

**FOR IMMEDIATE RELEASE**

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## **Controlling Uncertainty and Risk in a Construction Project**

You see it happening all around us and across the state ... from the new uptown development to the new Rio Rancho City Center to Mesa del Sol – retail, office buildings, healthcare, hi-tech, condos – commercial construction is booming! New Mexico is seeing more of this phenomenon than ever before as both national and local developers, investors, and businesses invest in the potential that our state and community has to offer. Yet while the future looks promising, not all is smooth sailing. There are some serious challenges out there that can derail a promising project. Many of the pitfalls that lie in wait for the unsuspecting business or investor have to do with the current construction climate – where the variables are many and the controls are few. This article presents some “alternative construction methodologies” that can help you successfully plan a construction project during this time of market uncertainties.

The unprecedented increases in construction materials prices have been well publicized. Steel, milled copper and brass, asphalt, gypsum products, and concrete prices have all taken significant jumps; one after the other. The overall effect on construction has been double digit percentage increases in project costs. Current forecasts of escalation in 2006 are between 8 and 10%, basically a mirror image of last year, according to a recent Engineering News Record (ENR) report.

Steel prices, which kicked off the new wave of inflation with a 40%-plus price hike in early 2004, have been “moving sideways” ever since, according to John Anton, steel analyst for the Washington, D.C.-based forecasting firm Global Insight. He predicts prices for structural steel to peak at \$595 per ton in 2006 – a nearly 100% price increase since the \$301 of 2003. Additional price increases: copper – 53% in one year; crude oil – 36%; asphalt paving – 15%; PVC pipe – 25 to 39%.

Material shortages, skyrocketing transportation costs – they all mean price increases. Commercial construction companies are constantly looking over their shoulders trying to anticipate the next thing that may affect the industry.

In New Mexico these developments have had a detrimental impact on construction budgets. Many businesses and organizations utilizing the traditional “design/bid/build” approach have had their bids come in well over budget, resulting in postponed or redesigned projects. The result – lost time and additional costs. Others have opted to beef up their construction contingencies because of the uncertainties about reliability of the “low bid” or what prices might do while design is underway.

This uncertainty has prompted more and more owners, public as well as private, to utilize alternative construction methodologies. Design Build, Design Assist, and Construction Management at Risk contracts bring the General Contractor (GC) on board early in the project. The close working relationship between the GC, the Owner, and Architect during design is key to the project’s success.

The main advantage of these alternative approaches is the effect on the project’s budget, schedule, overall execution, and quality. This is due to the GC providing a variety of “pre-construction services” during the design process. These services include: early and regular cost estimates, building systems analyses, value engineering when necessary, scheduling, cash flow projections, pre-purchases of long-lead items, construction planning, etc. The GC provides important, systematic, and on-going cross-checks of design, materials, constructability, and logistics that help to ensure that the Owner receive maximum investment on their dollar. A first-rate General Contractor can help achieve this outcome by assisting the Owner and Architect with creative brainstorming and providing expertise to resolve any issues or questions that may arise.

With these alternative methods, the “low bid” is not the single determining factor in choosing a GC. Rather, the Owner talks with quality contractors who refuse to play the “make it up by change orders” game. A “qualifications based” process is used to evaluate experience and approach in order to choose the most competent GC for the particular project. The GC is selected at the same time or shortly after the Architect, or, in the case of Design Build, the Architect is brought into the project as part of the GC’s team. It is then time for the GC to perform – by delivering, along with the entire design and construction team, the new facility to meet the Owner’s goal for schedule, budget and quality. This goal defines the entire process.

The uncertainties and instabilities of market variables can to a great extent be controlled through effective management and planning. Alternative methodologies can reduce uncertainty, increase the Owner’s control over the process and, with a quality contractor on board, assure a predictable outcome with quality results. Getting the right General Contractor on board early not only makes economic sense, it will make the construction project, which can be an arduous and complex task, an enjoyable experience for the Owner. The bottom line is getting the best possible return for your construction investment, and a results-driven GC who is experienced with these alternative methodologies can deliver exactly that.

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