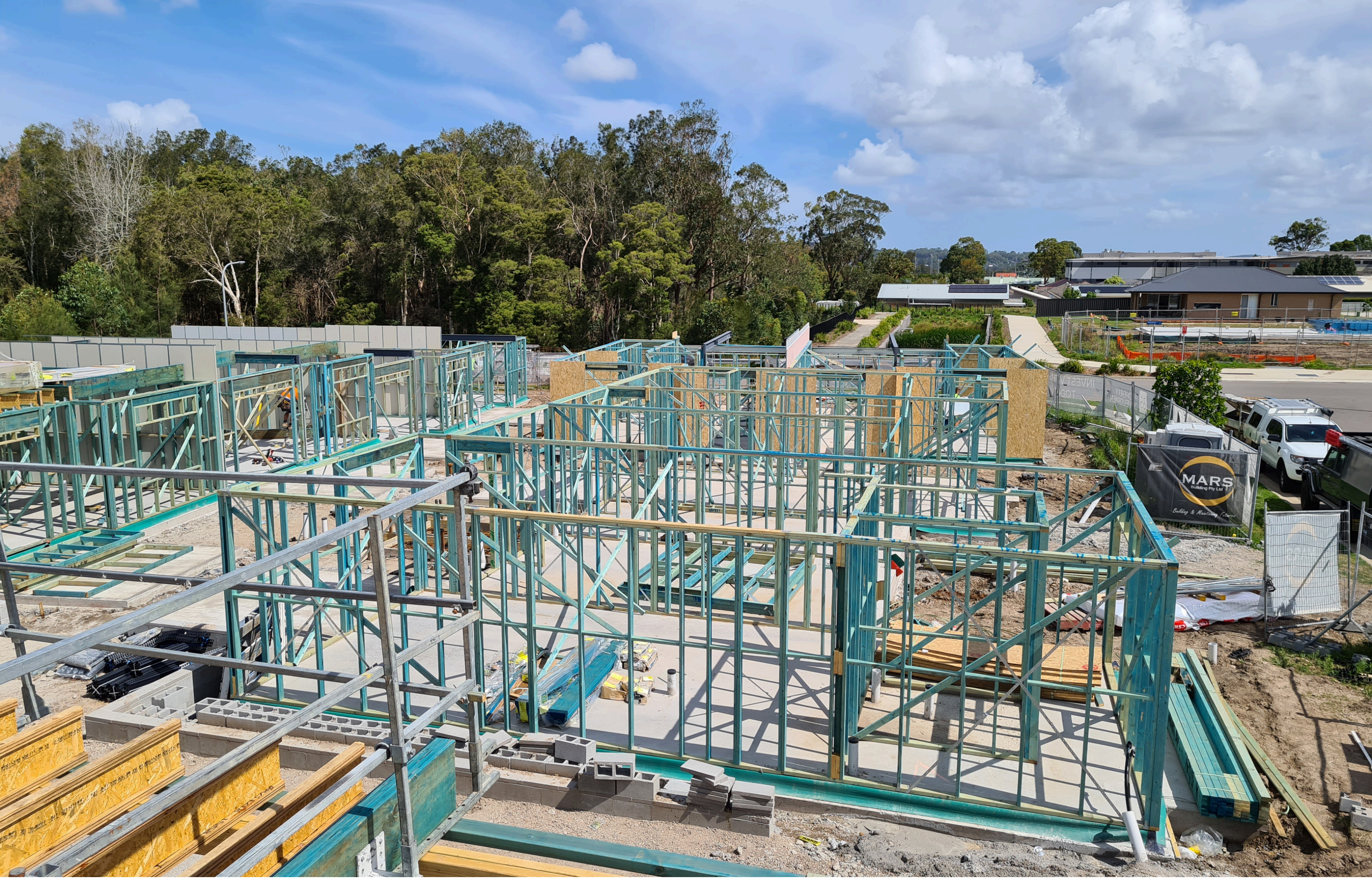


12 STEPS

OF THE DEVELOPMENT PROCESS

STEP ELEVEN: CONSTRUCTION AND PROJECT MANAGEMENT

35
LATITUDE
PROPERTY
DEVELOPMENT

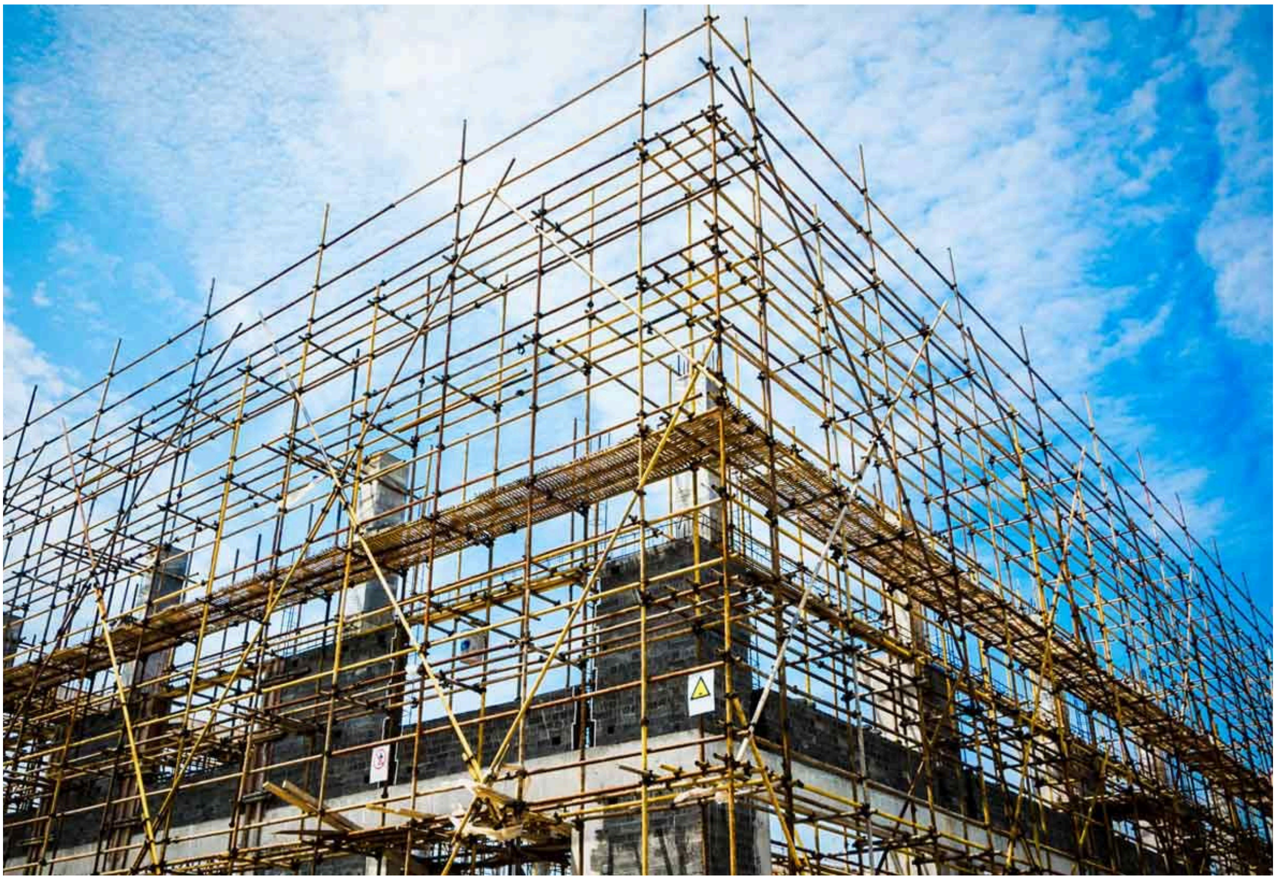
Congratulations. You have found a site, managed it through the complex DA and CC phases. Successfully marketed to meet any pre-sale requirements to satisfy your preferred lender's needs. You're almost there.

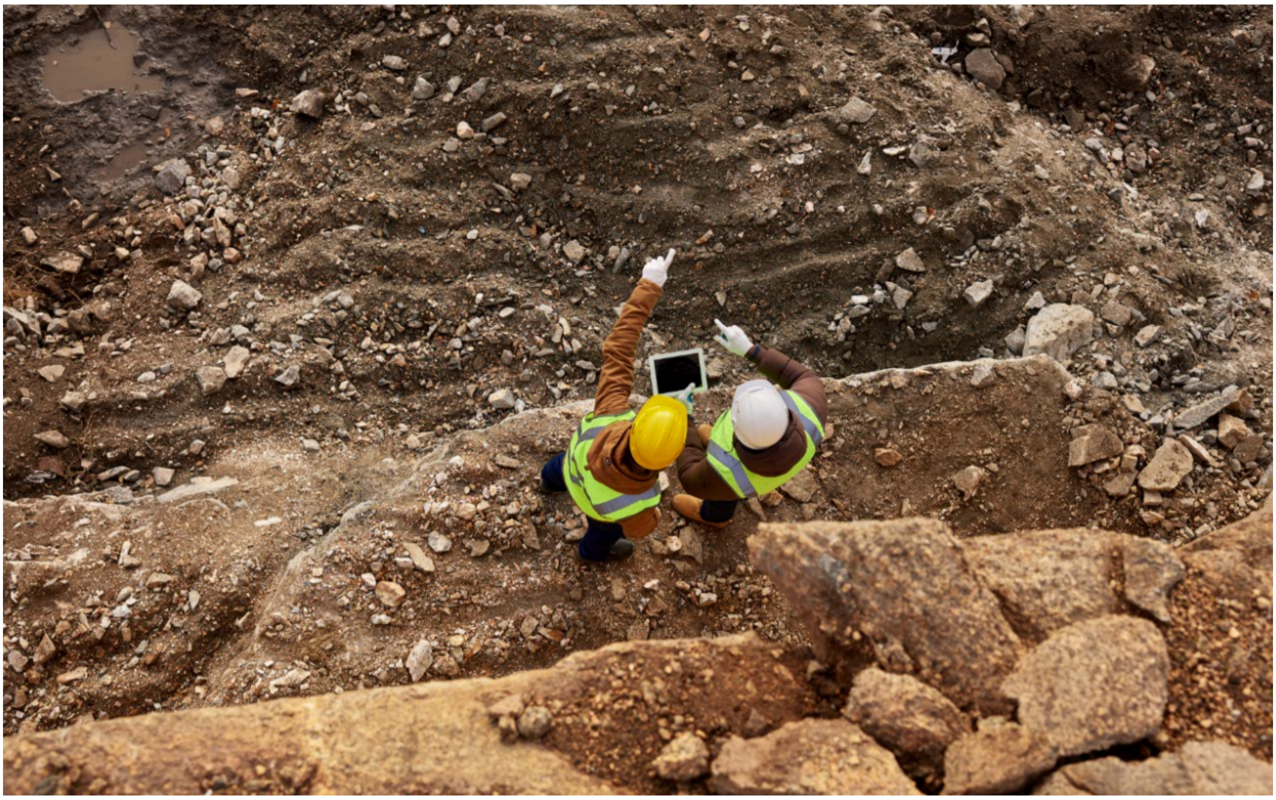
Now just a small matter of getting the development built!!!

When starting out in Property Development, most people take the route of starting small, and I always suggest this. Reducing risks, minimising variables and controlling costs are always a lot easier on a small project. It's simply the case that less things can go wrong.

And when dealing in a small project, it is likely that you will have numerous builders to talk to. A small project is easier to build than a 20 story apartment complex, so there are more builders qualified and prepared to do this work. As your sites increase in size and complexity, there will be less and less builders who can adequately manage these projects. Between high costs, lack of adequate home owners warranty insurance, insufficient trades or unable to project manage the job, your pool of available builders suddenly decreases in size.

If you're doing a simple duplex or small scale town house development, a lot of "mum and dad" builders can manage a project of this size. And the process is typically pretty straight forward. As things progress, you will need to start to think about the different types of building contracts you could utilise to deliver the best cost out come for your project.





There are a number of differing contracts available, and they all come with their own positives and negatives. A few common contracts include:

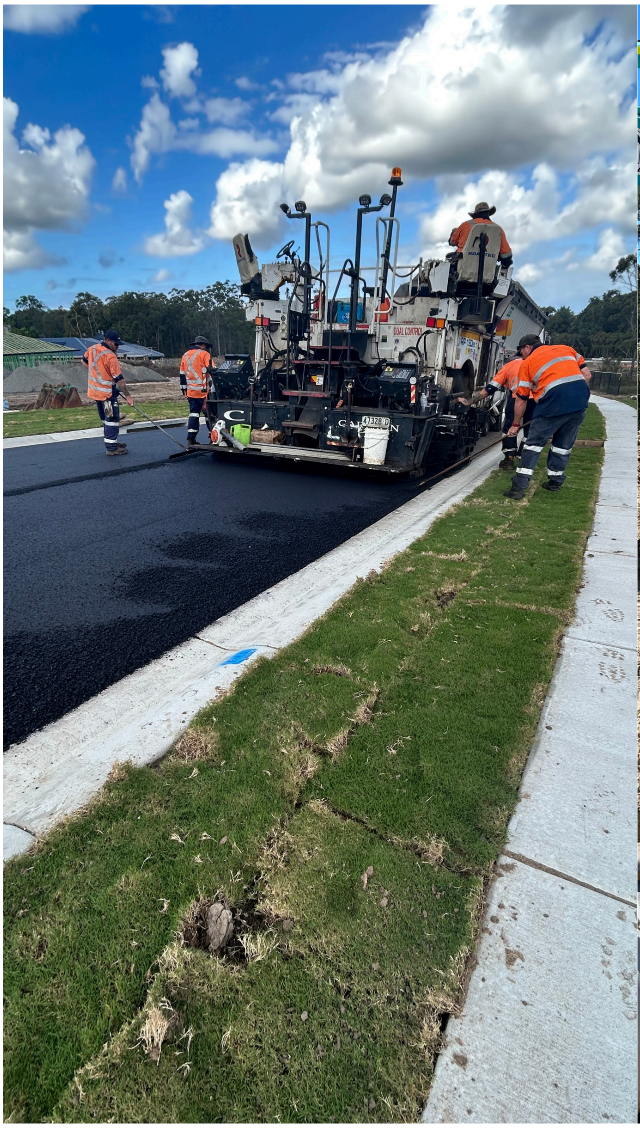
- Fixed Price Contract - This Contract provides for a price which is not subject to any adjustment unless certain provisions (such as contract change after signing or contract exclusions) are included in the agreement. These contracts are negotiated usually where reasonably definite specifications are available, and costs can be estimated with reasonable accuracy. A fixed price contract places minimum administrative burden on the contracting parties, but subjects the builder to the maximum risk arising from full responsibility for all cost escalations. This is the most common contract as it provides the most cost certainty for the construction.

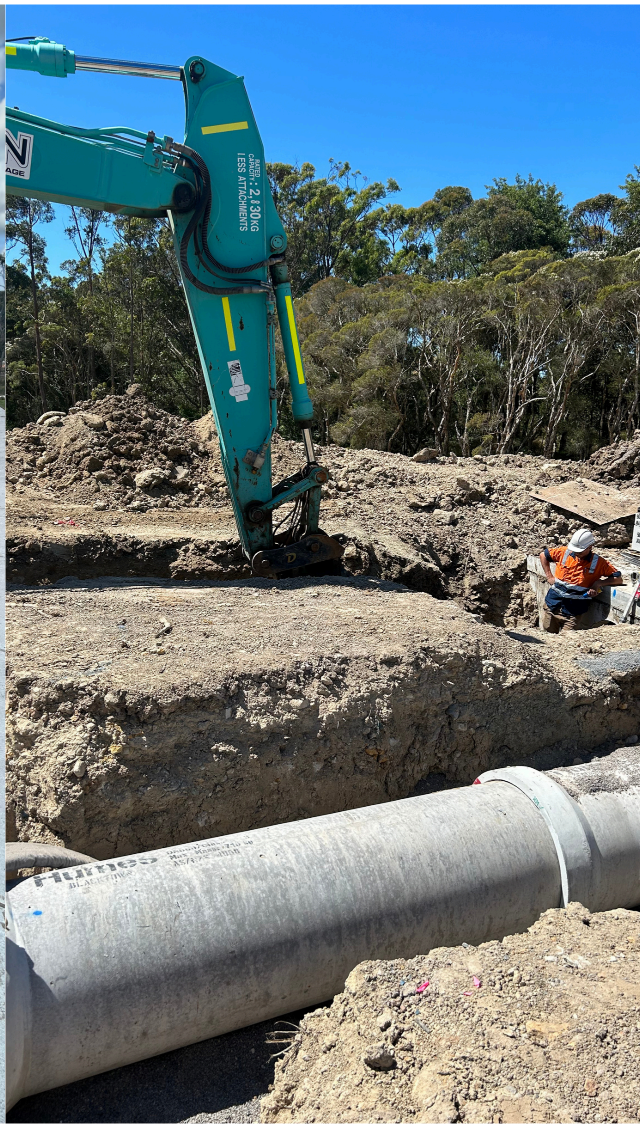
- Cost-plus contract - In this instance, the builder gets paid for all construction related expenses based on the actual cost plus a pre-determined (and agreed) profit margin. The term plus refers to the profit margin charged by the builder. A cost-plus contract can provide a win-win situation for the builder because all risks are basically covered, and all expenses are likely to be paid. However, the builder must justify and present evidence that justifies that the cost is related to the job

A cost-plus contract might be used when there is a high probability the actual cost might be reduced. This type of contract is preferred when there is not enough data to perform a detailed estimate of the work, or when the design is not completed.

- Design and Construct Contract - The Design and Construct (D&C) contract puts the onus back to the builder to organize the final design paperwork for construction, and potentially enables them to drive additional costs savings to the project. Many builders have a preference on "how" they construct and project, right down to having a preference on material selection (and perhaps additional costs savings due to quantities they source).

One of the main gains for going D&C is the time savings. While the traditional method of preparing 100% complete detailed design documentation before awarding the construction contract has its distinct advantages, the process is often exhaustive and time consuming. D&C by comparison allows the construction tender to be started as early as the project brief can be defined and concept designs drafted. In turn, the builder is able to make haste with preliminary works and start construction sooner, perhaps even before the design is fully completed.





One of the beautiful things about starting small is that you can learn on the go. Your builder will either be an owner/operator or have a specific site supervisor appointed by the company to your construction job. They will have years or experience in the building industry and organizing trades.

Your job really becomes one of managing the builder, and holding them accountable to their delivery of your end product, on time, on budget and to the design spec agreed for within your contract.

You aren't required to know how to build the property, nor which trades are needed when, that is the builder's job (or their site supervisor). But you are responsible for holding them accountable. Your builder should be able to provide you with a work schedule at the start of the job, outlining when each trade will be working on the job, and expected timelines for completion of specific parts of the construction. This will help you keep track of where the build is up to, and if they are meeting their timelines.

As projects increase in size, it may become apparent that you aren't able to continue to manage this process. This is an area that you're Architect or town planner may be able to assist with. Sometimes your bank may require you to have an external project manager, whom you employ to visit the site and keep the builder accountable. Whilst this may be an additional expense, they may also suggest costs savings along the way and ensure the project keeps on time, which in turn saves you money in the long run.

So make yourself known to the building team, let them know you are around and keeping track of progress. Just like anything in life, a constant review will ensure a more timely build time frame and a better quality outcome.

Happy building!