

# ASSESSING PROJECT FEASIBILITY DURING AN ECONOMIC DOWNTURN

Depending on the intensity of an economic downturn, the feasibility of construction projects can be significantly impacted, postponed, or even cancelled. In 2020, the global economy plummeted into a temporary recession after the COVID-19 pandemic deeply affected nearly every industry, disturbing supply chains around the world and forcing businesses to make difficult choices about their operations.



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# TABLE OF CONTENTS

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Introduction	2
Estimating Project Feasibility	3
Review Sources of Financing	4
About CIVE	5

# INTRODUCTION

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When facing economic downturns, companies both large and small, are forced to make challenging project decisions. Those choices have ramifications that affect revenues, incomes and impact everyone's lives. Those operating in the public sector may be able to weather the storm through government leadership assistance and backing to ensure the continued project development. Private business owners are less likely to receive direct help and will need to plan ahead to protect their organizations.

The construction companies who are typically impacted the most are more traditional owners with paper based projects and older, more rigid processes. With COVID-19, travel was halted, projects were delayed, supply chains were disrupted, and lockdowns and social distancing endangered most projects. To fully comprehend the impact of the most recent economic downturn, let's review some industry surveys regarding the crisis. In a survey of contractors performed earlier this year, nearly 60 percent said the company had told them to stop or cancel jobs and 35 percent said the most frequent reason for a halt or delay was shortage of parts, equipment or materials. Luckily, most states deemed construction an essential business, so many construction contractors and developers were able to continue work on their existing projects.

For construction companies with only local operations, it was much easier to track updates and adjust in accordance to state and county requirements. Unfortunately for those with operations in multiple states, every project had to be monitored at each area. This included following guidance from state governors, implementing locally mandated workplace safety practices, and making deliberate choices that were in the best interest of their operations. When assessing project feasibility in an economic downturn, construction companies need to think about several different economic elements. In order to make an informed decision, companies need to obtain precise visibility into every construction project's impact on their operations and assess the sources of their financing. Information obtained from these important areas will help determine whether a project can continue, is placed on hold, or is cancelled.

## ESTIMATING PROJECT FEASIBILITY

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Typically, in a more traditional construction environment, obtaining true awareness of a construction project's financing and cash flow is a bit fragmented and can be a time consuming process. It often entails a combination of various spreadsheets, estimates from contractors, RFIs, and seemingly countless documents which are often out of date. When faced with an economic downturn and higher costs of delivery, companies need to re-evaluate what projects are viable and makes sense to proceed with.

For construction managers, determining which projects have the largest impacts on their company should be the first priority. This is where a construction project management system is essential. In a regular operating environment, trying to collaborate information stored with contractors, sub-contractors, and architects, and even within the company's own internal team make it virtually impossible to accurately identify and estimate feasibility of a project.

Forecasting and budget analysis are extremely important in assessing project viability. By implementing a methodical process, you can evaluate the anticipated project costs with greater confidence. This process consists of collating thoughtfully reasoned assumptions based on estimates, reports, logs, technology, and equipment lists. Using the estimating and cash flow abilities within a construction project management system provides a real-time view of all of your projects.

Another way to think about a construction project management system, is that it holds the project management team accountable for day-to-day activities. The system tracks tasks that could potentially add risk, and more importantly, the true costs of a project. Construction companies significantly benefit from the transparency provided through dashboards and reports on the processes and projects in-flight. When budgets, invoices or commitments are modified or added, the project management system will reevaluate cost assumptions. Any modifications or additions are reviewed against the contract and budget to make sure the newly adjusted figures don't exceed assumed amounts.



## REVIEW SOURCES OF FINANCING

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Another important aspect during an economic downturn is to evaluate funding sources as they could be potentially compromised. For construction companies that operate in the public sector, there can be a concern about the short-term impacts on infrastructure projects. Public projects like repairs on bridges, extending public transportation, bridge repairs, or highway development can all become threatened due to the declining local tax revenue. To alleviate these concerns, governors can reallocate tax funds from one area of the state budget to another. Specifically with the COVID-19 pandemic, more people are staying home, minimizing travel so states like New York deemed roads, bridges, utilities, transit facilities, hospitals, health care facilities, affordable housing, and homeless shelters as essential to ensure the continued development of these projects. To help stabilize the economic environment and dispel fears, government leaders should look to find innovative solutions to help preserve the continued construction of infrastructure deemed essential.

For construction companies operating in the private sector, they will need to pursue an aggressive, more independent, path towards evaluating project feasibility. Most businesses continued to operate, but did so in a virtual way. Thus businesses operate as normal but with a roughly 40 percent reduction in revenue. Companies with planned projects to renovate or expand are threatened due to an unexpected and significant decrease in revenue. Many construction projects are delayed or abandoned. However, most of the projects that were already initiated continued to proceed which allowed construction companies to finish in-flight projects.

When an economic downturn comes, construction companies become very aware of their current financing and work to establish highly effective expense reduction measures. In a construction project management system, companies are able to identify and review their current financing, budget status, and the remaining expenses associated with completing various projects.



## ABOUT CIVE®

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CIVE® is an upscale Design-Build firm, specializing in top-down build process driven by value engineering – from state-of-the-art design, leading-edge engineering, high-quality construction, and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on us to anticipate industry changes and plan for the future, while providing most practical and cost-effective solutions. CIVE® devotes customized, individual service to all its clients, whether large or small.

Specialties: Residential, commercial & industrial design, civil engineering, structural engineering, mechanical engineering, electrical engineering, construction management & project management.

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