

## Case Study: Managing The Impact of Project Delays

*Client Type: Developer*

*Project Focus: Schedule Re-Evaluation and Financing Adjustments*

### Project Overview

The development was structured to be completed in multiple phases, relying on profits from early unit sales to finance the next phase of construction. Each phase's timely completion was essential to maintaining cash flow and ensuring continued construction. However, delays in utility connections disrupted the original plan, jeopardizing both the construction schedule and financial structure.

To prevent further complications, the project required a reassessment of the schedule and a creative solution for financing that would allow the continuation of construction while awaiting utility hookups for the existing units. The situation also called for strategies to retain both subcontractors and buyers, ensuring the project remained on track without losing confidence from stakeholders.

### Challenges

Delays in securing utility connections to the site caused significant construction slowdowns, severely impacting the phased approach. Without profits from completed units to reinvest into the next phase, the project was at risk of stalling. The dual challenge became evident: there was a growing risk of losing subcontractors to other jobs and buyers who were becoming increasingly concerned about the delays.

### Solution

A comprehensive re-evaluation of the construction schedule and financing plan was necessary to address these challenges. The approach included several key components:

1. **Pre-Sales Strategy:** The decision was made to release the next phase for pre-sale, generating buyer interest and securing contracts ahead of completion. This strategy not only created a revenue stream before the units were built but also helped to alleviate concerns from buyers in the first phase. By showcasing strong demand and implementing a **price increase** for the next phase, existing buyers were reassured about the value of their investments, making them more comfortable with the temporary delays.
2. **Updated Project Schedule:** A revised timeline was presented to the lender, outlining the changes due to utility delays and the proposed continuation of construction based on the pre-sales.
3. **Leveraging Pre-Sales for Financing:** The pre-sales contracts were used to demonstrate additional revenue to the lender, which allowed for the negotiation of a higher loan limit.

This increased financing provided the necessary capital to keep construction moving on the next set of buildings, even as the existing units awaited utility connections.

4. **Continued Construction Activities:** With the revised financing in place, construction crews were retained, and work on the next phases continued uninterrupted. The ongoing activity on-site helped reassure buyers, who could see visible progress, reinforcing their confidence in the project despite the delays.

## Execution

The strategy was swiftly executed. The lender approved the higher loan limit based on the pre-sales agreements and increased projected revenues from the price adjustment. Construction continued on the next phases, avoiding downtime that could have caused subcontractors to move on to other projects. The combination of ongoing construction activity and the price appreciation for future units helped retain buyers, calming their concerns and preventing the loss of sales.

## Results

- **Time Savings:** The restructured schedule mitigated further delays by ensuring continuous construction, saving valuable time at the backend of the project.
- **Maintained Momentum:** By maintaining progress on new phases, the project avoided the costly downtime that would have occurred while waiting for utility connections.
- **Improved Cash Flow:** Utilizing pre-sales and price increases to secure additional financing stabilized the project's financial structure, allowing for uninterrupted construction without depending on sales from completed units.
- **Subcontractor Retention:** By avoiding a construction halt, subcontractors remained engaged with the project, ensuring consistency in the workforce and avoiding future delays.
- **Buyer Retention:** The visible continuation of construction, coupled with the pre-sales and price increase, reassured buyers in the first phase, preserving their confidence and reducing the risk of losing sales due to delays.

## Key Takeaways

- **Proactive Schedule Management:** Anticipating potential delays and proactively adjusting the schedule allowed the project to maintain momentum despite setbacks.
- **Flexible Financing Solutions:** Leveraging pre-sales and negotiating revised loan terms can provide the necessary capital to keep construction moving when delays threaten the cash flow.
- **Stakeholder Confidence:** Continuation of on-site construction activities is critical for maintaining the confidence of both subcontractors and buyers, ensuring the project stays on track and stakeholders remain engaged.