

Unexpected Development Costs

Keeping control of costs

Keeping control of costs is imperative and anticipating unexpected development costs will help to achieve a viable property venture. See below some examples of how costs can escalate if the impact of 'unexpected costs' are not considered. The figures are only indicative, as there are too many variables, but they give a feel for additional costs.

1. Site

Ground conditions

The costs of levelling a slope on a site needs to be calculated when you are surveying the land and added to the budget for your site preparation.

To level up to 1 metre vertically across a 1-acre site	£30k - £50k
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Contamination of site

Undertaking a site survey and testing of soil samples will establish what contaminants are on the site and the extent of the contamination. A specialist company will be needed to remove and dispose of the contaminant.

To remove soil depending on the level of contamination per m3	£50 - £200
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Trees under TPO on site or on neighboring land

The trees' roots will need protection through the cordoning off the surrounding area so no heavy machinery or materials can damage them. The position of the trees on the site can create a significant loss of developable space in a prime location.

Adjustments to site and loss of developable space	£20k - £500k
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Difficulties of access to site

Never underestimate the impact of the problems with restrictions to the site both in terms of narrow access through physical barriers and restrictions that can be imposed by the Highway department. There is no limit on how the site can be devalued.

For a 1-acre site	From £100k
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2. Design

Planning fees

The process of planning has some fixed and other variable costs dependent on the size of the development for which you are applying for planning permission. It is vital that all planning conditions, that were set when planning permission was granted, are met to sign off the development.

Based on a 100 units scheme	£100k - £200k
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Infrastructure charges and CIL

These fees are set during the planned process and these charges are calculated to a different set of criteria. Infrastructure charges are not a fixed charge but a contribution towards infrastructure and affordable housing in the locality whereas CIL is calculated to a formula on all the relevant floorspace.

Based on a 10,000 sq. m of residential floor area	£300k - £7,500k
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Section 106

When affordable housing contribution is applied to developments a discount on Gross Development Value also needs to be applied.

Based on % of GDV on schemes above 10 units	10% - 30%
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Design changes

Changing a design once the build process is underway can incur significant additional costs on a project. Whether a traditional contract or a design and build contract is in place, it can lead to completed work being removed and the costs of new materials and labour to install the change in design. This should be avoided by a design freeze once the building work commences.

Additional costs on a project	5% - 15%
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3. Specification

Lack of detailed specification

If a detailed specification is not prepared, then additional items will emerge that need to be included in the specification list. This means that further costs need to be added after budgets have been set. The percentage increase will vary dependent on the type of contract and the level of details provided.

Increase in costs	5% – 15%
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High spec versus functionality of finishes

It is a question of getting the balance between the specification and the functionality when considering the finishes within the properties. A good finish is needed to sell the newly built properties, but developers can make a mistake of over specifying the design to the point where they make a loss. The misconception is to over specify for a property in one location but trying to sell it as a product that has a demand in more affluent areas. Making sure the right balance is achieved will keep costs under control.

Increase in costs	No limit
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Estimates rather than actual quotations

When trying to establish the development costs, the quickest method is to get estimates so a ballpark figure can be made to check assumptions about the viability of the project. However, it is dependent on the expertise of the estimator and if their estimations are too far off the reality the project can generate a loss.

Increase in costs	No limit
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Lack of planned procurement process

A clear procurement process needs to be in place to ensure that all materials are delivered to site when they are needed. If ordered too early there are storage costs and too late means the labour force are unable to keep to the schedule of works causing delays on the project.

Delay per week on a 100-unit scheme	From £10k
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4. Build

Project Management

An inexperienced management team can incur losses which exceed the cost of the land and construction which has been carried out. The losses can relate to liabilities, damage to third party properties, fines from governing bodies such as environmental agencies and HSE, delays, and poor scheduling.

Increase in costs	No limit
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Services to site

Making sure that all the services are set up on the site is critical. Water, sewage, electricity, gas, telephone, and a fast internet connection are all a requirement. The costs are often be underestimated and will be dependent on the site location and the distance of services.

Based on a 100 units scheme	From £300k
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Insurance and warranties

Often overlooked when preparing the budget, the costs will depend on the level of indemnity required and the events that are insured. Protecting the investment means ensuring adequate insurance and warranties are in place.

Estimated costs	1% - 5%
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Contingency

Contingencies are underestimated on most projects. Setting a level of contingency will depend on the complexity of the project, procurement method and external economic factors.

Contingency allowance	5% - 25%
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