



Development Finance

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3 February 2011

61185925





Procurement and Construction

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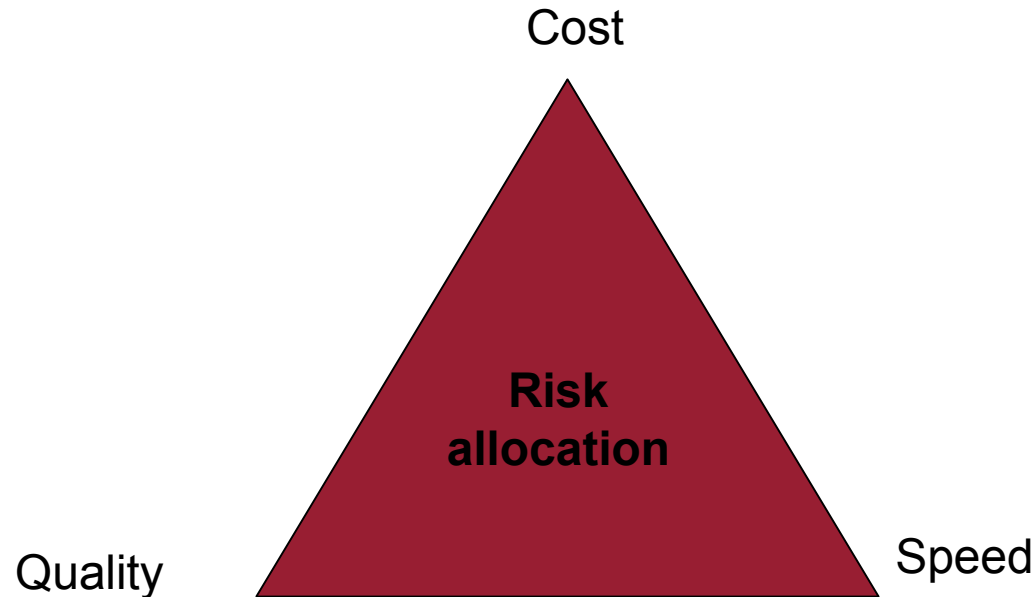


Funding development of a project

- Type of project?
 - office
 - retail
 - residential
 - mixed use
 - leisure/hotels/stadia
- Assessing development objectives/approach
 - exit strategy
 - long term investment
 - trading
 - joint venture
 - known/potential third parties (other than funder)
 - purchasers
 - tenants



Procurement Objectives



Typical methods of procurement

- Traditional – split design and workmanship
- Design and Build – Single Point Responsibility
- Construction Management – “Fast Track”
- Management Contracting – “Fast Track”



Traditional

Interested Third Parties

Fund

Purchaser

Tenant

Employer/
Borrower

Professional Team

Architect

Structural
Engineer

Mechanical and
Electrical
Engineer

Quantity
Surveyor

Project Manager

CDM Co-
Ordinator

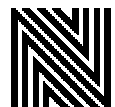
Design

Cost Control

Management

Main
Contractor

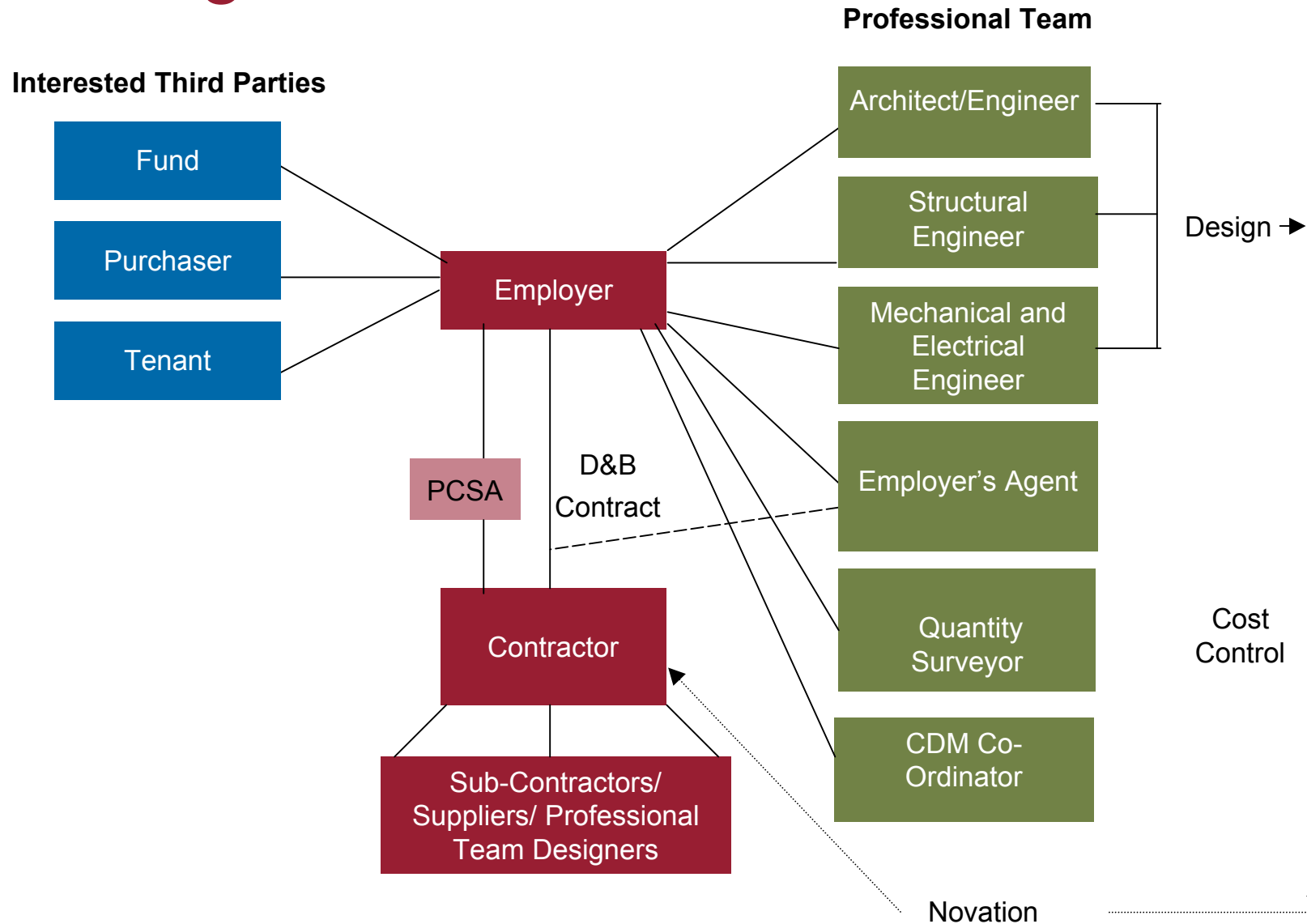
Sub-Contractors/
Suppliers



4

Key: - - - - = Contract Administration ("CA")

Design and Build

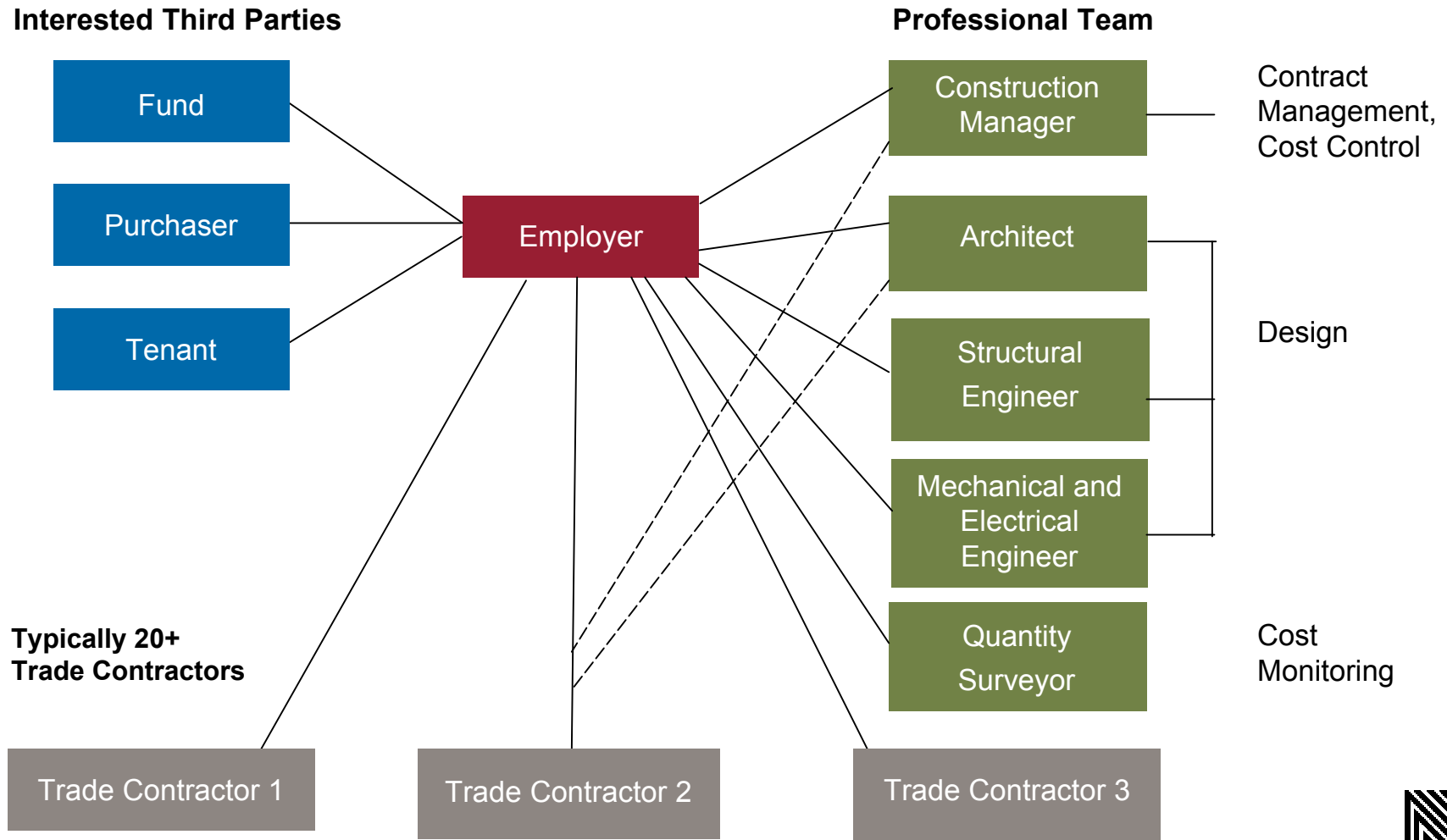


Key: ₅ - - - - = Contract Administration

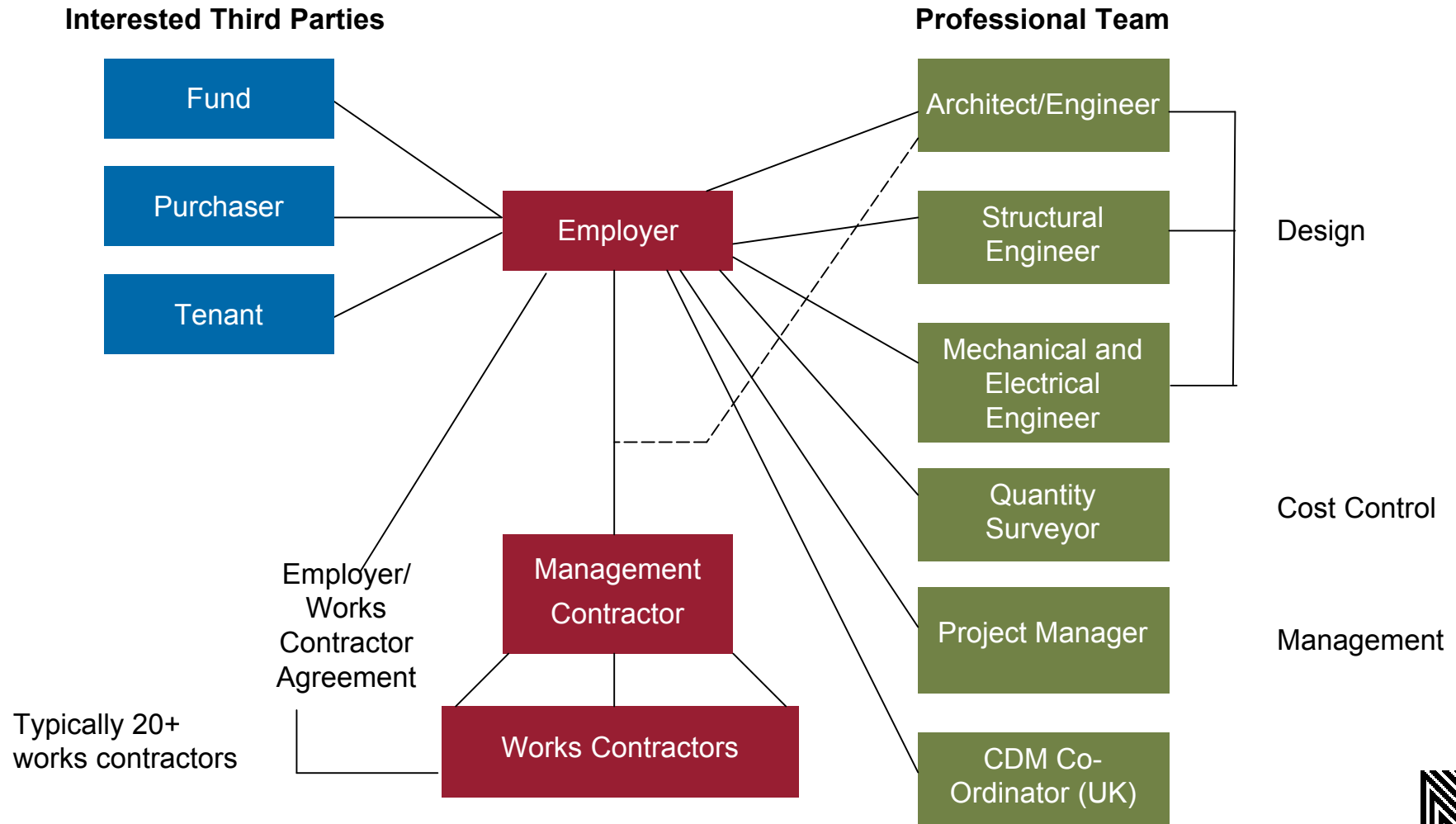
PCSA = Pre-Construction Services Agreement (if any)



Construction Management Structure

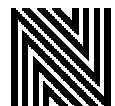


Management Contracting Structure



JCT

- Familiarity
- Legalistic
- Developed for UK
- Institutionally acceptable but with amendments



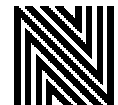
JCT Suite of Contracts

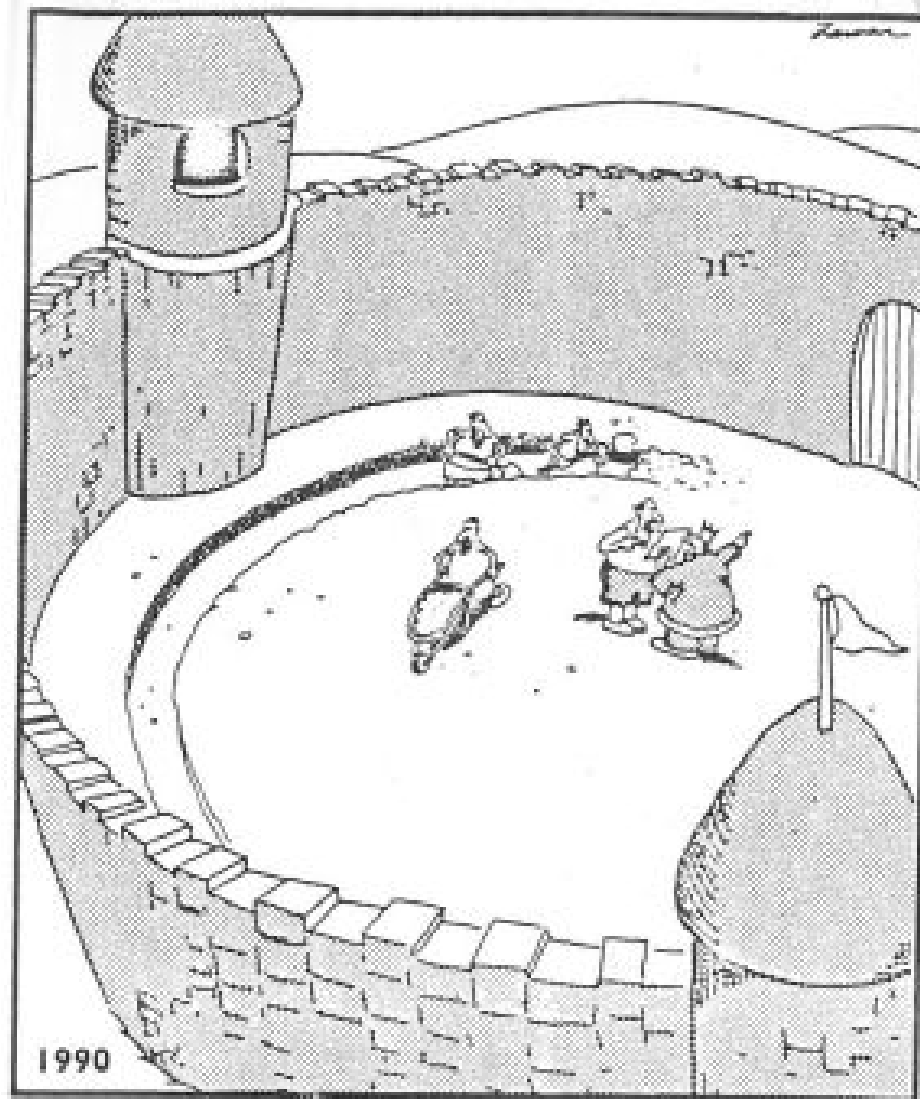
	<u>Use (79%)</u>	<u>Value (62%)</u>
• Standard Contract (traditional)	18.4%	19.5%
• Design & Build	19.4%	25.8%
• Intermediate	15.2%	2.5%
• Minor Works	23.5%	0.9%
• Management Contract	0.6%	0.6%
• Construction Management	1.1%	9.1%
• 61% of contracts over £50m still use a JCT form		
• Data: RICS “contracts in use” survey (published March 2010)		



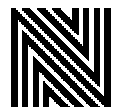
Project delivery risks

- Cost Overruns (variations, loss and expense)
 - Unforeseen physical conditions
 - Delay (and liquidated damages)
 - Contractor/sub-contractor performance
 - Insolvency/Termination
 - Defects
-
- Construction is a risk purchase but
 - managing risk (and returns) is key and
 - achievable with good
 - project team
 - project monitor
 - lawyers!





Suddenly, a heated exchange took place between the king and the moat contractor.

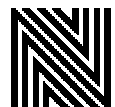


Clear Exit Strategy

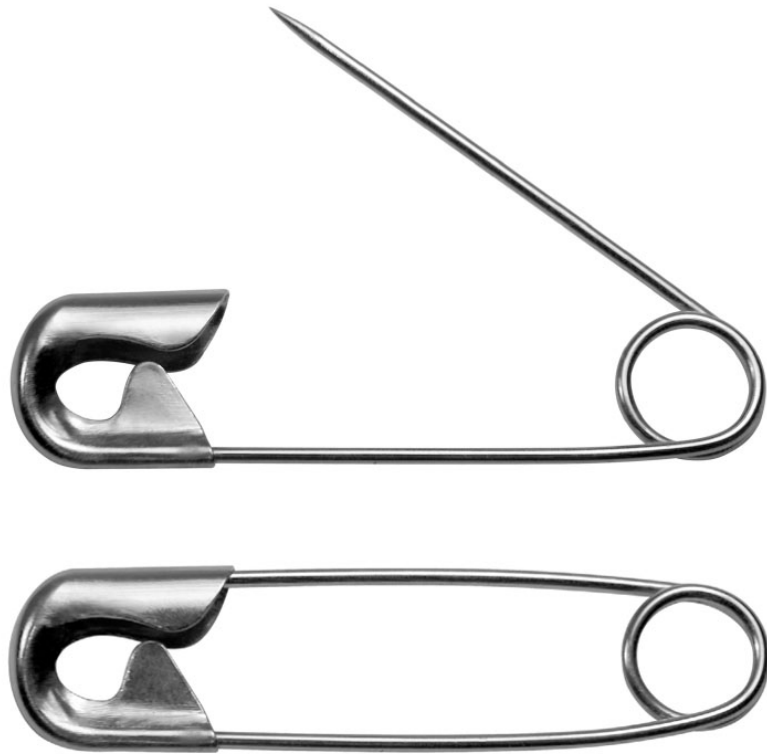


Security

- Exit strategies
- Debenture
- Share charge
- Guarantee
- Interest and Cost Overrun Guarantee
- Collateral warranties



Risk management stage



Reasons for delays/cost overruns

- Ground works
- Contract tenders
- Cost of raw materials
- Variations
- Third party influences
- Contractor failure
- Weather
- Finance Costs/Professional fees/Liquidated Ascertained Damages



Control and influence



Controlling the development during the development

- Project Monitor's role
- Drawdown mechanics and equity
- Generic/Specific covenants, reps and warranties, events of default
- Financial covenants



Development ... all about spinning the plates







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