

The Top 100 Construction Management-At-Risk and Design-Build Firms

Firms providing alternative project delivery find new markets to cushion the overall downturn

06/02/2010

By [Gary J. Tulacz](#)

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The construction recession has hit everyone, with little regard for markets and geography. It is no different for construction firms offering alternative project delivery. However, for many, there are mixed blessings within the overall gloom. Many industry customers still spending are doing so under financial constraints and are looking for the fastest, most efficient way to deliver projects.



Photo: Clayco Inc.

The market is slow but not dead, as seen by this Clayco design-assist project, the Centene Corp. headquarters in Clayton, Mo.

The impact of the downturn can be seen in the revenue figures reported for last year by companies on ENR's lists of The Top 100 Construction Management-at-Risk Firms and the Top 100 Design-Build Firms.

Revenue from projects done on a CM-at-risk basis from the Top 100 firms in that category was \$89.34 million in 2009, down 13.5% from 2008's all-time high of \$103.34 billion. But most of this shortfall came from the domestic market, as international revenue from CM-at-risk projects fell only 0.8% in 2009 to \$15.47 billion. Domestically, revenue for the Top 100 dropped 15.8% to \$73.87 billion.

Among the ENR Top 100 Design-Build Firms, revenue was down as well, although not as steeply. It fell 8.4% in 2009 to \$89.43 billion, from \$97.60 billion in 2008. Unlike the CM-at-risk companies, design-build firms saw revenue fall off more evenly between domestic and international markets. The Top 100 Design-Build Firms report domestic revenue of \$59.33 billion in 2009, down 7.9% from 2008, while revenue from international design-build projects

fell 9.3% in 2009 to \$30.10 billion.

While many firms providing alternative project delivery were looking for something to happen in the market, Clayco is a design-build firm that has made news for what it did not do. CEO Bob Clark had spent two years contemplating selling the firm, hiring an outside consultant to examine his options. "When the recession hit, I was really impressed with how the team here worked to weather the storm," he says. After some soul-searching, he decided not to sell after all. "A couple of months ago, I announced to the staff I was making a long-term commitment to this company. I'm in it for the long haul," Clark says.

Ranked fifth on the CM-at-Risk list this year, Gilbane Building Co. is re-examining its structure. "We are taking a 'one company' approach to leverage our expertise across the entire company," says Dennis Cornick, senior vice president. Gilbane aims to have its regional divisions better share expertise and resources. "You have to bring value to your customer," he says. "If not, you are just

one of the pack, and the middle of the pack is not a good place to be in this market.”

Lifting the Barriers

Design-build has been able to withstand the recession better than other project delivery systems due to the public sector’s increased willingness to allow it. More state legislatures are lifting legal roadblocks to public agency use of design-build, which is opening up new markets for the delivery system. “Last year, more than 100 pieces of state legislation passed to widen authorization for public-sector design-build,” says Richard Thomas, vice president of the Design-Build Institute of America, Washington, D.C.

Thomas says part of the impetus for this wave of new laws was the passage of the American Reinvestment and Recovery Act. State agencies recognized they had to develop and implement projects quickly to qualify for stimulus grants, which design-build delivers, he says. Thomas also says stimulus money may have pushed agencies authorized to use design-build to take advantage of it.

As more states pass design-build-enabling legislation, many municipal agencies are beginning to test the waters, sometimes with surprising success. “We have a water-and-waste division in our company that convinced one agency to go with design-build on a project,” says Steve Halverson, CEO of Haskell. He says on that water project, the firm bid low by 20%. Halverson says he was worried there was a mistake in the bid, but Haskell ended up completing the job and making a good margin. “This may show some of the inefficiencies in existing delivery processes,” he says.

CM-at-risk revenue took a major hit among the ENR Top 100, as it is the delivery method of choice in many private...

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...markets hit hardest by the recession. But CM-at-risk also has benefited from new legislation allowing public entities to move away from design-bid-build. “CM-at-risk used to be limited to the private sector, but public restrictions are loosening,” says Cornick. He says this is because public owners increasingly want to pass the risk on to the contractors while maintaining speed to market.

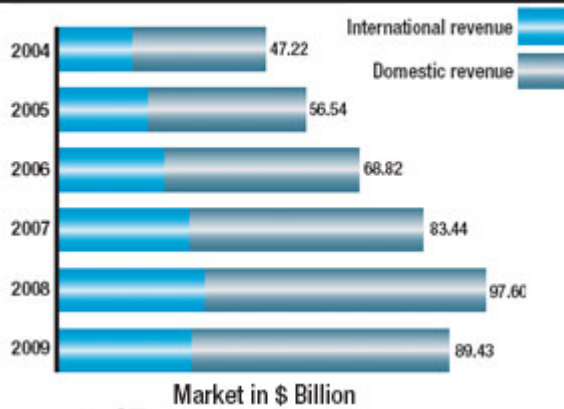
Price Concerns

The recession has created factors that favor the use of such delivery systems as CM-at-risk and design-build. But some owners are casting these aside in search of the lowest price. “One of the headwinds facing design-build is the level of desperation pricing among contractors in this market,” says Halverson. He says many contractors desperate for work are low-ball bidding, and some owners are switching to hard-bid design-bid-build to take advantage of this rock-bottom pricing.

Cornick has seen some of this, as well. “Some clients have announced they are changing their choice of project delivery to take advantage of the market prices,” he says. However, Gavin Keith, project executive with DPR, says, “While the initial

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DESIGN-BUILD REVENUE FALLS



DOMESTIC CM-AT-RISK PLUNGES



desperation pricing among contractors in this market,”

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THE HASKELL GROUP

impulse among owners was to go back to hard bid for the pricing, most have realized quickly they are better off with a qualitative selection process.”

For many firms in the design-build market, the recession’s impact has been blunted by the delivery method’s client base. Clark says many corporate clients have cash and are spending. “They see this market as a cost-saving opportunity where they can build for less,” he adds.

Cornick says there are signs of recovery. “There is a lot of chatter among the architects and A/E firms about work ready to break free, particularly in the corporate build-to-suit arena,” he says. Cornick adds that among the major corporations in the U.S., cash is near an all-time high. “There are a lot of people sitting on a lot of money, and there is a good chance it will be used either for capital expansions or acquisitions,” he says.

According to Keith, “The mission-critical sector has held up well, and that market is moving to

design-build.” He says owners in that market like the speed to market, the integrated-team concept and the quality that design-build brings.

Process in the Package

Haskell’s Halverson says he has noticed a new trend in design-build among his industrial customers. He says that, in the past, industrial companies usually employed a design-build firm to build the facility but hired a separate...

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...company for process engineering. “Now, many clients are packaging everything under one contract, including process engineering,” he says. Haskell is getting more involved in process engineering to take advantage of this trend.

Clark reports that some clients who do not go full design-build are opting for design-assist. Clayco is working on a new headquarters for health-care insurer Centene Corp. in Clayton, Mo. The overall project is being done on a design-assist basis, working alongside the architects on cost and contractibility issues. "We don't care what form the contract takes, as long as we can provide knowledge on costs and processes that the designers may lack," says Clark.

Integrated project delivery is a new delivery system that is attracting attention, but IPD still means different things to different people. Robin Savage, COO of Robins & Morton, says IPD has been interpreted as a single-project contract, as multiple contracts with a supplemental agreement covering all parties or simply as an understanding among the parties to cooperate. "But it takes a committed owner to make IPD work," he says.

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DPR is one firm that has worked under several IPD contracts, one of the most recent of which is the \$320-million Sutter Medical Center in Castro Valley, Calif. Unlike earlier versions of IPD contracts that cover only the architect, contractor and owner, the Castro Valley IPD contract covers 11 parties.

But IPD principals can be brought to other forms of project delivery, according to DPR's Keith. The company is building a stem-cell research facility, the Institute for Regenerative Medicine, for the University of California, San Francisco. "It is a design-build project using IPD principles," Keith points out. He says that, while it is a design-build contract, "it is layered with incentives and milestones like an IPD contract."

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