



# THE BAY DIMENSION

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## In this Edition:

Bay Area Market Report .....	1
Facilities Management.....	2
Project Management .....	3
Industrial Buildings .....	4

## Bay Area Market

Gordon Beveridge

Over the past two years, ending December 2005, construction costs have increased typically in the range of 30% but varying on the type of project and risk factors identified.

Looking forward, the estimating of future escalation still carries more uncertainty than most interested parties are comfortable with.

**Material costs** continue to gyrate mostly in an upward direction but not in any predictable fashion e.g. copper

pricing has hit new highs lately; oil pricing has grated upwards and then bounced down; structural steel stabilized and then started to move upwards again; lumber could come down if the agreement on Canadian lumber imports is ratified; concrete unit rates for supply continue in an upward trend.

**Labor rates** continue to move upward but in more predictable fashion with most labor agreements set for a period of at least two years at a time. (Currently escalating in the range of 4% per annum)

**Real inflation** however will reflect not only the raw cost of materials and labor but the market of supply and demand in any particular sector. The balance of the volume of work and the availability of qualified general/subcontractors willing and able to compete will set the real inflation factors.

**Some sectors** have been impacted more than others with a large volume of work chasing a limited number of interested and qualified general/ subcontractors. A selection of those sectors is as follows:

**Medical** (OSHPD and NON OSHPD): This sector has an acute problem with too few qualified and available subs willing to provide competitive bids. The anticipations are that this sector will not be in balance for some time to come. The risk factors associated with OSHPD overview and approval process has exacerbated this sector. A healthy contingency for escalation and bidding contingency is imperative.

**Education:** This sector has problems attracting an optimum number of bidders especially at the subtrade level. In this sector owners have been tempted to utilize alternative procurement strategies with a mixed bag of results. CM/ GC methods of procurement (with or without multiple

primes) have not produced the cost benefits anticipated. A number of projects with cost overruns at bid stage have been repackaged and rebid to elicit more competition.

**Private Sector:** This is led by the Biotech and Pharma clients who may have budget concerns but are also driven by schedules. Design/Build is popular and the vehicle of choice where speed to deliver the building is the driver.

**The Office** market is still in recovery mode however there are signs of life in some localized markets.

**The Condo** market is alive and well. The inner cities have mega projects proceeding and moving into construction. However there have been some projects shelved as a result of escalation and proformas not attainable.



**Senior Living Units:** The market is showing life and should continue to grow

**Public Sector:** Funding has been difficult with recent escalation producing a large disparity between budgets set some time ago and the real cost of today. Many of these projects have required scope and/or budget revisions.

Escalation moving forward is never easy to predict with many external forces all providing risk factors which the contractors have to assess. Now more than ever a constant review of the market is required to adjust to changing market forces.

*“Funding has been difficult with recent escalation producing a large disparity between budgets set some time ago and the real cost of today.”*

*- Gordon Beveridge*

**Our prediction on future escalation**, based on our discussions with contractors and vendors, is the following:

- Year One (Jan 06-Jan 07).....7-10%
- Year Two (Jan 07-Jan08).....5-8%

The above are average factors and should be adjusted depending on the project and risk factors present. Also the above should be reviewed on a quarterly basis and adjustments made.

## Facilities Management

Facilities Management became a recognized management concept in the early eighties, and is a term that seems to have more interpretations than “project manager”. Yet everyone that has owned, rented or lived in a building has almost certainly been involved in at least some aspect of facilities management. In short, facilities management includes everything that a company/building user has to do in relation to using a building, other than the company’s primary business.

Facilities Management (FM) can include any or all of the following (in addition to other areas):

- Building Capital Works (e.g. building design and procurement)
- Building Maintenance Services (e.g. maintenance management, security, etc.)
- Building Real Estate (e.g. asset management, acquisition and disposal, etc.)
- Finance (e.g. accounting, invoicing, corporate finance, etc.)
- Churn-Management (e.g. space planning and

forecasting, furniture acquisition, etc.)

Business Management (e.g. strategic studies, budget preparation, training, etc.)

Marketing (e.g. corporate image, sales, etc.)

Legal (e.g. contract, employment, safety and health, etc.)

Human Resources (e.g. recruitment, pension schemes, payroll, etc.)

Information Technology (e.g. research and development, help desk, etc.)

Support Services (e.g. fleet cars, housekeeping, travel, portorage, etc.)

Obviously, few companies would have in-house staff to cater to all of the above aspects of FM, and most FM providers offer a limited range of services. However, what is basically being sold is a management service, and the FM company may employ third-party firms, be they lawyers, accountants, chauffeurs or cleaners, etc., to provide the actual service.

Some of the services that FM companies provide might seem to be very close to the actual business that their clients are engaged in. For instance, one FM company serving a hospital provides the reception personnel, keeps the wards tidy, ensures that the food served suits each patients' needs, and acts as ward hosts/hostesses. If you have the misfortune to end up in hospital, the physician that attends you will not be employed by a Facilities Management company, but the person that recruited the physician, the one who prepares his/her salary check, and the one who organizes his/her continuing education might well be.

## Project Management

Tony Vallance

Facilities delivery is driven by the objectives of the owner and involves many disciplines. It is a process whose end result is mandated by the owner's needs and involves the successful navigation of program, site, function, schedule and budget constraints. All owners want high quality, short schedule and low cost. Good project management will help an owner balance these wants, which are often in conflict; so as to optimize the three in a manner best suited to the owner's needs, and his value objectives.

TBD Consultants is very experienced in the delivery of projects. Each project is different but we base our management approach on certain key activities;-

- Definition of project program and design criteria
- Establishment of an overall schedule
- Establishment of an agreed budget
- Establishment of a project delivery method
- Agreement on clear lines of communication
- Selection of designers and contractors



- Implementation of a schedule management and reporting plan
- Implementation of a cost management and reporting plan
- Incorporation of value engineering techniques into the design process
- Approvals process monitoring
- Constructability review of design documents
- Regular design progress meetings
- Competitive selection of contractors
- Construction contract documentation enabling close control of quality, time and money during construction
- Regular construction progress meetings
- Project close out, handover and commissioning
- Final account settlement

The success of a project depends upon the correct interpretation of the program and design criteria in the

construction documents and the correct execution of the scope contained in the construction documents during construction. Needless to say it also depends on finishing on time and within budget. The owner's responsibility is to make decisions in a timely manner. Our responsibility is to ensure he receives accurate and reliable information, also in a timely manner, on which to base his decisions.

Our approach to the management of a project is collaborative. We are team players. We believe the best results are obtained when all parties are working in a constructive environment which enables them to be most effective. This improves communication and efficiency and promotes a positive response from all team members. Everyone shares in a successful project and benefits from the result.

## Industrial Buildings

Industrial buildings cover a wide range of uses, including manufacturing facilities, incinerators, cement plants, blast furnaces, chemical plants, etc., and consequently the size and cost of such buildings can vary widely. With technology changing so rapidly, there is a growing need for industrial buildings to exhibit flexibility, both in the area of usage and in providing ability for expansion. The alternative is to design the buildings for a shorter life, realizing that the building is likely to be rendered obsolete long before it starts to deteriorate.

The image of a company is becoming very important, and presenting an ecological image is almost essential in some parts. The day of the belching smoke stacks may not yet be completely gone, but it's going. These technology and fashion changes may not just affect the building once it is in use, but also while it under construction, resulting in a high proportion of change orders being likely on industrial buildings. The need for good cost control is therefore vital on these projects.

There is also a trend towards more automation in production facilities, increasing the complexity of systems and services within the building, while reducing the need for restroom and canteen-type accommodation, because staff levels are substantially reduced. The cost of these process systems can dwarf the cost of the building itself, but the building is still a large investment that needs to be carefully control in an increasing competitive market.

With the global economy, many countries provide tax and other incentives to attract industrial facilities, in order to provide work for their population. Any company considering availing themselves of such incentives also needs to consider such aspects as the skills of the available workforce, the stability of the nation's government, the available infrastructure, and the local quality of life, among other issues.

Providing facilities in other countries is one form of outsourcing, and another way of doing it is to utilize just-in-time logistics, with suppliers often setting up near their main client, resulting in an industrial campus.

Some cost issues include:

- Since most industrial buildings tend to be single story structures, the type (and consequently the cost) of foundation and roof construction and finish become especially important because the cost cannot be spread over multiple floors.
- The amount of cooling and air conditioning can be dictated both by the building location and the extent and type of process systems used in the facility.
- Many industrial facilities lend themselves to industrial building construction, where much of the building is prefabricated off site, reducing costly onsite labor, and also improving on the construction schedule, which can be vital for these kinds of development.

