

## ***Consulting Architects Deliver Critical Benefits to Construction Lenders***

***Steve Wasilowski, Chief Operating Officer, FitzGerald Associates Architects***

The value of consulting architects to construction lenders cannot be overstated. Though often misunderstood, as when characterized as ‘inspecting architects,’ the third-party consulting architect uniquely serves the lender. The lender benefits by the consultant’s independent insight to commit to a loan through thoughtful underwriting, prudent loan disbursements, and ultimately repayment of the loan.

The consulting architect works solely for the lender and the lender’s constituents or shareholders. They offer professional opinions recommending disbursements and opining on construction quality and the adequacy of the budget. The consulting architect does not design buildings, approve shop drawings, change orders, or assume any of the liabilities of the architect and engineers of record.

Monthly site-visits by a consulting architect will contribute expert assessments, regularly updated, regarding:

- Hard-cost balance of the loan. When in balance, the cost to complete construction can be covered by the yet-to-be funded portion of the loan’s proceeds.
- Schedule integrity. Determination of whether the project is on schedule and will meet lease, occupancy or construction deadlines.
- Quality of workmanship and materials. The lender must know whether the construction product is equal to the underwriting and whether it will meet market conditions or lease requirements against underpinning the loan.

The consultant is on-site monthly and sees only a snapshot of what has transpired prior to the site observation. The quality of work the consultant cannot see is always subject to the integrity of the contractor. The accuracy of the budget is contingent on the developer’s intent, the quality of the architect’s drawings, the skill of the general contractor and other factors. The validity of the schedule is subject to the availability of materials and workers, weather, trade labor disputes, accidents and other sources of delay.

*“The role of the consulting architect is critical to a construction lender. It cannot be overstated how important it is to have someone with a deep understanding of the construction process advising the lender and representing their interests. The consulting architect is someone that the lender can rely on, in a potentially messy business, who doesn’t have a conflicting interest. FitzGerald understands the pressures that lenders face, and shapes their counsel to address those pressures. It’s been a great help to have them on our side.”*

***-Trey Meers, Vice President of Real Estate Services, Wintrust Financial Corporation.***

Beyond the three essential assessments above, consulting architects typically benefit the lender through:

- The consulting architect acts as the lender’s surrogate at the job site, observing construction progress and working conditions, saving the Lender valuable time;
- A construction expert translates technical information into lay terms;
- An architect observer has the potential to detect incompetence or collusion between or among the developer, contractor, or developer’s architectural team.
- As the bank’s eyes-and-ears, an inquisitive consulting architect can discern, foresee, or observe latent or pending change orders, claims and extra costs;
- Recommendations and advice come without bias that can interfere with similar observations offered by the developer’s architect of record.

The consulting architect’s role is to protect the lender’s interests, but the borrower often benefits as well. A case can be made that the consultant’s reports and observations can benefit the borrower – but only indirectly and when occasionally, the Borrower’s interests conflict with the contractor’s interests. This occurs for example whenever a contractor front-loads its invoice, asks for payment out of sequence or in advance of work completed – potentially adding to the developer’s interest expense.

*“From the initial plan and cost review to the ongoing site inspections, FitzGerald’s input is a must-have for me. The fact that several of their staff have banking backgrounds further adds to their understanding of what I’m looking for from them as consulting architects. I appreciate their breadth of expertise, thoughtful and thorough reports, and their ability to deliver the message in lay terms.”*

**- Sandra Maysonet, Vice President and Construction Loan Supervisor, The Northern Trust Company.**

In addition, the impartial consulting architect can recommend that the lender advance payments for long-lead items such as imported stone, complex heating and air conditioning equipment or elevators. This kind of recommendation helps keep the project on schedule and aids the developer and its contractors.

The consulting architect, as an impartial member of the lender’s risk management team, will help mitigate the various risks inherent in construction lending. Anticipating contingent events, assaying delivery schedules, as well as the adequacy of the budget and quality of construction, are all value-adds that contribute to the success of a development within a specified timeframe and budget – ultimately leading to loan repayment.

*FitzGerald Associates Architects, established in 1919, has been a trusted advisor offering consulting services to lenders and investors including Status and Condition Reports and Construction Loan Underwriting and Observation Services since 2005.*