



CONSTRUCTION TIMELINE & CHECKLIST FOR PROFESSIONAL PRACTICES

Reference materials
for your construction project

Construction can be a daunting task, whether you're building something from the ground up or leasing space for improvement and expansion.

We understand this may be one of the biggest investments of your life, and you need partners who are experts in your industry. That's why we've developed reference materials to help you prepare for a successful transition.



Heritage
BANK

GLOSSARY OF TERMS

Types of Plans

Equipment supplier plans/preliminary plans are for space planning and placing equipment, not for contractor bidding or applying for permits. These are generally free or low cost. They are used for preliminary cost estimates and DON'T define the complete scope of work. Building permit plans will require further details, including wall and ceiling measurements, ceiling and lighting details, electrical, building code and a site plan. Building permit plans are usually completed by an architect.

Building permit plans are not always "biddable," meaning that while adequate for a building permit, they could lack some detail needed for competitive pricing by more than one contractor. Building permit plans may be adequate for obtaining a bank appraisal to determine the "as complete" value of the building, but it is highly suggested that you provide the bank with the biddable plans and construction drawings developed with your architect and final selected contractor.

Biddable plans/construction drawings (CDs) provide the most detail. Know that the majority of costs (electrical, plumbing, heating/cooling and fire sprinklers) are usually "bidder design," or how those systems are designed. Ultimately, cost will vary by contractor. It doesn't mean that a biddable plan is not used for a building permit, but it's good to know how the bid was determined and what type of plan you're looking at.

Types of Estimates/Bids/Costs

Preliminary construction budgets are necessary before plans are completed for lenders to establish early project feasibility. Budgeting methods vary widely, so select a contractor noted for thoroughness to reduce your risks of change orders. If a contractor presents a bid or estimate that is significantly less expensive than another contractor(s), ask in detail what they are including and what they aren't. Also, consider how much investigation they have conducted on the property, city, location and space.

A preliminary budget is the initial estimate of costs, usually with line items based on the preliminary plans.

Cost per square foot estimates are very rough estimates and vary between contractor on what's included, so ask what is included and NOT included. Be prepared the final bid or budget may look drastically different from the original estimate.

Contractor bids often look different from one another. They can lack explicit details, exclude different costs or, in some cases, include all third-party costs, making it almost impossible to compare.

Helpful Hint: Bids are submitted using a line item format (Schedule of Values) that may or may not include details of what the contractor will specifically provide. The most difficult comparisons, and biggest cost differences, are the bidder/design systems for electrical, plumbing, heating/cooling, landscaping and fire sprinklers.

Change Orders and Variable Costs

Change orders increase costs above the agreed upon contract amount and can be outlined as "budgeted change orders" or "variable costs" in the contract and include permits, shell condition and jurisdictional fees/assessments. Post-contract, change orders can include necessary work not listed on the plans, changes in "bidder design" systems, upgrades added by you or completely unforeseen costs due to uncontrollable circumstances, such as weather, shortage of labor or other market conditions. It is important to understand what may be a future change order, what caused the change order (if unforeseen) and what buffer you have to cover those change orders.

An experienced banker will budget for a contingency in the loan, which is a buffer above the contract amount for unforeseen change orders. It is ideal not to use the buffer for upgrades but consult with your banker to understand what buffer you do and don't have and what those funds can be used for. Working with a thorough contractor who is experienced in your niche can eliminate uncertainty as well as the number of change orders and variable costs.

QUESTIONS FOR YOUR CONTRACTOR

Construction Costs

Do the construction plans and bids address current shell conditions (tenant improvement loan only)?

A shell or "vanilla" shell is the current space before any improvements have been made. Unforeseen issues with the shell is a main reason for early change orders. Have your contractor investigate the pre-existing conditions of the building and space including electrical, mechanical, plumbing, structural and miscellaneous city requirements before you sign your lease.

Helpful Hint: If there are costs associated with making the shell adequate for a tenant, it may help to use those costs as a negotiating point with your landlord. Some landlords may even contribute a portion of the build-out cost as an incentive to lease the space.

Do the construction plans and bids address current land conditions (new building construction only)?

If you are considering purchasing a raw piece of land, ask the contractor what costs will be incurred before the project breaks ground. This could include permitting, rezoning, excavating, water/sewer, etc.

Helpful Hint: If there are costs associated with making the land ready for development, including zoning fees, identify these BEFORE you purchase. These could help with negotiating the price.

Experience

- How many projects have you done that are similar in cost, location and size? How many individuals have you worked with in the same industry? Will you provide references?
- Do you work with an architect or do you have designers in-house? What would I be getting with your designer that I would not be getting with an architect?
- What is your payment policy?
- What is your warranty on work?

Pricing

- What necessary costs are excluded from your bid and what are the ranges for these costs?
- Do you have a copy of your bid document I can reference?
- Do your bids include cost impacts from existing "shell conditions" (tenant improvement loans only)?
- Are there any design elements that seem unnecessary, inadequate or out of the ordinary compared to typical projects in this industry?

What questions did the contractor ask you?

Remember the project plans and specifications do not outline all the necessary details. What pre-bid questions did your contractor ask so they have a clear understanding of your vision and expectations of them?

CONSTRUCTION TIMELINE & CHECKLIST

There are three main phases of construction projects, regardless of building from the ground up, improvement of an existing building or building out a leased space.

1. PROJECT FEASIBILITY

Ask yourself these questions to help with project feasibility:

- How large of a loan can the current cash flow of the practice support?
- What about your personal cash flow? The bank will look at a combination of both.
- Can any realistic projections be made of an increase in cash flow from the expansion, remodel or move?

Before you incur any costs, meet with your banker and CPA to understand the feasibility of a new move/expansion and create a timeline from there. The farther in advance the better.

Start developing a list of your needs and wants as well as your professional and personal goals for three months, six months, 12 months, 24 months, five years and 10 years. Be sure to consider the following:

- Do you want to build personal wealth for retirement?
- Do you need to expand to sustain production?
- Do you want to grow your practice with added employees, partners or space?
- Do you need new equipment to sustain or grow your practice?

The bank/CPA will review your current financials and projections to make sure you're in a good position to accomplish your goals.

2. PROJECT PLANNING CHECKLIST

- Identify the location. How far away is it from your current practice? Within five miles is ideal.
- Identify the cost of the location (new lease cost per month or purchase price of the building/land).
- Meet with Heritage Bank to understand your financing options. Understand the bank's requirements for the type of financing you are exploring. If you are purchasing a building instead of leasing, it's critical to explore all of your financing options and determine how your purchase loan and your tenant improvement loan will be structured. Can all costs be rolled into one loan? What are the down payment requirements? Will your financing be SBA or conventional?

Typically a tenant improvement loan is secured by the business assets of your company (the practice), whereas a real estate loan is secured by the real estate and sometimes your practice as well. It's important to work with a bank that is experienced in servicing tenant improvement loans because they will understand the need for a cushion in case anything changes.

If you currently have business debt, those amounts will be taken into account and possibly refinanced if there are existing liens on the practice.

If you are purchasing a building, the bank will need to order an appraisal and an environmental report as well as obtain title insurance on your behalf. The bank will want to know if there are other tenants and how much space they will lease and what kind of revenue you will receive.

- Meet with a general contractor and, if applicable, an equipment vendor specialized in your industry to understand basic costs associated with relocation.
- Ask your contractor about any permits, city fees or zoning issues that the city may require.
- If it's a leased space, consult with an attorney to negotiate the lease. Include improvement costs with your landlord.
- If applicable, identify an architect that specializes in your industry. Inquire with your contractor on the scope of plans needed.
- Develop a budget with your contractor, architect, equipment vendor and bank (see attached worksheet for guidance). Don't forget costs like design work, finishes and signage.
- Meet with an attorney or CPA to understand options for legal entity and any tax implications of the project/financing and down payment.
- Meet with your bank again to understand financing options for soft costs incurred up until construction and financing during/after construction.
- Finalize the down payment or any cash injections needed.
- Develop your project timeline.
- Review and execute contracts with your contractor and/or architect (if applicable).
- Decide on a lender.

- Apply for permits with the city (usually completed by contractor/architect).
Estimated completion date _____
- Order an appraisal (completed by your bank).
Estimated completion date _____
 - You will need plans, budget and specs to order an appraisal.
 - Appraisals can take three to four weeks to complete.
- Review appraisal and finalize financing (completed by your bank).
Estimated completion date _____

- Finalize hazard insurance (building or BPP).
- Complete city inspections (if applicable).
Estimated completion date _____
- Complete final walk-through with contractor.
- Pay your contractor retainage 0-75 days after final Certificate of Occupancy is filed.
- Submit any miscellaneous budget items to your bank for payment.
- Begin permanent financing rollover (completed by your bank).

3. PROJECT EXECUTION CHECKLIST

Pre-Construction

Obtain any insurance requirements (hazard insurance is required for leased spaces and contents, and builder's risk insurance is required for construction).

- Obtain approved permits (may happen after the loan closes).
- Submit a copy of permits to your bank.
- Sign the construction contract and provide a copy to your bank.
- Sign the bank loan documents.

Typically a construction loan, either for tenant improvements or a new building, has a draw-down period, meaning you will be approved for a dollar amount more than you need and then have a period of time to make interest payments on only the funds you use. At the end of the draw period, the loan converts to a fixed-principal with interest payment over a certain period of time predetermined at the approval of the loan. Keep a clean record of all project costs incurred starting from day one. It may even help to open a separate bank account just for the project.

Break Ground/Day One of Construction

Construction to be completed by _____.

- Submit invoices to your bank as incurred (typically once per month, every month until project completion). Your bank will likely order inspections on the project with each general contractor invoice.
- Sign draw sheet for your bank to approve the draw. Loan funds will then be disbursed to you.
- Pay your contractor and/or architect.
*Repeat above for every month under construction.
- Obtain Certificate of Occupancy and provide to your bank so they can file with the county.
Estimated completion date _____
- Install equipment.
- Submit the equipment invoice to your bank.
- Install IT equipment.
- Submit IT invoice to your bank (if within budget).
- Determine aesthetics (paint, décor, landscaping).
Estimated completion date _____

As things progress, keep your banker in the loop of any changes that may impact the timing and cost. For example, here are some common changes your banker will want to know about:

- Increase in material costs (intentionally or from market conditions)
- Upgrading or downgrading finishes
- More or less equipment
- Issues with obtaining the certificate of occupancy due to unforeseen city requirements.

PROJECT COSTS WORKSHEET

Use this table to start building your budget and reference it as the project progresses. Your project costs should fall within your overall budget; however, the line items will change until the project is complete.

Land/Site Acquisition	
Sales Tax	
Site Preparation/Excavation/ Demolition	
Construction (from general costs)	
Tenant Improvements (outside of above)	
Insurance	
Contingency/Buffer (plan for 10%)	
Equipment	
Architect/Engineering Fees	
Environmental Report	
Appraisal	
Permits	
Construction Management	
Construction Inspection	
Title Insurance/Closing Costs	
IT / Security/Phone	
Attorney/CPA	
Financing	
Total Costs	