

# Developer vs. builder: relationships gradually improving



Author: SF / Petr Bým | Published: 03.03.2009

- A. How do you evaluate the current relationships between developers and construction firms?
- B. Do you think the time has come here for alliance or partnership contracts between customers and building contractors?
- C. Does your company have any recipe for optimizing developer-builder relationships?

**Václav Meškan, PMD, České Budějovice**

A. Compared to 2007 and 2009, the relationships between developers and construction firms are getting better now because of the lower number of construction contracts, which forces construction firms to “fight” for contracts, for example by offering a good price or improving delivery conditions. In the past two years the relationships were distorted because of the total demand excess. The prevailing situation will help developers level off the weights of needs and risks.

B. In my opinion the time will come for these types of contracts, but so far nobody is ready for them. Among other things, this will require cooperation by banks, which significantly influence commercial conditions and risk approach. We made some efforts in this direction some time ago, but walked into the bank’s rigid approach on the one hand and the contractor’s lack of willingness to share the developer’s risk on the other hand.

C. We always perceive the developer-contractor relationship as a partnership; we like saying that when the contract is signed, we’re all in the same boat. Trust between the two parties is essential; otherwise the implementation process becomes a race for finding the other party’s mistakes and a display of their lawyers’ abilities. This is not the way to go. We’re always trying to find a very delicate line between the costs we are able to pay and the price at which the contractor is able to provide the construction services.

**Radek Polák, Sekyra Group, Prague**

A. While in 1990s, the limits of cooperation were typically set by the developer to a large extent, the situation turned upside down over the last couple of years. This reflected in higher construction costs and the general project price. We can expect that the situation on the construction market will stabilize now. This should mean lower construction costs, which play a major role for the economics of each development

project.

B. Within the framework of some projects, Sekyra Group cooperated with multiple construction firms that formed a consortium for this purpose. This applies to the National Technical Library or the Opatov Park I administration project. Each case of cooperation is based on a clear definition of powers and responsibilities. The form of cooperation as such is not always the most crucial success factor then.

C. Our recipe is: transparent setting of relationships and cooperation conditions in the short and long term.

#### **Michal Šourek, MS development, Prague**

A. As a developer, I am not currently involved in any negotiations with construction firms, so all the information I have is mediated. And I am told that contractors fight for work more and more, which should logically improve the position of developers.

B. The SF meeting and the specified document mention only general assumptions, but the key is always specific commercial and legal principles and concepts. I think that the mentioned joint venture cannot solve the customer-contractor relationship. It is also necessary to point out that should the new wind of fair and productive relationships between contractors and customers come from the Anglo-Saxon business environment, it has to be stressed out that the drastically unbalanced contracts through which the contractor became a slave to the customer without any rights (I'm exaggerating, but not so much) were brought here in the 1990s by project management firms from the same environment - for example the mentioned Bovis.

C. I can imagine cultivating relationships between contractors and customers and well-balanced business relationships. I even think that they are slowly emerging - not due to the new legal structures, but as a sign of overall improvement of relationships in the society and its pacification. We have to realize that at the beginning of the 1990s, the Czech Republic became a "Wild West", and it looked like that accordingly. However, the Gold Rush is starting to evaporate and the term "business ethics" is not a funny joke any more.

#### **Milorad Miškovič, Real Estate Karlín Group, Prague**

A. The relationships between developers and contractors are changing dynamically right now. Two years ago we were on the market of construction firms. I recall that as regards the number of workers on site and the pace of work, none of the agreements made with the builders were ever met. I think the situation will be different now. We even count on a reduction of construction costs by some 10 to 15%, but maybe even by 25%. We expect that these savings will compensate our harder conditions for bank loans needed for our projects.

B. Frankly, I cannot imagine the methods of cooperation between the customer and the contractor as described in the document. I think the jobs cannot be mixed and the business partners always have to agree who will do what, and this should depend on their skills, i.e. their jobs.

C. As I have said, the market situation is getting better and the relationships in our sector are better balanced now. However, we often used one recipe in the past, and successfully. When we felt during an award procedure that we were running against an informal cartel, that the suppliers had agreed on the offered conditions together, we incorporated another, "our" bidder in the procedure to establish better parameters of the agreed contract. In this way the negotiations moved to a level more acceptable for us - and after that, just like the leader of a group of runners whose goal is to lead the racers but not win the contest, this bidder disappeared from the procedure.

# Stavební forum

