OWNERS ROUNDTABLE WEBINAR:
Today’s environment - understanding COVID cost and safety impacts
February 17th, 2021
UPCOMING EVENTS

Fri 2/28: 2021 Student Scholarship Applications Due

Sat 3/6 @ 10a-4p: CA Virtual Rising CM Conference (Joint w/ 3-CA Chapters)
Career Fair, Student Competition, Educational Webinars

Thurs 3/25 @ 11:30a-1p: Programs Committee Webinar - Statewide Capital Improvement Programs

Wed 3/31 @ 11:30a-1p: Education Series Webinar - Mass Timber

Tues 4/06 @ 11:30a-1p: Educational Series Webinar - Commissioning

Fri 4/09: 2021 Project Achievement Awards Application Due

Fri 6/04: Past Presidents Inaugural Golf Tournament, Morgan Creek Roseville CA
Carl Holmes, P.E, CCM
Bay Area Rapid Transit District (BART)
Assistant General Manager
CMAA Northern California Chapter – Owners Chair
LEARNING OBJECTIVES

1. Presentation on how COVID impacts cost and safety on existing and future construction projects.

2. What are the common mistakes Owners are making in response to COVID impacts?

3. How do these factors influence Contractors in preparing their bids and what can Owners learn from that?

4. What should Owners know about current bid environment before establishing their project budget?

5. What are some strategies Owners can employ in mitigating some of the challenges around the current environment?
OPENING REMARKS

AUTODESK CONSTRUCTION CLOUD™

2021 CMAA NORCAL ANNUAL MEGA SPONSOR
LaToya Thompson
HILTI North America
Account Manager/Fire Sprinkler Specialist
Moderator
GUEST SPEAKERS

Natalie Saylor
President
SAYLOR CONSULTING

Gary Brett
Vice President
CUMMINGS CORPORATION

Bryce Caroll
PARTNER
OLES MORRISON RINKER & BAKER LLP

Jim Smoltz, CSP
Global Construction EH&S Manager
GOOGLE

Advancing Professional Construction and Program Management Worldwide
Saylor Consulting Group

How Covid has Impacted the 2021 Bidding Economy
Summary

• National Economy
• Materials
• Bay Area Economy
• Growth Sectors/Current Projects
• Bidding Climate
• Escalation Projections
• How to minimize risk in today’s economy
U.S. GDP decreased 3.5% in 2020
2020 National Construction Spending +5.68%, but Non Residential Starts down 25%

Source: US Census Bureau
Materials Escalation Muted (with the exception of lumber)

Producer Price Index, Select Components
2011-2020

Source: US Census Bureau
Bay Area Construction Economy
Bay Area Construction Employment Down 6%

Source: Bureau of Labor Statistics
Bay Area Specialty Trade Contractors
Employment down 9%

Source: Bureau of Labor Statistics
Bidding Climate 2021—return to a more balanced market

- Bay Area construction starts down 30%
- Steep declines in aviation, office, multifamily and hospitality construction reduces pressure on construction market
- Productivity generally increases as least productive workers leave the market
- Most contractors and subcontractors report they are still busy but actively looking to fill backlogs
- Attracting competitive bids for complex projects still requires aggressive outreach
- Most contractors report 1 or 2 more bidders, approaching a balanced market
- Many sophisticated contractors and subs still say they avoid Design Bid Build work
2021-2023 Bay Area Escalation Forecast

• 2021: 3.5%

• 2022: 4.0%

• 2023: 4.0%

*Wood framed projects may see higher escalation due to higher lumber prices

**This escalation includes approximately 1 ½ to 2% short term Covid cost impacts, such as distancing, PPE and Covid safety coordinator. Some projects may have more of a Covid cost impact if construction is primarily indoors, especially with occupied facilities. Covid impacts should be calculated individually for each particular project.
Turner Building Cost Index: Q3 2020

“The vast majority of construction projects were deemed essential business operations during the COVID-19 pandemic. Many of the projects that were paused or slowed earlier this year have ramped up and are back on track. We are witnessing minor increases for fabricated commercial building materials, which is being offset as we continue to see subcontractor competitiveness increasing in efforts to secure backlog for their business.”

Attilio Rivetti
Vice President

Turner Building Cost Index down .51% yoy
Projects receiving approximately one more bidder in 2021, from an average of 3-4 in 2020 to 4-5 currently

- Number of Bids  Differential  %
  - 1 bid             +25% to 50%
  - 2-3 bids          +10% to 25%
  - **4-5 bids**      **0% to +10%**
  - 6-7 bids          0% to -10%
  - 8-10 bids         -10% to -20%
Risk remains one of the largest factors in construction pricing

Projects will struggle to get bidders or reasonable pricing if:

• Phased construction
• Difficult/accelerated schedule
• Unfair contractual risk sharing
• Unclear or conflicting drawings and specs
• Unreasonable liquidated damages
• Owner reputation
Costs Impacts of Different Delivery Methods

• Design Bid Build
  • Advantages
    • Often lowest cost
    • Competitive process
  • Disadvantages
    • Risk of change orders, claims
    • Bid busts
    • Many contractors/subs will not low bid in this economy
    • Inability to select contractor
  • How to get the most out of this delivery method:
    • Extensive outreach
    • Clear drawings
    • Best for simple design/lower risk projects
    • Best Value
Cost Impacts of Different Delivery Methods

- Design/Build
  - Advantages
    - Generally shortens schedule/saves money
    - Can select contractor
    - Utilizes contractor’s input to reduce cost
    - Reduces bid uncertainty
  - Disadvantages
    - Owner gives up some control of the design
    - Criteria packages not well suited to highly technical buildings
  - How to get the best out of this delivery method:
    - Design to cost/stipulated sum
    - Ensure performance specs/bridging documents are clear/reflect owner intent
Cost Impacts of Different Delivery Methods

• CM at Risk—CM/GC
  • Advantages
    • Attracts the most sophisticated contractors
    • Utilizes contractor’s input during design
    • Generally fewer change orders/claims
  • Disadvantages
    • Loss of competition
    • Generally the higher cost option
  • How to get the best out of this delivery method:
    • Ensure independent cost control
    • **Ensure adequate competition at the trade level**
    • Ensure contract has “off ramps” should budget exceed expectations
FACTOR EFFECTING CONSTRUCTION COSTS
In both the **short and long term**, the construction community is going to see many changing variables, these include;

- **Reduction in manpower** – current anecdotes from the contracting community advises that some labor skillsets are receiving higher and steadier payments under unemployment benefits, therefore bringing them back to the industry will be a challenge.

- **Material Shortages** - Producing shortage of material and/or long lead times.

- **Insurance payments** have already increased with some reports noting an increase of annual prices of almost 1%
• **Social distancing** will affect ability to move manpower and materials around sites which will ultimately affect labor utilization. Current projects have these at between **10% and 20%** dependent upon the type and size of the project.

• **High rise and restricted site locations** such as in major cities, will see higher increases in costs due to additional general requirement issues (e.g. additional hoists, **reduction of people in elevators**)

• Further **general condition price increases** could be seen with the introduction of nurse stations, increase in toilet provisions, increase in personal protective equipment (masks, gloves, etc)
ESCALATION
Long Term Challenges

• Starting in early 2021, Escalation is expected to climb as projects come back online as an already stretched labor market is placed under pressure.

• This could ultimately result in escalation jumping ahead of 2019 projections.

• The charts below show current projections for expected average, low and high ranges for escalation over the coming years.
LONG TERM CHALLENGES
• Most facilities diverting staff to the COVID-19 response, delaying construction projects, and reducing cashflow. All locations are now re-introducing elective surgeries, but this pause in revenue collection could determine how providers fare over the coming months.

• Telemedicine facilities and “virtual appointments” have been more widely employed by healthcare professionals going forward. Technology will be required to ensure healthcare providers are not limited in their ability to treat patients.

• With new treatment and consultation methodologies and social distancing requirements, properties will need to be assessed to make sure they are fit for use, or to determine if they are even needed at all.

• Revenue could be further affected by the number of unemployed and in particular their access to Healthcare benefits, similarly with second and third waves of COVID.
Q & A
OWNERS ROUNDTABLE WEBINAR:
Today’s environment - understanding COVID cost and safety impacts
Construction Management Association of America:
COVID-19 Impacts from the Contractors’ Perspective

February 17, 2021

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Pre-COVID-19 Considerations

- Already seeing shortage of skilled workers (particularly in Northern California)
- Rising Costs of materials and labor
- Robust project outlook
COVID-19 Uncertainty (March 2020)

• Immediate impacts
  – Owners are announcing layoffs with the potential of awarded contracts being terminated or re-evaluated at a later date.
  – Contractors reducing their home office staff to cut costs
  – Ken Simonson, AGC Chief economist, “The pandemic has the potential to undermine what had been a very robust construction market, threatening countless workers and the viability of many firms”
  – New social distancing protocols
Continuing/Ongoing Projects

- Many projects continued, but not without some level of impact
- COVID-19 Jobsite Safety Plan
- Identify opportunities to re-sequence and/or accelerate the work
- The industry was much more prepared to deal with this than 10 years ago
- Advancements in technology
- Remote working
Jobsite Safety Plans

• Social Distancing Protocol Policy and Checklist
• Daily Crew Assessment Checklist
• Supplier/Visitor Assessment Questionnaire
• Zero Tolerance Policy for Working Sick
• Managing Sick Workers
• Jobsite Standards and Cleaning/Sanitation Protocols
• Project Response Investigation Policy
• Have these added precautions affected daily production?
Resequencing/Acceleration/Schedule Impacts

- Does worker distancing require staggered shifts?
- Some activities selectively stopped
- Creation of new, available work windows?
- Mitigation of COVID-19 impacts
- Are labor shortages impacting schedules?
Claims Impacts

• Extension of time due to the shutdown
• Related home/field office overhead, idle equipment, storage costs
• Demobilization and remobilization costs
• Disruption to working conditions
Contract Issues

• Force Majeure Delays
• Schedules, Delays and Extensions of Time
• Suspensions
• Termination for Convenience
• Dispute Resolution
Post COVID-19 Contracts

- New language in prime contracts
- New/heightened safety measures specifically referenced
- Impacts related to time, labor and extra costs (PPE, etc.) are all compensable
- Language referencing that the GMP reflects the current pandemic state
- Occupied projects present additional considerations
New/heightened safety measures specifically referenced

• Dedicated COVID-19 monitors enforcing social/physical distancing
Impacts related to time, labor and extra costs (PPE, etc.) are all compensable

- This appears to be the starting point
- Owner’s perspective these should be anticipated at this point and included in GMP
- If additional safety measures implemented, parties act in good faith
- Response – if unanticipated, then certain costs considered
- More often seeing time extensions, but not compensable
Occupied projects present additional considerations

- Not only the health and safety of workers
- Health and safety of occupants
- Limitations of liability
- Indemnification language provided contractor and its subcontractors comply with all regulations/guidelines
Questions?

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Google Real Estate:
Environmental Health & Safety in Construction
Management of COVID-19

Jim Smoltz - Global Construction EHS Manager
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- Environmental Health and Safety (EHS) Program Overview
- Management of COVID-19
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Google’s Construction EHS Team

Bay Area Regional Mgr

EMEA Regional Mgr

Global Mgr

Americas Regional Mgr

APAC/India Regional Mgr

Global D/A/C* Mgr

+Additional Regional Consultant Support

*Design/Audit/Commissioning
Global portfolio with over 300+ active construction projects ranging from a single floor tenant improvement project to a multi-level ground-up office project.
EHS Program Overview

EHS Vision
Through empowerment, accountability and monitoring construction project metrics, create a pragmatic EHS culture as a value that minimizes risk to all; where all project team members are engaged in the EHS program.

Google’s Injury & Incident Free Environment
No Injuries, No Incidents, No Near Misses.
Everyone goes home the in the same physical state as when they arrived at work!
Managing COVID-19

Google COVID-19 Global Minimum Requirements (MPRs)

- Based on industry Best-Known-Methods
  - 6’ Social Distancing*
  - Risk Assessment for tasks within 6’ with additional protection required
  - Health Screening prior to entry
  - Face Coverings*
  - Daily Cleaning/Disinfecting
  - Weekly COVID safety audits
  - 14 day quarantine for suspected or confirmed cases
  - Contact Tracing
  - Project pause for breach in MPRs - investigation and corrective actions prior to restart
  - 3 or more cluster cases per sub - required testing of all sub population

*Resort to local regulatory direction when country specific COVID risk profiles meet a certain threshold
Results

On-Site Transmissions = 0
JOIN CMAA

MEMBERSHIP OPPORTUNITIES

INDIVIDUAL OWNER: $120
OWNER ORGANIZATION: $1,200 (12 MEMBERS) OR $3,000 (30 MEMBERS)
[Owner joining independently]

SMALL CORPORATE: $1,625 (4 MEMBERS)

MID-SIZE CORPORATE: $3,250 (8 MEMBERS)

LARGE CORPORATE: $6,500 (16 MEMBERS)

SOLE PROPRIETOR (SELF EMPLOYED): $490
[includes listing on "find a cm/pm online directory]

EARLY CAREER PROFESSIONALS: $140
[Under 25 years of age]

ASSOCIATE MEMBERS: $650
[Non-practicing CM]

ACADEMIC MEMBERS: FREE
[Full-Time Students with Proof of Enrollment]

MEMBERSHIP FY2020

15K+ NATIONAL MEMBERS
1236 NORCAL MEMBERS
3K+ CERTIFIED CONSTRUCTION MANAGERS

MEMBERSHIP COMMITTEE
Danielle McHugh | Turner
Angelina Peace | Vanir
Monica Rice | Luster

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