

Q&A

COMMERCIAL REAL ESTATE Question of the Month

How to Slash Commercial Construction Costs

Q: *I nearly fell off my chair when I received a quote from a general contractor to renovate and enlarge our office space. I had no idea that costs had climbed so high. Any suggestions?*

A: Yes, there is a way to slash 10% or more from your commercial construction project. It is a method of running construction projects called Construction Management. It is not the same as General Contracting, in which a general contractor quotes one price to complete the entire project. It is common for a general contractor to total his costs (both his subcontractors as well as other costs) and then add 20% for overhead and profit.

Construction Management is completely different. In this model, you hire a construction manager to manage the project for you. The construction manager is paid a fee, usually a percentage of the project cost. This fee is usually less than 10%. Thus the cost of a project utilizing Construction Management can easily slash 10% or more from the cost of your project. Let's take a look at the advantages of Construction Management.

One of the reasons that I am a big proponent of construction management is the complete transparency provided to the client, and the elimination of inherent

conflicts. In general contracting, it is in the financial interest of the general contractor to buy the cheapest products and services, since by doing so, he will increase his profit. The construction manager, on the other hand, has nothing to gain by doing so. Each product or service is put out to multiple bidders (including any that may be introduced by you.) You and your construction manager can then make the best cost/benefit decision from multiple bids. The entire process is open and transparent.

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You will also have complete control of the project and choose what decisions to make yourself, and what to delegate to your construction

manager. In essence, the construction manager is assisting you as you act as your own general contractor. Since the construction manager is your agent, you will have complete control over the building process, including negotiating with suppliers and subcontractors. You can be as involved as you wish – every day or seldom. Either way, you have a professional managing your construction with a fiduciary responsibility to protect your interests.

Another advantage of Construction Management is that if there are potential savings to be achieved during construction (perhaps a special buy, or discounted services from a subcontractor), the savings are yours. This is not the case with General Contracting, in which the contractor will pocket the savings as additional profit. And finally, it is not uncommon for a general contractor to charge exorbitant costs for change orders. In essence, you are almost forced to pay what he demands for changes during construction. This is not the case in Construction Management, where once again, there is complete transparency and change orders are submitted out for bid.

So, Construction Management is the way to substantially reduce the cost of your construction, usually by 10% or more.



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