

# Why does the developer want to self-build?

Property developers choosing to build their own projects is becoming increasingly common. This is partially motivated by the ongoing failure of larger construction companies as well as the scarcity of available builders.

By choosing to build their own projects, developers also gain far more visibility of pricing and where efficiencies can be gained. Where with larger construction companies, developers were more vulnerable to variation claims by contractors, the potential savings available through reliable open-book pricing from subtrades are difficult to ignore.

This approach does introduce risk to a project, such as the developer lacking the necessary skill base to complete the project or choosing not to engage the necessary professional expertise.

Despite lenders having strict requirements, some developers have been able to secure funding for self-built projects with the help of experienced development finance advisors.

## How the right advisor can help

An experienced development finance consultant can help navigate the specific requirements for builder-developer projects and connect you with the right lender.

Establishing a suitable level of separation between the development company and the entity undertaking the construction can also increase the likelihood of securing funding.

In this case an in-house construction company can be formed to contract building services to the developer, providing an effective arm's length relationship. This approach enables the entities to establish contractual agreements that are more appealing to lenders.

There is also no requirement to have an engineer added to the contract (as one would expect under NZ Standards Contract 3910, utilising 3915) for in-house construction. This form of engagement is often adequate to underpin the required responsibilities and expectations for a project.

As with third-party contractors, the lender will still insist on the engagement of a quantity surveyor to act on its behalf and verify all costs and contingencies associated with the project.

In addition, the lender will also want to verify that a high percentage of the subtrades have fixed and reliable pricing prior to the drawing down of any funding.

## Choose the right advisor

In hindsight, establishing locked-in subtrade pricing may have helped prevent some of the construction company failures that the market is experiencing.

More detailed planning and pricing transparency prior to quoting should ensure the smoother running of projects and more reliably delivered outcomes.

Good advisors know that the same checks and balances apply regardless of who is doing the building, however they can assist developers in optimising their project plans and forecasting costs.

Normal margins, preliminary and general costs and at times a performance bond will be required, as with a third-party contractor in larger transactions. Though there are advantages, self-building is neither a shortcut nor a mechanism to make numbers fit better.

With an experienced property development advisor, developers choosing to self-build should be able to increase profitability through competitive fixed pricing of subtrades together with reduced construction margins.

The key is to choose an advisor with experience in securing funding for self-built developments and a track record of presenting well-planned projects to interested lenders.

Property Finance NZ can help you navigate and fulfil the requirements to get your project funded. Our specialists will analyse your project and provide you with the clearest pathway to secure funding. A free overview of your funding options is typically available within 24 hours.

### Contact Kingsley Turner

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