



Quality has a cost: Why building owners shouldn't trust the lowest contractor bid

Sometimes contractors will shave too much money off their proposal price in order to secure a job. That is why when it comes to a major commercial renovation, the lowest bid is rarely the best bid.

In the construction industry, the lowest bid is often referred to as a "suicide bid" – the one the building owner accepts at their own peril. A contractor who under bids other contractors by a dramatic margin is likely cutting corners by using cheap labor or materials, or they're inexperienced and simply don't have a clue what they are doing.



Unscrupulous contractors may intentionally underbid projects by using false, inaccurate or misleading information only to hit up building owners later with change orders for more money. However, once in a while, someone simply makes a mistake in pulling a bid together. It could be a misplaced decimal, transposing numbers, not catching additional work on other drawings, or any number of errors. Bids can also be undone when a contractor must submit the bid without access to a full set of construction documents or if subcontractor proposals do not include the full expected scope of work.

Getting multiple bids for a renovation project is always a good idea. When you get multiple bids, there will always be a lowest bidder, and there will always be a highest bidder. Of course, it's our natural tendency to go with the contractor who is presenting the lowest total cost, but if they're underestimating, you might have just walked into spending hundreds of thousands more on a project than you intended to. Unfortunately, barring a lawsuit, contractors often don't face a penalty for presenting false or inaccurate information, which places the onus on the building owner to dig deep and figure out whether or not to trust a bid. Further complicating this situation is that the rules and laws that apply to dealing with bid mistakes vary from state to state, locality to locality, and can even differ among different agencies within the same state, county, or municipality. Lawsuits can go on for years without any guarantee of a positive outcome, costing the building owner not only sky-high legal fees but the added expense of not operating the building for an extended period of time. It should also be noted that the contractor with the lowest bid often runs the greatest risk of bankruptcy during the project, leaving the building owner with no recourse.

It can be challenging to determine which contractor has offered you an accurate quote, and who might be undercutting the competition to win your project. The best way to weed out questionable contractors is to compare each itemized bid. Look at brand names, quantities, material types, labor costs and other variables listed on each contractor's estimate. In addition, there should be a responsibility matrix for labor and materials separating what is "Owner-Furnished Contractor-Installed" (OFICI) and what is "Contractor-Furnished Contractor-Installed" (CFCI). In some instances there will also be a list of allowance for materials that have not yet been specified, but are known will be needed. These allowances absolutely must include quantities to be accurate. Yet another issue that needs to be addressed on the bid is "attic stock," meaning the excess construction materials left over from a job and in storage. Often the owner assumes

they get attic stock, for instance, surplus paints, ceramic tiles, carpet, and other consumables. Performing a serious comparison of all bids will help the building owner decide how the lowest bid contractor is cutting costs and what the economic consequences might be.

Finally, the bid has to incorporate a high-level milestone schedule demonstrating how the construction process will play out over time. If a schedule is included in the bid, does it consider potentially longer lead times for items that are hard to come by due to supply chain issues? Does it incorporate the risk of time-consuming disruptions and how those can be worked around? Is the proposal inclusive of general conditions (i.e., tools, equipment needed for the project), or are the general conditions extra and billed additional if the project runs over the projected schedule? As the old saying goes, "time is money." Without a detailed schedule of construction activities included in a bid, chances are, the project is going to take much longer and you are going to be paying a great deal more money.

Unfortunately, there is no standardized structure in the commercial renovation industry for how the various components of a project are presented on a bid. And when you can't compare one bid to another, it becomes impossible to make an informed decision. For a hotel renovation, for instance, an owner might receive a bid to perform a Property Improvement Plan (PIP) with hundreds of line items, multiple columns, and dense pricing data based on the precise measurements of each guest room. The next PIP bid could be structured at the whim of the estimator with few details but a lower price. Not only does this make competing bids difficult to interpret, but it makes it impossible to compare bids "apples to apples" because of how the items are listed and calculated. Building owners have to demand that each contractor present a fully itemized, detailed bid that empowers the owner to make an informed decision.

What kind of details are we talking about? As an example, let's look at drywall which is available in a variety of types and thicknesses. Drywall can be either regular, fire-rated (Type X), moisture resistant, plaster baseboard, paperless, cement board, soundproof, or exterior grade in thicknesses of $\frac{1}{4}$ ", $\frac{3}{8}$ ", $\frac{1}{2}$ " and $\frac{5}{8}$ ". If the type and thickness is not specified, one contractor may bid using the cheapest ($\frac{1}{4}$ " standard), and another may bid using $\frac{1}{2}$ " moisture-resistant board at twice the price. Now use this same formula for lumber, tiles, carpeting, wallcoverings, paint, et cetera. This is one reason for wide variations in contractors' quotes.

How Low is Too Low?

An "outlier" is a bid that is significantly higher or significantly lower than other bids. Let's go back to the hotel project mentioned earlier as a demonstration of an outlier. For a PIP, the hotel owner is required to update their property to current brand standards. Three general contractors review the PIP requirements and submit these bids:

Bid 1: \$65,000
Bid 2: \$110,000
Bid 3: \$190,500

Of these three bids, the mean is \$110,000 and the average is \$121,833. The low bid at \$65,000 could be an inexperienced contractor looking to break into the hotel renovation business. That low bid may include discounted or poor quality materials, no workman's comp or general liability insurance, and unskilled subcontractors. Equally important, are the three bids reflecting the exact same scope of work? As the hotel owner, you have to become your own advocate and decide whom you will trust.

Often, safety is one of the first things that gets cut to provide a very low bid. The scope of work will detail how things are to be built and what materials are to be used, yet it often does not give instructions about maintaining safe, clean worksites. Minimal dust protection, cheap scaffolding, and poor OSHA compliance are often the result, among other worksite dangers. Check with OSHA as to each of the bidding contractor's violations, injury records, and site visits. If the low bidder has a high rate of employee injuries, you do not want them running your project.

Buyer Beware

Sadly, there are quite a few fly-by-night contractors out there that close shop and rebrand themselves a year later to escape their reputation. Cicero Construction advises building owners to look for the firm with the best track record and the best references. That firm should be in business at least seven years and have no unresolved complaints at government agencies or the Better Business Bureau.

In addition, make sure you are getting apples to apples bids from each contractor with all parties quoting the same scope of work with the same materials. Also, any contractor that pressures a building owner to make a decision as soon as the bid is presented might be doing so because their contract is less than honest. Finally, recognize that contractors tend to develop specialized areas of expertise. Before requesting quotes, identify those who are experienced in the type of project being undertaken. Avoid inexperienced

contractors, as their prices may be unrealistically low, the quality of workmanship is likely questionable, and the time required to complete the project may be excessive.

Top-level renovation contractors charge what they're worth, while less experienced ones try to win a bid by cutting their margins. Not only can you expect quality issues with the work delivered, inexperienced contractors are far more likely to have delays due to deficiencies in productivity. Costly change orders, claims and pricing disputes caused by nonexistent or minimal margins are common, as are worksite injuries and OSHA violations. A higher, more accurate bid submitted by a reputable, experienced contractor typically saves building owners significant money and hassle in the long run.

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