



# THE BAY DIMENSION

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<b>In this Edition:</b>	
2009 Market Forecast .....	1
Constructability Reviews .....	3
Vista Second Edition .....	4

## 2009 Market Forecast

Tony Vallance

### Recession!

Yes, we are in a recession – again. In the 1973/74 recession I lost my job. In 1982/83 our small, fledgling company almost went bankrupt. In 1987 we hardly noticed the downturn. In 1991/92 things slowed noticeably for a while. In 2001/02 the deal we had to sell our company (the

one we almost bankrupt in 1982/83) nearly failed, but then was consummated. In 2008/09 we are re-learning all the lessons we thought we had learned in 1982/83.

This one seems to me to be the worst I have seen since 1982/83, it might be even worse than that – time will tell. It is also different from the rest. When the banks and finance houses lead the way down then we have a central systemic problem. We all know clients who say to us “The project is all ready to go; I just need to nail down the financing”. Duh! The financing is everything, and right now we don’t have it.



### Recovery?

To the question “Will we recover, or won’t we?” the answer is very simple – we will. The only real question is, when? At the risk of appearing too bullish, despite the fact that at the time of writing (end of Feb 2009) the market is dropping daily, there are statistics that seem to point to a recovery in the stock market some time in the middle of this year. Now, that is a stock market recovery, not an economic recovery. It is well documented that markets turn up in the last stage of a recession, before the economic indicators turn up. The economy turns up 3-9 months after the market turns up and employment turns up after that. The market is a leading indicator and employment a lagging indicator. Unfortunately for us, construction is also a lagging indicator.

The bearish view is that recovery will take two to three years, and the vampire view is that this recovery will be a “dead cat bounce”, or “L shaped” and we will have a decade of pain. Since I am no economist I have no credentials to reject the bearish view, but I do. Some would argue that the economists have no credentials either....

## Why a Recovery in 2009?

No one knows when the market will turn but here are some reasons the bulls quote explaining why they think we are relatively close to a turn:-

- Governments worldwide are staging, by far, the biggest combined global monetary stimulus in history.
- Stock valuations are cheap relative to Treasuries
- The stock market has already priced-in/discounted the “worst case scenario”
- Unlike every other post-war recession, going into this one there was no business inventory overhang.
- Non-financial balance sheets are exceptionally strong
- New home supply is declining at an accelerated rate
- Surplus budgets invariably lead to downturns in the market, deficits lead to upturns. We are working on the biggest deficit in history.
- Market recessions and recoveries are a “V” shaped event. Once a bottom is reached recoveries tend to go up at the same rate recessions go down.

So, if a market bottom is reached in, say, March - June, the recovery should be underway by the summer. The economy should pick up shortly thereafter.

## Market Outlook for 2009

Well, escalation in construction is currently zero, or negative, and will continue so be so for the whole year. Arguably the specter of possible rapid inflation, resulting from the huge monetary stimulus, is at least two years away. So 2010 will probably be flat, or at most less than 4%. Healthcare still has a little inflation in it but even that will probably be gone by mid-year. This is a perfect time to invest in construction projects, bids will be very competitive. General contractors and subcontractors are bidding at cost, to cover overhead

and keep core staff. Real labor costs are going down, as are most material prices. Material prices will turn before labor costs do. (See the statement above that business inventories are very low). So, if you can get financing or you have cash – build now.

Domestically most private sector projects are slowing or have already halted. The areas of continuing strength are healthcare and public works (Federal, State, and institutional). In San Francisco, where our company is based, only one architectural firm we know of is actively hiring. Their work is mostly in the public sector.



One thing to watch out for in projects that are already underway is that there will be a higher incidence of claims from contractors. In an era where they are cutting costs to the bone, contractors will be scrutinizing construction documents and changes during construction to maximize their profits. Make sure your QC of your documents is thorough.

Internationally the picture is somewhat similar. The United Kingdom is possibly in worse shape than we are. In Scotland, for instance, it is rumored that 50% of architects are unemployed. British quantity surveyors, who traditionally are in demand in good times and bad, are being laid off in droves. Europe is following the UK down. Russia is potentially in the biggest freefall of all, with the decline of oil prices. Asia is a mixed bag but signs point to China continuing to grow, albeit at a slower rate than the recently announced 8%. In a world where flat growth is a cause for celebration, the fact that they are projecting growth is remarkable. The Chinese salutation “May you live in interesting times” has a double meaning. Hopefully we will shortly experience the positive one.

## Constructability Reviews

*This article was written by Jason G. Smith, Construction Analysis & Planning, LLC, in conjunction with Brian Tolland, TBD Consultants.*

Including time and resources within a project's schedule, and budget for performing a thorough constructability review of the construction contract documents is proving to be more than just a good idea. In these times of economic distress it is becoming essential. As competition among contractors and subcontractors increase due to a diminishing market, bidding can be expected to become tighter, with more aggressive strategies being employed during the bidding process in order to secure projects. This in turn puts pressure on the contractor's project team to deliver the final product within their budget. It is only natural that added scrutiny will be focused on the contract documents as a result.

TBD, together with our consultants, offer constructability review as a professional service and have a successful record in producing detailed reports and marked up construction drawings that ultimately assist the Owners and design teams in producing a more accurate set of documents.



Below are some fundamental rules that we employ when carrying out a constructability review:

1. Build the project; do not focus solely on the problems. Only by taking the time to walk through the construction process step by tedious step will the problems be discovered. Avoid viewing a constructability review as an exercise in flipping through the construction documents with a focus on finding the problems, as the problems will not jump out by themselves.
2. Review the interface of various systems. Whether it be interior, exterior, structural or MEP, problems are not discovered nearly as frequently within the body of a system as they are at the perimeter of a system where it interfaces with the various adjacent systems and trades.
3. Keep the review of preliminary documents constructive. When performing a constructability review on 50%, 75% or even 90% documents be cognizant that the design documents are not complete and avoid providing the design team with an exhaustive list of things they already know are not complete. Preliminary reviews should focus on general design approaches, correcting items that have been completed and identifying the obscure, easy to miss, details.
4. Stay focused on the important items. Before making a comment to the design team, ask yourself two questions. First, "will this impact the cost, time or quality of the project?" and secondly, "will the contractor, or subcontractors, require an answer to this question in order to perform their work?" If the answer to either of these questions is yes, include the comment. Otherwise, do not, since including superfluous comments will consume the design team's time that could be better spent directed to other issues.
5. Take the time to complete a thorough review. A thorough constructability review could take weeks, even months, but for every hour spent planning a project the hours saved down the road are exponential. Thorough reviews cannot always be complete and incorporated into the design documents in time for bid, but it is nonetheless important to address the problems early in the project.

## Geoff's IT Gems Vista Second Edition

The next version of Windows is on the way! The beta for Windows 7 is now available for testing, and we have been trying it out on a virtual machine. Windows 7 is not a completely new operating system, but is an upgraded version of Vista. One can say it is what Vista should have been. But in a number of ways it feels different to Vista. For instance, the Task Bar now has more the look and feel of the Mac's Dock, there are improvements in Windows Search capabilities, and of course it comes with Internet Explorer 8. Then there is the cute way the new pulsing Windows symbol forms itself from four spots of light.



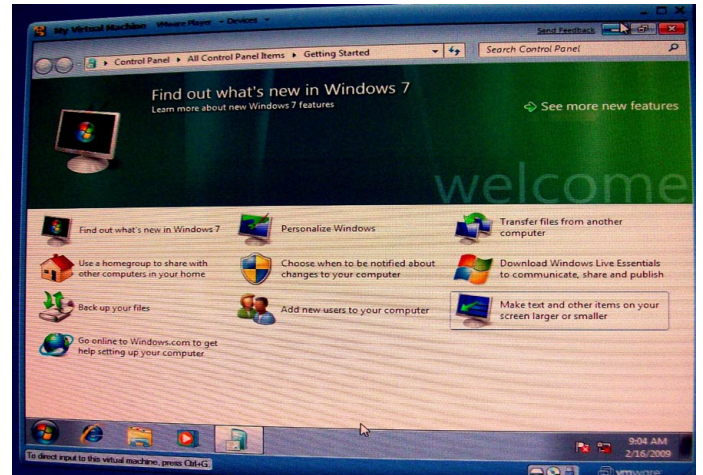
The new-look Task Bar combines the Quick Start function with the shortcuts to open applications. Hovering the mouse over an icon will give you a quick image of open windows for that application. It also contains an icon that gives you direct access to your desktop, which is where your gadgets now reside (the Sidebar having been relegated to history).

Windows 7 introduces the concept of Libraries where you can organize folders that you use regularly, such as Documents, Pictures, etc., even folders elsewhere on the network, so they can be accessed as easily as if they were on your hard drive.

UAC (User Account Control) - which brings up those messages asking if you really want to install that piece of software, or do something else that has some potential danger attached - is now more controllable. You may now

get out of the habit of simply clicking the "Continue" button. You can change these settings via the Action Center, which is the replacement for the Windows Security Center.

For those of you that haven't acclimated to the Ribbon on Office 2007, I'm sorry but it isn't going away - it even features now in the versions of Paint and WordPad that ship with Windows 7.



Beneath the new interface Windows 7 is still the same kernel of Vista, but that shouldn't put people off. Vista got its bad name largely from problems with incompatible software and device drivers, but those problems have mainly been rectified now. The other big problem was that Microsoft had made an admirable effort to address security issues with Vista, but hadn't really given sufficient thought to how the implementation of that security would affect users. This time the security is still there, but it is less intrusive.

Many people had been giving Vista a miss, waiting for the follow-up, and it looks as if the wait was worth it. Actually the wait will last a few more months at least. No firm date has yet been announced for the official launch of Windows 7, but the end of this year is a possibility, with early 2010 probably more likely.

