

Managing construction project risk during COVID-19

On March 27th, New York halted all construction outside of infrastructure, healthcare and affordable housing projects in response to the COVID-19 pandemic. This decision follows the trend in recent weeks with Boston, San Francisco and many other geographies limiting construction. As the state and federal guidelines are updated to define what construction is considered "essential," one thing is certain – companies need to proactively address and manage expectations for all new and ongoing construction projects.

Recommendations for moving forward

We recommend formalizing a cross-functional working group to determine how external mandates and project-specific information impact your overall project oversight and governance. The working group should first revisit the contract terms and confirm various risk management strategies by:

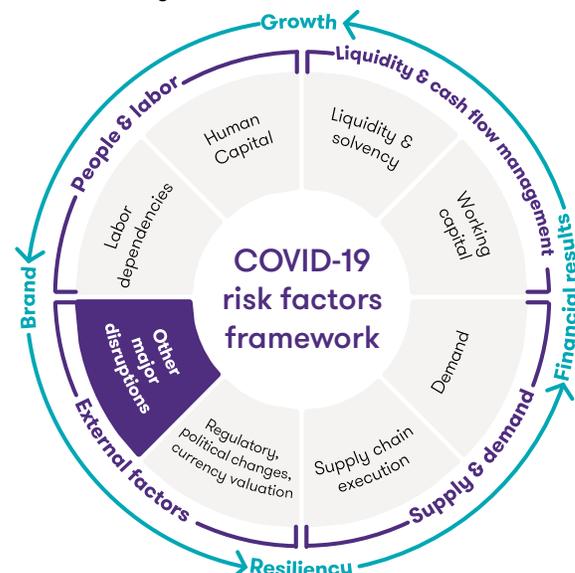
- Reviewing the Force Majeure (or Acts of God) clause and assess which party is responsible for deciding to suspend or delay construction, what specific contract provisions are covered by the clause, if the clause addresses required mitigation steps, and how to interpret the Force Majeure for an event with no defined end date.
- Determining if delays are addressed by liquidated damages (or comparable remedies) and whether the contract structure allows for changes to the cost of construction; this is especially relevant in Guaranteed Maximum Price (GMP) and Construction Manager at Risk (CMAR) contracts.
- Validating that established bonding and insurance requirements have been properly secured and the responsible parties are current on all premium payments. It is especially important to confirm subcontractor default insurance (SDI) is active during a time when subcontractors may be experiencing cash flow and other challenges.

When assessing the operational impact of COVID-19, the working group should discuss the sought-after balance between project schedule and cost. These two sometimes competing priorities naturally intersect and require an honest discussion regarding the following elements.

Schedule considerations

We recommend assessing potential changes to the critical path schedule by diligently examining capacity and productivity estimates by:

- Engaging with your primary contractors to understand their performance capabilities and constraints, as well as the underlying delivery assumptions. Where possible, consider if modifying the means and methods may reduce future, downline schedule delays related to weather or other external factors.
- Analyzing whether government direction regarding social distancing impacts labor production. For example, social distancing requirements for your workers might slow down their progress, but less general traffic in the area may allow for faster material delivery.
- Understanding whether building permits will need to be extended or re-issued due to a change in approach or scheduling adjustments. The permit issuing agencies in geographies with dense populations and high volume of construction may themselves be strained which could result in unforeseen delays.



Cost considerations

We recommend analyzing the costs incurred to date and reforecast costs to completion based on various schedule alternatives. Factors that impact future cost forecasts include:

- The capacity and quality of the labor pool for key subcontractors. For markets with significant exposure to COVID-19, a limited workforce may lead to higher labor rates and unexpected, uncapped overtime costs.
- Impact to the global supply chain may result in delivery delays and more expensive raw materials, supplies and equipment. In addition, price acceleration provisions may be triggered and increase the previously budgeted material and supply costs.
- Work from home restrictions for non-essential supervisory and administrative staff may lead to inefficiencies on the project that need to be considered when projecting and reanalyzing general conditions and other administrative costs.
- Finally, it is important to recognize the inherent risk of the unknown surrounding the COVID-19 pandemic and revisit project contingencies and budgets to account for the evolving nature of the new normal.

By actively analyzing the above factors (and more), you can increase the transparency on your project and better manage the contract, schedule and cost risk in this chaotic business environment.

At the ready to help you

Our construction specialists are on standby to provide additional insights on construction project risk in this unprecedented global environment. We bring comprehensive experience in assisting owners, developers, contractors and project managers on a range of capital project issues.

Our approach is to provide practical, right-sized solutions to help organizations in the ways that matter most.

You can count on us to:

- Bring a calm and deliberate approach to discussing key considerations
- Help you filter out the noise and create actionable plans
- Respond at the speed of your need

Discover additional insights

For more economic analysis, business implications, and new thinking on how to respond, restore and plan – please visit our [COVID-19 resource center](#).



Contacts



Greg Ross

National Managing Partner
Construction Industry
T +1 704 632 6817
E greg.ross@us.gt.com



Ryan Maupin

Principal
Strategic Solutions
T +1 212 542 9988
E ryan.maupin@us.gt.com



Scott Shaffer

Managing Director
Strategic Solutions
T +1 414 277 1560
E scott.shaffer@us.gt.com



Alex Koltsov

Senior Manager
Strategic Solutions
T +1 330 883 9190
E alex.koltsov@us.gt.com



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