

THE BROAD DIMENSION

the newsletter of tbd consultants - 2nd quarter 2010



tbd consultants

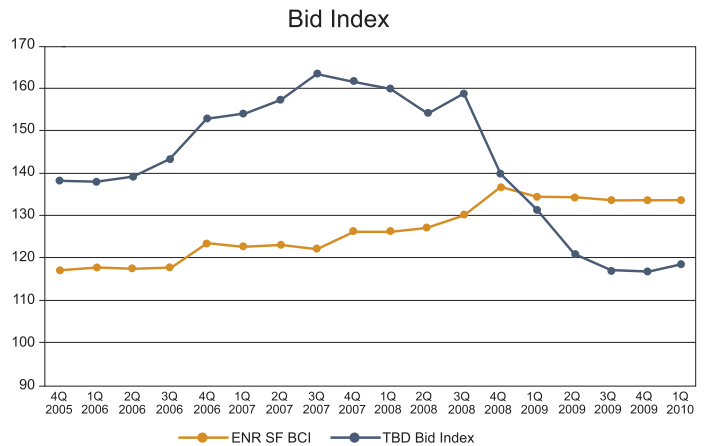
Construction Management Specialists
 111 Pine Street, Suite 1315
 San Francisco, CA 94111
 (415) 981-9430

4361 35th Street, San Diego, CA 92104
 (619) 550-1187

8538 173rd Ave. NE, Redmond, WA 98052
 (206) 571-0128

www.TBDconsultants.com

Bidding prices have now (February 2010) dropped below fair market value (represented below by the ENR San Francisco Building Cost Index).



In this Edition:

Construction Cost Trends	1
What Influences the Steel Market?.....	2
Office 2010 Arrives	4

Construction Cost Trends

Brian Tolland

Construction bid prices have declined dramatically over the past 18 months, which reflects the fierce bidding war to win work, hold onto key staff, and the employment of ambitious productivity gains, along with bidding strategies that include zero profit in many cases.

The current bidding climate for all sizes of projects is extremely competitive, not only for a General Contractor but at the sub-trade level, i.e. the number of bidders remains large and it is not unusual to receive ten or more bids for certain projects. The market continues to drag at a very low point in terms of the overhead and profit margins and we anticipate this climate to remain for most of 2010.

Further, sub-trades are bidding work “below cost” to secure work, i.e. assuming and hoping productivity economies will be found and applying a zero profit factor. This results in some very low bids and often a large range from bottom to top. The hope is that other work will come along where they will make a profit and be able to offset any losses. The sub-trades are absorbing the risk factors of escalation.

The sub-trades that have shown the largest decline in pricing are the less technical, labor intensive, trades such as finishes, drywall, steel, concrete and earthwork and the trades that have dropped the least are MEP trades. For

example earthwork trades are pricing very aggressively due to this trade being comprised of mostly labor and equipment and the equipment in most cases is already paid for, enabling the subcontractors to become very aggressive with regard to bidding.

Within the residential, commercial, retail, hotel/hospitality and entertainment sectors we anticipate no growth for this year (2010) and little or none for at least some of 2011. Education, K-12 and higher would appear to show a neutral or stable market for the next year or two and healthcare is anticipated to be the market sector that has the most life and opportunity to grow.



After peaking in the third quarter of 2008, overall prices for construction material fell steadily until the latter part of 2009, when the decreases began to moderate for most materials. Exceptions to the overall trend are copper and aluminum, which shot upward in the second half of 2009, conversely lumber materials has fallen more steadily and steeply than construction materials generally. Modest demand will likely keep construction material costs in check until the latter half of 2010.

Many wage agreements are already in place for 2010, and as a result it is anticipated that union labor rates will increase approximately 3%. Currently, labor unions are reporting that 12% - 38% of available tradesmen are out of work due to the economic downturn. Therefore it can be expected that when the construction industry begins to experience an upturn, any upswing will absorb the current level of unemployed tradesmen first before having any impact on inflationary labor factors due to shortage of tradesmen.

Construction professionals are suffering from the same downturn in construction volume and as a result have let go substantial numbers of staff and have had to look at introducing cost cutting measures to their operations. Competition has increased in almost every sector and professional fees are also affected, which is expected to continue through 2010 and into 2011.

One of the wild cards in 2010 is the insurance and surety markets. There is concern amongst contractors that financial problems in banking institutions may result in tightening of surety availability. How this will affect bidding and construction costs remains to be seen. Lastly, to reflect how the market has gyrated in the last 6 years, the following chart shows TBD's Bid Index yearly inflation figures:

Year	Inflation Rate
2005	18.71%
2006	10.54%
2007	5.92%
2008	-13.80%
2009	-16.24%

What influences the steel market?

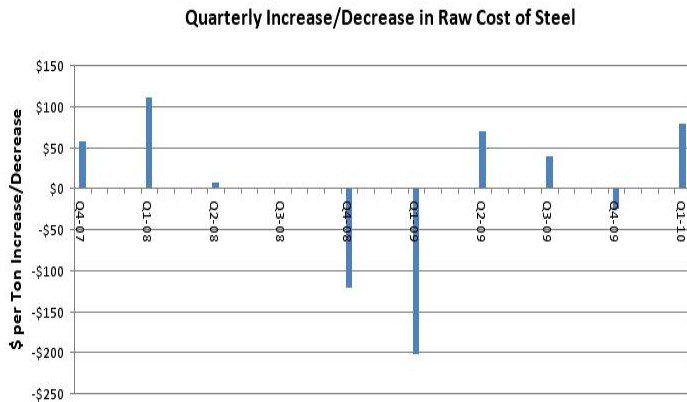
Oliver Fox

Steel, along with copper and aluminum, are the high profile metals that the construction industry is compelled to track. In the past two years we have seen installed prices for steel structures peak at \$4,200 a ton (for wide flange) in mid 2008, and then plummet to \$2,300 a ton at the end of 2009. Of course this is a range and depends highly on the size and functionality of the building. For example, currently an office building is approximately \$2,300 - \$2,500 per ton whereas a hospital facility is around \$2,500 - \$3,200 per ton.

According to Engineering News Record (ENR) steel prices fell 5.6% in 2009 and forecasts 2010 to be another tough year with a 4.8% decrease. At TBD Consultants we have seen installed steel prices remain consistently low for the past three months with subcontractors cutting their fee and profit to get the job.

Bob Hazelton, Vice President of Herrick Steel, points out that “anyone claiming knowledge of steel prices for the rest of the year doesn’t know what they are talking about”. What we do know is that the longer the recession continues the higher the chance of fabricators going out of business and lowering the production capacity.

online. For some of the larger projects steel delivery times were too long to fit the project schedule. Accordingly the result was more imported steel from abroad. Some would argue domestic capacity was sufficient and the import of fabricated steel was related more to cost than schedule.



So what influences the cost of steel?

Demand for scrap metal (approx \$300 - \$600 ton) is the start of the food chain and any increases due to supply and demand are passed onto the large mills like Nucor & ArcelorMittal, who naturally pass it onto their customers. Global demand has resulted in scrap exports to Europe and Asia in the past. Since post consumer recycling is the primary source of scrap, there is a natural migration from developed industrial markets to emerging markets. Turkey and China are major importers of scrap to feed electric arc furnaces.

The second influence is energy prices. When oil was \$145 a barrel in mid 2008 this had an effect on most aspects of the steel industry. Mills use a lot of energy to power the electric arc furnace that melts the scrap and casts it into semi-finished slabs, ingots and beam blanks. Reheating the semi-finished products so the steel can be rolled into plate, tube and wide flange also requires a lot of energy. Then fabricators such as Herrick, use energy to cut and weld the steel for a particular job. Finally, although not a big cost percentage-wise, there is the transportation to site which is affected by gas prices.

The last major influence is market conditions and capacity utilization. Three years ago, when demand was at its peak, some fabricators were running three 8 hour shifts and still demand couldn’t be satisfied until new facilities came

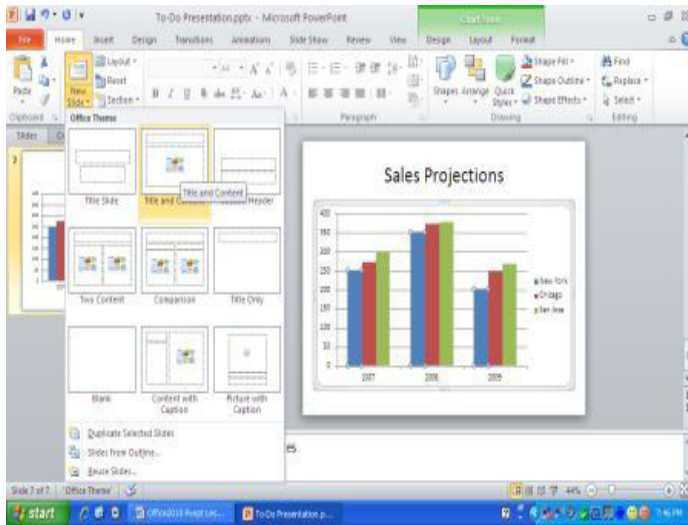


In the current recession capacity is being reduced as more fabricators struggle to break even, this increases the likelihood of steep price hikes when the economy does recover. There are other factors that increase or decrease the cost including detailing and sophisticated modeling for example but the three areas mentioned form the major three.

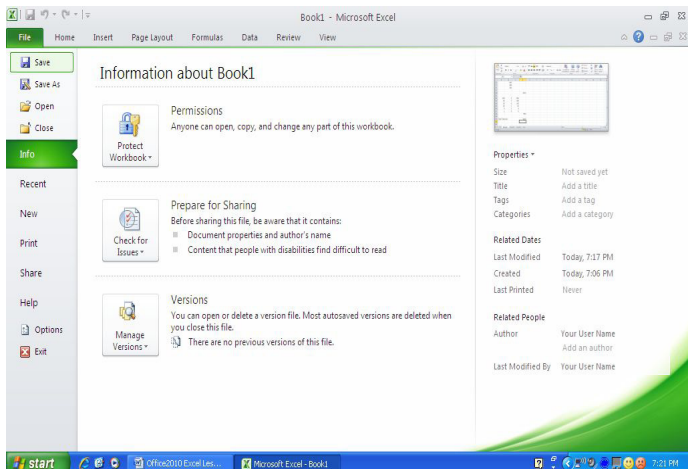
The outlook for 2010 in construction looks challenging, which means steel bids will probably continue to be low and very competitive for the first half of 2010. The latter part of the year looks to be similar however no one expected the steep increases in 2004 and commodity prices can be very volatile. China remains the dominant supplier and consumer of steel with the ability to stockpile if required and control the price of steel to take advantage of the global market.

Geoff's IT Gems Office 2010 Arrives

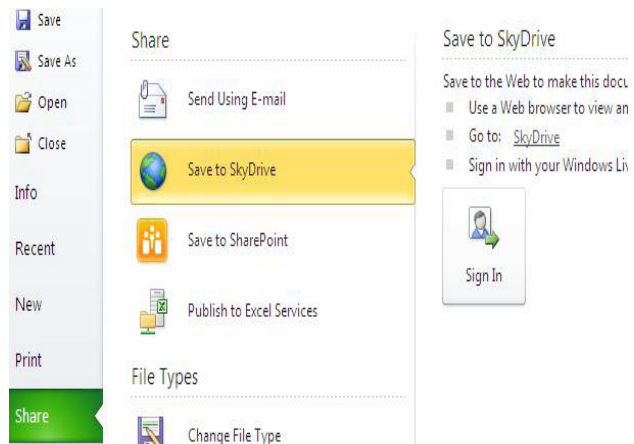
Just when you thought it was safe to click the Office button – it's gone!



If you are used to working in Office 2007, when Office 2010 arrives at a computer near you the biggest change you will immediately notice is that the Office button has disappeared and we have something that (at first glance) looks like the File menu is back. But if you click on File you find that it is much more than a simple menu, or even a ribbon. It takes up the entire window and will give you a fair amount of information and options related to each of the basic “menu” options.



The other big difference between Office 2010 and its predecessor is the built-in ability to save and open documents to and from an online folder. The idea here is that you can then access the documents from anywhere, provided you have an Internet connection, and you can work on the documents using the Windows Live versions of the Office suite if necessary. You can also make documents available for others to work on. These online capabilities are playing catch-up with things like Google Apps, and we can expect to see the online capability growing in future versions of Office.



Other than those two changes, there is little changed in any substantive way from Office 2007. The layout of the other ribbons (menu-toolbar things) is basically unchanged, and the file format is the same as for Office 2010. So the learning curve moving from Office 2007 to Office 2010 should be a lot flatter than it was with the jump from Office 2003 when Office 2007 arrived.

Plus you get a few interesting new features, such as the ability to directly edit videos in PowerPoint.

