 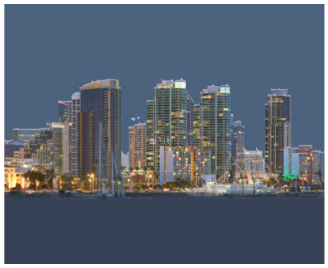  

THE BROAD DIMENSION

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In this Edition:

QE2 in a Storm

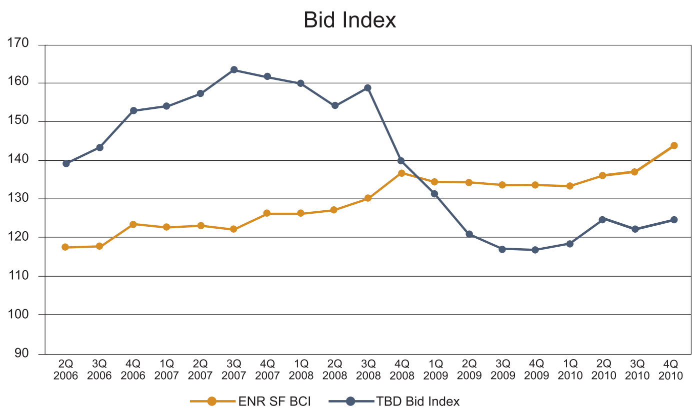
Geoff Canham, Editor

When Ben Bernanke announced that the Fed was planning a new round of purchasing Federal bonds, the markets seemed to be looking forward to it. The process, known as quantitative easing, became known as QE2 as it was a follow-up to the initial $1.75 trillion round earlier in the Great Recession, and the idea is to pump more money into the economy with the goal of getting the economy moving faster. When QE2 was actually implemented, the stock markets (both in the US and around the world) behaved as expected, showing an increase, but complaints (and mildly disguised abuse) started coming from around the world, and even within the US.

The main complaint from abroad was that QE2 would also lower the value of the dollar, making US exports cheaper and making foreign products less competitive in the US markets. The fact that one of the most vocal complainers was China was felt to be rather ironic, since there have been long complaints about them keeping their currency artificially low. Complaints from Europe were fairly easy to brush off because they were not proving to be the greatest money-managers, seeing the problems the Euro was having. Ireland was the latest European country to make the headlines at that time, as they were being forced to accept a bail-out after a housing-bust to beat all housing-busts and their banks had got into such a mess they had to be virtually nationalized. And then came Portugal.

But at least the bickering going on at the recent G-20 meeting in Seoul is probably a sign that things are getting back to normal. If they start cooperating again we will know we are in really serious trouble ;-)

The homegrown complaints about QE2 were mainly related to the possible effects on inflation. Pumping more money into an economy does have inflationary effects, and getting it up to around 2% is actually another goal of the Fed. A bit of inflation helps to get people buying, because it makes today's rate look like a sale price. But too much inflation, especially when unemployment is still high, can be very troubling, leading to a situation called stagflation.



The ENR BCI, reflecting construction labor and material prices, has been showing some increase, whereas our bid index remains basically flat.

We are seeing some improvements in the employment situation. This writer was recently on a research trip to Indianapolis and Nashville regarding some residential investment properties there, and in both places we were told the employment situation was showing an upward trend. And in the Oakland Tribune for November 20 (when this article was being written) it stated that the figures for October showed the second straight month of job gains for the nine-county Bay Area, even if the gains were "tepid".

But we are still seeing indicators that the recovery is going to be drawn out. For instance, the foreclosure situation is still ongoing, with nearly a million homes expected to be repossessed this year. We have seen charts comparing this recovery with the one in the early '80's (in Stephanie Flanders' blog for Oct 26 on bbc.com), which was also drawn out but didn't have as big a hole to drag itself out of. In our 2009 Q4 edition of our newsletter we compared the tracks of the current recession with that of the '90s. The comparative date for this recession, to when we were saying construction activity was getting busy again, would be June 2013. That still looks like a reasonable date. The Fed, at their meeting in Nov 2010, were suggesting the recovery might take twice as long as that, but the ups and down in the economy very seldom happen at a predictably steady pace, and once we get some real upward momentum we could see a rapid turnaround.The economy grew at an annualized rate of 2% in the third quarter this year (it was at 1.7% in the second quarter), so we are moving in the right direction, even if it is slowly.

The UK is also having a slow recovery, but over there one of the driving forces in the recovery is construction (reported to be 11% higher than the year previous). Now that is something they could export to us!

Hope you have a great New Year.

IPD Part 2

Gordon Beveridge

This is the conclusion of a two-part article, started in our previous newsletter.

The adoption of Building Information Management (BIM) has forced the rethinking of project delivery. Clients are expecting some realized benefits from BIM which in turn has encouraged the integration of various BIM platforms into a homogeneous building model, with input from all the design team and contractors. However BIM is a tool not a Project Delivery and is subject to ever evolving refinement of the technology. BIM has facilitated more early involvement of all parties and is compatible with IPD objectives.

Providing IPD as defined in the AIA/AIACC Integrated Project Delivery Guide demands a new form of contract which may be more complex and will require careful crafting. Finding clear concise contract language will have its challenges, however that bridge must be crossed early on to ensure a desired result. Contracts based on defining relationships of parties are still in the gestation period. Attorneys with the appropriate experience will be in demand until the industry has established a cohesive contract to define the above. Insurance underwriting will also be a challenge as the insurance market will have to reassess the reduced risk which should accrue to the parties in the full IPD contracts.

Some IPD objectives could be layered on other typical project delivery systems and no doubt many owners will get their feet wet in taking incremental steps - so called "IPD-ish" contracts.

To facilitate a fully integrated approach a separate legal entity could be established (limited liability company) to include design team and contractor. This would necessitate obtaining the appropriate licenses and be subject to individual state requirements. This would, by definition and contractual provisions, ensure a total integrated team. It is difficult to imagine the entity being formed for any other than large projects of $50M and upwards.

To answer the initial question, the purest definition and compliant contract does establish a new form of project delivery quite different in character from other delivery systems. It does not however change the accountability as it relates to performing work to a professional standard.

As stated earlier, some characteristics of IPD can be imported to almost any form of project delivery. Individual experience will dictate whether parties will embrace the more enhanced IPD model or some other variant. The jury is still out on which way the industry will head but early signs point to more IPD as the standard contracts and insurance market attempts to stay abreast.

Forms of IPD Contract

There are currently a select small number of standard forms of contract established with IPD goals in mind. These are primarily AIA C191, AIA C195 Family (single purpose entity), and Consensus DOCS 300.

The AIA C191 is a standard form multi-party agreement where the Owner Contractor and Architect (plus possibly others) execute a single agreement for design and construction and commissioning of a project. The contract defines the management team to be assembled as well as the Project Executive team and attempts to define how consensus is reached at each level and the procedures to deal with disagreements that may arise. Ultimately these can be resolved by mediation or arbitration if required. Non-owner parties are compensated on the "cost of the works basis". The compensation is very much goal orientated based on the final cost of the project compared with the target cost. Parties are compensated on direct cost basis with profit at risk until final costs are identified. Each party shares the percentage difference between the actual cost and target cost. Cost may not be the only factor on which compensation and performance is judged. Quality and schedule are the other two major factors which can be identified, targeted and monitored for performance and compensation goals.

The Consensus DOCS 300 was developed by 23 leading construction associations headed by AGC. This is very much a three party agreement between the Owner, Contractor and Architect. Decision making is again expected to be via consensus, but the Owner has the ultimate authority over most project decisions. Again the incentives and risk sharing are based on the targeted cost, however the target cost is not established until 100% Construction Documents (there is no Guaranteed Maximum Price or Lump Sum). There are families of documents for each project delivery method that provide a coordinated set of agreements and administrative forms. There are standard forms with "fill-in the blank" boxes to be ticked to define the degree of risk taking. In this case the Contractors' profit and Architects' profit may or may not be at risk, and in fact the Owner may bear the entire cost of any cost overruns. For Liability waivers the parties can choose between the traditional approach and "safe harbor" (i.e. a cap on architects and contractors liability to a specified amount for uninsurable risk).

AIA C195 family of documents are focused on the concept that the design team and contractor form a Limited Liability

Company (LLC) whose sole purpose is to complete the project and again establish a contract which is goal oriented and designed to provide a platform to share risk and rewards by collaboration and maximizing efficiency of an integrated team. However there are the added complexities regarding forming a LLC specifically for one project (i.e., time and expense and possible licensing, bonding and corporate taxes and liabilities). Again, a target cost is established similar to a GMP where the parties may earn additional compensation if costs come in below the GMP. However, if costs exceed the GMP, then the architect, contractor and other non owners may have to contribute their services without any further compensation.

We understand the AIA is developing “IPD-lite” and “IPD-like” which will help to harness the benefits of collaboration absent the formal three party contracts.

The specific documents referenced earlier are as follows:

1) Integrated Project Delivery: Case Studies - January 2010

   Published by 2010 AIA California Council, Sacramento, CA

   A joint project of AIA California Council Integrated Project Delivery Steering Committee AIA National Integrated Practice Discussion Group. www.ipd-ca.net

2) Integrated Project Delivery: A Guide

   Published by AIA/AIA CC 2007

   Collaboration between the AIA National and AIA California Council

Green and Civil

We have LEED as a sustainability rating for buildings, and the Sustainable Sites Initiative for site works, but what sustainable rating system is there for civil engineering projects, such as waterways, roads and bridges?

May 2011 should see the launch of PRISM (Project Rating for Infrastructure Sustainability and Management), developed jointly by the American Society of Civil Engineers (ASCE), the American Council of Engineering Companies (ACEC) and the American Public Works Association (APWA). It will be administered by the Institute for Sustainable Infrastructure, a nonprofit joint-venture.

Similar to LEED it will be a points-based system, administered online, and will have four levels of certification. But it is also designed to be a flexible system, adapting to fit a wide range of project sizes and complexity. Training and certification of practitioners will also be made available online.

The rating system will address such issues as project management, community outreach, economic impacts, ecology and resource management, and it is intended that the system will provide a basis for substantiating regulations related to sustainability for civil engineering projects.