

Half-Built Projects Come With a Whole Bundle of Issues

By Terry Dungan

As the industry continues to dog-paddle to keep its head above turbulent waters, many developers, owners and lenders find themselves sitting on projects in varying stages of construction/ completion and having to decide if the project should be completed, mothballed or sold. This has obviously created an opportunity for well-heeled buyers who are looking to acquire property and assets at greatly reduced costs. Deals in single-family, multi-family and just plain land are out there for the taking with commercial property next on the fire-sale list. The time to buy is right now, but the question facing investors is how to make that call.



Dungan

Making the decision on the next step is a difficult one. To aid in the process, tools are available, and the savvy investors/developers will understand how to get out of a project prior to getting into it. When initially looking at a property, especially a half-built one, it is very difficult to understand the complete value, let alone the potential. Many things come into play such as land value, engineering, environmental, liens, material and labor costs, zoning and more. Prior to making the decision to invest in a half-built project, prospective buyers need to take a closer look at the back end to understand its potential.

Property Condition Assessment

The purpose of a PCA is to provide the investor with a straightforward and understandable reporting of property conditions subsequent to an on-site review. It details the building's exterior and accessible areas, including structural, mechanical and electrical systems, and an appropriate number of units or interior spaces. It will incorporate available plans, drawings and specifications into the report along with detailed photographic documentation. The reports contain tables that identify immediate physical repair needs that are

critical, such as life and safety, and non-critical. The reports present reserve repair needs as annual cost items distributed throughout a predetermined timeline.

Cost-to-Complete Analysis

Doing a CCA is often the most appropriate and expeditious first step to understanding and determining what it will take to make a project ready for sale. The project will be inspected by a fully qualified inspector representing the investor and their interests. The CCA will incorporate available PCA, contracts, past budgets and schedules, plans and specs, and ALTA surveys, as well as environmental and geotechnical reports. It will discuss the current status of the project including work remaining to complete the project as proposed and any previously completed work that appears deficient. It will verify the reasonableness of the proposed budget, reviewing both hard and soft costs based on current industry pricing as well as any variances.

For Example, say an investor is looking to purchase a partially completed townhome project. Construction had begun in 2005 on the San Diego County development, which was to consist of a 111 units in 18 six-plex buildings and one tri-plex building constructed on 15.87 gross (8.5 net) acres. At the time of the work stoppage, four buildings were completed as well as all the pads and paving of onsite roads with gutters and curbs. All underground drainage was in place as was the front entrance gate and archway.

The PCA showed extensive mold spore damage in all four of the completed buildings due to incomplete fireplace flue caps and poorly installed roofing. The CCA showed that it would be more prudent to demolish the existing structures and avoid the high cost that would have been associated with required mold abatement and repairs. Based on the findings from the PCA and CCA, the investors eventually purchased the project and demolished all vertical construction in order to avoid all deficiencies that would have resulted in significant cost increases and scheduling delays. Construction on the project has begun and it is estimated that the investor will save approximately 5 percent on the overall budget.

Terry Dungan is national client manager for
Partner Engineering and Science.