

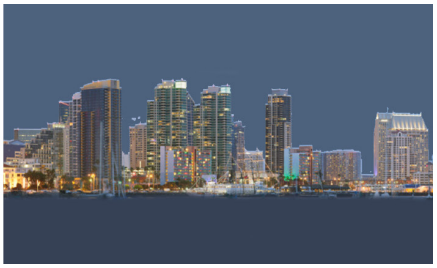

THE BROAD DIMENSION

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tbd consultants

Construction Management Specialists
111 Pine Street, Suite 1315
San Francisco, CA 94111
(415) 981-9430

4361 35th Street, San Diego, CA 92104
(619) 550-1187

8538173rdAvenueNE,Redmond,WA98052
(206) 571-0128

www.TBDconsultants.com

In this Edition:

Climbing a Greecey Slope

Geoff Canham, Editor

Two steps forward, one step back. Or, at the time of writing (mid May), it seems like one step forward, one precipitous slide back. The situation in Greece (and the other so-called PIIGS in Europe) has certainly played a part in the backwards slip in the Stock Market, supposedly as traders worry about contagion from a possible default by Greece on its loan repayments. But perhaps it is more the fact that the situation in Greece is making it clear that while we have entered a recovery period, we still have a long way to go before we are back at what could be considered “normal”.

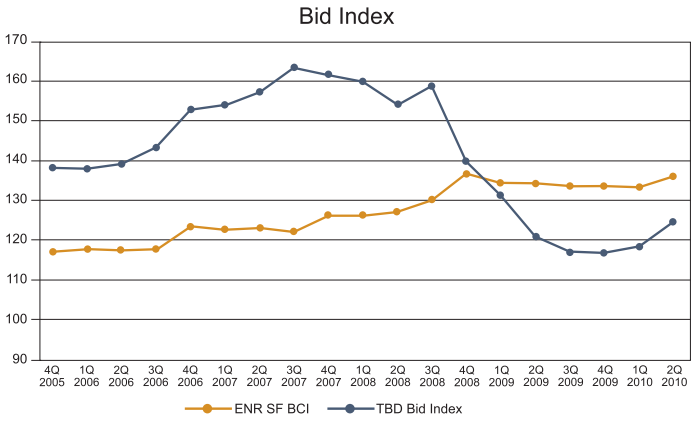
Yes, we are seeing business profits starting to pick up and companies are starting to create new jobs in increasing numbers, but unemployment is still at historic highs and confidence levels are still low. Signs of a turnaround in the housing market are showing up in increasing house sales and rises in house prices in some regions, but foreclosures have not gone away.

What is going away is the stimulus money, which has been helping the states maintain programs that might have been cut because of reduced tax income. Now that the country is being forced to wean itself off of the ARRA life support system, we can expect to feel some more pain, even though the fundamentals continue to improve.

Getting back to the housing market, a recent article in the Washington Post (January 27, 2010) stated that with house

prices down 30% from their highs in 2006, and probable further reduction in 2010 as another wave of foreclosures occurs, it could be a decade or more before many home owners regain equity in their homes. At the beginning of May this year, after making an average loss of 39% from its sales of properties that had ended up on its books, Freddie Mac had to look for additional funding from the government.

An article on cnn.com on May 9, 2010 spoke of the roughly $109 billion that U.S. states and localities have received since February 2009, when the American Recovery & Reinvestment Act was passed. That money has been used to support Medicaid and education services, among other things, but it is starting to run out and by 2012 is expected to be completely gone. While there are moves to provide additional funding, it is not likely to be on the same sort of level (if it occurs at all) so the states and other localities will have even bigger budgetary issues to face. If we didn't realize before, it is now clear that the European states are not the only ones with burgeoning debt problems.



The stock market is seen as a leading indicator of the economy, and the construction industry is seen as a trailing indicator, so with the stock market making a slow rise at best (and at time of writing, taking a nose-dive) it shouldn't be surprising that there is not much to report in the way of recovery in the construction market.

Our bid index appears to be showing an encouraging upward turn, but it is probably more reflective of some increases in material and labor, plus an acknowledgement that the cut-throat bidding we had been seeing (where contractors were effectively buying the job) was not sustainable.

Ongoing restrictive lending practices are a continuing problem for developers, and until a sustained recovery is seen to be occurring it is unlikely that businesses are going to want to make substantial investment in new infrastructure. When you add in to that the problems the states are facing with their finances, then the prediction (by the Construction Products Association) of a further decline of 2% in construction output for 2010 seems realistic. Their prediction for 2011 is a 0.8% increase, so we are not discussing any rapid improvement.

That said, as a recent Reed white paper points out, the fundamentals of the economy are steadily improving, though slowly, and growth in construction will inevitably follow, so now is the time to start preparing and positioning yourself for the upswing.

Sustainable Sites Initiative

LEED has brought focus on the green-building movement, and we now have LEED ratings for a number of building categories, including schools, retail, existing building, operations and maintenance (among others), as well as the original new construction category.

The development of the site is normally a very important part in achieving a LEED rating, and consequently landscape architecture has become a more important part of many projects. However, up to this point there has not been a specific green-construction rating system for landscape work, but that is changing with

the introduction of the Sustainable Sites Initiative (www.sustainablesites.org).

This rating system is now starting a pilot program to test and evaluate the rating system over a two year period. With its sustainability goals, the initiative promotes carbon neutral sites, reducing energy use and encouraging carbon absorption. The initiative acknowledges that going green will sometimes add to the cost, and it encourages the use of life cycle costing to bring the benefits into the cost evaluation.

The Pilot Program has 250 total possible points, and awards Stars instead of the Certified, Silver, Gold, and Platinum levels that LEED uses. A site can get 1 star for achieving 100 points, 2 stars for 125 points, 3 stars for 150 points, or 4 stars for reaching 200 points

The following is a quick summary of the rating system for the pilot program:

1. Site selection. 4 prerequisites and 21 points.
2. Pre-design assessment and planning. 2 prereqs and 4 pts; engage users, neighbors, and other interested parties throughout the design process; do not change the site to degrade the neighboring environment; respect the existing environment and existing culture.
3. Site design – water. 1 prereq and 44 pts; water supply is becoming a problem worldwide, so minimize use of potable water for irrigation.
4. Site design – soil and vegetation. 3 prereqs and 51 pts; conservation of soils; avoid compacting soil; avoid materials that pollute soil; restore landscape areas affected by construction, but be careful where topsoil comes from to prevent robbing other sites of good soil; restore previously developed land for vegetative use where possible; build up the organic content in the soil.
5. Site design – materials selection. 1 prereq and 36 pts; wise choice of vegetation and materials; maintain vegetation to prevent erosion; plants absorb carbon dioxide (a greenhouse gas); reuse as much of existing site as feasible
6. Site design – human health and well-being. 1 prereq and 32 pts; design to support human health and well-being; encourage physical activity; maintaining the ecosystem brings tangible benefits, including cleaning the air, regulating the temperature, perhaps even providing food.
7. Construction. 2 prereq and 21 pts.
8. Operations and maintenance. 2 prereqs and 23 pts. Site Maintenance Plan needed.
9. Monitoring and innovation. 18 pts; monitoring maybe over a number of years.

Certain prerequisites and credits may not apply to particular sites, and it is the intent of the credit that is really important rather than the specific words (specific conditions related to a site may make the specific implementation impractical or even damaging to the adjacent environment).

No new system can exist without its set of acronyms, so here are a couple of important ones for the Sustainable Sites Initiative:

VSPZ (vegetation and soil protection zone) – protect from damage by construction work, and only limited development work allowed within the zone.

SMP (soil management plan) – define how soil is to be protected and maintained during construction.

**Renderings this page provided by WRNS Studio, and are of Boeddeker Park, San Francisco, one of the Sustainable Sites Initiative pilot projects we are working on.*

CONSTRUCTION EXECUTION SERVICES

This article completes our series giving an overview of the GMP procurement method, as we look at services carried out during the construction period.

SCHEDULING

With a GMP delivery method an owner has full vision into the construction schedule. Due to this it is prudent to have staff available to forensically analyze and correctly progress the schedule monthly. This will enable the owner to make informed decisions relating to extensions of time, increasing man-power to meet schedule and reduce the risk of claims.

COST CONTROL AND MONTHLY REPORTING

Monitoring the health of a project is essential to avoid problems. The earlier a project team can identify a problem the easier it is to avoid it. Monthly reporting is fundamental to this process.

A good monthly report will include:

- Schedule status
- 3 week or month look-ahead
- Indicate the status of change orders
- Identify pending change orders
- Highlight trends
- Show cash flow
- Show contingency draw down
- Show physical percent complete
- Earned value calculations
- Risk log
- Detailed cost report by bid package

Often, the GC will provide the report, but it is imperative that it is independently verified.

CHANGE CONTROL

Having a well-defined and managed change control process is one of the key elements of successful construction execution. It can also save an owner considerable money through the independent and diligent review of all documentation from both the GC and design team.

All change orders submitted by the GC should be checked for calculation errors, fair value and validity.