# BRIEFING

## Construction, Economic and Procurement Update – Spring 2010

## Features



Image Courtesy of CZWG Architects


**Mike Jewell**
**mjewell@mdaconsulting.co.uk**


## Is The Gloom Clearing … Or Is It Too Dark To See?

As we move from an unusually cold and snowy winter into a wet spring, we have been told that the last quarter of 2009 saw growth in the UK economy, but recent reports on house prices and retail sales since Christmas (everybody has stayed at home), have given rise to fears of the dreaded "double dip" recession. We must hope that things don't regress and that we can get by without too much more quantitative easing, or increased government borrowing.

Recent reports show that housing values have been rising and there are signs in the news that some of the house builders will be increasing production again soon. For example, at Galliford Try they say they are going to focus on housebuilding, which they see as a main driver of future profits and they have made money available to buy more land. After three or four years when the amount of house construction has been at historic low levels, there must be some pent up demand, particularly on the social housing side. The main issue with that will be how it is to be funded. In the good years, much of this was foisted on the private house builders via planning permission, but if the RSLs are able to procure funding (perhaps from the newly-enriched banks), the merry-go-round will start all over again.

After the election, I think that whoever wins will be cutting expenditure, but it will have to be done selectively across the board; otherwise there will be large areas of the economy that will suffer. I am convinced that the economy will also grow fairly slowly, whilst people who have been spending excessively, dig in and save for an uncertain future.

The size and padding associated with the civil service will certainly need some work, because, although private and company pensions have been plundered and wrecked via changes in taxation, the civil service (index-linked) pensions are unfunded and are increasing alarmingly against GDP. The people in charge are certainly looking after themselves and that applies to all of them, but it will have to stop.

Recently, I have seen a footnote to the OFT story about "colluding" contractors that I featured back in the autumn. You may recall that some local authorities were going to sue some of the contractors for alleged losses following suspected tender collusion. It was announced last week that the Leeds local authority has been advised that there is insufficient evidence for them to bring a case. That certainly did not surprise me and I suspect we will never know how much this futile and ultimately inconclusive action by the OFT has cost the taxpayer over its five or six year duration.

## Construction, Economic and Procurement Update - Spring 2010

**Kevin Heaton**
**kheaton@mdaconsulting.co.uk**

## Tender Price Forecast

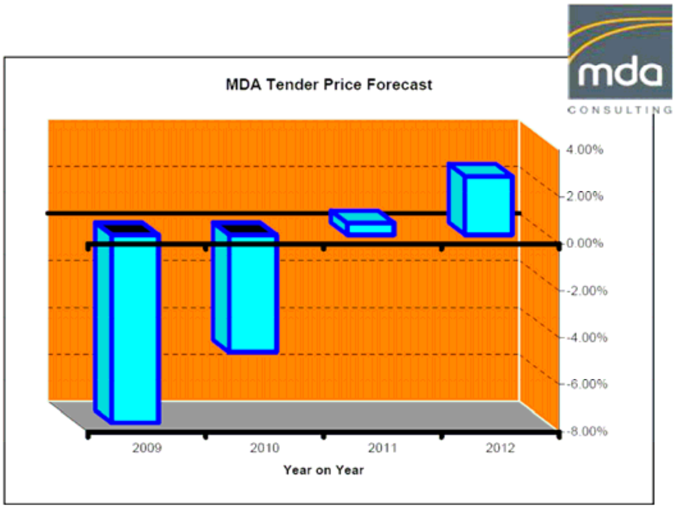
**These continue to be challenging times for the UK construction industry and tender price inflation is set to see further reductions during 2010 with the lack of demand being reflected in an annual fall of -5.0%.**

**Previous forecasts of a decline of -7.5% during 2009 have been revised marginally downward to -8.0% for the year. In particular we have seen marked reductions in Contractors' pricing of preliminaries with the cost of Contractor and Sub Contractor site teams very often slashed to marginal levels. Preliminaries costs are often being reduced to circa 8% from levels closer to circa 12% 18 months or so ago.**

**We continue to forecast a modest recovery towards the end of 2011, albeit at a marginal +0.5%. There are encouraging signs that the commercial market in London has reached its nadir and some gearing up for a recovery is taking place.**

**All indications point to the market strengthening during 2012 and we continue to predict an annual change of +2.5%.**

**Much uncertainty exists within the market. An election is imminent, there are well publicised threats of cuts to public sector projects (particularly in Health and Education) and the weakness of the market continues to drive down tender prices.**




## Certificate of Commendation

**MDA's Andy Smith and Matthew Fletcher were presented with a certificate of commendation from Stockton Riverside College Governor Kevin Williams in recognition for their valued contribution towards the Stockton / Bede College schemes.**


Kevin Williams, Andy Smith, Matthew Fletcher

# Construction, Economic and Procurement Update - Spring 2010


John Quinn
jquinn@mdaconsulting.co.uk


## Independent Project Monitoring – Reducing Risk

**As funds become harder and harder to secure from lending institutions there has never been a greater emphasis on ensuring that project funding is protected and monitored.**

**As an Independent Project Monitor we provide confidential appraisals, investigations and due diligence reports for funding institutions, developers, building owners and contractors.**

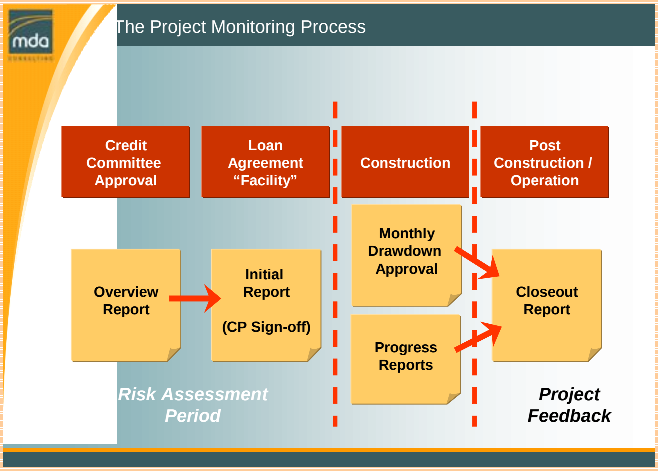
**By reporting on the development appraisal, build cost, suggested programme, tender and contract procedures, insurances, quality control processes, design economics and risk, we are able to closely monitor the delivery of the agreed contractual arrangements.**

**We regularly report on progress from site visits, comment on management accounts and cashflow projections, anticipate final costs, maintain loan conditions and disseminate sales data.**

**With a core competence of construction cost manager and programme controller, coupled with high levels of risk awareness, we are able to leave no stone unturned in ensuring that projects are scrutinised and analysed, giving confidence to the funding bodies that every pound is justified or not as the case may be.**

**We utilise our in house professional disciplines to support the service such as project and construction management, building surveying, mechanical and electrical engineering design and testing, project planning, health and safety, risk and value management, PFI procurement and facilities management.**

**The reporting process identified below is a typical approach to the risk and cost reviews at each stage of the project: and is supported by good experienced eyes and ears, to review the loan / facility agreement and to confirm the conditions precedent have been achieved, in terms of the development.**




**Our early involvement with the project and our ability to question the development appraisal and projected cashflow enables us, from our privileged position of knowledge, to comment on the contracted procurement routes, contingency and cost budgets generally thus reducing risk.**

# QUEENSLAND ROAD

Image Courtesy of

**<u>Introduction</u>**

**In 2000, after a lengthy period of consultation and planning, Arsenal Football Club was finally "on the move" from its footballing home for some 93 years at Highbury Stadium in Gillespie Road to a new, purpose built, state of the art stadium and extensive mixed use development. The site was previously a derelict industrial area that housed the London Borough of Islington's municipal refuse tip one mile away at Ashburton Grove.**

**The 'Arsenal Regeneration Area' as it became known comprises some 60 acres of derelict land which had been underdeveloped for 20 years between the old Highbury Stadium in the east and Caledonian Road Underground Station in the west. It lies at the heart of the London Development Agency's (LDA) "King's Cross to Finsbury Park Regeneration Swathe", a wider area of regeneration that was possibly the largest of its kind in Europe at the time.**

**The masterplan undertaken by CZWG Architects, led by Piers Gough, necessitated the relocation of 83 businesses, and in excess of 2,300 new homes, of which nearly 40% are 'affordable', on a complex arrangement of sites in the vicinity of the new stadium. The regeneration was carried out by Arsenal Football Club in partnership with the London Borough of Islington and other partners including Newlon Housing Trust who were able to realise the ambitions of ensuring significant community benefits, creating successful vibrant places and providing new jobs, homes, healthcare and childcare facilities, amounting to some £100,000,000 in value of gains.**

**<u>Background to MDA's Involvement</u>**

**MDA's involvement commenced in 2001 when we were appointed to advise Newlon on the housing schemes where there was a requirement for affordable housing. Prior to our appointment, we had assisted Newlon in the successful regeneration of 646 flats in 25 separate medium to high rise blocks of flats at the Barnsbury Estate also within the LDA's King's Cross to Finsbury Park Regeneration Swathe.**

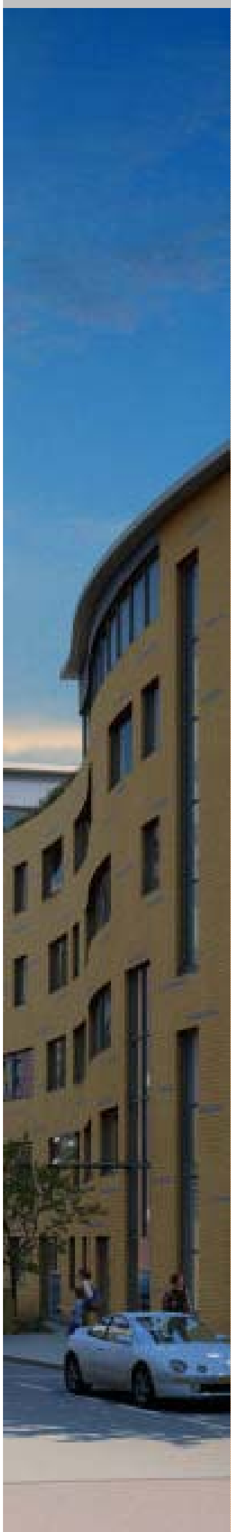
**The success of the Regeneration of the Barnsbury Estate laid sound foundations for Newlon to establish its partnership with Arsenal Football Club and to continue its excellent working relationship with the London Borough of Islington. This was recognised by a series of Regeneration Awards for the scheme won by both the Arsenal Football Club and our Client Newlon Housing Trust.**

**After a period of intense option appraisals and planning and detailed negotiations with Arsenal Football Club in 2003 on behalf of Newlon, MDA commenced work with Newlon and its project team on the first of what was to be a series of innovative high quality developments on 8 sites. The final site in the jigsaw is Queensland Road which comprises £15m worth of complex infrastructure and site preparation works followed by a £50m residential development by Newlon to provide 354 affordable homes for rent and shared ownership / intermediate rent.**

Image Courtesy of CZWG Architects

## - EMIRATES REGENERATION

**Keith Bowler**
**kbowler@mdaconsulting.co.uk**



CZWG Architects

**Key Challenges:**

- **Working to a budget constraint and to very high quality standards.**
- **Carefully monitor the development programme to ensure that the works are completed in accordance with the funding constraints.**
- **Dealing with an innovative building design in a tight urban environment.**
- **Carefully 'value engineering' the cost of the development with the contractor to ensure that the budget is not exceeded.**

**The Solutions:**

- **A real project team approach, led by MDA and Newlon and other partners in consultation, planning, implementation and taking responsibility for decisions made.**
- **MDA's proactive and structured approach to project co-ordination and management.**
- **A flexible partnering approach with regular performance and feedback reviews.**
- **Maintaining continuity of personnel amongst all partners providing consistency of progress towards shared goals and mutual understanding and respect.**
- **Detailed cost and programme control and value engineering at every stage to ensure value for money and completion by the funding constraint deadline.**
- **Involvement of MDA's Construction Inspection Team.**

**Expected Results:**

- **A complex landmark development forming part of the Regeneration Project in the London Borough of Islington brought about by the relocation of Arsenal Football Club.**
- **An increased provision of much needed affordable housing.**
- **The delivery of a development within budget and on time.**
- **A successful development that complements the local environment.**


Image Courtesy of CZWG Architects

## Construction, Economic and Procurement Update – Spring 2010

**Paul Crowe**
**pcrowe@mdaconsulting.co.uk**

### Two Stage Tendering - Is It A Necessary Cost?

Image Courtesy of

**With the RICS' latest Market Survey reporting falling workloads combined with the prospect of cuts to public sector spending following the election, is there any need to be creative with tendering?**

> **'Surely the easiest way to procure a building in these times…' I hear clients say, 'is with a lump sum design and build, competitive tender, transferring all risks to the contractor – job done!'**

**In the days prior to the credit crunch, one way to attract experienced contractors to the tender table was with an element of negotiation during the tender process, for example, with the use of the two stage tendering procedure. The two stage tendering procedure involves the selection of a main contractor at stage one and the negotiation of the basis for a contract at stage two. At stage two, the main contractor is often given the opportunity to be involved in the design phase, while getting started on enabling works for an early start on site.**

**The popularity of the two stage tendering procedure with main contractors has been linked to reduced overall tender costs, combined with for the lucky ones a pre-construction fee to cover the cost of procurement of the works. However enlightened contractors understand the benefit of being involved in the management of risk during the design phase of construction and how this can assist in achieving clients' and their own requirements in respect of cost certainty and buildability.**

**The construction market has cooled considerably over the last few years and main contractors are more willing to tender for works using a single stage process. The dilemma for us, as a Cost Manager and Quantity Surveyor, is that the desperation to price a project in a single stage is fraught and can lead to tremendous problems down the line, creating a potential cost and build-ability 'time bomb'. When buildability is carefully thought out it can result in the reduction of programme, cost and even more importantly accidents on site.**

**I hear clients say that there are major issues with the two stage tendering procedure, in that main contractors do not maintain an attitude towards the project objectives during the prolongated tender period, and that it is difficult to monitor the design input of contractors during stage two. There are procedures available to protect all parties, for instance, the setting out at stage one of clear procedures to tender works and manage design risk at stage two. It is important that an element of competition is maintained throughout the two stage procedure.**

**It is easy to understand why many clients prefer the accountability of a lump sum contract while avoiding the payment of a pre-construction fee, however, is it socially acceptable to transfer such risk down the supply chain? Or perhaps a more interesting question is can it be sensible to transfer the risk during current market conditions to such an extent that it may affect a contractor's viability and make for a miserable project for everyone concerned, with less reputable contractors caring less about clients' cost certainty and more about maximising profit?**

**Clearly as with any procurement or tendering strategy there is no 'one fits all' scenario, so the use of a two stage should still be given some considered thought, even in these troubled times.**

Image Courtesy Of
Camillin Denny Architects

## Construction, Economic and Procurement Update – Spring 2010

Camillin Denny Architects

**David Helm**
**dhelm@mdaconsulting.co.uk**

### High Quality Hotels

**Butler service, fine dining, wine tasting rooms, nail bars and spas are aspects which most of us do not consider when looking at lastminute.com for our hotel booking. But at luxury hotels these are a reality.**

**Luxury, rather than quality, is the mind set for these hotels and the distinction between 4, 5 and 6 star rating can become very blurred indeed. Guestrooms are provided with “media hubs” for their iPods, have showers with TVs and customers can find their way to the bathroom late at night by the blue glowing toilet handle!**

**High quality does not just include the Junior Suites or Presidential Suite (where chilled champagne can be enjoyed at the side of the island roll top bath while lunch is prepared in the room next door) but applies in all guest bedrooms.**

**There are many, many brand standards and it is a long process to establish what is “luxury” and how this is defined by each operator. It is not always about the physical representation in the built form. Often it is about the service, which is provided from the moment the guest checks in.**

**There are significant challenges as a project manager and cost manager in achieving “brand luxury standards”. Quality hotel operators are always looking for opportunities to stay ahead of the competition and the likelihood of change is inevitable.**

**Changes can come about after the design has been tendered and the contractor selected and whilst the works are on site. As the designs move from an “off the shelf” product to being “bespoke” the introduction of new specialist designers to various areas has necessitated design to be reviewed again and again in order to meet the client’s and operator’s high expectations.**

**Many luxury hotel brand operators are just that, “operators”. They do not necessarily develop leaving this to experienced developers. This provides an added challenge of effectively balancing the aspirations of two clients.**

**Some key issues to be considered in procuring luxury hotels:**

- **Establish clear lines of communication between developer and brand operator to avoid confusion and ambiguity and establish key “sign off” parties.**
- **Establish “Control Books” early in design process and monitor changes closely.**
- **Regularly update and report on finances and programme to ensure that design decisions are viewed in full context.**
- **Engage early with specialist interior designers and bring them into the design process and encourage close involvement with contractors and specialists.**
- **Clearly control and monitor “long lead in” items of specialised FF&E and high quality finishes.**
- **Recognise that late changes may be balanced by a profitable business case.**
- **Engage hotel General Manager early in process.**
- **Keep brand operator fully aware of time scales to ensure smooth transition of handover and opening.**
- **Understand fully the brand’s programme drivers.**

**With project costs often in 6 figures per room, the impact of changes has to be very carefully managed.**

# Office Locations - Spring 2010

## UK

**Birmingham**
12 St Paul's Square
Birmingham B3 1RB
T: 0121 233 3839, F: 0121 233 3841
Email: birmingham@mdaconsulting.co.uk
Contact: Rob Kennedy

**Brighton**
No 1 Level 5 South, New England House
New England Street
Brighton BN1 4GH
T: 01273 621104, F: 01273 694849
Email: brighton@mdaconsulting.co.uk
Contact: Martin Taylor

**Bristol**
11-12 Queen Square
Bristol BS1 4NT
T: 0117 929 2641, F: 0117 929 2125
Email: bristol@mdaconsulting.co.uk
Contact: Kevin Heaton

**Croydon**
Philip House
6 Lansdowne Road
Croydon CR0 2BX
T: 020 8686 5566, F: 020 8688 2879
Email: croydon@mdaconsulting.co.uk
Contact: Mike Jewell

**Leicester**
No 1 Museum Square
Leicester LE1 6UF
T: 0116 254 8951, F: 0116 254 7676
Email: leicester@mdaconsulting.co.uk
Contact: Rob McGuinn

**London**
17 Grosvenor Hill
Mayfair, London
W1K 3QB
T: 020 7399 0888, F: 020 7399 0889
Email: london@mdaconsulting.co.uk
Contact: Steve Jones

**Manchester**
Kingsgate, 3rd Floor, 51-53 South King Street
Manchester M2 6DE
T: 0161 835 2100, F: 0161 835 1550
Email: manchester@mdaconsulting.co.uk
Contact: Paul Crowe

**Newcastle upon Tyne**
5-13 The Side
The Quayside
Newcastle upon Tyne NE1 3JE
T: 0191 232 0888, F: 0191 232 0919
Email: newcastle@mdaconsulting.co.uk
Contact: Maurice Low

## International

**Monk Dunstone Associates (Benelux) SA**
Avenue de la Floride 26
Boîte 1, 1180 Brussels
Belgium
T: +32 (0)2 372 2444, F: +32 (0)2 375 3467
Email: brussels@mdaconsulting.be
Contact: Richard Waddell

**MDA Praha s.r.o.**
Vinohradská 22
120 00 Praha 2
Czech Republic
T: +420 (0)2 4248 6780, F: +420 (0)2 4248 6781
Email: office@mdapraha.cz
Contact: John Collinge

**MDA Consulting (TCI) Ltd**
Richmond House, Leeward Highway
PO Box 127, Providenciales
Turks & Caicos Islands, British West Indies
Tel: +44 (0)7834 339274
Email: thatfield@mdaconsulting.tc
Contact: Tim Hatfield

**MDA Libya**
Hay Al-Andalus
PO Box 12588
Tripoli, Libya
Tel: + 218 (0)21 477 1997
Email: rhudspith@mdaconsulting.co.uk
Contact: Rob Hudspith

mda

**MDA Consulting Ltd**
International Property
& Construction Consultants

**0870 900 7575**
**info@mdaconsulting.co.uk**
**www.mdaconsulting.co.uk**