. This overtime can be less expensive than the cost of an extra week of work under normal weather conditions. Consequently, the construction process becomes more productive and many of the costs associated with the set-up and start-up were eliminated. Additionally, lost time translates into a higher cost of capital, as well as potential loss of income due to likely delays in occupancy.

Many owners often rely heavily on the reputation and experience of the general contractor. However, it is equally important to ensure that the project is being managed by a qualified project superintendent. The success of a project is a direct result of the superintendent's organizational, managerial and motivational skills. Like an orchestra conductor, he keeps everything in harmony, flowing smoothly through the entire process. —SOCAL

The views expressed in this article are those of the author and not Real Estate Media or any of its publications.

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