

**HOUSING ACQUISITION
TECHNIQUES**

NHA 5439

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This document was prepared by the National Office Support Centre on behalf of the Social Housing Division and in conjunction with the Co-operative Housing Foundation.

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HOUSING ACQUISITION TECHNIQUES

This handbook had been developed to provide guidance to those whose duties and responsibilities require an understanding in principle of the process of arranging the purchase and/or design and construction of housing projects. It deals with the various acquisition techniques and within each of the techniques, it outlines possible management arrangements and construction contracts.

This handbook has been produced as a guide and reference for proponent groups in the process of housing development, and should generally be used with the aid of knowledgeable support people either from a community resource organization or from CMHC. It may be used by CMHC or by community resource organization, but it is designed to be used as a resource and support and not in a regulatory manner.

INTRODUCTION

From the moment acquisition of a housing project is considered, there is a continuing process of information gathering, planning, review and decision making in increasing detail and of greater refinement. From this emerges the final form of the development of the technique to be utilized in acquiring the project, cost estimates and financial analysis. Accountability demands unremitting care/attention to detail and rigorous periodic scrutiny and assessment of programs, commitments and expenditures. There is nothing automatic about a building project.

The first step in the realization of a housing project is the determination, by the project proponents, of the desired nature, form and cost of their project and the possible match between this objective and the resources they can secure to achieve it. Once this has been established, the proponents are able to review possible acquisition techniques and determine which route will meet their particular objectives.

The selection of a particular acquisition technique permits the proponents to select or develop a suitable housing project. The proponents can then determine whether the proposed project is feasible and decide whether or not they should proceed with the development of the proposed project.

As the proponents develop their project from the concept stage through to the physical realization of their project, they will have to make a number of decisions which will determine how they will get their housing project completed to their satisfaction. The complexity of the process and the nature of the decisions that must be made along the way will be dependent upon which acquisition technique the group uses.

BASIC ACQUISITION TECHNIQUES

There are two main ways of acquiring housing:

1. Buying existing buildings; or
2. Constructing new buildings

Sometimes an experienced group has the opportunity to consider and decide on the acquisition technique it will use - this is a rare and valuable condition - more likely a group, with less experience, will find itself proceeding along a particular direction. While some choice is available, it is as well to try to understand the consequences of following one or another path.

The degree to which one or the other of these main ways of acquiring housing might suit the proponents' needs is conditioned by a number of factors such as the housing needs and objectives of the proponents, the availability and price of otherwise suitable buildings, the availability, price and location of developable land, the cost of construction, the cost of financing, the proponents time constraints, existing codes and land use regulations. Commitment to either build or buy is only the first stage in defining how to go about acquiring housing.

Five Options

- Buying existing buildings makes it necessary to decide what type of housing to buy, the choice lying between:
 1. housing useable 'as is' or with minimal modifications
 2. housing in need of and capable of rehabilitation
 3. non-residential buildings suitable for conversion to housing
- Constructing new buildings offers two major choices on who will be responsible for building the project and what degree of involvement they are prepared to sustain in the process. The alternatives are:
 4. active management of the project development and/or building process by the proponents
 5. hiring an agent to manage the project development on behalf of the proponents

Critical Steps

Within each of these five possibilities there are two critical steps requiring a decision from the group.

- a) selection and acquisition of the land and buildings
- b) approach to the realization of the project through management of the development process

Their relative importance varies as follows:

- buying existing housing which is useable 'as is' places total emphasis on step (a) to the exclusion of step (b)
- buying non-residential buildings for conversion to housing presents a highly complex challenge at all stages. Both steps are important.
- constructing new buildings on readily available land with inherent physical difficulties, and at a time of high construction costs places heavy emphasis on step (b), little on step (a).

ANALYSIS OF THE FIVE MAIN OPTIONS

1. PURCHASE EXISTING HOUSING, USEABLE 'AS IS'

This option includes units which will be used 'as is' as well as those which require only modest expenditures for modifications necessary to adapt the units to their intended use. It includes new and virtually completed projects whether unoccupied or partially or fully occupied.

Like all other options, there are both advantages and disadvantages to purchasing useable 'as is' projects. For example, such units may not be readily available or, if they are available they may not really suit the proponents' needs or they may have existing residents. On the other hand, if a suitable 'as is' project is available, it could provide the proponents with virtually instant housing.

As such housing is already in its completed form, the requirement for major expenditures before final commitment should be reduced since many of the up-front costs will have been paid by the original project developed and will still have costs related to group development and the analysis of project feasibility.

There are three basic ways of getting the buildings.

1. **Proposal Call** - In this method the proponent requests owners to submit a price for a project that could fill the proponents' needs. This can be done by public advertising or by contacting a number of owners. It requires minimal time and effort on behalf of the proponents but reduces possible input into definition of needs. It asks others to look at how to fill the proponents' needs.
2. **Purchase of Building Occupied by the Client Group** - This method is also called a negotiated purchase. In this method the group is interested in purchasing the property it now occupies. The property can either be listed for sale or not. The proponent then negotiates a suitable price with the owner. The main advantage is that the proponent knows the building and it presumably suits the clients' needs since they now live there.
3. **Search and Purchase by Proponent** - In this method the proponent does the searching for suitable property, on the open market. Thus the clients' needs can be considered directly. This method would require the most time and effort on the part of the proponent.

Within this option, the decision on how to put the project together is made when the option is chosen. There is usually very little to do once the offer to purchase is agreed to. The group would retain the necessary consultants to complete the purchase and would directly control any of the minor modifications that would occur.

When following this option, the most important task, in addition to group development, would be the analysis of the property and project feasibility. In order to avoid possible high maintenance costs in the future, a thorough analysis of the property is very important, even though it appears that rehabilitation work is not necessary.

2. PURCHASE AND REHABILITATE EXISTING BUILDINGS

This option includes all existing units where rehabilitation work is necessary to render the units fit for occupancy, to bring outmoded features up-to-date and to make substantial modifications to suit the proponents' requirements.

There are both advantages and disadvantages to purchasing existing housing requiring rehabilitation. For example, such units may not be readily available or, if they are available, they may have existing residents or may not really suit the proponents' needs. However, this may be the only option open to a group wishing to purchase housing in a certain established neighbourhood especially in the inner city.

The level of pre-commitment expenditure by the proponent will depend on the nature and scope of the rehabilitation work required.

The same three ways of getting the building as described in the "Purchase Existing Housing, Useable 'As Is'" option apply to this option as well.

There are two ways of putting the project together.

1. Proponent Acts as a General Contractor - This can be done by retaining a construction manager who will tender the various tasks (either sequentially or simultaneously) or use direct labour or the proponent can directly tender the work or hire its own labour.
2. Proponent Hires a General Contractor - This can be done through either a tender call (public tender or invitational tender) or through a negotiated contract with one general contractor.

This option will also require a thorough analysis of the property and project feasibility. In addition, it will require design work for the rehabilitation.

3. PURCHASE AND CONVERTING NON-RESIDENTIAL BUILDINGS

This option includes all non-residential facilities that could be converted into residential accommodation that meets the proponents' needs and requirements.

While a proponent selecting this option would not have to deal with the possibility of existing residents, the availability of suitable, adaptable buildings may be a major constraint. This method would offer proponents the opportunity of developing new units in a neighbourhood that has no vacant or developable sites. In addition, it could be an effective way of producing new units.

The level of expenditure prior to loan commitment will vary depending on the nature of the building, its internal systems and the scope of the work required to undertake the conversion.

There are two ways of getting the building.

1. **Proposal Call** - In this method the proponent requests owners to submit a price for a project that could fill the proponents' needs. This can be done by public advertising or by contacting a number of owners. It requires minimal time and effort on behalf of the proponents but reduces possible input into definition of needs. It asks others to look at how to fill the proponents' needs.
2. **Search and Purchase by Proponent** - In this method the proponent does the searching for suitable property, on the open market. Thus the clients' needs can be considered directly. This method would require the most time and effort on the part of the proponent.

The same two ways of putting the project together as in the "Purchase and Rehabilitate Existing Residential Buildings" apply in this option as well.

This option will again require a thorough analysis of the property and project feasibility. In addition, it will require a great deal of design work. This would allow for more consideration of the proponents' needs and requirements than in the previous two options.

4. NEW BUILDINGS - PROJECT COORDINATED BY THE PROPONENT

This option includes the complete on-site construction of units as well as factory assembly of units and their siting on the proponents' land.

The availability of land, the geographic location of the proponents' site, construction costs and interest rates will all affect the availability of this option.

This option allows the proponents to determine which aspects of the development process they wish to exercise direct control over and then to do so. This route probably requires the largest expenditure by the proponents prior to loan commitment since the proponents will probably pay for services as they are rendered rather than making one lump sum payment at the first mortgage draw.

There are two ways of getting the land.

1. **Proposal Call (Land Only)** - In this method the proponents request owners of land to submit a price for a site that could fill the proponents' needs and requirements. This can be done through an open call or by invitation to a number of land owners.
2. **Search and Purchase on the Open Market** - This can cover both privately or publically owned land. The proponents would do the searching. This would require more time and effort than the above method.

In either case, some preliminary design work will have to be done to analyze the potential of the site and to allow the proponent to do a preliminary feasibility study. Additional implications of this approach are that the group will have professional help in designing the buildings and working drawings will be done as a basis for tendering.

There are two most common ways of putting the project together.

1. **Proponent Hires a General Contractor** - This can be done by using either a public or invitational tender call or a negotiated contract. It can be done using either full or partial design drawings.
2. **Proponent Acts as the General Contractor** - In this method, the proponents would use construction management, with either consecutive or simultaneous tendering. The proponent would be directly involved in all aspects of construction in this method. It can be done either by retaining an independent construction manager or by direct staff.

5. NEW BUILDINGS - PROJECT DEVELOPMENT CONTRACTED OUT BY THE PROPONENT

This option includes on-site construction of units as well as factory assembly of units and their siting in the development.

The availability of land, the geographic location, construction costs and interest rates will all affect the availability of this option.

This option allows the proponents to turn either the complete or partial responsibility and control of the development over to another party, who is either an agent of the proponents or with whom the proponents have a development contract. Additional implications of this approach are that the group pay full attention to stating their housing requirements very clearly.

The pre-commitment expenditures may be less using this route, since the proponents might have the option of paying for the development services in a lump sum from the first mortgage advance. It should be noted that a reduced expenditure by the proponents prior to loan commitment does not imply a reduced total cost compared to other routes. It just implies a deferred expenditure as all costs will be passed on to the proponents by their agent or developer.

There are two most commonly used ways of getting the project.

1. Proposal Call (Land and Buildings) - This can be done either as a one step or a two step process using either open proposal calls or invitational calls. In this method the proponents can provide some definition of their needs and requirements.
2. Turnkey (Land and Buildings) - This method occurs when a single developer approaches the proponents with a package deal which is accepted. It would occur in a tight market situation where no other options exist or where the proponents are not interested in being involved in the design process. It can either use privately or publicly owned developers. In this method the proponents generally do not provide any definition of their needs or requirements and have little or no input into the project.

The decision about putting the project together is decided at the time this option is chosen since the group indicates that it does not want to be involved in the development process. The decision on the form of construction contract to use is thus in the hands of the proponents' agent or developer. This approach does not rule out the use of professionals in the preparation of designs or of a general contractor to build.

6. TENDERING AND CONTRACT ADMINISTRATION

Tendering is a process of calling for prices and a commitment to undertake pre-defined work, under pre-determined conditions, from contractors. In order for a potential contractor to prepare an accurate bid, it is important for the pre-determined work to be defined to the point that it enables the contractor to establish what work would be required. In addition to preparing the necessary drawings and specifications which detail the nature, scope and quality of the work to be done, it is necessary to outline the method of contract payment.

There are three types of payment techniques that are commonly used:

1. stipulated sum/lump sum;
2. unit price; and
3. cost plus.

The stipulated sum technique requires that the bidder provide a fixed sum for the work to be done. Changes in price only arise as the scope, nature, quality or quantity of the work to be done is changed. This technique requires that the work be accurately and completely described and full information provided on site conditions. The result is that the owner has firm costs at the outset of the work. This technique may be used in conjunction with some unit price work, or unit price quotations in case of variation, as well as in conjunction with cash allowances for some items.

The unit price technique requires that bidders submit prices per unit of work for the various items of work involved. Payment is to be on the basis of actual quantity measurement. The owner provides an estimated quantity for each item in the tender form, to be multiplied by the bidder's unit price, then totalled to establish the bid. The cost of the work may vary from the estimate. This technique is generally used when an accurate measurement of quantities is not readily obtainable from the drawings. It is frequently used for underground services and earth works. The low tenderer is established on the basis of unit prices.

Under the cost plus technique, the bidder agrees to provide labour and material at its cost to complete the work. A fixed or a percentage fee is added to the cost to cover the bidders' overhead and profit. It is often difficult to establish a fixed price under this technique and the cost of the work may vary considerably from the estimates. This technique has little or no application as a housing acquisition technique and is only included in the interests of comprehensive description.

The tender call may be advertised publically, or it may be sent to pre-selected contractors on an invitational basis or it may be sent to an individual contractor. The method of tendering selected by a proponent will depend on the type of work to be undertaken, the experience and capability of the local construction industry, the geographic location of the project, the nature of the construction market at the time of tendering, etc.

Tender Administration:

The principles and procedures outlined below are devised primarily for public sector owners. However, they may prove useful to project proponents in the social housing programs.

Tender Closing:

Tenders should be accepted up to the stipulated closing time and placed, unopened, in safe-keeping. Adjustments to tender amounts by telegram, telex or letter may be received and should be accepted up to the closing time.

Tender Opening Committee:

The owner should appoint a tender opening committee comprised of at least three people, one of whom is identified as tender call agent. The three should represent management, financing and technical interests.

The committee should open tenders at tender closing time or as soon thereafter as possible. The procedure should be formal. The committee should consider and rule on the admissibility of each tender (i.e. whether or not it complies with the rules of the tender). Minutes of the tender opening meeting should be prepared. The opening need not be public.

The key particulars of each tender should be recorded and a summary of all prepared. The summary is to include: the name of the bidder, the amount of the bid and the nature and amount and acceptability of bid security.

Inadmissible Tenders:

A tender should be declared inadmissible for any of the following reasons:

- if it is not submitted in the proper form requested and signed;
- if it contains an escalator clause or a conditional letter, or
- if the bid security is significantly less than required.

Inadmissible tenders should be returned immediately with a letter explaining why the tender was inadmissible.

Tender Review:

In a tender call, all bids are based upon the same technical details, and no drawings are presented by bidders.

The review then becomes a check to ensure bidders have complied with the requirements of the tender call procedure. Items to be checked are:

- tender forms are submitted in the required number,
- all tender forms are signed,
- all information required on tender form is provided,
- no changes have been made to the tender form,
- no arithmetic errors occur,
- names of sub-contractors have been provided, and
- bid security has been provided which complies with requirements.

The dominant feature of each tender is its quoted price. Owners must be guided by the prime principle that the lowest offer which meets all requirements should be accepted. Any other action requires very compelling justification.

When the preferred tender has been established, the bidder's credit worthiness and technical competence should be checked if it is not known. This may be done by obtaining a credit report, requesting an audited financial report of the company, and requesting the bidder to provide particulars of jobs completed in the recent past.

Acceptance and Award:

The successful bidder is advised at the soonest possible time of the acceptance of the tender. The bidder may be advised by telephone, followed by the letter of acceptance.

Concurrent with acceptance of the bid, the successful bidder must be asked to provide:

- bonds or other acceptable surety as required by terms of the tender,
- insurance policy, and
- construction cost breakdown (for purposes of determining progress payments).

Unsuccessful bidders should be advised of the name of the successful bidder and their security returned.

Proposal Closing:

The proposal review process is more complex than the tender review since the designs and other components of each proposal must be checked and analyzed in detail, not only to ensure that all conditions of the proposal call have been met, but also to determine which of the submissions is the best buy from the owner's point of view. While this will normally be the proposal which meets all the stated design requirements at the lowest price, other factors such as estimated maintenance and operating costs, the provision of significant additional value beyond the stated requirements and design preference must also be taken into account.

Following the initial opening and recording of the proposals received, those which appear eligible for consideration are referred to the technical advisor (design consultant) for detailed review, analysis and recommendation. The review committee then reconvenes to select the successful proposal.

Construction Contracts:

A construction contract is a formal and legally binding agreement between the contractor and the owner, usually effected by acceptance by the owner of a formal tender or offer from the contractor.

Contract Proper:

The document to which the parties put their signatures and their seals is the contract proper. It recites the names of the parties and sets out terms of the agreement by which the contractor agrees to perform all the work in accordance with the drawings, specifications and conditions of the contract. It outlines the security deposit and/or bonding arrangements, the terms of payment for the work and may include the completion date or schedule.

Drawings and Specifications:

This is the detailed description of the work which has to be done. In the case of a "Tender Call" these would be as provided to tenderers wishing to submit a bid. In the case of a "Proposal Call", these would be as submitted by the successful proponent, expanded as necessary by negotiation to ensure they constitute as full and complete a description as possible of what is to be provided.

In contracts resulting both from Tender and Proposal calls, as well as the other means, some details may be left to be provided later. Specific arrangements are usually included in the contract for the formal submission by the contractor and acceptance by the owner of any such items of the work, materials or equipment to be fully detailed after contract award.

General Conditions of Contract:

Standard or model "General Conditions" has been prepared by a number of associations and owners. The clauses found in the General Conditions normally cover the following matters:

- the Contract documents
- Contractor's obligations such as:
 - labour and personnel,
 - assignment and sub-contracting,
 - execution of the work,
 - default, delay and non-completion,
 - bonding,
 - warranty on work done, and
 - insurance; and
- Owner's obligations such as:
 - measurement and payment, and
 - settlement of disputes.

Other Contract Documents:

Any addenda issued prior to bidding, the tender form if it includes conditions or pertinent information not reproduced in the contract proper, and information provided to tenderers as a basis of their tenders, would also normally form part of the contract.