

# Wealth Planning Insights

## Planning for Today's Residential Construction Project



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### Highlights

- Governmental actions related to COVID-19 have impacted residential construction projects, causing delays and other issues.
- Thoughtful planning can help ensure construction projects can be started and completed successfully.
- In this piece, we explore some of the new considerations involved in restarting stalled projects or beginning new ones in the current environment.

In many places throughout the country, residential construction has been restricted or stopped due to COVID-19 related government actions. These measures have caused delays in construction projects and have posed new issues that were not contemplated in agreements with contractors and other relevant parties prior to the pandemic.

Currently, adherence to — and the costs of — health, safety, and social distancing best practices will be an essential component of any construction project, but with thoughtful planning and strategic contingencies in place, projects can be undertaken and successfully completed.

Whether completing a stalled project or planning a new one, extra care should be taken by the parties involved with the construction project to adhere to

prudent practices when building. Understanding the ability and capacity of the parties involved to complete the project — including their financial condition, the availability of materials and labor, timeframes, and specific contract terms — is especially important. For restarting projects, there may be additional concerns outside the provisions of your current contract.

### Reopening a Project

Due to widespread business disruption, the financial condition of contractors and subcontractors may have been adversely affected. If reopening a site or entering into a new project, verifying the financial soundness of the involved parties is advisable. You may want to consider paying for materials directly or paying subcontractors directly to mitigate any issues of general contractor solvency.

For a project that is restarting, some of the original contract terms may need to be addressed to bring the project to completion to account for COVID-19 social distancing requirements and health and safety protocols impacting timeframes and budget.

In addition, the project should be reviewed with the contractor to verify the status of the permits, insurance, and delivery and availability of materials. Is the job administration up to date, including budget, waivers of lien, and any change orders? If materials have been ordered prior to suspension of work, are they on site? If not, the status of the orders and delivery should be verified with your contractor.

If financing is involved on a project that is currently delayed, you may need to contact your lender depending on the terms of your loan to address timing or other issues due to the delay in project completion.

### Commencing a New Project

For new residential projects, some of the contractual changes we are beginning to see in commercial contracting as a result of the pandemic centering on ability to perform, timeframes, liability, and jobsite control are likely to appear in residential contracts. Contractors are starting to look for more flexibility in their agreements because of the legitimate desire not to jeopardize worker safety for the sake of meeting construction deadlines, uncertainty of government actions, availability of materials, and building department delays. Additional language is starting to appear in contracts further limiting owner liability associated with contractor liability claims for health issues and jobsite management, such as tracking worksite attendance, scheduling, and personal protection equipment requirements.

Contracts should contemplate ongoing challenges to building material availability, and parties should plan for sourcing materials from alternative vendors as needed. Alternatives may create cost variables, but the downturn in the number of active construction projects due to governmental restrictions is highly localized and may not impact some areas of the country. Contractors and owners can take advantage of buying opportunities by vetting alternative supply chains and vendors for competitive pricing. Care should be taken, however, to validate pricing to ensure a subcontractor is not underpricing a job to maintain cash flow for their business.

### Renovating Interiors of Your Residence: Special Considerations

A renovation to the interior of your home, like your kitchen, where the occupants are still in residence presents more risks to your family and the contractors than breaking ground on new construction where workplace management can facilitate distancing.

If you have to reside or occupy the premises during construction, careful consideration should be made of the potential risks to your family and anybody entering your home.

Contractors are used to adhering to stringent trade and governmental worker safety guidelines. We expect to see lasting impact that will require contractors to manage jobsites to accommodate worker social distancing and health monitoring to ensure worksite safety. To facilitate these changes, general contractors may need to stagger work shifts to limit the number of people on site, and fewer workers on site means the job pace will slow.

The coming weeks and months will likely bring about new considerations and solutions as the impact to home construction is better defined. Real Estate Advisory continues to closely follow industry experts and monitor developments to provide our clients with timely insights and guidance.

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