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Special Report: Construction & development

# Dos and don'ts for contractors in Nashville's building boom

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News headlines, tower cranes and traffic — three signs that point to Nashville's status as one of the great "boom towns" in the United States. The race is on for local and out-of-town contractors to build and complete numerous projects, ranging from basic infrastructure to high-rise buildings.



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While not a complete list of everything that requires a contractor's focus, the following dos and don'ts during Nashville's building boom are critical in order to cement business success:

## Underbillings

Avoid or limit underbillings. By definition, an underbilling (industry term for costs and estimated earnings in excess of billings on uncompleted contracts) is an asset that is recorded to recognize construction revenue that has not yet been billed to the customer.

## Subcontractor prequalification

Taking proactive steps toward limiting subcontractor failure by thoroughly prequalifying potential subcontractors cannot be more important. Ensure proper licensure, insurance coverage and ability to obtain a surety bond for the subcontractor's scope of work.

## High-risk customers

It is critical that potential contract owners are reputable, and that project funding is in place and reliable. Thinly capitalized companies with little to no tangible assets or operations should be vetted prior to contract execution.

## Financial benchmarks and ratios

Record backlogs are common, and it is imperative to keep a focus on maintaining solid financial ratios. These include working capital, tangible equity, cash flow, debt service, among others for continuation of bonding programs and compliance with bank covenants.

## Overextension

Recruiting and retaining a talented labor force is an outright challenge in Nashville's highly competitive market. Contractors should carefully consider and ensure that adequate labor and supervision will be available to meet the needs for the "next big project" that is sure to stretch capacity further.

Ultimately, a contractor's success or failure often is not measurable based on one specific factor, but results from a combination of smart business practices, such as those outlined above, coupled with the determination and dedication of the organization's people.

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