

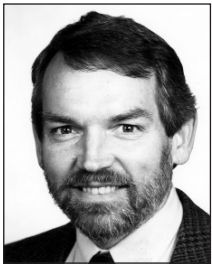
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Controlling Construction Costs: The Opportune Time for Change

By Frederic H. Mulligan



The design and construction industry is seeing unprecedented volatility, driven by market forces that are reducing affordability for owners and developers. 2007 offers an opportunity for new rules in the process, collaboration and cost control.

During 2006, the cost of commercial construction climbed dramatically, up 10.6 percent in the United States from 2005 costs, according to a benchmark construction cost index. The same index reports a 20 percent leap in the last two years. In Greater Boston, some projects are costing 30 percent to 40 percent more to build than when first planned and permitted, prompting some owners to scale back or postpone their plans.

In fact, many owners are experiencing much more than sticker shock when design plans are translated into a final construction budget. Many projects are being scaled back in size, materials and amenities. Some are nonstarters, where owners pull back and shelve their plans altogether. Others await a better cost climate.

But economic conditions driving today's historic cost increases are hardly temporary. A high volume of building across all economic sectors, combined with a growing shortage of skilled labor, will continue into

the next decade. Emerging nations, including China and India, are just beginning their building booms, creating new cities, universities, factories, schools and hospitals.

Global demand for building materials, already high, is projected to expand. The price of resources to supply this demand – steel, copper, wood and petroleum-based products such as asphalt and PVC piping – will be volatile at best. Even a cooling domestic housing market will not cause much of a shift because commercial, government and institutional building will remain strong and housing starts in developing nations will continue.

Fortunately, proven solutions are readily available to better manage the process of building. Adopting new practices and changing misconceptions will enable owners to realize benefits in three critical performance areas:

- Integrated project delivery;
- Team collaboration and trust among project stakeholders; and
- Open and competitive labor markets

Experience, based on building millions of square feet of commercial, industrial, academic and institutional facilities, has proven the unassailable value of an integrated process and team. True integration of all planning, design and construction under one contract is by far the most beneficial delivery process from any measurement: cost, quality, schedule and outcome.

Why? Today's world of design and construction, with so many variables combining to define a project's success or failure, demands a more collaborative approach than tradition allows. For this complex and risk-filled process to perform at the highest level, a team of professionals from each discipline must pool knowledge and work cooperatively. Adversarial relationships, a quasi-tradition in the industry, have to be replaced by a team of equal partners, each invested in the success of the project, and

each seeing that their success is only derived from the ultimate success of the project.

A study by the Construction Industry Institute revealed the relative effectiveness of three popular project delivery systems: construction management at risk, design-build and design-bid-build.

The results, based on 350 projects, showed that "design-build projects have significantly less design and construction cost growth when compared to the traditional design-bid-build delivery." The study also found that the median design and construction speed of design-build was roughly twice that of the other methods. Project quality, often considered inconsistent in design-build by traditionalists, was shown to be "better than the quality performance in design-bid-build."

In short, integrated design and construction teams can reduce owner cost, shorten project schedules and optimize outcomes.

The Power of Trust

Hand-in-glove with the opportunity of using integrated design-build teams is the need to restore trust to the client-consultant relationship. Genuine trust, according to author Charles H. Green, occurs when "relationships are based on a desire to see the customer succeed – not on a desire to achieve competitive advantage."

Trust among project stakeholders in construction is a powerful factor in successful outcomes. A research study by Worcester Polytechnic Institute and CII of 262 construction projects demonstrated a tangible relationship between a high level of trust within the team and the ultimate success of the project.

The researchers charted a "Cost-Trust Curve," which measured the owner's perceived success of projects where a high degree of trust was reported by project par-

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FRED MULLIGAN is president of Cutler Assoc. (www.cutlerassociatesinc.com), a planning, design and construction firm with offices in Worcester, Allentown, Penn., and Tampa, Fla. The firm specializes in integrated design-build solutions for corporate, industrial, scholastic, elder care and government/military clients.

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ticipants. The conclusion: everyone's cost comes down when the team dynamic is characterized by consistent trust factors versus adversarial self-interest.

Need proof? Ask any participant caught up in the wake of a design-bid-build-litigate project for their perspective on the antithesis of a high-trust team.

More important than the project delivery model, the ability to create and sustain trusting relationships offers the real opportunity to change the culture – and the results – within the industry.

Open, Competitive Labor Markets

Owners can recognize another opportunity to affect the cost and quality of their projects by looking at some facts about the con-

struction labor market. In New England, 78 percent of construction professionals are merit shop contractors (sometimes called open shop), unaffiliated with a union. If you removed 78 percent of the available choices from any purchase, the odds are you would severely limit your options and opportunities.

We need to access the entire construction workforce, both union affiliates and merit shop. A recent Beacon Hill Institute study demonstrated that official or unofficial project labor agreements resulted in an 18 percent cost increase on prevailing wage projects. Limiting competition drives up cost and eliminating two-thirds of the labor pool, as any economist will confirm, has a consequence.

Including everyone is the key. Both indus-

try research and the increased use of merit shop construction demonstrate the practical advantage of open markets. Research by the Wharton School of Business at the University of Pennsylvania measured owner satisfaction, project quality, cost and project safety criteria on both union and open shop construction. Their conclusion: merit shop construction teams are highly rated by owners on all performance metrics. Owners employing a merit shop approach experience the tangible value received and repeat the experience on subsequent projects.

The path to better cost control and project efficiency is there to take. The process improvements available through design-build integration, trust building and open labor markets are limited only by our capacity to change. Are we ready yet? ■

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