CELEBRATING 21 YEARS OF CLIENT-CENTERED SOLUTIONS

MURRAY & DOWNS

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"For any given project... we can extrapolate a measurable, quantifiable effect on project cost..."

The Effect of Bid Climate on Project Cost

Gerry Hughes, Estimating Specialist II

It goes without saying that construction cost is greatly affected by the availability of and demand for construction resources. These resources include construction materials, labor, the backlog of projects for both contractors and subcontractors, the bonding capacity of both contractors and subcontractors, the proximity of the project to these resources and, finally, the profitability or relative "attractiveness" of the project.

In a "normal" market or bid climate, the supply and demand for these resources approximates equilibrium and the impact on construction cost is minimal (+/- 4%). However, when either the supply and/or demand for these resources are significantly out of balance, the impact on construction cost can be significant.

The California construction market, and particularly the Sacramento region, has been experiencing a shortage of construction resources. Most significant is the current shortage of available, qualified contractors and subcontractors. This shortage has had a profound impact on construction costs in our area. Although there are indications that the supply/demand imbalance may have peaked and will lessen over the next 12 months, it would seem that the demand for construction resources will remain strong through 2010. It is, therefore, anticipated that construction costs will remain higher than normal, particularly for projects bidding later in the season (June through September).

The graph below illustrates the Relative Demand for Construction Resources and the Impact on Construction Cost. It is a quantified risk analysis for various bid climates.

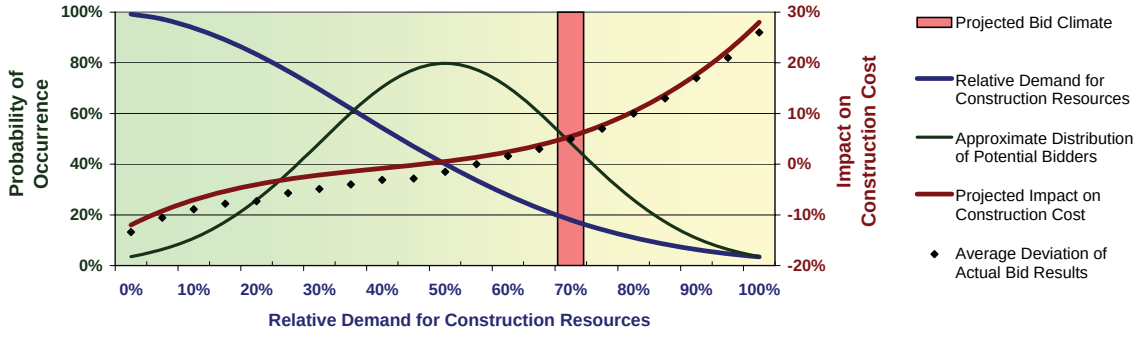
In this chart, the blue line approximates the demand for construction resources that would be applicable to a specific project. The green line illustrates a probable distribution for the remaining available construction resources. This distribution, shown as the familiar "bell curve," provides us with an approximate probability of occurrence for various cost scenarios.

Finally, the red line illustrates the projected impact on construction cost. This impact is graphed as a deviation from the cost of construction as would be anticipated in a balanced supply/demand market.

The result of this information is a quantified risk analysis for the projected cost of a specific project in a specific market. For any given project in any given bid climate we can extrapolate a measurable, quantifiable effect on project cost as well as a probability of occurrence for that cost.

The ultimate goal of any estimate is to represent the probable cost of a project as accurately as possible. However, it is important to realize that an estimate is not a bid. It is not the actual cost of the project. It is an approximation of cost. It is a mathematical construct, the purpose of which is to provide a best-guess as to what a particular scope of work may cost given a particular set of circumstances. ❑

Relative Demand for Construction Resources and Impact on Construction Cost



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