



# RED SHOE ALERT!

## 2007 BID CRISIS

or

HOW TO SURVIVE TODAY'S BID CLIMATE part 2

By Sandra Matson

As cost consultants we often see projects with bid dates that are determined by their design schedule or by the owner's occupancy schedule with no account taken for the bid spike that occurs during the busy bid months. As cost consultants we are continually warning clients that insist on bidding during these bad months of the price they will pay for that bid date: "If it bids in August – then you will need to add at least 25% to our cost estimate". Also as cost consultants it is our job to prevent a project's death because the bids came in way too high. (Luckily for us – all of our projects have bid successfully) This bid climate – more often than not – has us submitting estimates that the client cannot afford and the entire design team is subject to some serious in-house value engineering. We have seen that most projects out to bid come in high and are subject to re-design, re-bid or death as seen commonly in the DJC as "ABR" or "all bids rejected". Don't let this happen to you!

### **BID CLIMATE REALITY (OUCH!):**

We have been keeping a record of the DJC's published bid results and the results are very frightening and should be a wake up call to ALL project team members: out of the last 32 public bids 60% were rejected because the bids came in too high! The projects budgets ranged from \$50,000 in Electrical Upgrades to a \$46,700,000 new high school. The actual bids came in from \$130,000 to \$60,500,000! With a range of 10% over the budget to 150% over the budget! Out of these 32 sample projects there was only one project that came in on the estimated budget. Out of these 32 projects 18 were rejected, while many of them just bit the bullet and went for the higher costs. The average number of bidders per project was 1-1/2. The average percentage over the bid was 25%! Again – this should be a wake up call to all!

### **WHAT THE GENERAL CONTRACTOR'S ARE SAYING:**

We interviewed 12 Seattle and Spokane area large General Contractors and asked them what their take on the bid environment was and what could an owner do to fix it. They all said the same thing:

1. Public Projects are no longer attractive to the General when there are many private projects bidding that have fewer strings attached (risks that can cost money) and are more lucrative.
2. Many of these General Contractor's are booked with work through 2008 and beyond. Some of them will no longer bid ANY public projects, while some of them said they would consider it if the project was attractive and fit into their schedule.
3. It's not just the General's that are busy – they are having a hard time getting sub-bids – especially mechanical and electrical (remember that Mech/Elec bids can be 50% or more of the entire bid).
4. ***The number one thing that they all warned about was the time of year of the bid:*** They suggest bidding October through March. Anytime else and you can throw the budgets out the window. You will get fewer bidders – if you're lucky enough to get even one bidder – and they (the GC's) will get fewer sub-bids and will throw in last minute "safe" allowance for missing sub-bids; the material suppliers are experiencing back ordering and projects suffer with long lead items which will increase the material costs during the busy time of year.

#### **OTHER GC TIPS:**

1. Mechanical & Electrical costs are going up at 1% to 2% per month.
2. Mech and Elec renovation costs have increased by almost 40% in 2006
3. Add 5% for the labor rate increase in June 2007 (new union contract)
4. K-12 Schools are the least profitable for them
5. Design Build is most attractive

#### **UNDERSTANDING ESCALATION:**

Look it up in a publication? 7.5% per year. Look it up on the State of Washington's OFM site? 3.7% per year. What does Sellen Construction say? 9% per year in 2006. What does Absher Construction say? 10% for 2006.

So what is escalation and how is it measured? Escalation for the construction industry looks at the cost of construction usually from January one year to January the next year and compares the two. This number will vary from Contractor to Contractor and Agency to Agency. So how can there have only been 10% escalation in 2006 when the actual bids show an average of 25% over the budgets?; ***because escalation spikes during the busy summer months.*** If escalation were measured from January to July it would show 25% to 50% or more in some cases. Escalation as a rule does not take this spike into account and it can cost a project its life! We advise all of our clients to NOT bid during these busy months. If you have a project scheduled to bid this May through August – you will actually save money by waiting to bid until November or even better is February.

#### **CHOOSING A BID DATE:**

Note the word “choosing” a bid date; not “when the construction documents are complete we'll bid the job” or “we backed out the owners schedule so this is when we need to bid”.

***Controlling the bid timing is the single most important thing you can do to keep the project on budget – period.***

1. Do not bid in the busy bidding season – May through August; it's a matter of supply & demand for both materials & labor; if you try to buy either when everyone else is busy - you will pay a premium *unpredictable* price.
2. Do not bid close to holidays or hunting season – remember the sub contractors perform around 80% of the work on a project, sub contractors & their work forces observe holidays and they like to hunt. Pay attention to any other holidays that may be specific to your project – religious holidays, school schedules etc.
3. Be aware of any “mega-projects” that may draw skilled labor and sub contractors to them and influence labor and materials pricing.
4. Pay attention to the weather, hurricanes always drive up the price of sheet goods, contractors recognize this and you should too; same for any other major catastrophes' earthquakes etc.
5. Don't choose Monday or Friday for a bid date.
6. The later in the season you bid the more the likelihood that contractors have used up their potential bond capacity. Same for personnel, contractors say many times the reason for bidding/not bidding a project is availability of a superintendent.
7. Select your bid date months in advance & then advertise that date – when documents will be available as well as the actual bid date, this will discourage other architects from bidding the same day. Once you have established your bid date, stick to it.
8. Also remember rejecting all bids & re bidding is an expensive prospect, not only do you have all the re-bid expenses on your end but the word is on the street that your project has some major problems. Contractors will be reluctant to invest time & money into re-bidding a project that has this history.

9. BID NOW OR WAIT? We have projects that need to get out to bid ASAP. On one \$20,000,000 project we advised the owner to skip the constructability review process as this would delay the project getting to bid and would put the bid date into the danger zone and increase our estimate by 10%. On another similar \$20,000,000 project – the bid date fell into the month of August. We advised the owners to delay the bid date until the following February to save money.

**SUMMARY:**

This article is meant to be a wake up call. Read the bid results in the DJC for yourself. These points are by no means all you can do – but represent the absolute minimum that you should do when bidding a project. Please refer to our previous article on attracting more bidders for additional information. If you can attract even two additional bidders (including major sub-bids!) you will have performed a substantial service for your client well before the project begins construction & have the start of a superior relationship/successful project with your contractor & owner.

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