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FASTEN YOUR SEAT BELT ... THE RIDE AHEAD MAY BE ROUGH!

This Is Totally Nuts!

Commercial construction and real estate development are going crazy. I'm seeing it every day. And you likely are too.

Everything that seemed "normal" before the pandemic hit suddenly became really, really "abnormal" by spring of 2020.

And since then, labor shortages and exorbitant material costs are seriously exploding construction budgets and schedules on projects and developments everywhere. Lumber prices have gone totally ballistic (recently \$1,711 per MBF), as

asking, "what in hell are we to do with so much uncertainty hitting us from so many different sides?"

But First — How Did We Get Here?



"Costs are seriously exploding construction budgets..."

they have with other building materials. According to industry experts, in the seven times in recent history that significant price increases have occurred, this one is "The Big One." So, everyone is

Before we tackle ways to deal with this multi-tentacled behemoth, let's take a look at how everything got so off-track, and so fast. Even before COVID it was difficult to get good, skilled labor, but when the pandemic hit, workers started calling-in sick, some to never return. Restrictions on how close laborers could work in proximity to each other and other Cal/OSHA mandates slowed down portions of proj-



ects that usually went quickly and smoothly. And to make things worse, projecting a slow-down in new starts, contractors laid-off a considerable number of



their still-active workforce. What a consequential fail that was. Due in large part to the pandemic, the affordable housing market was taking-off like a rocket,

which required — guess what — that's right, more laborers to meet the increased demand.

And to make the already out-of-whack situation more unbalanced, laid-off workers were, and in some cases are still collecting more from unemployment benefits than if they were working. Some pundits speculate that some unemployed are making money off of investments made with their extra funds, so “why bother framing or roofing in the hot sun or digging trenches in swampy soils?”

Sure, there's no logical reason to want to work under such circumstances if you don't have to, but many of those laid-off workers took the opportunity to train for different careers, and in some cases left the construction field entirely. Either way, finding enough workers for all sizes of projects remains a big challenge.

How could this disruption to the industry be made even harder to swallow? Well, you may have guessed it — labor costs are now exceeding pre-pandemic hourly wage rates for replacement labor, and all combined, the sum of these factors add-up to the

perfect formula for uncertainty.

Why Have Costs Jumped So High — And So Fast?

Just like builders and developers did at the beginning of the pandemic, manufacturers projected a slow-down in demand. As a result, many factories and mills producing construction materials like steel, petroleum-based projects and wood products scaled-down their production and cut their own labor forces.

And just like with the field labor market, not every market segment actually slowed-down or even came close to stopping.

“How could this disruption to the industry be made even harder to swallow?”

Sure, commercial segments like hospitality, retail and office projects slowed, but on the flip side, the demand for residential as well



as affordable multi-family projects rose.

Vendors are left in a really tough spot, too. Suppliers raise prices so rapidly that the vendors can't provide stable pricing quotes and developers and contractors are forced to find ways to compensate for increased costs. The resulting snap decisions that have to be made affect projects in the pocketbook, sometimes with perhaps \$30k at stake, to as much as \$200k or more — all because pricing can't be guaranteed for any more than a few days. Gone are the good old days of a bid being good for 30 days. You're lucky if you get five.

The Answer Is . . . A Hybrid Pre-Construction Process

Unless a project is one of many similar designs for the same client, i.e., a Target, WalMart, Safeway etc. where the majority of job specs are uniform from one project to the next, inclusion of a hybrid pre-construction process for any major development project should be a given. It's the best way to achieve ultimate project completion success without the budget going off the rails! It makes perfect sense to be thoroughly prepared and manage a project in the most concise and organized way possible, by establishing

MY PRE-CONSTRUCTION MANTRA

HOW TO ASSEMBLE YOUR PRE-CON/MITIGATION TEAM

BE PREPARED First and foremost, it's always essential!

MERGE YOUR TEAM Merge the pre-construction team with design, estimating and project management teams to form a hybrid of the four into a "Pre-Con/Mitigation Team." All the teams need to be connected from the start, working consistently in harmony, so when problems jump out of the proverbial "rabbit hole" when least expected, there's a plan ready to resolve them.

COMMUNICATE Communicate . . . and communicate! Make sure the members of the Mitigation Team are always apprised of the parameters of a project from the very beginning through completion.

MAINTAIN CONTACT Keep close contact with material vendors and subs on a weekly basis, or even more frequently! Don't wait until later on during the project when it could be too late!

COORDINATE WITH DESIGN TEAM The pre-con team needs to always stay on top of what the design team envisions to avoid costly surprises down the pike. It's also essential for the design team to maintain ongoing coordination with the builder/developer every step of the way.

LOOKOUT FOR ISSUES Look for issues like overlooked code requirements vs. specific city requirements in advance. And specific needs or concerns that all trades involved potentially might have that could be addressed in pre-con and not later in the field.

BUILD A CONTINGENCY FUND Always have a contingency fund built-in to a project's bid. These days, with this volatile material and labor market, consider adding a "Cost Escalation Factor" of anywhere from 5-to-8% above the usual contingency fund amount.

CONVERT TO DESIGN-BUILD If not already setup as such, convert the project to Design-Build — even if it costs slightly more, placing a majority of the project responsibilities within the general contractor's purview.

DON'T GO ON THE CHEAP Avoid hiring contractors that come in with low-ball bids — that trick just never works and in this aggressive pricing market, they'll have a really hard time delivering on what is promised — a formula for project failure that can easily be avoided!

BUY MATERIALS IN ADVANCE Purchase materials early — cabinets, HVAC, window, doors, appliances — whatever can be obtained at the best price up-front. Store them in containers for when you need them.



what I call a “Pre-Con/
Mitigation Team,”
which pools the
talent and resources

of the pre-construction, design, estimating
and project management teams so that
nothing slips through the cracks, prevent-
ing unwanted surprises. The Pre-Con/
Mitigation Team has allowances strategi-
cally built-in

in advance to
address just
about any
issue, large
or small, that
may arise. It
not only saves
tons of time


and money, it provides a clear working
roadmap for all involved to follow.



**“... Gone are the good old
days of a bid being good
for thirty days.”**

costlier-than-ever) and real estate prices
continuing to blow through the roof, the
overall outlook for commercial construc-
tion and development in the months to
come looks like more of the same. That

road ahead may look
rough, but cinch-up your
seatbelt by ensuring that
your project has a careful-
ly planned and coordinat-
ed hybrid Pre-Con/
Mitigation Team in place
and the successful
completion of a project

can still be realized. And in these uncertain
times, it could not only save your project,
but maybe even your career! 

What's Ahead?

Nobody knows for sure — there's no
given as to when prices or the labor mar-
ket might stabilize, let alone return to what
prevailed before COVID. Forbes Magazine
recently (I think a bit optimistically) stated,
“... Lumber prices may retreat by 2022,
returning to pre-pandemic levels in 2023.”
But CNBC is more pessimistic, saying that
“the lows ahead will be higher than in the
past.” So, which one is right?

*Have a question or a topic
you'd like to see addressed
in a future issue of Insider?*

Contact Me!

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