

# Taking The Burn Out Of Escalating Construction Costs

By Adam Felson

The cost to build commercial office space is not getting any cheaper thanks to material increases, labor shortages and the demand of our vibrant market.

NAIOP reported 8 percent price jumps of drywall and steel products over the past twelve months, with other building materials similarly on the rise.

The Associated General Contractors of America's latest annual workforce reported in August that 70 percent of their survey respondents found "difficulty in filling hourly craft worker positions." This is a result of a greater rate of laborers retiring or leaving the field than new apprentices to backfill them. Our country's tightening of immigration policies has also limited the growth to the workforce.

San Francisco and the Greater Bay Area are also experiencing a renaissance of new buildings with dozens of tower cranes covering our skyline keeping crews very busy.

With construction costs continuing to rise, keeping budgets under control becomes more important than ever before. While project teams may have limited abilities to mitigate escalating construction costs, responsible change order management can keep a budget from getting out of control.

The only thing worse than a change order is a change order you find out about at the eleventh hour.

Here's a situation that might sound familiar. Midway through construction, the client opts to spend some extra money to install additional outlets in every private office. Meanwhile, close to the end of the project, the contractor, who was behind on his paperwork, submits a sizable change order for an unforeseen plumbing relocation that had to be done. The client is blindsided, since this should have been discussed months earlier.

If the client had known about those hidden costs, they would never have splurged on the additional outlets that they could have lived without. Thinking they would have funds left in their contingency, the project ends up over-budget.

Unless your team hears about any upcoming costs as soon as they're on the horizon, you can't manage the project properly. Here are some tips on change orders.

## Create a Potential Change Order Log

Insist that all contractors, consultants and vendors maintain a Potential Change Order Log (PCO Log). Everyone must enter any unforeseen conditions or requests for added scope into this list. Review the log together every week and adjust your budget and schedule if needed.



## Ask for estimates, not commitments

While contractors are working on collecting pricing, ask for ballpark estimates, making it clear you won't hold them to anything. An educated guesstimate is better than a blank space on a page. "I'm a big proponent of identifying the known unknowns within a project and applying allowance line items within the budget to account for the potential final costs of these issues. Nobody likes surprises," says Senior Project Manager Kevin O'Leary of BCCI Construction Company. A good PCO Log has columns to show both forecasted and actual costs, and also outlines the draw down of remaining contingencies.

## Give every RFI or drawing change a PCO

Change orders often start out as a request for information (RFI) from the field or an addendum or change to a drawing. On many projects, an RFI or drawing gets issued and weeks go by before someone raises their hand indicating that there are cost or schedule impacts. Open a new PCO as soon as every RFI and drawing change comes to help remind everyone that costs could be triggered.

## Set a deadline for finalizing PCOs

Set a firm deadline for when any estimated costs from PCOs must be turned into official change orders. Usually, once the change has been identified, it's reasonable to expect official change orders to be submitted in one or two weeks.

## Turn it into a habit

Make a ritual around updating the PCO Log, attaching it to the weekly meeting minutes and carving out a space for it on your agenda. By discussing what's coming up, you will greatly reduce the risk of getting blindsided.

Encouraging an atmosphere of transparency helps engage the entire project team and to strive for a staying within budget.

## About the Author

Adam Felson is the principal of officemorph, a San Francisco-based project management firm focusing on commercial tenant improvements. Since 2001, Mr. Felson has been orchestrating office space projects of all sizes for companies ranging from start-ups setting up their first-ever office to established international enterprises.