

How to Choose a General Contractor to Build your offices

In the process of considering general contractors to build out their space, many tenants are understandably confused by how to select and what to consider in a contractor's proposal.

To start, get several contractor recommendations from your development team: your real estate agent, architect and the building management of your targeted buildings will all have suggestions of qualified firms. (For example, some Landlords have approved lists of contractors that are restricted to those with prior experience in the building).

Don't be surprised when there are overlapping contractor suggestions; that is a good validation about who you should be talking to.

- ✓ Tip: I recommend no fewer than 3 or more than 5 contractors no matter which of the approaches you follow below. I think that getting numbers or proposals from 4 contractors is optimal in most cases.

Selection Options

There are two basic selection approaches:

- ▶ Take *Lump Sum Bids* (i.e. a *fixed cost*) for the total project cost,
 - ▶ or solicit "*Cost Plus*" *Fee Proposals* and interview the contractor's proposed team of construction professionals.
- ✓ Tip: Taking Lump Sum Bids from 4 General Contractors is the ***most competitive*** and clear cut route in every circumstance when your scope of work is well defined and your architect has been given the time to fully develop and engineer the plans.

But getting the plans and specifications to a "bid-ready" state is critical to the success of this approach.

Neither a "Building Permit" nor a "90%" complete set of plans are sufficient for competitive bidding — they need to be 100% complete and the bidding scope of work well defined. (A "90%" complete set implies there is still work to be specified; so that is giving a contractor the built in opportunity to eventually submit additional change orders . . . and who likes receiving changes orders?).

However having enough available time to complete the drawings is frequently not the case in commercial office leasing.

So where time is an issue, or there are other unusual complexities, a common selection method is to ask contractors for a Proposal and a Presentation by the construction team to be assigned to your project.

Reviewing Contractor Proposals & Presentations

When reviewing and comparing Contractor Proposals, look for 3 main points in order of priority:

1. The Presentation by a contractor's Project Manager & Superintendent:

Projects are built by *people*, not companies!

Consequently you should weigh and compare the skills, experience and approach of the individual Project Team members proposed by each contractor.

For example, sometimes smaller companies can propose a more talented or experienced team than that of a larger company, even on what seems to be a 'large' project.

You are about to spend several months together, entrust a significant cost and the success of your project to a small group of individuals.

Watch how the proposed team (not the salesman or company principal) interacts and supports each other during their presentation. Do they project the confidence, experience and communication skills you want to represent you?

- ✓ Tip: Your chemistry with the working Project Team is also an important and justifiable metric, so don't ignore it in your analysis!

2. General Conditions cost:

This is the contractor's cost to run and manage the project; primarily it is the salary costs and related expenses of the Project Manager and Superintendent assigned to the project.

The total of these costs is a function of the length of the project, and the costs are usually priced per week. When asking for proposals from contractors, you should let them know how long they have to build the project and ask them to tell you if they need more or less time. But initially compare the costs on the same project duration.

Because salaries are comparable across companies (even large & small companies pay their people roughly the same); the proposed General Conditions' expenses should be very similar from all companies, large or small.

- ✓ Tip: Consequently be wary of and question differences in a comparison of these costs. Significant differences may mean that a company is either not committing the staff time necessary to manage your project or has failed to be up front about all the costs they will eventually charge you.

3. Fees (Profit):

These are generally expressed as a percentage of the total cost of the project.

Fees should be the least important variable in the selection process. Even on a \$1,000,000 project, a 1% difference in Fee proposals amounts to only \$10,000.

Although nobody would pay an extra \$10,000 if all other things are equal, consider that a typical project's contingency is usually budgeted at 5% – 10% of the total project cost (in our example that's a \$100,000 item!).

The best contractor team's ability to anticipate and avoid change orders will likely save far more than a 1% Fee difference on a project.

- ✓ Tip: Ask the Project Manager (**not** the salesman or Principal) how "transparent" their project cost accounting will be and who will benefit from subcontractor "buy out?" Ask him/her to explain both these terms to you during the presentation. You may learn a lot about the firm's approach to your best interests in how they answer these questions.

Bottom line: Pick the **best** team, not just the lowest Cost or Fee.

About the Author

Marty Wilson leads the **MDW Group**, a professional Project & Construction Management company. He has a Master's Degree in Construction Management and a BS in Civil Engineering from Stanford University.

Prior to forming MDW Group Project Management, Marty Wilson founded and led the commercial general construction company CIC Associates, a frequent entry in the SF Business Times' Top 25 Contractor List. CIC specialized in tenant improvements, structural and seismic rehabs, and low rise building shell and core construction. His firm built large scale corporate headquarters for law, financial and multi-media companies, mission critical technology centers, radio/broadcast/recording facilities, retail and many millions of square feet of office building improvements in California and 5 other States.

Marty Wilson now offers clients Project Management services with the benefits of over 20 years' experience managing complex projects and the Project Teams designing and building them, including over 2 Million square feet of completed projects in the 580/680 corridor.

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