



The Signs and Symptoms of Distressed Projects

In this current economic climate, the identification and management of risk is of prime importance.

With the credit crunch and negative sentiment bearing down on the industry, the number of distressed projects are on the rise. While it is difficult to identify in advance every risk that may affect a project, staying transparent, communicating clearly, and exposing uncertainties early could make the difference between a project running smoothly and a project becoming distressed.

Mitchell Brandtman's specialist Financial Services team can assist Financiers in avoiding pitfalls and maintaining a healthy loan book. We have established monitoring strategies and thresholds for risk management issues and with a database of over 9000 projects are able to offer valued advice to Financiers.

Distressed Projects – Common Signs and Symptoms on site are:

- Low activity on site when it should be high – Projects have different levels of activity at different stages of construction. Abnormal levels of activity (either too little, or changes in the schedule of trades) can be an indication of trouble ahead.
- Subcontractors and suppliers not being paid – this can be representative of a cash flow problem. Commonly this is identified by talking to sub-contractors onsite, however others signs are: builders changing sub-contractors regularly, changes in scheduling of trades and delays in delivery of materials.
- Contractors over-claiming on trades – while this is not an unusual practise, the reasons behind it need to be considered and dramatic changes in approach mid-way through a project can be indicative of cash flow problems.
- High turnover of Site Managers – Like with any company, a high turnover of staff can mean site or company problems.

Another less obvious issue is where the parties to the contract do not disclose all relevant information and withhold the fact that there are materially different Side Agreements in place. Often this does not become apparent until the project is underway and the parties attempt to compensate for the side deal through over-claiming.

As the Financier's "Eyes and Ears", Mitchell Brandtman understands and encourages effective communication. There can be valid reasons for what appear to be troubling signs. It is therefore important that all parties communicate clearly and on a regular basis to ensure such signs and symptoms are addressed appropriately.

How can Mitchell Brandtman help with Distressed Projects?

- Being a fresh set of eyes on a troubled project.
- Identifying the deliverables and completion status against the original plan.
- Organising and recommending completion strategies and recovery plans including appropriate contract advice and assessment of future risks.
- Establish monitoring strategies and thresholds for budget and timing issues.
- Identify any avenues to reduce costs and eliminate scope creep.
- Investigate options available to complete the project and compare likely costs and times for each option.

What should you do if you suspect you have a distressed project?

Organise a detailed construction risk review focussing on:

- Cost to complete
- Time to complete
- Procurement methods and contract conditions
- Approvals and certificates
- Suitability of Project Team

The material in this bulletin is for general comment only. For further information contact **Darryl Bird**, Director and Manager of our Financial Services Team, on **07 3327 5000**. If you would prefer to receive our bulletin via email, or do not wish to receive our information in future, please email **Lisa Veneran**, Marketing Manager at **lveneran@mitbrand.com**



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