

Ways to Avoid Costly Mistakes during Property Development Construction

by Adrian and Amber Zenere

Once the building contractor is on site and the project is underway. It really is an amazing feeling when you start to see your real estate development project start coming up out of the ground.

Whether a developer is planning to sell some or all of the units, marketing activity starts the moment finance is secured. The construction phase is usually the most expensive; therefore we like to carefully manage the project during this stage.

When we engage a Building Contractor we schedule regular site meetings, typically every week or two, to discuss any queries or potential problems and we make sure our Building Contractor has fulfilled their Occupational Health and Safety (OHS) obligations fully.

Remember that it's the Building Contractor (not the Owner or the Architect) who represent themselves as the expert on erecting buildings. Therefore it's never a good idea to tell the Building Contractor how to build the building instead we instruct the builder as to the desired result to be achieved, not how to achieve it.

We pay our Building Contractor progressively, either monthly or at the completion of each scheduled construction stage, using draw-downs from the construction loan. It is not unusual for the Building Contractor's claim for completed works to vary from their schedule so it is important to make payments only to the value of the completed work.

Some real estate developers appoint an independent building inspector to review the quality and amount of work at each progress payment stage as this sends a message to the Building Contractor to be on the ball. This could be your Architect or you can find a good Building Inspector from the Master Builders Association in your area.

We try not to make changes after construction has started, as they usually end up being costly, and delay the completion date. If changes are necessary to the original contract scope of works or finishes, we request the Building Contractor advise us in writing what the variation to the original contract sum and the delay time will be so we can approve it BEFORE he makes any changes.

Before the handover at final completion, we have a joint inspection of the project with our Building Contractor (we also recommend with your architect and/or building inspector present). A list is made of all the defects and problems that need to be fixed by the builder before the building is officially handed over.

Simply, the developer's aim under the contract with the building contractor is to produce the designed building on time, within budget and at the quality standard that has been specified. Therefore, during the construction stage, it is essential that a savvy developer (or their appointed project manager) monitor the progress and cost of the construction work to ensure that the project is delivered on-schedule and on-budget.

Any time extension from the plan/schedule or variation in cost will potentially affect the profitability of the property development project. The building contract generally will detail the developers/owners responsibilities. Depending on the contract chosen, these responsibilities will typically include:

- to ensure adequate access to the building site
- to pay progress payments promptly
- to insure the completed project, after practical completion

DELAYS AND EXTENSIONS OF TIME

There are many reasons why delays occur during the construction stage, causing the late completion of the project. Many of these reasons are outside of the contractors control and some of the most common of these include:

- bad weather
- a delay in receiving necessary information from the developer or the consultants
- technical problems
- industrial disputes

Most standard building contracts will allow the builder to claim an "Extension of Time", for delays caused by factors outside of their control. The practical effect of these extensions is to adjust the Completion Date that was agreed in the contract.

However, where the building contractor is responsible for the delays, either through a lack of programming or for any other reason, the building contract will frequently include for the payment of Liquidated Damages to the developer.

In these circumstances, where the project is delayed beyond the Completion Date noted in the contract, allowing for any extensions of time, the final payments to the contractor will be adjusted for liquidated damages, in the amounts stated in the contract, for each day the completion is delayed.

RISKS DURING CONSTRUCTION FOR A DEVELOPER

As the construction phase is usually the most expensive stage of the entire property development process, and the period that a developer will typically have the greatest negative cash-flow, we continue to carefully manage the project during this stage.

The construction stage can have the greatest potential effect on the final construction cost and the timing of the project. As even short delays or relatively small changes in the cost of the construction can have a detrimental effect on the profitability of the project we recognise this stage as a time of potentially significant risk to the development project.

The risks, during the construction stage, that we are particularly conscious of include:

- the contractor is unable to complete the project
- the completion of the construction is delayed
- the costs of the construction increases significantly
- unacceptable standard of building work

For more information browse: RealEstateDevelopmentClub.com

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Together they run a busy Sydney boutique architectural practice archizen.com.au specializing in Holistic Architecture, combining eco sustainable development principles with the philosophy of feng shui, resulting in harmonious living that is respectful of our environment. Their projects are regularly featured in the Australian Property Investor, Luxury Home Design, Lifestyle Magazine, Home at Yellow and many Sydney newspapers.



Adrian and Amber are also authors of the popular small Real Estate Development book '**RED Armchair Entrepreneurs RED Hot Property Profit\$**' and founders of the '**Real Estate Development Club**' where they use their professional knowledge and experience to help beginners get started in small property development and build a sustainable RED business.

To have a closer look at Adrian and Amber's Real Estate Development process and access your free webreport visit: RealEstateDevelopmentClub.com

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