

Avoiding construction headaches

How to save time and money in your business by hiring a professional project manager **Interviewed by Leslie Stevens-Huffman**

Building relocations and renovations are a part of doing business, and one that CEOs know can negatively impact the bottom line if they are not executed properly. Managing the process looks like a part-time assignment for an internal employee, but the management team quickly gets caught up in construction meetings, reviewing bids and trying to solve complicated issues.

"The design and construction process is very complicated, costly and risky," says Kirt Gilliland, senior vice president of project management and principal for Irving Hughes.

"Escalating construction costs, shortages of manpower and longer lead times on materials are making this process even more challenging. Add that to the contention with the landlord when remodeling an existing space or handling code upgrades, and the process is overwhelming to the inexperienced person."

Smart Business spoke with Gilliland about what CEOs should know about outsourcing construction project management.

Why should a CEO hire a professional construction project manager?

For most companies, construction projects don't happen with frequency, and when they do, managing the project is not a core competency. The build-out process accounts for as much as 20 percent of the total lease consideration, and most tenant improvement projects managed by non-facility internal staff end up with cost overruns and delays that could have been avoided through proper planning provided by an experienced project manager.

What should a CEO consider in selecting the right project manager?

First, select a project manager who has experience with similar projects.

Second, the project manager should represent the tenant. Conflicts arise when a tenant uses the landlord's project manager. Items that should have been a landlord cost end up on the tenant's side of the ledger. A landlord might push code upgrades or costs to replace obsolete



Kirt Gilliland

Principal, senior vice president of project management
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building systems through as a tenant improvement cost, which — when properly negotiated — should be the landlord's expense. My job is to play sheriff to make sure that the lease we negotiated is enforced to the benefit of our tenant client.

Third, hire a project manager that works on a team-building approach. Some project managers control with an iron fist, creating a very adversarial and disruptive environment; others are just note-takers, lacking the leadership skills and the required construction knowledge.

What types of duties will the project manager perform?

The design and construction process involves as many as 10 team members. The project manager will recommend appropriate consultants and secure their bids and contracts. Next, they lead the consulting team through the design and construction process using the project schedule and the budget as a baseline. The project manager makes sure the contractor is using the correct management tools to track the schedule and budget, and physically inspects the construction progress to ensure conformance to the specifications.

Why are construction costs escalating?

Construction costs have been climbing steadily over the last three to four years at a rate of 1 percent per month due to an increased demand for materials both overseas and domestically. Increased residential building has also driven up labor costs. When combined with materials increases, that equates to a 50 percent increase in construction costs. Standard tenant improvements that used to cost \$40 per square foot now cost at least \$60. Tenants looking to move into new buildings should engage a project manager to lead the due diligence process, and they should price out the tenant improvements prior to beginning lease negotiations.

How are these increased construction costs changing tenant behavior in the market?

The only tenants relocating are those that have dramatic changes in their square footage requirements. Even when a company does move, there is plentiful second-generation space and sublease space that needs minor remodeling, saving the costs of new construction. Most of our clients are passing on the new buildings that cost \$3.50 per square foot to \$3.75 per square foot in the central county region, as there are better alternatives that don't require the out-of-pocket expense incurred from tenant improvement cost overruns.

What can tenants do to better manage their improvement costs?

It is critical to have enough time to assemble a team of professional consultants and design a cost effective project. By planning properly, they will maximize any existing tenant improvements and allow the general contractor to obtain multiple subcontractor bids, while building the project at a reasonable pace.

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