



Module 7: Tendering for the builder

Tendering for the builder has to be handled with care and discipline if you're to find the right contractor at the right price.

What is a tender?

In construction, the main tender process is generally for the selection of the contractor who will construct the works. It involves a submission in response to an invitation to tender an offer to perform work at a given price

Successful tendering will depend on a number of things, including:

- Documentation
- Quality of building contractors
- State of the market
- Management of the tender process.

Documentation

The quality of your documentation, which typically includes architectural, engineering and other relevant consultants' plans and specifications, will determine the quality and accuracy of the responses from building contractors.

In order for the submissions to reflect the same build outcome, the documentation must be detailed and unambiguous. For larger projects it is usually accompanied by a Bill of Quantities from the quantity surveyor. An experienced architect and/or project manager will ensure coordination of all of the consultants' documentation.

Of course, the tenderers will differ on their price and the time they will take to finish the job, which is where the negotiations become critical.



PROPERTY DEVELOPMENT WORKSHOPS

Quality of building contractors

However good your documentation is, unless the quality of building contractors on your tender list is of a high standard and correctly matched to the type of construction work you want.

An experienced architect would have curated over a number of years a list of building contractors they are comfortable in recommending, as would an experienced project manager. Another excellent source of information regarding the performance of builders (remember, some- times they're only as good as their last job) is the quantity surveyor.

A quantity surveyor who works with builders every day, assessing their work and recommending progress payments to the developer and the bank, can provide great insight into how efficient the builder is, whether they're performing on time and on budget, and indeed whether they are difficult or easy to work with. Never underestimate the negative effect a personality clash between you and the building contractor will have on your project. Always make sure you're comfortable working with them for the twelve to eighteen months it might take to complete your project.

State of the market

A builder who is not hungry enough for the work will charge you a high price. Builders often get hungry as opposed to desperate because they're finishing a project and want to avoid downtime between jobs. They may be trying to grow their business in a new market or they simply find your project attractive because of its location, the type of construction or they see it as a catalyst for other similar work.

If there is a general downturn in the industry, building contractors, as well as the sub-trades, will be much more competitive in their pricing in order to secure projects. Take care, however, to ensure the contractor is financially sound and not taking too much risk in their pricing. There is then the risk that they will try to claw back profits they have forgone to win the job through variations during the works. There must always be the right balance between the builder's profit margin and their enthusiasm to win a tender.



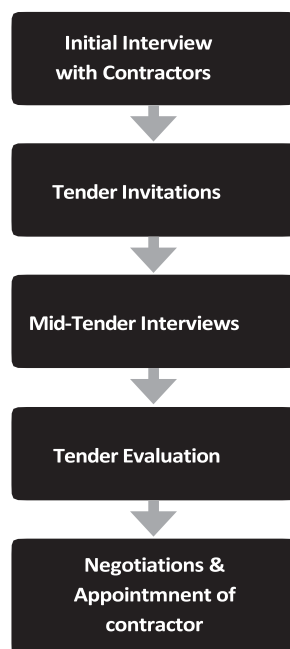
Managing the tender process

Good execution of the tender process will save time and money and ensure that the right building contractor wins the job. It is critical to have a quantity surveyor on board to help manage the process, together with your architect and project manager.

Figure 11.1 illustrates the main elements of the typical tendering process.

The goal of the tendering process is not necessarily to obtain the cheapest possible price for a project, but rather to minimise project risks by appointing a contractor who will deliver to the predetermined scope and quality, within the time frame and budget derived from the developer's feasibility analysis.

Figure 11.1 . Tender Process





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Negotiated contract

An alternative to the competitive tender is the negotiated contract. The process involves you and/or your consultants – namely, your project manager, your quantity surveyor (armed with a Bill of Quantities), and your architect - negotiating with a preferred builder for a price, rather than calling for tenders.

Advantages to this approach include:

- More accurate pricing
- More thorough assessment of the builder's capacity, both financially and operationally
- Time saved contracting the builder
- Greater certainty of the builder's ability to complete the project on time and within budget
- Better understanding of buildability issues and the opportunity to alleviate potential variations
- Opportunity to create a more collaborative spirit and better working relationship with the builder

Often, too, it may be possible to bring the builder on board early in the design process for advice.

However, with no competition from other builders, this method will rarely bring in the cheapest price. Furthermore, there needs to be a level of trust between the parties to make this work. I would suggest trying this method only if there is an existing relationship from past projects, if not between the developer and the builder, then at least between the architect and the builder.

Managing the construction process

The construction phase of your project is a major milestone in your 7-Phase Property Development Process. By the time construction starts you will have sourced a development site, procured funding, negotiated acquisition (preferably through a call option), completed the design development process, drawn up architectural plans and supporting documents, lodged the development (DA) application, possibly contended with neighbours and/or the council gained approval, obtained the construction certificate (CC), tendered for a building contractor and undertaken the necessary pre-sales to satisfy your bank's lending criteria so you can access your funds. You're now ready to see the fruits of your labour and vision take shape.



PROPERTY DEVELOPMENT WORKSHOPS

Like the other phases of the development process, the construction phase needs to be managed utilising the skills of your two primary consultants – the project manager, whom you will also appoint as contract administrator, and the architect. The quantity surveyor also plays a key role in acting for the bank and assisting in cost management. The respective roles of these key consultants were outlined in Module 5.

The key risk factors during the construction phase typically include (but are not restricted to):

- Selection and performance of the Project Manager
- Selection and performance of the Building Contractor
- Costs overruns (as a result of variations)
- Delays in construction
- Exceeding construction budget
- Losing off-plan sales because of delays beyond sunset clauses
- Being sued under the Security of Payments Act
- Disputes

I am assuming that the builder has been contracted under a lump-sum fixed term contract, which is most often a bank requirement for lending for construction. The builder is therefore responsible for all of his subcontractors. You, as developer, are responsible for the selection and performance of the project manager, who in turn is responsible for managing all of the risks listed above and any others arising during construction.

