



CONCORE INSIDER

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ARE GENERAL CONTRACTORS STILL IN CHARGE? ... OR ARE SUBS NOW IN CONTROL?

Have You Seen This Industry Trend? I'd Like to Know What You Think!

For years general contractors on commercial projects have been recognized by subcontractors as the project leader, the one in charge. The boss. The GCs in turn, work for the property developer, the client. And they have the last word. Lately, this age-old hierarchy in the industry has seen a shift.

New Rules?

Back in the day, even before the COVID pandemic, materials were generally available and prices were fairly stable, but even then the pool of affordable subs in a variety of trades were relatively few. Skilled labor was also on short supply, but for the most part, what was initially contracted and projected

or material surprises surfacing during the course of a given project.



“GCs have historically been the leaders — the ones in charge.”

for a project more often than not came to fruition generally as planned. GCs depended on their subs to submit reasonable bids without any significant concerns about unforeseen or unpleasant financial

But times have changed. Saying that now is an “interesting” time for the construction industry would be putting it mildly. Lately, with severe labor shortages, shrinking profit margins, disruptions in supply chains and construction material prices soaring, this is certainly a troubling trend. There appears to be a new set of “rules” that apply to the industry. The consequence is that the GC’s control is being diminished, particularly in large metro areas across the country and subs are circumstantially gaining control of projects at an increasing rate.

A Frenzy In The Works

I've been talking to a lot of people lately — professional colleagues in the industry — and they're all in agreement that the primary reason for this phenomenon occurring more and more in the San Francisco Bay Area lately is due primarily to the labor shortage issue. Which has created a situation where there aren't enough reasonably priced qualified sub-contractors available, reducing the pool of available

“Either hire the second sub at a higher price . . . or concede to the awarded sub's demands.”

reasonable increase to keep the project on-track and on-schedule.

Lately, however, in an example like the one above, a sub might come to the GC, far along into a project, and literally threaten the GC with an ultimatum — refusing to return to the job site to leverage getting more funds to cover increased costs above their original bid — a situation that could have been addressed far sooner. This increasing problem exhibits a growing industry concern that some subs seem to have an unwillingness to work in harmony simply because they estimated their bid too low.

So if the awarded sub were to walk and the second place sub's bid price differential is greater than 10 percent, say 20 percent or more, the GC then finds themselves at a significant financial disadvantage. It's a tough choice to make — either hire the

second sub at a higher price than their original bid due to progressive increases since their original submission, or concede to the awarded sub's demand, and ironically, wind up paying less in the long run, but at the same time ceding control to the originally awarded sub.

I'D LIKE TO HEAR FROM YOU!

What's Your Take On This? Who's In Charge? GCs or Subs?

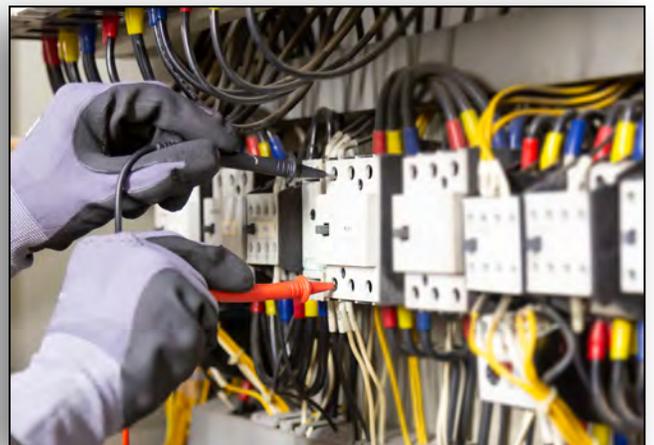
I'm doing something a bit different in this issue of Insider by inviting you to participate in an open forum on this GC/Sub trend. I really want to hear back from you to find out first-hand, if you've seen this type of scenario occur, or have had to deal with it directly. How often, and what size of projects and kinds of dollars are we talking about? And most of all, how can we, as concerned members of the commercial construction industry correct this situation in the future?

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Share your thoughts, observations or experiences regarding this concerning construction industry trend.

subs. I'm seeing this as the number one problem causing control issues where the subs hold the cards on a project, and not the GC.

For example, let's say a GC vets and finds a sub that's reasonably priced and they're awarded the job. In a normal situation if there is a problem, say a sudden major material price increase, the subcontractor presents the situation to the GC in a straightforward manner early-on before it becomes a bigger problem. Solutions are collaboratively sought out, often bringing in the property developer client to work together to find ways to mitigate the problem. Managing cost increases in this way sets a mutually cooperative tone where developers might be more inclined to consider the matter with some kind of compromise and work to find answers — or alternatives — even if it would mean increasing funding of a



It Doesn't Stop There

What would happen if one or more in the pool of subs were to become unavailable due to committed long term contracts, or worse, move their business away from the area entirely? The GC would then

be left with even fewer options to choose from. The short of it comes to this: the subs are the ones doing the work and are contracted to perform and

get the project done. Without them, projects can't be completed. If they walk off the job, or can't fulfill their contract for whatever the reason, the project gets stymied. The GC's control is then subjugated by the sub, with the sub gaining leverage and the bargaining power in the situation. 

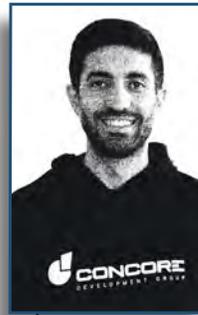
“Subs are the ones doing the work. Without them, projects can't be completed.”

What are your thoughts about this trend?

I'd really like to know so I can share your thoughts with my readers.

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ASK MEHRAD

READERS' QUESTIONS ABOUT
CONSTRUCTION AND
REAL ESTATE DEVELOPMENT

Yorch Z. Asks . . .

How do you set your fee structure when managing a development?

M.E. — Depending on the project complexity, we usually use a fixed percentage based on the cost of work and double check that rate based on the amount of time I anticipate spending on the project.

Aziz S. Asks . . .

Would you please name some of the key risks involved in property development?

M.E. — Every project is unique, and it will have its own set of risks and challenges, but cost over runs and schedule delays are typical, especially, for inexperienced owners. Additionally, larger developments take longer time to complete so there are many surprises that can affect the project (a pandemic is a prime example). Shorter developments could have lead time and procurement types of issues.

GOT A QUESTION FOR MEHRAD?

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Look for answers to appear in a future issue of CONCORE INSIDER

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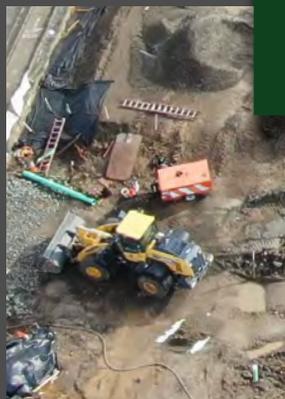
An innovative mixed-use project developed by award-winning Meta Housing Corporation that will broaden the availability of mixed income housing options for the Pittsburg community.

CONCORE is the key representative and Team Leader for the project — the liaison between the developer, the design team, general contractor and every other party involved in the project.



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