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## What are the strengths and weaknesses of the various construction project delivery methods?

After my last Guru contribution, I received a few emails from clients who wished that I had expanded my discussion on the various delivery methods for construction projects and their respective strengths and weaknesses. For purposes of this discussion, my comments will be fairly basic. To begin with, the most common delivery methods include the traditional general contractor model, the construction management model and the very popular design-build model. Each of the delivery methods have their strengths and weaknesses, but a common strength or weakness for any delivery method is the quality of the overall team. If you have a good team, you will likely have a very good overall construction experience.

### General Contractor Model

The traditional general contractor model involves an Owner separately engaging an Architect and a General Contractor who then hires each of the subcontractors necessary to complete the work. The separate engagements of the Architect and the General Contractor can prove very beneficial to the Owner in that both parties have contractual obligations to the Owner. In this model, the Architect is usually well into the design and documentation of the project before the General Contractor is even hired. Often, several potential general contractor's compete for the project on a bid system which requires somewhat complete plans and specifications from the Architect in order to obtain accurate bids from the subcontractors who will be necessary to complete the work. The nature of the traditional general contractor model necessitates a lengthy time period from beginning to end; however, this process frequently allows for an accurate determination of the cost of construction which could be documented as a guaranteed maximum price. Since the subcontractors are engaged by the General Contractor, the Owner does not have a direct contractual relationship with the subcontractors and, therefore, can be exposed to potential losses arising from failures at that contract level such as risks that the subcontractors will delay progress or that the General Contractor will fail to pay subcontractors resulting in liens on the project.

### Construction Management Model

The typical construction management model is a variation on the above-described general contractor model at the subcontractor level because it provides for the Owner to separately engage each of the subcontractors rather than having the General Contractor take on that role. This method may eliminate the risk that a General Contractor might fail to pay its subcontractors. However, it does require a deeper commitment on the part of the Owner to monitor the project and to take on responsibility for the administration of numerous contracts. Of course, much of these responsibilities can be delegated to the Construction Manager by contract.

### Design-Build Model

The design-build model has fast become the most popular model in my experience. Largely because this model allows the design process to occur while construction gets under way—resulting in a faster construction process. In this model, the Design-Builder is hired by the

Owner to both design the project and to construct the project. In some cases, the design is done in-house, but most often the Design-Builder engages the services of an outside architect as well as all of the subcontractors. As stated above, the intended result is that the project can be done more quickly because the construction can begin earlier in the process, even before the details are finalized. Besides the risks inherent in the general contractor model and the obvious risk that construction can get ahead of the design process in a way that can prove very costly, the Owner is left without an advocate in the process because the Architect's contractual/employment loyalty is with the Design-Builder.

As mentioned above, any of the above delivery methods can be highly successful with the right team assembled. Each of the models presents challenges, many of which can be overcome with proper advance planning and other risk-avoidance measures such as careful contracting and consulting. We can help you analyze which method is best for your project and assemble the right team as well as provide the contracting services necessary to provide the necessary Owner protections.



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		<u>Associated Bank</u>	<u>Grandbridge Real Estate Capital LLC</u>	<u>US Bank</u>
<b>Apartment/Multi Family Loans</b>	Rate	L*+ 200-275	6.15% - 6.35%	L*+ 250-300
	Term	Up to 10 Years	10 Years	Up to 5 Years
	LTV	80%	80%	Up to 80%
	Amortization	Up to 30 Years	Up to 30 Years	Up to 30 Years
<b>Retail/ Office Loans</b>	Rate	L*+ 250-275		L*+250-300
	Term	Up to 10 Years		Up to 5 Years
	LTV	75%		Up to 80%
	Amortization	Up to 25 Years		Up to 30 Years
<b>Commercial Loans</b>	Rate	L*+ 250-275		L*+ 250-300
	Term	Up to 10 Years		Up to 5 Years
	LTV	75%		Up to 80%
	Amortization	Up to 25 Years		Up to 30 Years

\*L equals the Libor swap rate for the applicable period

Maturity	Today	Last week	Last month
<b>5 year Treasury</b>	1.74%	2.02%	2.80%
<b>10 year Treasury</b>	2.76%	3.10%	3.95%

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