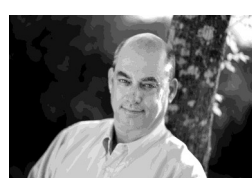




RHarper Consulting Update

What Will Our Next Construction Boom Look Like?



Roger Harper, Principal of RHarp Consulting Group, provides development consulting services to the senior housing industry.

Interesting to contemplate, isn't it? Here we are in the midst of the worst recession in our history, and someone wants to talk about the next construction boom? What better time, though, to think about and prepare for the inevitable uptick in construction starts? How will we provide better value to our clients, control costs more effectively, establish and meet schedules, and prevent costly and time-consuming claims? What will be different – and what should be different - about the next boom?

Costs are already increasing so don't count on more starts based solely on costs - The reduced construction cost that is fueling a portion of the recovery looks to be short-lived. The country has been experiencing a pretty robust increase in public sector work as a result of the stimulus programs. In addition, many states and municipalities have also taken advantage of reduced construction costs to start many planned building and infrastructure projects. This has effectively reduced construction material inventories, and we are seeing marked increases in commodity prices as new orders are placed. Lumber, copper, and concrete appear to be the most affected so far, but others are sure to follow. Manufacturing capacity is not expected to expand until demand picks up, so these commodity price increases will probably be sustained for the foreseeable future. *Takeaway: projects that aren't working today because of costs, probably won't work tomorrow either.*

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Increased Due Diligence and Accountability - As the economy recovers and borrowers and lenders begin to fund new projects, we can expect significantly more due diligence relative to construction budgets and schedules. Many lenders have been left holding the bag on poorly planned and mismanaged projects. The level of scrutiny during pre-construction will be significantly higher, and lenders will require contractors to assume more risk. Change orders and schedule delays will receive more than "rubber stamp" treatment by lenders in the future. Owners will be required to fund unanticipated scope increases and delay costs, and lenders will require borrowers to continue to put more "skin in the game" until the project is complete and performing. *Takeaway: even if a project has a finance commitment, the scrutiny, documentation and review time will be greater.*

Greater Involvement by Construction Monitors – Lenders will monitor construction more closely, and lender monitors will take more proactive roles, not just reporting on conditions and reviewing payment requests. Lenders already require higher qualifications and broader scopes of service from their construction monitors on new projects, and pre-funding reviews are becoming more thorough and detailed. *Takeaway: The bank construction monitor needs to be your new "best friend."*

Integrated Project Delivery – New project delivery systems are becoming more commonplace where the parties collaborate and share risks jointly. Improved control of project cost, quality, and schedule have been commonly demonstrated with IPD, and more teams are utilizing Building Information Modeling (BIM) to identify building coordination issues and provide the owner with improved information during commissioning and operations. *Takeaway: If you aren't up to speed on IPD and BIM, you better get there - fast.*

Use of Dedicated Project Neutrals – Project stakeholders are recognizing the huge costs of claims and disputes and using various mechanisms including dispute review boards (DRB), initial decision makers (IDM), and embedded neutrals to address emerging claims and disputes as they arise, rather than after substantial completion. Early resolution of claims and immediate presentation to a neutral third party for resolution provides significant savings, particularly when alternative solutions are available and can be implemented at a significant cost advantage. *Takeaway: claims are almost inevitable, deal with it - resolve early and fast.*

The next construction boom will probably start as a gentle rumble. Contractors, architects and developers who have survived the recession will find that new projects will be designed, financed and constructed under very different conditions; risks will be distributed differently and recognition of profits will come much later in the project development life cycle. *Takeaway: the next boom will be slow to grow, have a lower peak, and hopefully, will be more sustainable.*

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RHarper Consulting Group provides development consulting, program management, and owner representation services focused on the senior living and mixed use sectors. In addition, Mr. Harper is also a listed mediator and arbitrator providing dispute resolution services for the construction and real estate industries.

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