HOUSING FOR OLDER CANADIANS:

The Definitive Guide to the Over-55 Market

VOLUME 3 Planning the Project

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INTRODUCTION
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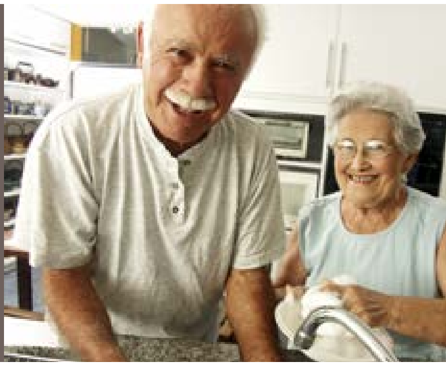


What is the ideal project delivery approach? How do you assemble a development team? What organizational and legal matters need to be addressed before construction? How do you secure financing? What is involved in marketing a project? What type of construction contract is most appropriate for a particular project? To answer these and other related questions, developers and sponsors need to understand how new housing projects typically proceed. In working through this process, developers and project sponsors acquire the technical knowledge and understanding necessary to secure the required approvals, launch the project, and see it through to successful completion and occupancy.

This volume contains detailed information on planning and developing a housing project targeted to older Canadians. It has been written for developers, housing sponsors and other industry stakeholders, and offers tools, techniques and best practices to help answer the questions above.

The volume begins with an overview of the development process and a definition of the project sponsor. Part 1 covers the pre-construction phase, which includes testing and refining the development concept and designing the project. Part 1 also outlines the primary organizational and legal matters to be resolved, and includes a description of the process of testing and refining the initial development concept, followed by a brief overview of the key factors to be considered when designing a project for seniors, and the municipal planning and community consultation activities required of most housing developments. The final activities described under the pre-construction phase include arranging financing, assembling and coordinating the project team, and determining the project delivery approach.

Part 2 covers the construction phase, and this section lists the activities required to build the project. The volume concludes with a description of the tasks that must be finalized by the builder before the project can be considered complete and turned over to the project sponsor or property manager.

This volume builds upon and complements information presented in *Volume 1: Understanding the Market* and *Volume 2: Responding to the Market*. The first volume provides readers with a detailed overview of the seniors' housing market in Canada. The second volume contains an in-depth explanation of how to choose and segment a target market, select from a range of different housing options and complete a project feasibility analysis. Also included in *Volume 2* is a brief description of some new and emerging trends in the seniors' housing industry. Readers wishing to learn more about the above subjects are encouraged to obtain copies of *Volume 1* and *Volume 2* from the CMHC website.

Other volumes in the series include the following:

- *Volume 4: Designing the Project*
- *Volume 5: Services and Amenities*

UNDERSTANDING THE DEVELOPMENT PROCESS

Regardless of form, tenure and complexity, or the location where they are built, all housing projects targeted to older Canadians proceed through a similar development process. This process consists of four phases, each of which involves several key activities (see Figure 1).

Figure 1: Seniors' Housing Development Process

Phase	Key Considerations
Phase 1: Initiation	▪ Testing and refining the development concept ▪ Marketing the project
Phase 2: Pre-construction	▪ Designing the project ▪ Determining organizational and legal considerations ▪ Community consultation and obtaining regulatory approvals ▪ Arranging financing ▪ Assembling and coordinating the project team ▪ Choosing the project delivery approach
Phase 3: Construction	▪ Entering into the construction contract ▪ Constructing the project
Phase 4: Turn-over	▪ Completing and turning over the project

Although mapping out the steps in each phase is helpful in describing the process, many steps are in fact carried out simultaneously. For example, the design of the project can occur at the same time as the development concept is being tested and refined, and the required regulatory approvals are secured. A more detailed description of the activities identified above and key considerations associated with each task can be found in the sections that follow.

DEFINING THE PROJECT SPONSOR

Individuals or groups with sufficient vision, motivation and resources can be the developer or sponsor of a seniors-oriented housing development. The project sponsor could be a property owner wanting to develop his or her land; an institution or religious body wishing to use its land to benefit the surrounding neighbourhood; a community association, ethnic group, service club or non-profit organization that wants to provide housing for its older constituents; a corporate developer or builder hoping to take advantage of an emerging opportunity; or a group of older individuals who pool their finances and skills to create a community for themselves.

The project sponsor may also be a partnership of several individuals or organizations, in which each brings complementary resources to a project. For example, those experienced in property management and service delivery could join forces with experts in housing development, construction and financing. Where possible, individuals from the target market segment should be included or represented in such a partnership.

Given the risk, cost and complexity that accompany most residential development projects, project sponsors often incorporate a legal entity that can enter into agreements to protect individual participants from liability for corporate decisions. A corporation, either as a for-profit or not-for-profit body, should define its goals, governance structure and accountability procedures. If a corporate model of development is chosen, project sponsors must appoint a board of directors. Prospective board members should:

- understand and be committed to the organization's mission;
- maintain loyalty to the organization, honour commitments and act as advocates;
- welcome information and advice, but reserve the right to arrive at decisions based on their own judgement;
- offer opinions and feedback honestly and in a constructive way and respect the opinions of others;
- support board decisions (internally and externally) even when they disagree with the majority opinion;
- understand legal and fiduciary responsibilities and avoid conflicts of interest;
- attend meetings well prepared and actively participate in those meetings; and
- bring specific expertise or knowledge to the table that is needed for the project.

PART ONE
PRE-CONSTRUCTION PHASE

TESTING, REFINING AND MARKETING
the Development Concept

Volume 2: Responding to the Market explained the four-step process for completing a preliminary project feasibility analysis. Although this process generally takes place after the target market has been defined and before the project concept is developed, project feasibility analysis is vital throughout the life of a project. Ongoing analysis is required to assess the accuracy of the original analysis of the target market and identify any important changes in market projections, rents and prices, and even in the target market itself.

Typically, 12 to 24 months elapse from the completion of the first market study to the leasing of the project or sale of the completed units. In the interim, changes may occur. The project sponsor must monitor the market, paying attention to competing projects, to remain up to date on current market activity, pricing, and preferred project characteristics and amenities. Changing the market strategy in midstream can increase construction and operating costs, but if the sponsor fails to respond to the market by refining the development concept, the project may not attract the clients it was constructed to serve.

Throughout the development process, the preliminary concept must constantly be refined and tested against practical considerations, market realities, financial concerns, and emerging constraints and opportunities. Feasibility and marketing studies add perspective, test the concept, and provide constructive feedback to the project idea as it evolves. Testing and refining the project concept involves the steps described below.

MARKET ANALYSIS

As described in *Volume 2*, market analysis is used to identify untapped opportunities, refine the definition of the target market, confirm the features that most appeal to the target market, and develop a marketing strategy.

To test and refine the development concept, project sponsors need to revisit and, if necessary, redefine the geographic market area from which most of the future residents of the project will be drawn. Contacting prospective residents to see if they are still interested in moving to the proposed location can help confirm if the definition of the original market area continues to apply.

Project sponsors should also conduct research to reconfirm the needs and wants of the prospective target market, reassess potential clients' willingness and ability to pay for the proposed accommodation, and maintain clients' interest in the proposed undertaking.

Information collected through the updated market analysis should be analyzed to see what it reveals about the preferences and inclinations of the target population in the market area. The analysis should confirm if there is still sufficient demand in the chosen target market in the primary market area to warrant continued development of the original project concept. If not, either the concept should be revised or the project should be discontinued.

FINANCIAL FEASIBILITY

To refine estimates of the financial feasibility of the project concept, project sponsors should revisit the preliminary capital and operating budgets developed during the predevelopment phase. For the capital budget, it will be necessary to revise the original construction cost estimates relative to available equity and financing. Construction costs, lending rates, and other project expenses can fluctuate—sometimes quite dramatically—between the time the original feasibility analysis was completed and the point at which detailed planning and development activities begin.

Likewise, project sponsors need to review the cost and revenue assumptions that went into developing the preliminary operating budget. Just as capital costs can change over time, so can operating costs and revenue projections. To ensure that a project still makes good economic sense, it will be necessary to update the operating budget and operating cash flow statement to ensure that a positive net income is still projected.

MARKETING THE PROJECT

The importance of effective project marketing and the development of a coherent marketing strategy cannot be overemphasized. As described in *Volume 2*, marketing activities should begin when the project is still in the concept phase and continue until the project is entirely sold or fully occupied.

In the residential development industry, developers do not attempt to create a market. Instead, they design and develop housing for a specific target market or segment of the population. Marketing is the process of connecting with this market and attracting purchasers or renters to the project when they are in a position to buy or rent.

Marketing serves a number of objectives, including:

- analyzing what market to pursue and what product to build;
- persuading buyers and renters that the product meets their specific needs;
- packaging the product and offering assistance to enable people to buy or rent it; and
- ensuring that the product continues to meet their expectations.

Insufficient predevelopment market research can result in a product built for a certain market that does not appeal to that market. In such cases, project sponsors must determine which market the product does appeal to and repackage it to attract that market. Although almost any product will sell or rent if the price is low enough, the developer or sponsor will not realize the required return on investment if prices must be substantially discounted.

DEVELOPING THE MARKETING STRATEGY

A marketing strategy uses the results of the market and financial feasibility studies as the basis for identifying the target market, the primary market areas, and the product type and price. It describes how the project will be characterized, what marketing techniques will be used, what activities should be carried out, how they should be conducted, and who will be responsible for each activity.

A well-conceived marketing strategy will effectively guide and direct all marketing efforts using the following four questions.

- **How will the market be defined?**
  Answering this question will identify the most likely consumers of the product, including the characteristics of the potential residents according to their lifestyle,

age range, household income, and recreational and amenity needs.

- **How will the product be defined?**
  Answering this question will identify the major features and defining characteristics of the project that appeal to the target market, including location, product type and price.
- **How can the target market be reached?**
  Answering this question will identify the most appropriate tools and techniques for communicating with and attracting potential customers, including promotional events, such as open houses, and media strategies, such as newspaper or magazine advertisements.
- **How can the marketing effort be managed and delivered?**
  Answering this question will provide direction on how to plan and implement the marketing initiative, including the timing and delivery of marketing activities and budget allocations.

INITIATING the Project

Every seniors-oriented housing development, whether it is a condominium targeted to active lifestyle seniors or a long-term care facility, starts out as little more than a concept. The process can begin when a sponsor becomes aware of an unmet need or demand in a given community. For example, a faith group with an aging membership may realize there is little or no accommodation for seniors in the immediate neighbourhood and decide to pursue some form of development on a portion of its lands. In other instances, it could be available assets that serve to initiate the process. For instance, a developer may own a parcel of land in an older, maturing neighbourhood and realize that it is ideally located for the development of a retirement home, given the site's proximity to services and amenities.

To turn vague ideas into tangible results, project sponsors should begin by asking questions such as these:

- Is there a need for housing in the immediate market area and for the intended resident population?
- What is the target market and how could that market be segmented?
- What is the best neighbourhood for a particular project?
- What form, type and tenure of housing would best respond to existing and projected need?
- What rents or sale prices should be charged for the completed units?

- What services and amenities should be incorporated into the development or are available in the area surrounding the proposed development?

Many of these questions can be answered through the project feasibility analysis process described in *Volume 2* and the information provided in *Volume 5* on services and amenities. However, the answers may change as new information, unexpected constraints and opportunities emerge. This is to be expected as the preliminary project concept evolves. In fact, as discussed later in this volume, project success can often hinge on the willingness and ability of the sponsor to modify the initial project concept in response to changing circumstances and new information.

IDENTIFYING THE PROJECT CONCEPT

To assess the feasibility of a proposed project, the project sponsor must first identify and define the housing form, the segment of the seniors' housing market it would like to serve, and the type of tenure (see *Volume 2*). This information initially comes together in the form of a project concept or a generalized description of the proposed development. While there are many different ways of defining the project concept, most project sponsors base their preliminary decision on their goals and the perceived need in the market.

The initial project concept will often reflect an organization's vision, mission and values. For example, a charitable organization that works with low-income older Canadians would favour a development concept containing modest, affordable rental units targeted to seniors on fixed incomes rather than large, luxury condominium suites targeted to higher-income seniors.

Another factor that can influence the project concept is the degree of control over access to assets, including land and capital, and the existence of prospective tenants or prospective buyers. If a project sponsor controls the land, the concept will be driven largely by supply—a site that needs to be used. If a project sponsor already has tenants or prospective buyers lined up, the project concept will be driven by the users looking for a site. If the project sponsor has capital, it will provide for greater flexibility for both the site selection and project concept.

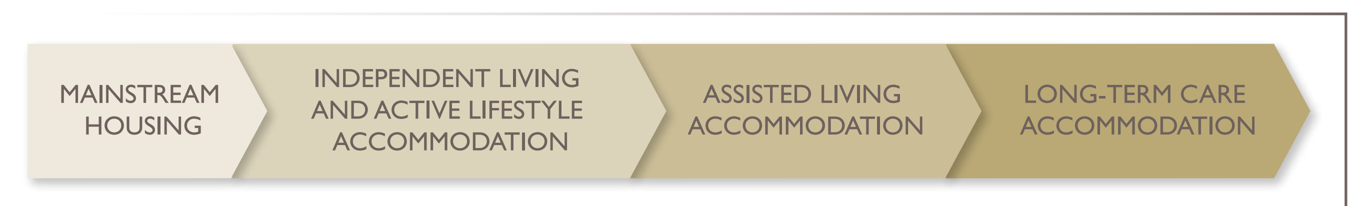
Since the focus of this guide is housing for Canadians 55 years or older, the project concept will generally reflect a form of accommodation that falls within the seniors' housing industry spectrum, as illustrated in Figure 2.

Many seniors choose to remain in housing that is not specifically designed for seniors, which may be the housing they have always lived in, or, if they decide to downsize, a regular condominium or rental apartment. This form of accommodation comprises a large share of the seniors' housing market.

Independent living or active lifestyle accommodation is targeted to seniors who require little or no assistance with daily activities and often takes the form of communities that combine housing with recreational amenities. This accommodation can take any number of forms, from detached homes to units within multi-storey apartment buildings. Tenure can be freehold ownership, condominium ownership, or rental, although options such as co-operatives or life leases are also possible.

Seniors who require daily personal and health care services may choose some form of assisted living accommodation. The form and degree of care provided in assisted living arrangements can vary. Living arrangements themselves can also vary, from rental units to condominiums, life-lease or co-operative housing,

Figure 2: Seniors' Housing Industry Spectrum



or even a small group residence shared by the residents. The availability of congregate dining, laundry and housekeeping services is common to these types of housing.

Long-term care homes are designed for individuals who can no longer live independently and require 24-hour nursing care and supervision, sometimes within a secure setting. Accommodation may include shared (more than two in a room), semi-private or private units, which typically come furnished with a bed, chair and other basic fixtures. While the form of development can vary, the tenure arrangement is essentially on a rental basis, with the rental payment also incorporating the cost of meals, housekeeping, laundry, property maintenance and administration.

DESIGNING THE PROJECT

Housing design that appeals to older Canadians must address their physical, emotional and social needs. They are, increasingly, discriminating consumers who expect choices in housing design, financial arrangements, locations, lifestyles and support services. The desire for choice and independence, combined with heightened concerns about accessibility, health and the environment, will greatly affect how project sponsors locate, plan and design their developments. Understanding these considerations and paying attention to health, adaptability and accessibility issues, including universal design, can set a project apart from the competition and help secure success and long-term viability.

Developers and project sponsors are beginning to respond to the particular needs of older people with innovative approaches to housing form and tenure. As well, projects are being designed and developed to incorporate a broader range of amenities, services, recreation and other activities. Canada Mortgage and Housing Corporation (CMHC) supports these innovations through research and publications.

Whatever the design or project features to be introduced in the housing development, project sponsors should remain focused on the needs and wants of the target market. The target market will be the final judge of the proposed development's success. No matter how good the numbers on a project may look on paper, if the product does not satisfy the market's needs at a price the market can afford, the project will not succeed.

Important approaches and aspects to be considered when designing the project, outlined in *Volume 4: Designing the Project*, include:

- integrated design process;
- flexible building design;
- adaptability;
- healthy building design;
- accessibility; and
- universal design.

DRAWINGS AND SPECIFICATIONS

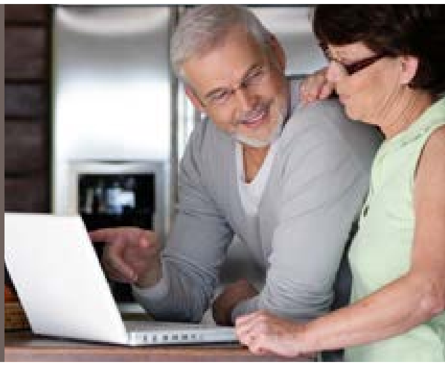
The design elements and considerations must be translated into formal drawings and specifications, which are reviewed by municipal building officials to assess compliance with zoning and development bylaws, building and fire codes, and site servicing and infrastructure requirements before the municipality issues a building permit.

Drawings are the graphic portrayal of the work to be completed. Specifications are a written description and set out the general requirements, acceptable products, equipment, installation procedures and standards of workmanship. Their scale and complexity can vary from simple one-page lists to multi-section documents. Both drawings and specifications are important legal documents that set out the responsibilities and the quality of workmanship and materials.[1]

The procurement method will dictate how and by whom the drawings and specifications are prepared. In the turnkey method, for example, the builder will be responsible for employing the design professionals required. In any case, the developer or project sponsor is responsible for establishing the overall guidelines within which the architect(s), engineer(s) and other design professionals operate when preparing the drawings and specifications.

[1] Canada Mortgage and Housing Corporation. (2002). *Canada's Construction System.* Fact sheet in the "About Your House" series. CE 42. Retrieved from http://www.cmhc-schl.gc.ca/odpub/pdf/62966.pdf?lang=en

DETERMINING
the Organizational and Legal Considerations



In advancing through the development process, the project sponsor must consider organizational and legal matters, including the incorporation of a separate legal entity for the project, the purchase of land or buildings, and the preparation of consulting and construction contracts. Developers or sponsors should hire a development consultant as well as a solicitor with a background in corporate law and municipal and planning law to provide professional advice on these matters, as most are complex and can involve costly trade-offs.

In addition to the arrangements discussed below, detailed information on securing financing and a description of the legal agreements required by the lender are provided below.

INCORPORATION

Many project sponsors, particularly those planning large, complex or innovative projects, incorporate a separate legal entity for the project. Before doing so, however, the sponsor should assess the benefits of incorporating and the implications that incorporation may have for the business.

The main benefits of incorporation are:[2]

- separate legal entity;
- limited liability;
- lower corporate tax rates;
- greater access to capital; and
- continuous existence.

Some of the drawbacks to incorporating include:

- higher start-up costs;
- increased formalities for reporting; and
- more complex structure.

A further consideration is whether to incorporate federally or to form a provincial/territorial corporation. There are many differences between registering as a provincial/territorial corporation, depending on the province or territory, or as a federal corporation. Generally, federal incorporation provides a heightened name protection (federal incorporation allows the business to operate using its corporate name right across Canada) and increased location flexibility.

Regardless of the nature of the incorporation, the project sponsor must identify which individuals in the corporation have authority to execute agreements on behalf of the corporation and ensure executed agreements are retained for the development project. The corporation's minute book should record motions to approve each contract before it is executed.

[2] Industry Canada. (2007). *Guide to Federal Incorporation to Help Small Businesses Incorporate Federally*. Publishing and Depository Services, Public Works and Government Services Canada. Retrieved from www.corporationscanada.ic.gc.ca

LAND PURCHASE AND SALE AGREEMENT OR LEASE

Land may be obtained through purchase or a long-term lease.

A land purchase and sale agreement, also called an offer to purchase, is the document used to confirm a buyer's desire to purchase a property and to negotiate the terms of the sale from a seller. This document outlines in detail all of the conditions the buyer wishes to be placed in the offer to buy the seller's property. Some common examples of buyer's conditions include:

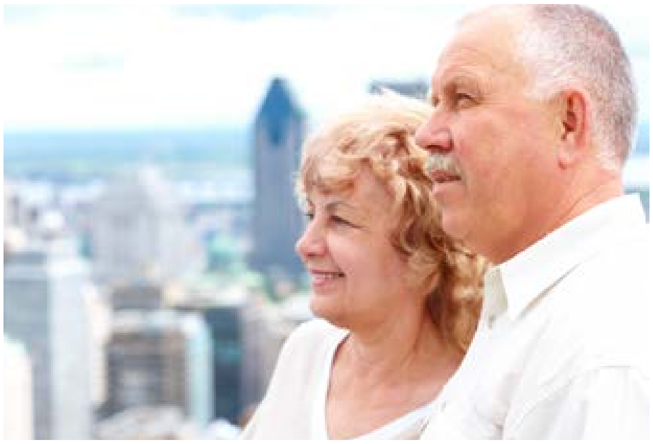
- arranging financing for the property to be purchased;
- completing inspections, including Environmental Site Assessments (ESAs); and
- securing any required municipal approvals such as an official plan or zoning bylaw amendment.

After the offer is prepared and signed by the buyer, it is presented to the seller for acceptance. The seller may make changes to the offer for the buyer to consider. This process can continue back and forth before both parties reach an agreement. A properly drafted offer should be clearly written and contain everything that is important to the project sponsor about the site and the transaction. Careful attention should be given to ensuring the agreement contains the exact legal description of the property. As well, there should be provisions for proof of title, that is, legal evidence of ownership.

Once the agreement of sale has been executed by both the buyer and the seller, and after any conditions or terms of the offer are met or removed, it becomes a legally binding and enforceable contract. For this reason, project sponsors should retain a solicitor to help negotiate the terms of the purchase and sale and ensure the appropriate conditions are incorporated into the document.

Standard agreement of purchase and sale forms are used by almost all real estate boards across Canada. The wording on these forms has been thoroughly reviewed and tested through the legal system and is broadly accepted.

In some cases, the land is leased, and the building is constructed on leased land. The length of the lease term must be longer than the combined development and construction period and the longest mortgage amortization period (if the project has a mortgage). At the end of the lease term, the land and buildings may revert to the owner of the land, or the arrangement may continue under a new lease to the project sponsor. The terms of the lease should clearly outline responsibility for insurance, grounds maintenance, property taxes and shared costs for services purchased from the landowner. In addition, the lender or funder requires the contract to specify an assignment of the lease if the project sponsor defaults on the mortgage.



UNDERSTANDING THE LAND USE PLANNING FRAMEWORK
and Community Consultation Process

Every municipality has a series of regulatory tools to ensure that site development and building construction are conducted in accordance with provincial and municipal legislation. Becoming aware of the land use and policy framework and the associated approval process is therefore an important first step to planning any new seniors' housing development.

From the initial stage of identifying a property, through to the design and construction, the local approval process affects the timing and cost of the undertaking. Meeting with a local planner at the start of the development process can help sponsors understand local land use regulations, zoning bylaws and building permit requirements, and to develop a strategy to meet the requirements.

Local planning processes and approvals can take a significant amount of time, depending on the complexity of the project and the site requirements. Learning about the provisions of the local Official Plan, zoning bylaws, technical review requirements and public consultation processes can help sponsors formulate a realistic assessment of the time and effort required to see the project through to completion.[3]

LAND USE REGULATIONS AND POLICIES

Residential development activity in Canada is governed by provincial and territorial legislation that sets out rules and regulations designed to:

- promote compatible land use;
- ensure consistency in the design, layout and functioning of public and private space; and
- protect the interests of landowners, neighbours and the public at large.

While land use matters are a provincial and territorial responsibility, in most parts of the country, approval authority is delegated to local municipalities, which are required to ensure that provincial interests are maintained. Municipal land use plans and policies can generally be grouped into the following three categories:

- **Comprehensive Official Plans**
  All provinces and territories require local governments to develop Official Plans (also known as Comprehensive Community Plans, General Municipal Plans or Official Community Plans) that incorporate the vision and framework for land use and development in the community. Most Official Plans integrate land use, economic, environmental, transportation and community facilities into a broad strategy to direct growth and development in a sustainable manner. Official Plans sometimes set specific targets or define objectives for the provision of various forms of housing, which may include accommodation for seniors. The case for approval of a proposed housing development will be strengthened by incorporating all relevant Official Plan goals and objectives.

[3] Canada Mortgage and Housing Corporation. *Local Planning Process and Approvals*. Retrieved from http://www.cmhc.ca/en/inpr/afhoce/tore/lere/upload/local_planning_EN.pdf

- **Special Area Plans**
  Special Area Plans (also known as Secondary Plans) focus on areas of particular importance to a municipality, such as the central business district, historic sites or waterfront areas. All Special Area Plans must be consistent with the overarching Official Plans and so, too, must all development projects within the geographic area.
- **Land Development Plans**
  Land Development Plans are more precise and detailed than either Official Plans or Special Area Plans. Among other things, they define property boundaries, road networks, permitted uses and parking requirements, and identify service and utility lines, public lands and facilities, community and commercial facilities, and any limitations on built form. Land Development Plans generally fall into one of four categories, specifically:
  1. subdivision plans, which divide large parcels of land for specific development;
  2. zoning plans or bylaws, which identify permitted uses and development guidelines for each area in a municipality;
  3. site plans (also known as development control plans), which govern the development of a single parcel of land, usually in greater detail than the overall zoning plan; and
  4. condominium plans, which divide property so that an individual holds title to a portion of a building, or a "unit," as well as a share of the rest of the property that is common to all the individual unit owners.

  Land Development Plans, which can overlap with each other, address issues such as:
  - land use;
  - density;
  - building height, architectural massing (the external architectural form) and placement; and
  - other issues such as parking requirements, signage restrictions and regulation of garages, sheds and other accessory buildings.

SECURING PLANNING APPROVALS

Securing planning approvals requires complying with submission requirements, understanding the concerns and requirements of the different agencies, and knowing the legal approvals that need to be obtained before development can proceed. The exercise often requires expert advice and can take several months or even years to complete.

Land use and zoning status are important factors, especially in determining whether the proposed project can be developed "as-of-right" (that is, the development fits the zoning already in place) or requires further approvals (if the current zoning does not allow for the proposed use or building form). If the property is zoned to permit the intended use, this can significantly speed up the approval process and minimize both cost and risk.

Official Plan and zoning bylaw amendments typically require some form of public consultation, such as public meetings. Project sponsors should meet with municipal planning staff to confirm how these meetings are structured. Suggestions for securing community support are discussed in the next section of this volume.

The process requires effective communication and negotiation so the project team can respond promptly to queries and monitor progress. It is common practice to regularly contact the agencies involved with reviewing the development applications to ensure that the project's approvals are proceeding according to schedule and that the agencies have the information necessary to grant the requested approvals.

To ensure compliance with the municipality's expectations, many municipalities also use a mechanism to negotiate specific conditions, such as access, drainage and landscaping. Names for this mechanism include Development Permit (in Alberta), Site Plan Control (in Ontario) and Comprehensive Development Zones (in British Columbia). Municipalities may also apply similar controls when approving large tracts of undeveloped land through conditions on plans of subdivision.

Planning legislation also specifies processes for dividing land into parcels, through what are known as "consents" or "severances." Provinces and territories also govern the process for registering condominium plans (or strata plans, as condominium plans are known in British Columbia).

Other regulatory bodies and public agencies must also be consulted, and some are required to approve a plan before work proceeds. These bodies include:

- utility companies, such as telephone, electricity, gas and cable television;
- services such as Canada Post;
- school boards;
- public health authorities;
- transit commissions and authorities;
- conservation authorities; and
- railway companies.

In some cases, obtaining approvals from such bodies may represent the greatest challenge for the project sponsor, particularly in the redevelopment of a former industrial site, which may require environmental assessment, remediation and monitoring.

Final approval of the development may be subject to an Official Plan amendment, a zoning bylaw amendment, a site plan agreement, a plan-of-subdivision approval, as well as clearances from regulatory bodies. Similarly, the development may be governed by development agreements, operating agreements, funding agreements, design guidelines and other conditions.

SECURING COMMUNITY SUPPORT

Public input and consultation are critical components of the planning approval process. Neighbours, taxpayers, local interest groups and other stakeholders all have an interest in the process and can exert considerable influence, especially if they do not support the proposed development. Opposition to a proposal can result in significant delays, higher costs and elevated stress levels among everyone involved in the development process.

Therefore, it is essential to develop a well-thought-out plan for generating community support and engagement, grounded on the following four principles:

- consultation;
- communication;
- capacity; and
- commitment.

CONSULTATION

The following concerns are often raised in opposition to a proposed housing development: increased traffic and noise, decline in property value, loss of established sense of neighbourhood and reduced quality of life. Such concerns can be mitigated by involving neighbours and community groups in the planning of the project. Therefore, the first step in developing support for the project is to engage in consultation.[4]

Before making a formal announcement about the proposed project, project sponsors should meet with neighbours and community groups. Explaining the project to them, asking them for feedback and listening to what they have to say can go a long way toward addressing concerns. Even if neighbours object to the project, it may be early enough to modify the idea to reduce that opposition. By asking for input and carefully listening to the responses, project sponsors receive valuable input that can improve the proposal, enlist potential supporters and assist with future marketing efforts.

Consultation should begin in the early, conceptual stages of the development process and continue throughout the development phase. Each consultation helps define the project vision, lend credibility to the development process and build community support. Activities and techniques that can assist with the community consultation process include:[5]

- meeting with the local councillor and other elected officials to explain the project and obtain their support;
- consulting with municipal planning staff and establishing a positive working relationship; and

[4] Canada Mortgage and Housing Corporation. (n.d.). *Generating Community Support.* Retrieved from http://www.cmhc-schl.gc.ca/en/inpr/afhoce/tore/lere/upload/EN_GCS_facsheets_Oct27_09-w.pdf

[5] HomeComing Community Choice Coalition. (2005). *Yes, in My Back Yard: A Guide for Ontario's Supportive Housing Providers.*

- canvassing the neighbours door to door to provide information, answer questions, identify supporters and assure those with concerns that their concerns will be noted and potential solutions sought.

COMMUNICATION

As the project evolves, the developer or sponsor needs to keep the community informed through regular, open communication. Effective approaches to communicating with the community help build momentum, support and credibility for the project. Reporting should occur at key stages in the development process and involve sharing successes through:

- newsletters;
- open houses;
- public meetings and workshops;
- websites;
- neighbourhood events; and
- working groups.

Throughout the communication process, project sponsors should keep detailed records of concerns raised and actions taken. This documentation can help shape the engagement strategy and demonstrate responsiveness to the community.

CAPACITY

Community capacity building involves finding and building on the skills and resources the community possesses. Supporters and volunteers often have skills that can be harnessed to help advance a project. Therefore, project sponsors should let the community know of opportunities to contribute to the project. Key questions to be addressed during the capacity building stage include:

- What service agencies could be engaged as potential partners?
- Who might donate skills, knowledge or experience to assist with the housing project?
- Who might donate cash or in-kind services?

COMMITMENT

When project sponsors successfully consult, communicate and nurture the capacity of the community, obtaining commitment should be both simple and straightforward. Securing commitment involves ensuring the community supports the project at the key municipal approval stages and during the marketing and promotion phase. Sponsors should ask themselves: Will the local councillor vote in favour of the project? Does the municipal planning department support the proposal? Will neighbours and others who live near the site speak to council on behalf of the undertaking? If the answer is yes, the project sponsor has clearly established community support and gained commitment to the development. Nevertheless, there may still be opposition to the project that the project sponsor will need to address. This may result in the need to appeal decisions made against the project by the municipality.

OBTAINING A BUILDING PERMIT

Each province and territory establishes its own building codes, modelled on the National Building Code, Fire Code and Plumbing Code, adopted as they are or modified to suit local needs. Building codes define how to construct safe, durable and reliable structures. Once adopted, these codes become the legal regulations for construction for that province or territory and are enforced by that jurisdiction. Provincial and territorial codes must be followed for new building construction as well as any renovation or alteration to an existing building.

Some municipalities require project sponsors to acquire both a development permit for the proposed land use, such as a site plan approval agreement, and a building permit for construction. Other municipalities compress the two permits into one. Most building permit applications will require the submission of architectural, structural, electrical and mechanical drawings and specifications that show how the plans comply with local regulations and the provincial or territorial building code. These construction drawings can take several months to prepare. The drawings must correspond to the plans approved under the site plan or development control plan.

Fees payable to the municipality at this phase typically include the building permit review fee, as well as any development charges, service connection fees, or other charges related to developing or upgrading municipal infrastructure.

The length of the building permit approval process depends on the complexity of the project, the regulations of the local municipality and the extent to which the construction drawings show how the project meets the requirements of the building code.

Project sponsors can mitigate delays by ensuring that decisions are made in a timely manner. In addition, the project sponsor should stay informed of any delays and create and maintain a project development schedule to anticipate bottlenecks in the approval process.[6]

ARRANGING Financing

Most project sponsors require external financing to design, build and operate a housing development. This financing—which bridges the gap between the total project cost and the amount of equity and other financing the housing sponsor is able to secure—generally takes the form of a construction loan during the construction phase. If the project is designed to be operated as a rental project, it might require converting the construction loan into a takeout mortgage (a permanent mortgage) after construction is completed and the sponsor assumes responsibility for the project from the builder (that is, following turn-over). If the project is designed for sale rather than rental, bridge financing may be required until all the completed units are sold and paid for.

To secure this financing, project sponsors need to demonstrate the project's feasibility to potential funding and financing partners. These partners look for specific figures arrived at through standard formulas and will compare the proposed project to established benchmarks used in real estate and financial industries. Accordingly, project sponsors should be prepared to provide documents showing project costs, net operating income (NOI), loan-to-value ratio (LTV), loan-to-cost ratio (LTC) and debt coverage ratio (DCR), along with other information. For this reason, project sponsors need someone on their development team who understands these terms and can do the calculations for the project.

[6] Canada Mortgage and Housing Corporation. (n.d.). *Local Planning Process and Approvals*. Retrieved from http://www.cmhc.ca/en/inpr/afhoce/tore/lere/upload/local_planning_EN.pdf

Figure 3: Sources and Uses of Funds

Uses of Funds (Costs)		Sources of Funding	
Soft costs (that is, consultants, site studies, legal, financing, municipal fees and permits, taxes, deferred costs, other carrying costs and so on)	$	Cash equity	$
Hard costs (that is, land, construction, appliances, furniture and equipment, and so on)	$	Fundraising, land value donations, government grants, rebates, purchase deposits	$
Contingency	$	Mortgage	$
Total	**$**	**Total**	**$**

FEASIBILITY AND PRE-DEVELOPMENT

During the initiation phase of the development process, most project sponsors focus on gathering information on their project concept and testing its feasibility with prospective partners and team members. This effort is usually made through volunteered time rather than funded activities.

As part of their due diligence, project sponsors should consult with prospective financial backers to gauge their interest in the project and gain insights from their experience. Given their knowledge of real estate and financial industries, potential funders and lenders can be valuable sources of information on funding programs, market preferences, the suitability of the location, and the mix of services and amenities that may appeal to the target market. Informal networking can also help to identify the criteria these individuals will use to assess the financial suitability of a proposal, including indicators of risk.

As the project concept enters the pre-development stage, project sponsors must complete a project feasibility analysis and carry out additional work to get the initiative to the point at which it qualifies for debt financing. This work involves completing the studies and investigations described in *Volume 2* of this series. To offset the cost associated with such activities, project sponsors need to contribute their own equity or obtain funding through government programs, foundations, fundraising, lines of credit, or loans from individuals, businesses, or corporations. Most grants and loans of this nature are non-repayable, as long as the sponsors adhere to the terms and conditions set out by the funding organizations.

SOURCES AND USES OF FUNDS

The project sponsor needs to identify the sources and uses of funds required to complete the proposed project. Figure 4 identifies the sources of funds for the project, including the amount that needs to be financed through a mortgage, as well as uses of funds or costs. The total costs and sources of funds must be equal.

Before lenders extend construction or mortgage financing to a project, they usually expect the project sponsors to invest some of their own capital into the undertaking. This investment could include the value of the land (if already owned), accumulated cash equity, grants, fundraising revenues and government grants. In most cases, lenders expect all contributions from all other sources to be made before they advance funds from the construction loan.

SELECTING A LENDER

If the feasibility and pre-development activities indicate that a project is feasible, project sponsors wishing to secure outside financing need to select a lender willing and able to offer a competitive financing rate on acceptable terms. Figure 5 shows some of the questions and factors that should be considered by project sponsors before selecting a lending partner. Before a decision is made, sponsors should obtain information on terms and conditions from several different lenders to ascertain which firm best meets the project's needs.

The lender assesses the project team's capacity, experience and ability to complete the project, including the contractor's background and experience with similar projects. Funds are usually advanced in instalments as the project progresses. Security for loans may take the form of a mortgage registered as a charge against the property, personal guarantees, the assignment of construction contracts or lease/pre-sale contracts, assurances regarding permanent financing, or mortgage insurance.

DEVELOPMENT AND CONSTRUCTION

During the construction phase, short-term financing is used to pay for work as it progresses. Construction financing is usually provided in lump sums, known as advances, as components of the project are completed. Lenders typically collect accrued and unpaid interest on construction advances monthly by either deducting the interest from current month's advances or, if there is no advance in the current month, by collecting interest directly from the borrower. In some cases, interest on the outstanding balance may be added to the total accumulated loan amount, which becomes payable when the completed building is sold or occupied.

Each lender has its own terms and conditions for providing development and construction financing. However, most expect a certain number of unit pre-sales for ownership projects, or demonstrated need in the community for rental projects (such as low vacancy rates), before they consider financing a development project. In healthy, mature markets, the level of pre-sales may be as low as 65 per cent for projects like condominiums that have established track records of market acceptance. In less developed areas and for projects that have fewer comparables, the pre-sale figure required may be higher. In lieu of pre-sales, some lenders will extend construction financing on the value of the land, provided that it is owned outright. In some cases, lenders require a third-party appraisal and marketability analysis to confirm demand in the community where the project will be built.

Figure 4: Lender Selection Criteria

1.	Is mortgage loan insurance* required? a. If yes: i. Who prepares the material for the insurance underwriters to review? ii. What is the cost for preparing the material? iii. How experienced are they with the process of preparing this material? b. If no, is the lender prepared to lend without mortgage loan insurance and what debt coverage ratio and loan-to-value ratio are they requiring?
2.	Availability of funds for construction loan—can they lend the entire amount that is required?
3.	Availability of funds for takeout mortgage, if required—how long a term can they offer and does that term length meet the project's requirements? If mortgage loan insurance is required, is the term long enough to meet the underwriting criteria?
4.	What amortization period will they allow?
5.	When will the lender agree to fix the takeout mortgage (that is, how long ahead of project completion) and what will they charge for this arrangement?
6.	Does the project need a line of credit during the development phase? If yes, will the lender provide this and at what rate?
7.	What security is required for the loans? Do officers/owners have to provide personal security?
8.	Do officers/owners need to provide personal net worth statements?
9.	How many years' worth of financial statements are required? Must these be audited financial statements?
10.	What is the lender's application fee and when is this required? Are there separate fees for the construction and takeout financing?
11.	What is the lender's refundable commitment fee? Under what terms is this refunded? Does the owner pay the refundable commitment fee as part of the application process for the construction financing and, once the takeout mortgage is arranged, will the fee be credited against that?
12.	Is a good faith deposit or other fee required? How large is this deposit or fee?

* For more information on mortgage loan insurance see www.cmhc.ca.

The primary measure of success, from the perspective of most lending and mortgage insurance institutions is the debt coverage ratio (DCR). The DCR shows whether the net operating income will cover the annual mortgage payment. The DCR can be calculated by dividing the net operating income by the mortgage payment.

- A DCR over 1.0 means that the project can generate enough cash flow to pay its debt obligations.
- A DCR below 1.0 indicates that there is not enough cash flow to cover loan payments.

The minimum DCR requirement varies according to prevailing economic and real estate market conditions and could be as high as 1.50 for multi-unit retirement and long-term care facilities for loans with a term of less than 10 years.

In addition to a healthy DCR, most lenders and mortgage insurance companies expect project sponsors to have human resources and a demonstrated track record in construction, property management, and client and labour relations. This is especially true of developers and sponsors that are proposing assisted housing or a long-term care facility. Lenders and mortgage insurance companies may review prospective borrowers' activities for the past five to ten years and, to mitigate risks, expect that borrowers have at least five years of demonstrated management experience in the operation and management of similar projects, or have engaged third-party management. For sponsors new to the field, it is important to partner with an experienced developer or builder. See also Insurance and Bonding below.

Long-term care facilities can be challenging to finance because of their increased risk profile. The health and safety risks associated with housing a large group of frail and often infirm residents can be more than many lending institutions are prepared to accept. Challenges related to staff retention and certain amenities (such as exercise equipment) and services (such as dispensing medication) can also increase risk.

Developers and sponsors of rental projects will also be asked to demonstrate their capacity to rent and keep units occupied, especially in areas in which the market is affected by competition and demand is low. To improve the financial feasibility of a seniors-oriented housing development, sponsors can try to reduce the time required to fully rent the facility, which for some retirement homes can take more than two years. They can also take steps to minimize vacancy loss and turnover (such as providing rent incentives), both of which have a negative impact on revenues in rental projects. Achieving high occupancy quickly and minimizing vacancy loss during ongoing operations can improve the financial feasibility of a seniors' housing development.

LONG-TERM TAKEOUT MORTGAGE

Mortgages or permanent financing, also known as "takeout financing," are used for long-term financing. Mortgage lenders typically include banks, trust and life insurance companies, pension funds and co-operatives. Most seniors' housing projects require a mortgage, in addition to developer or sponsor equity and funding from other sources, to cover all project costs. Mortgage payments are calculated using a formula that takes into account the interest rate, the amount of money borrowed and the amortization period required to retire the loan (usually 25 or more years).

MORTGAGE INSURANCE

Most lenders in Canada are required to obtain mortgage loan insurance for any mortgage greater than 80 per cent of the value of multiple-unit projects. The loan-to-value (LTV) ratio is a key measure of risk; generally, the higher the LTV, the higher the mortgage loan insurance premium. Mortgage loan insurance protects lenders in case of default by borrowers; as a result, most approved borrowers benefit through greater flexibility, lower interest rates and reduced renewal risk.

CMHC mortgage loan insurance is available for a range of housing projects, including those targeted to older Canadians, such as retirement homes and long-term care facilities. Detailed information on the terms, conditions and eligibility requirements associated with various mortgage loan insurance products can be obtained from CMHC.[7]

[7] See the CMHC website (http://www.cmhc.ca).

ASSEMBLING AND COORDINATING
the Project Team

Building partnerships and building a strong project team with diverse skills and experience will enable project sponsors to accomplish much more than they could on their own.[8]

IDENTIFYING THE REQUIRED TEAM MEMBERS

Before bringing together the project team or forming partnerships, project sponsors need to be clear about their housing objectives. What is the target market and how can the needs of that market best be addressed? Are the housing needs in the market area due to lack of supply or the condition of competitive product offerings? What services and amenities are expected and required by the specific target market segment? What form and tenure of development would best satisfy market need? To help answer these questions, project sponsors need to complete a project feasibility analysis as described in *Volume 2: Responding to the Market*. Once the feasibility of the project has been verified, project sponsors can identify and retain the required team members.

The composition of the project team depends on the project sponsor's expertise, the project delivery method, the complexity of the project, the technical difficulties to be overcome and the approval processes, including requirements set by a government partner. The process should begin with an internal review of the strengths and resources already possessed by the project sponsor and the existing team. This review will identify gaps—the resources, skills and experience that additional partners or team members can supply. The project sponsor or a development committee needs to map out who should be added to the team, what role they will play and when they will be involved. This process will help define the selection method and generate useful information that can later be incorporated into the contract or partnership agreement.

Depending on the scale and complexity of the proposed undertaking, a housing development will involve individuals and groups to take on the following roles. Some are permanent members of the project team; others are hired as consultants or specialists at specific points in the project.

- land use planning consultant;
- architect (or similar design professional);
- other design specialists (landscape architect, interior designer);
- engineers (structural, mechanical, electrical, acoustical);
- environmental and geotechnical engineers;
- other specialists or consultants (to conduct traffic, parking, noise or acoustical studies, or ensure LEED standards are met);
- cost consultant or quantity surveyor;
- construction contractor;
- financial expert or mortgage broker (particularly if projects are not financed through traditional bank loans and mortgages);

[8] Canada Mortgage and Housing Corporation. *Building Your Team*. Retrieved from http://www.cmhc.ca/en/inpr/afhoce/tore/lere/upload/Building-Your-Team.pdf

- lender;
- fundraiser (for projects in the not-for-profit sector or that contain a component or service that will require public support);
- lawyer (corporate and planning);
- accountant;
- marketing consultant;
- property manager; and
- specialist consultants (in areas such as recreation and lifestyle programming, and health and support services).

To determine what professional help is necessary and when, many project sponsors retain the services of a development consultant. This is a development industry professional with a detailed understanding of all aspects of the planning, design and construction process. Once hired, the development consultant works with the project sponsor to assemble the team, and then coordinates the work of other team members.

SELECTING TEAM MEMBERS

Team members and consultants can be selected formally or informally, depending on the size and complexity of the project. Project sponsors who have not previously worked with members of certain professions may seek referrals from municipal planning staff or professional associations in the area to identify qualified professionals for the team. Referrals from other colleagues in the field can also be a good source of information. Word-of-mouth referrals and reference checks are two ways to judge how flexible and reliable a prospective team member or consultant may be and how compatible an individual or firm would be with other members of the team. Interviews are also useful during the selection of qualified team members and consultants. Effective and lasting partnerships work best when the team members recognize and respect one another's roles and contributions.

INFORMAL SELECTION

Once project sponsors have identified prospective candidates for a particular role on the project, they should obtain and review information about the candidates' experience and qualifications to determine the best fit for the project. A committee or team member may have responsibility for making a recommendation to the project sponsor as part of the process.

FORMAL SELECTION

A formal selection process is often required when the project sponsor is a corporation or a non-profit institution with purchasing policies in place, or when the project is funded, in whole or in part, by government. Most formal processes are managed by a team or committee appointed by the project sponsor's management group or board of directors.

Options for conducting a formal selection process can vary and should be tailored to the team member(s) and partners being recruited. The four most common approaches are as follows:

- **Public proposal call**
  Interested firms or individuals are invited to submit proposals in response to an advertised request for proposals.
- **Invited proposal call**
  Invitations are distributed to a selected number of qualified individuals or firms.
- **Invited competitive interview**
  Invitations are sent to a limited number of qualified individuals or firms to attend an interview to discuss the candidates' qualifications and experience and obtain information on how they would approach the work.
- **Pre-qualification bid**
  This method is also called a request for qualifications (RFQ) or a request for expression of interest (REOI). All interested firms or individuals are invited to submit short descriptions of their qualifications and brief, preliminary proposals indicating how they would complete the work. A short list of prospective candidates are either interviewed or asked to submit more comprehensive proposal submissions that include cost estimates and work schedules. This approach is useful for very complex projects. A pre-bid meeting may be held at which the project sponsor can brief candidates on the project and the selection process.

Figure 5: Selection Criteria Checklist

Selection Criteria	Name of Individual, Firm or Company		
	Firm A	Firm B	Firm C
Experience with similar size and type of project (10 points)			
Experience with housing for older people (10 points)			
Experience working in the geographic area (5 points)			
Experience with government programs (if applicable) (5 points)			
Qualifications/accreditation (10 points)			
Demonstrated understanding of the work (10 points)			
Ability to deliver the product or service on time (10 points)			
Quality of the proposal or presentation (5 points)			
Fee structure and cost (20 points)			
Confirmed absence of conflicts of interest (5 points)			
References (5 points)			
Other comments or findings (5 points)			
TOTAL SCORE (out of potential total of 100 points)			
Recommendation			

SELECTION CRITERIA

The project sponsor should define selection criteria for the comparison of proposal submissions in advance of the proposal call. These criteria should be specified in the request for proposal document itself and should include information on how responses will be ranked or scored. Figure 5 lists typical selection criteria and point ratings.

ISSUING THE REQUEST FOR PROPOSALS (RFP) AND OBTAINING QUOTES

Prospective team members, whether they are informally asked to submit proposals or formally invited to respond to an advertised request for proposal call, should be asked to provide information in a standard format. Project sponsors should ensure that proposal requests are appropriate and reasonable given the scale, scope and cost of work to be performed by the prospective team member. The RFP should include:

- the objective of the proposal call;
- the terms of reference for the project, including a detailed description of the work to be performed;
- a description of special requirements, if any, for the work to be completed;
- the information each prospective team member must include with the submission;
- the expected format of the submission, including any presentation requirements;
- the name of the contact person at the sponsor agency;
- the submission date and deadline; and
- the number of copies of the submission to be provided.

In all cases, respondents should be asked to provide references or examples of similar work successfully completed in the past. Project sponsors should call each reference provided for information on past performance and use this information to evaluate the respondent's capacity to deliver the services required within the project's schedule and budget.

COORDINATING THE PROJECT TEAM

After signing agreements with the individual consultants, the working relationship with the project team formally begins.

The project team is made up of a group of individuals responsible for many interrelated tasks. A delay in meeting one deadline could set off a chain reaction and cause costly delays. Therefore, the project sponsor must ensure that each team member receives accurate information and that information produced by one team member is relayed to the others who require it for their tasks. The project sponsor must be aware of the impact that changes in the project will have on the team members' collective work. For example, if paid consultants are required to redo work because of changes to the plan, this could result in additional costs for the project, such as a case in which the decision to build two smaller units in the space originally intended to be occupied by one larger unit would not only affect building costs, but may require additional parking or amenity space to accommodate the second household.

A strong communications plan is essential. One individual on the team should have responsibility for creating and maintaining a list of project team members, planning communications and ensuring the appropriate information is provided to team members promptly. Members of the project team should be encouraged to learn from the most experienced members of the team as the project progresses, and be accountable for ensuring their communications are clear. Communications require a range of tools such as teleconferencing, videoconferencing, site meetings and e-mail.

ESTABLISHING AND MAINTAINING A PROJECT SCHEDULE

A well-planned and realistic project schedule that takes into account as many variables as possible will help keep a construction project moving along smoothly, alert the project sponsor when the project is about to run into snags, and help identify actions needed when unforeseen circumstances arise.

The schedule maps out the progress expected for the development project in a timeline that shows key milestones as well as the duration of major tasks. Once the schedule is established, it acts as a baseline for comparing actual progress and forecasting the project's completion date. All key stakeholders should have input to the schedule during the design stages and should agree to the milestone dates in the schedule. Regular progress reports will keep all team members informed of any changes to the schedule and identify actions needed to keep the project on time.

A weekly check-in meeting is useful to keep all team members informed. Longer meetings will be required to finalize major decisions and allow for input from those involved. As team members are added to the team, they should be included in project meetings in which the discussion or decisions made will be relevant to their tasks. Minutes from these meetings should be sent to all project team members, so all are kept informed of decisions made.

ENTERING INTO CONTRACTS WITH DEVELOPMENT TEAM MEMBERS

Entering into contracts with development team members ensures that the work is performed to the level of quality required and the services and deliverables are provided according to schedule and at the agreed-upon cost.

Depending on the nature of the work to be performed, contracts can either be informal or highly prescriptive and detailed. In all cases, however, they should be written and signed by authorized representatives of both parties. Having the project sponsor's solicitor review all contracts before they are executed can protect the sponsor from challenges from the other party in the event of default or non-performance.

Most contracts contain the following components:[9]

- a statement of the purpose, scope and relationship between the parties;
- the goals, objectives and outcomes of the contract;

[9] Canada Mortgage and Housing Corporation. *Building Your Team*. Adapted and retrieved from http://www.cmhc.ca/en/inpr/afhoce/tore/lere/upload/Building-Your-Team.pdf

- the length of time of the arrangement, and how it will be evaluated and renewed;
- the respective roles and responsibilities of each party;
- each party's resource commitments, for example, staff, facility or in-kind;
- the parties' financial commitments, including the cost of services to be provided;
- the structures and reporting relationships between parties, including any staff that may be involved in performing services;
- policies regarding annual accountability, risk management and conflict resolution;
- insurance requirements, including professional liability insurance, commercial liability insurance, and errors and omissions insurance;
- a conflict of interest clause; and
- a termination process.

CHOOSING the Project Delivery Approach

The project delivery approach is the method used by the project sponsor to procure development and construction expertise for the proposed housing project. The three main procurement techniques employed in the delivery of most seniors-oriented housing across Canada are turnkey/modified turnkey, pre-qualified tender and construction management. The key characteristics of these three approaches are briefly described below.

TURNKEY/MODIFIED TURNKEY

The turnkey/modified turnkey project delivery method is often called design-build. Under this approach, the project sponsor retains a third party to design and build the project to the sponsor's specifications. If the sponsor owns the land, it may conduct a competition to select the builder from a list of qualified firms. If the builder owns the land, there is no competition to select the builder. A turnkey project is one in which the builder pays all costs from the outset and is paid in full by the project sponsor upon completion. A modified turnkey project is one in which payment is made by the sponsor at specified milestones throughout the development process.

A turnkey/modified turnkey approach is often used in projects that need to be completed within a tight timeframe. There is a single point of responsibility (namely, the design-build team), an arrangement that reduces the design and contract tendering process, as well as the risk of change orders that result in construction delays. Under the turnkey approach, the project sponsor is responsible only for additional costs if changes are requested that were not in the agreed-upon drawings.

Because the design-build team is responsible for both design and construction services, this approach may be attractive to project sponsors unfamiliar with real estate development or those wishing to limit their personal involvement in the process. In either case, project sponsors should consider retaining an advocate architect (an architect acting as a representative of a client or user group) or technical consultant to provide independent advice on design and construction quality issues throughout the project design and construction process.

PRE-QUALIFIED TENDER

Under the pre-qualified tender approach, the sponsor retains an architect or engineer to fully design the project to its specifications.[10] The architect prepares a full set of project drawings, including specifications, as well as a list of qualified contractors who will be invited to submit tenders. The list of qualified contractors may be drawn from the architect and project sponsor's experience with contractors or through a public pre-qualification process administered by the architect. Throughout the tendering process, the architect or engineer remains the overall project lead, and has responsibility for assessing the tenders received and making recommendations to the project sponsor for awarding the contract. In most cases, contractors are selected based on price and demonstrated capacity to complete the project on time and on budget. However, other factors can also be included among the selection criteria, such as experience in constructing seniors' or accessible housing.

In contrast to the turnkey approach, project sponsors are responsible for cost overruns and change orders, including any incurred as a result of unforeseen conditions or items not included in the drawings. Therefore, this delivery method is most appropriate when the project sponsor has development experience, site conditions are known, and project timelines incorporate sufficient time for design, tendering and negotiating the contract.

CONSTRUCTION MANAGEMENT

Construction management also involves hiring an architect to design the project and prepare the construction documents for tendering. However, in this method, a construction manager is hired by the project sponsor to tender each component of the work to qualified subtrades who enter into contracts with the project sponsor to complete the work. In many cases, this approach can save money, but only if the construction manager who oversees the project is able to attract qualified subcontractors willing to offer competitive pricing.

The challenge with this method is that the total building cost is not known until all the subcontractors are selected. The total contract price becomes the aggregate of costs from every subcontractor involved. As with the pre-qualified tender approach, the project sponsor is responsible for all cost overruns and additional expenses related to change orders made necessary by unforeseen conditions, items not included in the project drawings, or changes requested after the drawings have been prepared.

[10] Canada Mortgage and Housing Corporation. *Project Costing and the Construction Process.* Retrieved from http://www.cmhc.ca/en/inpr/afhoce/tore/lere/upload/project_costing_EN.pdf

PART TWO
CONSTRUCTING THE PROJECT

ENTERING INTO the Construction Contract

The Canadian Construction Documents Committee (CCDC) has developed Standard Construction Documents typically used for development projects in Canada.[11]

Construction contracts vary greatly, but most fall into one of the following five main categories.

- **Fixed-price contract**
  In the fixed-price contract, also known as a stipulated price or lump-sum contract, a predetermined amount is agreed upon for the entire work. The contract is between the owners (generally the project sponsor) and the prime contractor, who performs the required work for a single, pre-determined fixed price or lump sum, regardless of the contractor's actual costs.

  Both turnkey/modified turnkey and full-tender delivery methods (that is, pre-qualified tender and construction management) can be arranged as fixed-price contracts. However, if unexpected costs arise, the contractor is responsible for paying them under the turnkey/modified turnkey method, whereas the project sponsor is liable for these costs under the full-tender delivery methods.

  Fixed-price contracts rely on complete design drawings and specifications, which usually take considerable time to prepare before construction can begin. The decision to enter into this form of contract may depend on how critical a guaranteed total price is to the project's success.

  The key provisions of the stipulated price contract are set out in the CCDC 2 Stipulated Price Contract.

- **Cost-plus contract**
  In the cost-plus or cost-plus-a-fee contract, the cost of the actual work is reimbursed, plus a percentage or fixed fee for overhead and profit. Under a cost-plus contract, the project sponsor is responsible for the payment of any costs resulting from unforeseen conditions.

  Cost-plus contracts are appropriate when construction timelines are short and projects need to be fast-tracked, as design drawings can be produced incrementally and work tendered out sequentially.

  The key provisions of the cost-plus contract are set out in the CCDC 3 Cost Plus Contract.

- **Unit-price contract**
  In a unit-price contract, the fee is based upon the cost of labour and materials for specified units. The

[11] Canadian Construction Documents Committee (CCDC). Retrieved from http://www.ccdc.org

contract is between the owner, generally the project sponsor, and the contractor who performs the required work for a predetermined, fixed amount for each specified unit of work performed. The total price of the contract is determined by multiplying the unit price by the actual, measured quantity of work performed for each specified unit. Like the cost-plus contract, the project sponsor is responsible for the payment of any costs resulting from unforeseen conditions.

The key provisions of the unit-price contract are set out in the CCDC 4 Unit Price Contract.

- **Construction management contract**
  Two different forms of construction management contracts are used for development projects. The "Construction Management Contract – For Services" is used if the building will be built by trade contractors and the construction manager performs advisory services and oversees the contracts between the project sponsor and each trade contractor. The "Construction Management Contract – For Services and Construction" is used where advisory services will be provided by the contractor, with the contractor also performing the construction work. The contract is between the project sponsor and the construction manager, and the fee is calculated on an actual cost basis, as well as a percentage or fixed fee added to the actual costs. This contract can be converted into a stipulated price contract once all costs are known.

  They key provisions of the "Construction Management Contract – For Services" and the "Construction Management Contract – For Services and Construction" are set out in the CCDC 5A and CCDC 5B documents, respectively.

- **Design-build contract**
  The standard contract between an owner and a design-builder is called a "Design-Build Stipulated Price Contract." In this contract, the design-builder is responsible for design services and construction under one agreement, for a single, predetermined stipulated or fixed price.

  The key provisions of the design-build stipulated price contract are set out in Document 14 – 2000 Design-Build Stipulated Price Contract.

CCDC has prepared standardized templates for each of the five main construction contracts. Provincial and territorial construction associations can also provide information and advice on contracts for a particular context or community. The level of detail in the construction contract is critical in the event of default or disagreement with the performance of either party. For this reason, the project sponsor's solicitor should review and comment on the agreement before it is signed to ensure the project sponsor is sufficiently protected.

CONSTRUCTION
Phase

Knowing what to expect during the construction phase will help the project team monitor progress. The schedule of construction will vary depending on the size and complexity of the proposed development, the type of construction, site and weather conditions, material and contractor availability, the knowledge and experience of those managing the project, and any changes made to the original contract after construction has begun.

INSURANCE AND BONDING

Before the start of construction, project sponsors should ensure that they and the contractor are appropriately insured and, if necessary, that the contractor is bonded for the work to be performed. Minimum levels of insurance required for the project will be set by the project lender or funder and will vary from project to project. The project sponsor may also have criteria for minimum coverage set out in its own policies and procedures. Lenders often require that they be named as an additional insured on all insurance policies.

Project sponsors should ensure they are covered under their existing liability insurance policies for any accidents that occur on site during construction. If the project sponsor is acting as general contractor and employing subcontractors, additional coverage will be required. Developers or sponsors who hire an independent construction contractor must ensure that the contractor has the following insurance in place:

- **Builders' risk insurance**
  Builders' risk insurance protects the builder in the case of loss, theft or damage to materials, structure and equipment when the project is under construction.
- **Commercial general liability insurance**
  Commercial general liability insurance provides coverage to the builder against compensation claims made by third parties for property damage or physical injury during construction.
- **Automobile liability insurance**
  If the construction company owns vehicles, the firm must have automobile liability insurance to cover claims for bodily injury or property damage at the construction site.
- **Boiler and machinery insurance**
  Boiler and machinery insurance protects against any type of loss or damage to equipment installed or used on the site. This coverage extends to damage to the building if the equipment malfunctions.
- **Workers' compensation insurance**
  Workers' compensation insurance provides coverage for workers employed by the builder in case of injuries or death during their course of employment.

In some situations, contractors may be required to be bonded. Bonding is like insurance in that it provides a guarantee that the work outlined in the contract will be completed. Bonding is arranged by the contractor with a third party called a surety. These are the two most common forms of bond:

- **Performance bond**
  A performance bond guarantees the contractor will perform the work outlined in the contract.

- **Labour and material payment bond**
  A labour and material payment bond guarantees the contractor will pay for labour and materials required to perform the contract.

CONSTRUCTION SITE MEETINGS AND INSPECTIONS

During the construction phase, the project sponsor generally appoints an individual or committee to attend construction meetings and report back to the board or owner.

- **Pre-construction site meeting**
  The pre-construction site meeting takes place after the construction contract has been signed and before construction starts. The participants at the meeting agree on how they will communicate during the project, who will record and distribute the minutes of construction meetings, and when material relating to the contractor's invoices will be distributed. The process for calculating payment owing to the contractor is also confirmed in this meeting and reflects the lender's policies on requiring that material be installed or delivered to the site before payment is authorized.
- **Regular site meetings**
  Site meetings generally occur every two weeks, led by the project architect or contractor. Items discussed include the schedule, unforeseen conditions to be addressed and how these will be handled, changes initiated by the project sponsor, decisions to be made by the project sponsor, and the timing for making these decisions.
- **Progress draw meetings**
  Progress draw meetings occur monthly during construction to review the contractor's applications for payment. At these meetings, the percentage or value of work completed in the previous month is reviewed for adequacy and conformity with the construction schedule and construction documents. The project monitor or cost consultant may attend these meetings and inspect the value of the work completed to confirm that the amount invoiced is correct. This meeting may be combined with one of the site meetings.
- **Special meetings**
  Occasionally, it is necessary to hold special site meetings to address specific or serious concerns not covered by other meetings. Special meetings are usually arranged by the contractor, architect or development consultant but can also be called by the project sponsor.
- **Pre-turn-over meeting**
  The pre-turn-over meeting is held when the project is nearly complete to identify, clarify and resolve any outstanding issues before turn-over occurs. Turn-over is defined as the point at which control of the completed project is transferred from the contractor to the sponsor. The work in the construction contract may not be fully completed at turn-over, but the project is considered ready for occupancy.

CHANGE ORDER APPROVAL PROCESS

A change order is an alteration to the construction contract agreed to by the sponsor and the contractor. Change orders are required to:

- make changes in the work required due to omissions or errors in the construction documents;
- address unforeseen conditions;
- coordinate the requirements of consultants and trades;
- make necessary changes in materials or construction methods;
- adjust the contract completion date; and
- comply with the building code.

Change orders may be initiated by the developer or sponsor group, the architect or the architect's consultants, or the contractor.

In addition, a change may be initiated following testing or an inspection by a third party such as a municipal building official. If a change in the work is proposed, the architect or engineer will prepare a contemplated change order (or request for change) detailing the design and specification of the proposed change in the work. The architect will send a copy of the contemplated change order for review to the project sponsor. The project sponsor should carefully review all contemplated change orders and discuss any questions with the architect.

The contractor reviews the contemplated change order and provides documentation on the cost of the change. The architect reviews the contractor's cost estimates, and all parties agree on the value of the change. A change order is then issued and signed by the contractor and the project sponsor. Before authorizing the change, the project sponsor must analyze the impact of the change order on the schedule and budget. The contractor should not carry out the work specified by the change order until it has been authorized by the housing sponsor.

COST CONTROL

The project sponsor is responsible for controlling overall costs and ensuring the project is completed within the project's approved budget. This process requires careful monitoring of all costs and estimating the remaining costs to complete the building throughout the construction period.

Budgeted construction costs are generally split into two categories: hard costs, which include land and physical construction costs; and soft costs, which include professional fees, site-related fees, legal and organizational charges, financing costs and fees, and permit fees. A contingency amount is usually included in the budget to cover items that exceed the budgeted amount. The amount included in the contingency budget will vary depending on the type of construction method being used and the project's construction cost. Change orders are paid for through the contingency fund in the budget.

Throughout the development and construction phases, it is important to carefully track all project-related costs and identify cost overruns. Decisions on changes to the construction contract need to be weighed against the availability of funds and potential future cost overruns.

SCHEDULE CONTROL

Similar to the cost control process, construction progress must be reviewed on a regular basis and compared to the schedule issued by the contractor. The project budget is prepared based on the contractor's schedule, and cost overruns may be caused by items such as interest during construction if the project falls behind schedule. Change orders may affect the construction schedule, and these effects must be considered by the housing sponsor as part of the approval process.

PAYMENTS AND MORTGAGE DRAWS

Before construction begins, the contractor submits a schedule of values to the architect for review and approval. The schedule of values is the formal name for a breakdown of the contract price into components such as foundation, framing, finishing, and so on. The components may be further broken down based on the construction schedule, elements of the project's construction, or the cost of work by particular tradespeople. Once accepted by the architect, the schedule of values becomes the basis for evaluating the approved payment at the end of each progress draw meeting.

Once the contractor and architect agree to the value of work completed, the contractor prepares a formal application for payment and the architect drafts a certificate of payment. A holdback amount (usually 10 per cent) is retained from each invoice submitted by the contractor, as stipulated in the construction contract. This holdback is released to the contractor after the project has been completed; the timing for release is set out in provincial/territorial legislation.

In the case of turnkey/design-build contracts, an advocate architect or technical consultant also reviews the schedule of values and the value of work completed on behalf of the project sponsor.

Once the contractor's amount has been agreed to, the development consultant or project sponsor prepares a request for advance for a mortgage draw to the project's progress monitor or quantity surveyor. The request for advance covers the contractor's payment as well as soft costs, such as legal, consulting and administrative expenses, and includes all supporting documents and invoices. This package generally includes:

- the application for payment from the contractor;
- the schedule of values and work performed;
- the contractor's statutory declaration for progress claims;
- the contractor's statutory declaration for release of holdback (for final progress draws only);
- a Workers' Compensation Board Certificate of Clearance;
- the architect's certificate for payment;
- reports from the architect or engineer(s) confirming that work completed meets the requirements of the contract;
- invoices for soft costs;
- copies of cheques cleared that paid invoices from prior mortgage draws; and
- copies of bank statements showing cheques that have cleared the bank account and deposits received.

If any change orders have been issued, the development consultant must also include the change order and a change order summary.

After the progress monitor or quantity surveyor has reviewed the costs and ensured that the progress draw application has been properly submitted and is complete and that the cost to complete the project can be covered by the available funds remaining, he or she will forward the application to the project sponsor's lender.

After receiving and approving the payment request, the lender forwards the funds to the project sponsor's solicitor for distribution to the housing sponsor. Before advancing the funds, the lender's solicitor confirms there are no liens against the property. If a lien has been placed against the property, the lender will not advance the funds until it has been cleared. The contractor may pay an amount equal to the value of the lien and estimated costs into court to remove the lien and clear the title.

PROJECT MONITORING

An architect cannot be on the construction site all day, every day. However, he or she is expected to perform site reviews from time to time to ensure that construction is being carried out according to the provisions of the contract. The frequency of the site visits will vary with the complexity and stages of construction activity.

The following groups or individuals should be involved in inspecting, monitoring and reviewing project work:

- the general contractor and subcontractors (as required);
- the architect, engineers and consultants;
- a municipal building inspector;
- the progress monitor or quantity surveyor;
- the advocate architect or technical consultant (for turnkey projects); and
- representatives of other agencies (such as health and safety inspectors).

The housing sponsor should identify one person with authority to act on the sponsor's behalf who will attend all meetings. Other representatives from the housing sponsor's organization may also attend meetings. The contractor is responsible for safety on the site, and each representative of the housing sponsor should respect this responsibility and follow health and safety instructions.

The contractor must co-operate with any reasonable request to inspect or review project work, whether or not the work is on or off the construction site. The contractor's site superintendent should also accompany inspectors, if requested, provided that the request is reasonable and during working hours. The contractor is also responsible for inspecting all work, including the subcontractors' work, from time to time, and ensuring that all defects, deficiencies and omissions are corrected.

COMPLETING AND TURNING OVER
the Project

Turn-over is the term for the final stages of the construction phase, during which the developer or sponsor assumes control of the total project. To ensure smooth turn-over and fulfillment of all the terms and conditions of the construction contract, the developer or sponsor should follow the procedures described below before the project is ready for occupancy or sale.

PREPARING FOR PROJECT TURN-OVER

The construction contract should include a requirement for the contractor to give the project sponsor advance written notice of the anticipated turn-over date. Ideally, the advance notice should come 90 days ahead of turn-over, although the period can vary from one project to the next. This advance notice allows the developer or sponsor to finalize a number of activities, including:

- confirming the property management approach and entering into contracts or employment agreements with the property manager or other service providers;
- completing project marketing and promotion activities, including executing lease agreements or purchase and sale agreements;
- for rental projects, developing policies and procedures for governance, tenant relations, maintenance and finances;
- finalizing the move-in plan, including the scheduling of unit inspections;
- arranging for insurance, mail delivery, garbage collection, snow clearing, landscaping and maintenance contracts for major building components;
- inspecting and testing life safety systems, including the building's fire alarm and 24-hour monitoring, elevator emergency call system and monitoring (if applicable), the fire safety plan, sprinkler systems and smoke detectors;
- inspecting and testing security systems, including making arrangements for overnight security between the time the building is turned over to the project sponsor and the time tenants move in/buyers take possession; and
- reviewing and finalizing the first year operating budget.

Upon receiving the notice of anticipated turn-over, the developer or sponsor also needs to arrange the conversion of construction financing to a permanent mortgage (if it is a rental project) with the lending institution once the project is generating sufficient rents to cover operating costs and mortgage payments.

The contractor will also notify the architect that the project is nearing substantial completion. At this time, the contractor and architect will conduct a site inspection to make sure the project will be substantially complete by the date established in the contractor's schedule. This inspection allows for the efficient resolution of issues before the formal substantial completion application is made.

CERTIFYING SUBSTANTIAL COMPLETION

The contractor is generally responsible for coordinating and applying for all municipal requirements for occupancy. These requirements vary from municipality to municipality. In most cases, municipalities must issue an occupancy permit or certificate before residents can take possession or move into the new building.

Project sponsors need to be aware that the term "substantial completion" has a formal legal definition established under legislation, which varies from province to province. The term generally refers to the point in the construction process at which the contract is almost complete and the project is ready for its intended use.

Once substantial completion has been achieved according to the terms and conditions specified in legislation, the architect will issue a certificate of substantial performance. When the contractor is confident that the project meets the requirements of substantial completion, the contractor requests a meeting with the team and submits an invoice for work completed. Upon receipt of this invoice, the architect conducts an inspection and assesses the work to confirm the validity of the invoiced amount and the achievement of substantial completion.

ADDRESSING DEFICIENCIES, CERTIFYING CONTRACT COMPLETION AND RELEASING THE HOLDBACK

Throughout the project, the architect should identify items that the contractor must repair or redo. A deficiency inspection is made when substantial completion is achieved. All items identified during the inspection must be repaired or completed to the architect's satisfaction before the contractor can achieve total completion of the work. The project sponsor can also provide its own list of deficiencies to the architect before the formal inspection. The housing sponsor or contractor may request particular subcontractors to participate in deficiency inspections. The deficiency list is signed by the architect and provided to the contractor.

A date mutually agreed upon between the contractor and the architect will be set for completion of the work on the deficiency list. Once the deficiencies have been addressed, the contractor will contact the architect to re-inspect the work. If the architect is satisfied, he or she issues the certificate of completion to the contractor, who prepares an invoice for the remaining value of the contract.

Liens can be registered against the title to the property at any time during construction. However, once the notice of substantial completion is published, the final lien period begins where any individuals or firms that supplied labour or materials to the construction site are given a deadline to register liens against the title to the property if they have not been paid in full.

If, at the end of the lien holdback period, no liens or notices of liens have been registered, the housing sponsor requests the funds from the lender and releases the holdback to the contractor.

Once construction has been completed, sponsors must ensure that any letters of credit held by the local municipality or other approval agency are cleared and released. Doing so generally requires an inspection by municipal planning or engineering staff, or a building inspector. Letters of credit are often required to ensure that the site works and building components are satisfactorily completed to municipal standards.

TURN-OVER AND WARRANTIES

At the point of turn-over, the developer or sponsor officially takes control of the completed project. This transition is the point at which several key activities take place:

- the contractor provides the project sponsor with all keys to the completed development;
- the contractor provides all "as-built" drawings to the project sponsor;
- the responsibility for utilities is transferred from the contractor to the project sponsor or owner of the unit;
- the contractor turns over to the developer or sponsor any excess building materials that were not fully used in the building process, or the quantity specified in the contract.

Warranty provisions can vary substantially between provinces or territories. The architect can provide professional advice on standard local practices. Warranties are valuable for protecting the owner from costly repairs due to construction problems that arise early in the life of a project.

The typical warranty period is one or two years. Sometimes specific aspects of the work, such as structural components, may have different warranty periods, and this should be specified in the construction contract. Warranties related to installed products should be issued in the name of the project sponsor and be provided with manuals, including model number and serial number (where applicable), for each component.

Before the warranty period expires, the architect, together with all other appropriate consultants, should inspect the building and prepare a warranty report. This report identifies and comments on any outstanding deficiencies to be corrected and on any new items requiring attention under warranty.

CLOSING THE BOOKS

With most contracts, the amount of time allowed for construction is defined. In some cases, a contractor may be held responsible for paying damages to the developer or sponsor if the project is not completed on time. The contract should specify clearly whether the time is in calendar days or working days; calendar days are the generally accepted method. Liquidation damages would apply to each day that the contractor goes over the estimated date of delivery. Liquidation damages may include costs such as the loss of rent for apartments that could not be rented or moving costs incurred by tenants or buyers and alternative accommodation arrangements.

In most instances, once the project has been completed and units occupied, an audited capital cost statement is prepared by the project sponsor's auditor, who calculates the total cost of the project. Funding and lending agreements stipulate whether the audited capital cost statement must be provided to project funders or lenders.

CONCLUSION

Most new housing developments proceed through a four-phase development process that begins with project initiation and development and concludes with project construction and turn-over (see Figure 1). Many of the activities involved, such as assembling the project team and refining the development concept, can be tackled concurrently. Others, however, need to be addressed sequentially, such as securing financing before starting construction. Either way, sponsors must understand what is required to successfully navigate the process, as mistakes can be both time-consuming and costly to rectify.

Despite the risks, the rewards associated with executing a thoughtfully designed, carefully planned and well-built project can be significant. As the housing market for older Canadians continues to evolve, sponsors who understand the development process and the factors critical to success will increasingly find they are able to capitalize on a growing number of project opportunities.

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