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California Current Market Conditions – June 2020..... Hello Coronavirus.

Our previous report in January 2020 recapped the last decade and the remarkably long stretch of construction cost escalation that our market has endured, with seemingly another year of similar upward cost pressures in front of us. Until of course, the uninvited guest Coronavirus hijacked our daily lives and our health and safety was no longer a given. For a few months now, local Bay Area counties have been existing under various versions of shelter-in-place safety orders, with long stretches of business shut downs, construction project stoppages, and new jobsite and office safety protocols. These issues have not only been local challenges, but have had similar impacts across other counties throughout California, the United States, and the World. The first two quarters of 2020 might be represented by the meme ‘Hello Coronavirus, Goodbye Construction Economy Stability’.

Starting at midnight on March 16, 2020, six core Counties of the San Francisco Bay Area (Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara), and the City of Berkeley began following new safety orders that significantly altered the active business landscape. For roughly 7 weeks, active construction projects that were deemed Non-Essential, were forced to shut down operation. Only Essential construction projects (public works infrastructure projects, multi-family housing with at least 10% affordable units, projects serving vulnerable populations, healthcare projects related to addressing COVID-19, projects required to maintain safety and sanitation and habitability of residences and commercial buildings) were allowed to continue. Unfortunately for the Non-Essential projects, its not as simple as just temporarily shutting down the projects, based on the feedback from impacted contractors and claims that developers are starting to receive. Some of these impacts:

- Costs for temporary shut down and re-start.
- Cost for salaried management staff where temporary reassignment to other active work is not possible.
- Rental costs for large equipment that must remain on site, such as personnel lifts and tower cranes.

- Warehousing fees for materials fabricated for the project.
- Additional monthly loan payments for contractors and developers, due to schedule delays associated with stoppage.
- Etc.
- *Cost impacts depend upon each individual project and its contractual obligations and where the work stoppage occurred in the construction schedule.*

Contractors were faced with having to temporarily lay off trade workers and reassign as many as possible to other ongoing projects, then were faced with the challenge of rehiring and re-staffing the projects after re-start, with as many of the same personnel as possible in management and supervisory roles to maintain project continuity. Now comes the challenge of negotiating with project owners and developers to figure out who is ultimately responsible for covering all the additional costs incurred due to the work stoppage, and how much project schedule extension is appropriate, and whether force majeure applies. The project specific contract language will help unravel those discussions.

For Essential projects, and for Non-Essential projects after the projects were allowed to recommence, complying with new safety protocols and supply chain issues has become the focus, but along with this has come additional costs to the projects, and again discussions with project owners and developers to figure out who ultimately shall carry this cost burden, and whether force majeure applies (refer to project specific contract language to help resolve these issues). Sample additional cost impacts that have been reported are as follows:

- Additional personnel hoists and associated operators, due to max limits of 2 workers plus operator in the hoist at one time.
- Additional safety training for all on site personnel.
- Daily health and temperature check in/out of all on site workers.
- Compliance with minimum social distance of 6' between any 2 workers, requiring resequencing of work and extending out the construction schedule to accommodate the spacing requirements.
- Staggering worker arrival and breaks, to help balance social distance requirements with speed of getting to your locations of work quickly.
- Material supply chain interruptions due to global manufacturing shutdowns and transportation limitations.
- Additional wash stations on site.

- Additional cleaning staff on site to repeatedly clean high touch public and shared areas and surfaces.
- Trade worker shortages because of workers not showing up due to fear of contracting Coronavirus on the jobsite.
- Repeated cleaning of tools and equipment where shared amongst users.
- Additional general conditions and general requirements costs due to extended construction schedule caused by some of the items listed above.
- And more.
- *Cost impacts depend upon each individual project and its contractual obligations and where in the construction schedule the new safety protocols occurred.*

Discussing COVID-19 impacts to construction would be shortsighted if we only focused on the impacts to ongoing work. All these shelter-in-place type restrictions in Northern California and throughout the world have also shuttered businesses for long periods of time, forced schools of all ages and levels to go fully online, restricted travel, spurred huge job losses, and in general stalled a lot of economic activity. This in turn has caused many owners and developers to rethink the need for certain future projects, and pivot to delaying and canceling many projects that were in the future pipeline. The next domino to drop is the contractor work backlog, which is shrinking due to these delays and cancellations, which is causing contractors to reduce their desired overhead and profit fees for future work to ensure they keep their crews busy. This downward pressure on fees is helping to counter the previously discussed additional costs for the current additional safety protocols that workers have to comply with. Its currently unknown how long it will take until there is a Coronavirus vaccine, and whether the current additional safety measures will ever fully go away.