



# Planning and Managing A Construction/Renovation Project

NAHC Annual Conference

Presented by:

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NCB



# “This Old Co-op”





# Planning a Rehab/Renovation Project

- All planning and projects start at the Committee and Board level
  - Board Structure:
    - President
    - Vice President
    - Treasurer
    - Secretary
    - Director-at-Large
  - Board Members chair various sub committees



# Select Sub Committees

- Finance - Treasurer
- Member Selection
- PPP Committee (People, Parking, Pets)
- Improvement Committee
  - Interior of units - carpeting, tile floors, electrical
  - Exterior- satellite dish, fence, landscaping, parking lots, tot lots



# New Committee

## PCI Planning-Capital & Improvement

Committee responsible for overall capital improvements to the property

- Scope of Work
  - Identify capital need with Property Manager
    - » Roofs
    - » Grounds (parking, landscaping)
    - » Building exteriors
    - » Windows, HVAC, insulation, electrical
- Identify/estimate cost of improvement
- Funding discussion with Treasurer and Property Manager



# Scope of Work Planning & Financing

## Scope of Work

- If a significant capital improvement, an architect, general contractor, construction manager and landscape designer should be consulted

## Planning

- Determine “wants” vs. “needs”
- Identify potential costs with construction manager, architect, and general contractor

**Determine how to pay for capital improvements**



# Definitions

- Architect - Creates plans and specifications to be used in new buildings or renovation. Will review buildings for current codes, recommend material and specification (i.e. - windows, doors, electrical, etc.)
- Construction Manager - Construction managers plan and coordinate construction renovation projects. Construction managers oversee the project, plan and direct a whole project, and oversee workers. They coordinate design and construction process
- General Contractor - A person or firm that contracts to supply materials or labor for buildings. General Contractors can provide design build specifications, alternative materials and cost proposals based on materials and labor



## Definitions (cont.)

- Landscape Architect - Design and build the environment of neighborhoods. They manage the natural environment, improve quality of life for a project. They will evaluate walkway patterns, erosion control, recommend plantings, playground environments, screenings of parking lots, etc.
- Maximum Fixed Price Contract - This provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience. Places maximum risk upon the contractor for all costs and resulting profit or loss.





# Plan for Improvement Identify Sources & Uses

## Sources

Reserves

Cash Flow

*(funds after expenses, debt service, reserves)*

Refinance of Present Mortgage

## Uses

Windows

Grounds

Roofs, etc.

**-OR-**



## Sources: First Source

### Replacement Reserve

- Subject to HUD approval
- May not be sufficient for planned work

### Cash Flow

- May not be sufficient for planned work
- Extends the construction rehab period



## Sources: Second Source

### Refinance Mortgages/Loan

- Identify all mortgages/loans
  - First mortgage
  - Second mortgages
  - State and Local loans
  - HUD Flex Subsidy loans

**\*PCI should also work with Treasurer and Property Manager to identify all sources**



# Refinancing Considerations

- Determine the cost of the capital improvement (s)
- Review budgets for income, expenses, replacement reserves, and debt service
- Review all outstanding debts: 1<sup>st</sup> Mortgage, Flex Subsidy Loans, Lines of Credit
- Increasing carrying charges to finance improvements
- Match appropriate loan structure with capital improvement project
- Discuss with NCB how they would finance a cooperative, call:



**NCB**

**Toll Free at  
(800) 955-9622**

*Larry Mathe*



# Cooperative Mortgage Considerations

- Existing mortgage rate vs. today's rate
- Number of years remaining until the loan matures
- Amount of capital improvements required and benefit of a low mortgage
- Accessing replacement reserves and general operating reserves
- Does the cooperative want to be free of HUD?



# Evaluating your HUD 1<sup>st</sup> Mortgage

## Original HUD Mortgage Terms:

- Originated: 1968-1975 +/-
- Type: 221(d)(3) Cooperative Housing Mortgage.
  - BMR: Co-op may be entitled to an interest subsidy. Note rate may be stated at 6.00% to 7.50%; Payment is based on a lower rate of 1.00% to 4.00%
- Interest Rate: 4.00%
- Original Loan: \$5,000,000 (1969)
- Principal & Interest Monthly: \$20,897



# Evaluating your HUD 1<sup>st</sup> Mortgage (cont.)

<b>HUD Mortgage (Originated 1969)</b>			
<b>\$5,000,000 at 4.00% Interest</b>			
<b>40-year Amortization</b>			
<b>Monthly P&amp;I = \$20,897</b>			
<u>Years</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>Mortgage Balance</u>
1969-1979	\$ 1,884,726	\$ 622,904	\$ 4,377,095
1979-1989	\$ 1,578,984	\$ 928,646	\$ 3,448,449
1989-1999	\$ 1,123,174	\$ 1,384,456	\$ 2,063,992
1999-2004	\$ 324,506	\$ 929,309	\$ 1,134,683
2004-2009*	\$ -	\$ 1,134,683	\$ -
<i>*Maturity</i>			





# Mortgage Traps

- HUD Flex Subsidy notes
- HUD requirements > 1% interest rate accrues annually, no payment until the first obligation is paid off
- If the cooperative has a flex subsidy loan, discuss this loan with your Financial Advisor or Property Manager



## HUD Flex Subsidy Trap

- \$500,000 Flex Subsidy note: 1% accrued interest due at maturity/pay off of 1<sup>st</sup> mortgage
- Assumes a 15 year term from inception
- The cooperative will owe more money than it had originally borrowed

<b>Year</b>	<b>Principal Balance</b>	<b>1% Interest</b>
<b>1</b>	<b>\$500,000</b>	<b>\$5,000</b>
<b>2</b>	<b>\$505,000</b>	<b>\$5,000</b>
<b>3</b>	<b>\$510,000</b>	<b>\$5,000</b>
<b>4</b>	<b>\$515,000</b>	<b>\$5,000</b>
<b>5</b>	<b>\$520,000</b>	<b>\$5,000</b>
<b>6</b>	<b>\$525,000</b>	<b>\$5,000</b>
<b>7</b>	<b>\$530,000</b>	<b>\$5,000</b>
<b>8</b>	<b>\$535,000</b>	<b>\$5,000</b>
<b>9</b>	<b>\$540,000</b>	<b>\$5,000</b>
<b>10</b>	<b>\$545,000</b>	<b>\$5,000</b>
<b>11</b>	<b>\$550,000</b>	<b>\$5,000</b>
<b>12</b>	<b>\$555,000</b>	<b>\$5,000</b>
<b>13</b>	<b>\$560,000</b>	<b>\$5,000</b>
<b>14</b>	<b>\$565,000</b>	<b>\$5,000</b>
<b>15</b>	<b>\$570,000</b>	<b>\$5,000</b>



# Alternative Flex Subsidy Structure

- **Amortizing the “Flex Sub”**
  - \$500,000 Flex Subsidy @ 1% due at maturity
  - or pay off
    - Assume 15 year term from inception

**1% Interest Monthly Payment**

**\$2,992 x 12 = \$35,904**

Year	Principal Balance
1	\$500,000
2	\$468,948
3	\$437,584
4	\$405,905
5	\$373,908
6	\$341,590
7	\$308,947
8	\$275,976
9	\$242,673
10	\$209,037
11	\$175,062
12	\$140,746
13	\$106,085
14	\$71,076
15	\$35,715



# Today's Goal

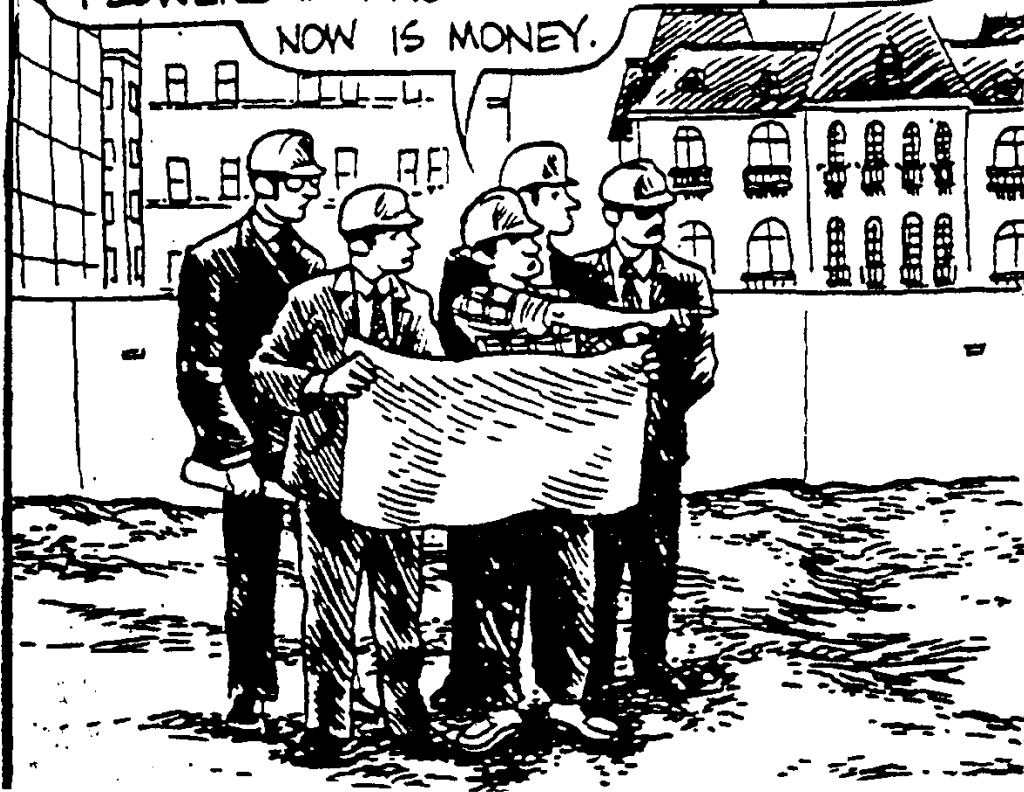
- To focus on the three major elements to planning and managing the renovation/construction of your new facility

BIZARRO

DAN PIRAKU

— HERE'S THE PLAN: WE'RE GOING TO DIG  
A REAL BIG HOLE RIGHT ABOUT THERE.  
THEN SOME GUYS WILL COME AND PUT  
A BUILDING IN IT AND PLANT SOME  
FLOWERS IN FRONT.... ALL WE NEED

NOW IS MONEY.





# Major Elements of Risk Management

- Budget
- Project Team Development
- Contract Negotiation





There are some underlying rules to managing construction/renovation:

1. Time is always a challenge
2. Someone has to be responsible
3. Construction/renovation is always unpredictable



# Obstacles to Taking Action

- Dissention
  - Deny that a problem exists
  - difficult to build consensus
  - opposition in community
  - Afraid to take action

Solution: Communication, Resolve and Determination

- Uncertainty
  - how to proceed ?
  - magnitude of the problem ?
  - how much it will cost ?
  - potential scope of the work ?
  - how long repairs will take ?

**SPEED BUMP** DAVE COVERLY





# Budget Projections

<b>Pay Off:</b>	
HUD 1st Mortgage	1,134,683
Flex Subsidy Note	570,000
<b>Total Outstanding Debt:</b>	<b>1,704,683</b>
<b>Soft Costs:</b>	
Appraisal, Environmental, PNA	12,000
Legal (Borrower/Lender)	25,000
Title (Record/Survey)	20,000
Miscellaneous	12,000
<b>Total Soft Costs</b>	<b>69,000</b>
<b>Construction Costs:</b>	
Windows, Siding, Electrical, HVAC, Landscaping	2,226,317
<b>Total Hard Costs</b>	<b>2,226,317</b>
<b>TOTAL BUDGET (Estimated):</b>	<b>4,000,000</b>



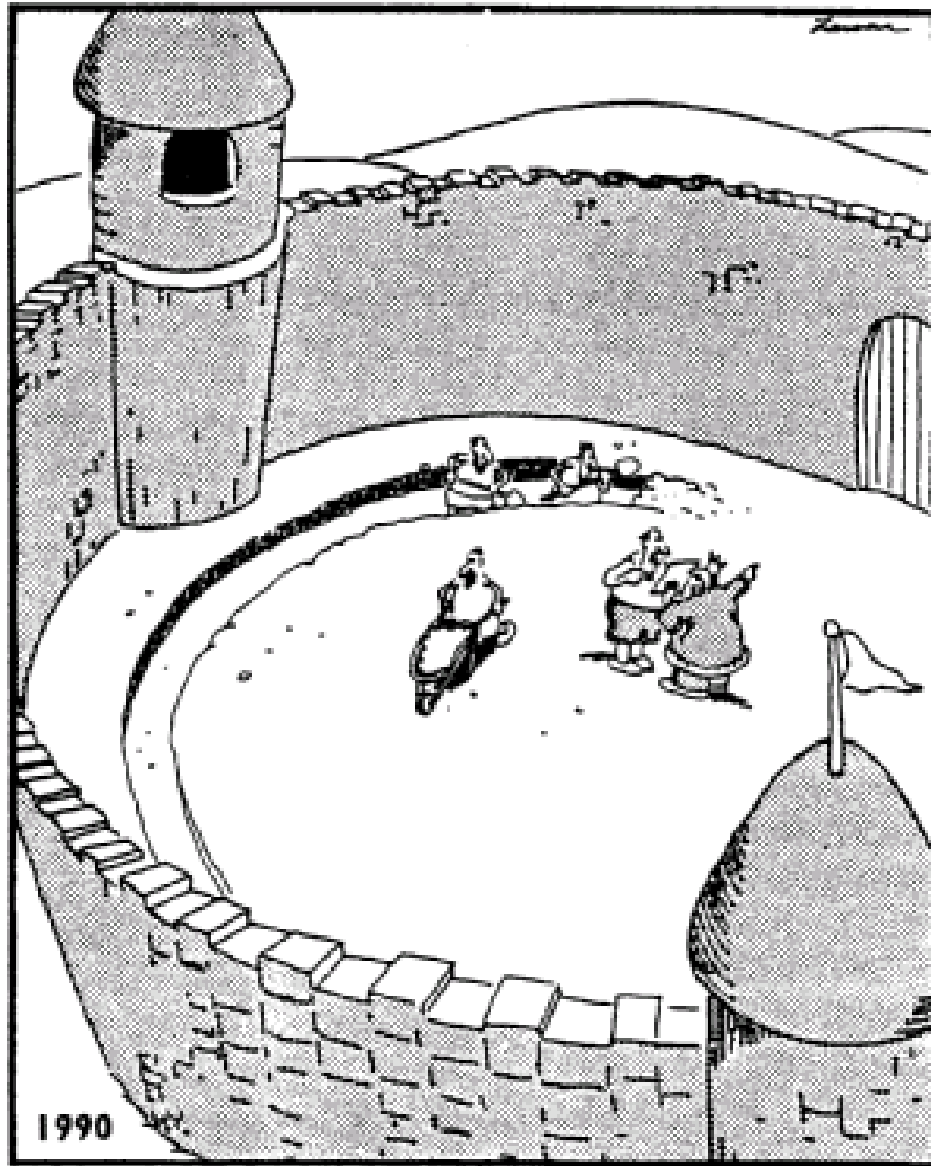
# Project Team

- Coop's Primary Contact Person
- Project Manager
- Architect
- General Contractor
- Attorney



# Contracts

- Parties to the contract
- Scope of work
- Roles and responsibilities
- Scheduled payments/compensation
- Start and completion dates
- Dispute resolution/termination clause
- Allowances
- Retainage- 10%
- Fixed Price
  - Stipulated Sum
  - Guaranteed Maximum Price



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



# Managing Cost Overruns

- Change Orders
  - Time
  - Materials
  - Labor
- Scheduling
- City Inspectors
- Environmental
- Acceptance vs. Approval
  - Contingency -10%/15% - 20%





# Management of Risks During Construction

Construction Finance is the management of the construction loan's disbursement process

- Tracking Budget
- Pre - Construction Meeting
- Lien Waivers
  - A legal document signed by subcontractors stating that they have been paid for work completed on a construction project and cannot make a claim for lack of payment.
- AIA documents
- Title Updates
- Invoices
- Construction Reports



“Projects fail not because of their complex nature or unusual situations, but more often because of ordinary routine chores that are not properly executed.”

Seen on the wall of the General Contractor's trailer at a construction site



# The Sequence of Events

- Constructing a Business Plan
- Assessing your facility needs
- Selecting a professional: Architect, Engineer, Banker, etc.
- Managing construction & renovation
- Securing financing
- Time line



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**Larry Mathe - Senior Vice President**

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# “This New Co-op”



↓  
**Before**



↓  
**After**



# Construction Challenge

Question:

What position creates plans and specification to be used for the building renovation?

Answer:

Architect



# Construction Challenge

Question:

The planning, capital and improvement committee responsibilities include?

Answer:

Identify capital needs

Identify cost estimates

Identify sources of funds



# Construction Challenge

Question:

Name two sources of capital for capital improvement projects.

Answer:

Reserves

Cash Flow

Loan





# Construction Challenge

Question:

What are two major elements to planning and managing the renovation/ construction project?

Answer:

Budget

Project Team

Contract Negotiation



# Construction Challenge

Question:

What is a lien waiver?

Answer:

A legal document signed by subcontractors stating that they have been paid for work completed on a construction project and cannot make a claim for lack of payment.



# Construction Challenge

Question:

Name 3 people who should be on the project team.

Answer:

Project Manager

Attorney

Cooperative Primary contact

Architect

General Contractor



# Construction Challenge

Question:

What are three things that should be in your contract?

Answer:

Scope of Work

Roles and Responsibilities

Scheduled payment

Start and completion dates

Retainage



# Construction Challenge

Question:

What are two obstacles to the construction project?

Answer:

Unit owner dissention

Cost of project

How long will the repairs take?



Questions?

