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Project monitoring for real estate lending, Canada

Joint guidance note from the Canadian Institute of
Quantity Surveyors and RICS



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About RICS

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

About CIQS

Founded in 1959, we are a self-regulatory, professional body that sets the highest standard for construction economics in Canada. Designated Professional Quantity Surveyors (PQS) and Construction Estimator Certified (CEC) professionals counsel building owners, developers, government bodies, designers and contractors at every stage of the design, procurement and construction process to help ensure a return on investment is delivered.

Our principal objectives are to:

- 1 promote and advance the professional status of quantity surveyors in Canada to the highest standards of competence and integrity so as to ensure the protection of the public in all matters concerning the profession;
- 2 establish and maintain a bond among the societies recognized by the Canadian Institute of Quantity Surveyors as affiliated associations and to represent such associations and their members in all matters of national or international concern or interest to the profession;
- 3 establish, maintain and coordinate – in conjunction with affiliated associations – the highest standards of professional competence and integrity for all individual members through equivalent educational and professional development programs;
- 4 collaborate with other professions and organizations in the interest of the construction industry on national and international levels.

RICS professional guidance

International standards

RICS is at the forefront of developing international standards, working in coalitions with organisations around the world, acting in the public interest to raise standards and increase transparency within markets. International Property Measurement Standards (IPMS – www.ipmsc.org), International Construction Measurement Standards (ICMS), International Ethics Standards (IES) and others will be published and will be mandatory for RICS members. This guidance note links directly to these standards and underpins them. RICS members are advised to make themselves aware of the international standards (see www.rics.org) and the overarching principles with which this guidance note complies. Members of RICS are uniquely placed in the market by being trained, qualified and regulated by working to international standards and complying with this guidance note.

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent 'best practice', i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the guidance note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this guidance note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each member to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this guidance note, they should do so only for good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In some cases there may be existing national standards that may take precedence over this guidance note. National standards can be defined as professional standards that are either prescribed in law or federal/ local legislation, or developed in collaboration with other relevant bodies.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

This guidance note is believed to reflect case law and legislation applicable at its date of publication. It is the member's responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document.

THIS PAGE ONLY APPLIES TO RICS MEMBERS.

Document status defined

RICS produces a range of professional standards, guidance and information documents. These have been defined in the table below. This document is a guidance note.

Type of document	Definition	Status
Standard		
International standard	An international high-level principle-based standard developed in collaboration with other relevant bodies.	Mandatory. RICS has adopted these and they apply to the profession.
Professional statement		
RICS professional statement (PS)	A document that provides the profession with mandatory requirements in the form of technical requirements or conduct rules that members and firms are expected to adhere to. An RICS professional statement sets out the expectations of the profession. RICS-qualified professionals must comply with the professional statement applicable to their area of practice or be able to explain any departure from it. The relevant professional statement will be used by RICS and other legal and regulatory authorities in judging complaints and claims against RICS-qualified professionals. This category may include documents approved by RICS but created by another professional body/ stakeholder, such as industry codes of practice.	Mandatory on the basis of 'comply or explain'. Professional statements set out how the profession is expected to meet the requirements of the international standards.
Guidance and information		
RICS guidance note (GN)	Document that provides users with recommendations or approach for accepted good practice as followed by competent and conscientious practitioners.	Recommended best practice but not deemed by RICS to be in category of 'mandatory' for all practitioners.
RICS protocol	Information and best practice framework, which stakeholders may sign up to and comply with, to assist the operation of the market in the public interest.	Information and/or recommended best practice.
RICS information paper (IP)	Practice-based information that provides users with the latest technical information, knowledge or common findings from regulatory reviews.	Information only.
RICS insights	Issues-based input that provides users with the latest information. This term encompasses Thought Leadership papers, market updates, topical items of interest, reports and news alerts.	Information only.
RICS economic/ market reports	A document usually based on a survey of members, or a document highlighting economic trends.	Information only.
RICS consumer guides	A document designed solely for use by consumers, providing some limited technical advice.	Information only.
Research	An independent peer-reviewed arm's-length research document designed to inform members, market professionals, end users and other stakeholders.	Information only.

1 Introduction

This guidance note provides advice to construction professionals who are members of RICS and who are engaged in the practice of project monitoring. Where procedures are recommended for specific professional tasks, these are intended to embody 'good practice', i.e. procedures that, in the opinion of RICS, meet a high standard of professional competence.

In the opinion of RICS, a member conforming to the practices recommended in this note should have at least a partial defense against an allegation of negligence by virtue of having followed these practices. However, each member has the responsibility of deciding when it is appropriate to follow the guidance. If it is followed in an appropriate case, the member will not be exonerated of negligence or wrongdoing merely because the recommendations were found in an RICS guidance note.

It is therefore for each individual member to decide on the appropriate procedure to follow in any professional task. However, where members depart from the practice recommended in this note, they should do so only for good and sufficient reason. In the event of litigation, the relevant court may require them to explain why they decided not to adopt recommended practice.

In addition, guidance notes are relevant to professional competence in that members should be up to date with respect to current practices and should have informed themselves of new guidance notes within a reasonable time of their coming into effect.

1.1 Background

Construction projects are by nature exposed to a variety of risks and uncertainties. For example, contractors may not perform the works on time and in accordance with the specifications, productivity on the construction site might be affected by risks associated with labour uncertainty, poor site management or selection of equipment, or poor understanding of the project design. Permitting issues may arise which inhibit the ability to complete the project as designed or within the timeframe or costs originally agreed to.

External factors beyond the control of parties, such as force majeure events or other types of supervening events, may cause delays or require changes to projects. Ultimately, these risks must be understood and allocated between the parties, given that the manifestations of such risks will inevitably give rise to costs and disputes regarding which of the parties must bear them.

The construction industry is complex with lenders not necessarily in possession of the resources or expertise within their institutions to monitor all technical issues and performance requirements and/or develop an informed view of associated cost issues. The professional practice of project monitoring is therefore required to minimize

lenders' risk exposure in the administration of its loan for a given construction project.

Some of the principal reasons for utilizing project monitoring services in the construction process include:

Project monitors by nature of their expertise in cost estimating, scheduling and contractual matters have a good grasp of the services that may be expected to be performed as part of the construction process. They have detailed knowledge of the current costs of such services and of the labour and material that are required to perform such services.

Project owners/developers prefer to borrow project funds from lending institutions (such as banks, trust companies and pension funds), which institutions will require independent project monitoring and reporting in relation to the relevant construction process.

Project/construction managers acting as the agent of project owners/developers may be perceived to be in a conflict of interest situation since their service is paid by the owner or the borrower.

Lenders may not have adequate in-house expertise or resource to carry out the necessary project monitoring or reporting function, particularly for smaller accounts or where expertise or resources to carry out the necessary project site is too remote.

Architects and/or consulting engineers are not necessarily trained in the skills of project management, construction cost estimating and risk analysis.

Complementary to the traditional project management functions, project monitoring and reporting functions are independently provided to the Lenders to ensure that their financial interests are protected.

1.2 Purpose

In the Canadian construction sector, project monitoring services mitigate financial risks, protecting the interests of lenders by providing them with reliable, independently verified project information, an objective examination of the key risk parameters and status updates on the project throughout the development process. Project monitoring and reporting services are typically provided by an independent consultant for clients that may include financial institutions, governments, real estate investors and other organizations.

Depending on the type of client, project and the scope of services provided, practitioners of project monitoring in Canada are referred to divergently as project monitor, construction loan monitor, quantity surveyor, cost consultant or technical advisor. The appointment of a project monitor does not replace any of the traditional project management functions, but protects the lender's

interests by monitoring the performance of the developer and its team.

Project monitors have in-depth knowledge of how construction projects are delivered and managed, issues that can arise during the design and construction phases, as well as issues relating to handover of the works as phases of the construction work are finalized and the pitfalls lenders and developers face during the course of a construction project.

Project monitoring services facilitate the flow of project-related information to lenders with accurate, timely analysis and clear concise reporting. These services usually entail a two-step process that starts with an initial project review prior to commencement on site and subsequent monitoring and reporting function throughout the construction period.

By being proactive and providing accurate and timely advice the project monitor is able to improve the lender's decision making competency. The project monitor provides an independent and impartial assessment of the project as it progresses and in so doing gives lenders a tool for managing risk and for protecting their interests objectively.

It is recommended that the project monitor is proactive rather than reactive (so far as consistent with the terms of reference and scope of the project monitor's engagement), acting as an early warning system for the lender by evaluating the achievement of construction milestones and providing commentary on critical path issues that may affect the delivery of the project.

Working knowledge of financial and real estate transactions regarding residential, commercial, retail and public sectors will help the project monitor to deliver added value to the lender and the project as a whole.

1.3 Provincial practices

The project monitor should be aware of the application of specific provincial legislation (e.g. provincial construction lien legislation) and/or regulatory requirements relevant to the project, although specific legal advice should be sought from external legal advisors where appropriate.

1.4 Scope

The project monitor safeguards the lender's interests through identification of risks associated with the project and their financial interests. Core tasks include the review and verification of project-related documentation including contracts, construction loan and insurance documentation, where required.

Tasks could also include the preparation and tracking of total project cost budgets, commitments and costs incurred; the analysis of project cash flows, periodical projections of costs required to complete the project, preparation of margin calculations, draw reports and project status reports.

The project monitor also tracks projected revenues, development approvals, compliance documentation, construction contracts, committed revenue and provides detailed progress reporting on the project from start to finish.

The tasks the project monitor should undertake to mitigate the lender's exposure to risk can be summarized as follows:

- The exercise of pre-construction due diligence to ensure the project budget is reasonable, adequate and realistically allocated to the various 'hard' and 'soft' cost budget elements.
- Review and report supporting documentation, schedules, cash flow, contracts, bonds and other performance security and insurances.
- The provision of knowledgeable and experienced personnel to undertake site visits during construction and accurately assess the progress of work on site.
- Communicate early with both the lender and the borrower regarding possible cost overruns.

2 Terms of engagement

2.1 Contractual agreement

A project monitor may be retained either by the borrower or the lender, but is required to report to the lender subject to the terms and conditions outlined in an engagement letter. Sometimes, where the initial engagement is by the borrower, the project monitor may be required to enter into a duty of care document, in which it is required to acknowledge its duties and obligations to the lender. The project monitor's fees and expenses incurred during the execution of these services are invariably borne by the borrower.

2.2 Independence of the project monitor

Under the Terms of Engagement, the project monitor must be an independent advisor and not an agent of the borrower. The project monitor is not an agent of, or authorized to transact business, enter into agreements, or otherwise make commitments on behalf of, the lender unless expressly authorized in writing by the lender.

2.3. Experience and qualifications of the project monitor

Professionals undertaking project monitoring work should be a qualified member, experienced in the practice of project monitoring and have local knowledge of the market place.

2.4 Confidentiality

Unless otherwise publicly available, all data and information submitted or made available to the project monitor, by the lender, borrower or any other person, should be utilized only in connection with the relevant project and strictly under the terms of the relevant agreement.

2.5 Conflicts of interest

The project monitor should endeavor to avoid conflicts of interest and will disclose to both the lender and the borrower, any conflicts which, in the project monitor's

opinion, may impair objectivity in the provision of services. Where such conflict arises, the project monitor should immediately disclose the circumstances to all relevant parties. The project monitor should not accept an engagement to review the work of another project monitor for the same lender, except with the knowledge of the former.

2.6 Professional insurances²

RICS expects that the project monitor should, during the term of their agreement, provide, maintain and pay for the following insurances:

Professional liability insurance as required by the client and that is adequate and appropriate to ensure that all previous and current professional work is covered.

Comprehensive general liability insurance in an amount mutually agreed between the parties, insuring against bodily injury, personal injury and property damage, and

Automobile liability on all vehicles owned, operated or licensed in the name of the project monitor in the amount not less than that mandated by law.

2.7 Document ownership

Unless otherwise agreed, documents prepared by the project monitor should remain the property of the project monitor. Such documentation includes all site visit assessments, cost-to-date and cost-to-complete estimates, construction 'hard' and 'soft' cost budgets, cash flow analysis, advance margin calculations, budget review and progress draw reports. The lender should have access to all documents and worksheets related to the project and these will be made available on request, including copies. The cost of reproduction will be borne by the lender.

2.8 Termination

Either party should be able to terminate the engagement at any time on giving notice in writing at least 30 days prior to the date of termination. In the event of such termination, the project monitor should be paid for services provided to the date of termination.

² CIQS does not have formal insurance requirements.

2.9 Project monitoring services

Project monitoring services provided to lenders may commence following the execution of a loan commitment agreement. During the period in which the relevant loan remains available to be drawn, the project monitor reports to the lender on a periodic basis to ensure that the borrower continues to meet the advance conditions.

Core project monitoring services carried out during the loan duration can be grouped under three categories.

1 Regulatory review

- Review site plan agreement.
- Verify building permits and other regulatory approvals.
- Review land surveys for encumbrances such as easements.
- Review conservation and environmental approvals and regulatory compliance.
- Review any other statutory requirements.

2 Financial review

- Analyze lender's loan agreements.
- Prepare a checklist of project-related documentation as required by the lender, including the final executed contracts.
- Incorporate land purchase documentation and its market value appraisal within report.
- Review potential leases and pre-sales as they relate to the construction scope.
- Ongoing review of project budget to ensure it is reasonable, adequate and realistically allocated to the various hard and soft cost budget categories.
- Review of detailed construction schedule and a schedule of values.
- Review of contractor's bonds and insurances.
- Review provincial government work safety clearance certificate, and any other appropriate certifications or policies.
- Site visits during construction to accurately assess progress on site and assess accuracy of current payment applications and confirm prior period's approved payments.
- Establish and track project budget and cost to complete.
- Review changes in the work, change valuation, change orders.
- Review payment certification under construction contracts.

- Verify hard and soft costs reported in the borrower's progress claims.
- Prepare loan progress draws through advance margin calculations.
- Ongoing monitoring of borrower's equity contributions.
- Confirmation of payments to project vendors from previously advanced loan amounts.
- Identifying construction budget variances and overruns during construction and ensuring an adequate budget to complete.
- Periodic review of borrower's financial records of the project.
- Preparation of periodic project status reports on progress, budget revisions, and funding recommendations.
- Review of final project close-out report confirming compliance by owner, contractor and consultant with all contractual obligations and confirmation that all of the projects financial and regulatory approval requirements have been satisfied.

3 Technical review

- Review consultant's quality control reports.
- Review commissioning reports.
- Review engineers' geotechnical and environmental reports.
- Review project manual.
- Prepare an independent estimate of construction cost.
- Independently confirm the project statistics and description for consistency with those presented to the lender.

2.10 Standard Terms of Engagement

The project monitor should provide monitoring services in accordance with the terms of engagement under which it is appointed.

A sample appointment checklist is presented in Appendix A. The core task of the project monitor, however, entails two distinct reviews:

- 1 preliminary review
- 2 progress review.

2.10.1 Preliminary review

The project monitor should prepare a preliminary review and provide a Preliminary Report on the project budget. A list of typical documents required for review is presented in Appendix B. The preliminary review would include, but is not limited to:

- review of project plans and specifications
- review of contract documents
- review of general contract, sub-contractors and suppliers
- review of geotechnical reports and environmental assessments
- review of total project budget costs
- review of project schedule
- review of project cash flow
- review of change orders
- review of insurance and bonding certificates
- verification of borrower's equity contribution
- inclusion of appraiser's report of land value
- review of lender's commitment letter
- review of other funding source commitment letters as required
- review of permits and approvals
- review of presales and prelease agreements
- recommendations.

2.10.2 Progress review

During construction of the project, the project monitor, having regard for the nature of the project, should conduct a thorough examination of the progress of the project via site visits and due diligence of all required project-related documents, prepare and submit monthly progress reports to the lender incorporating but not limited to the following:

- project budget analysis
- verification of borrower's equity contribution
- review of project cash flow
- examination of project contingency
- inclusion of presales and prelease agreements in report
- construction progress and achievement of agreed milestones
- confirmation of consultants' reports
- site visits
- loan advance margin calculations and, if applicable, deposit advance margin calculations
- holdback compliance
- cost to complete valuations
- recommended advance certificate
- Goods and Services Tax (GST) or Harmonized Sales Tax (HST)
- recommendations.

Each of the above bulleted items is presented in greater detail in section 3 of this guidance note.

3 The practice of project monitoring

3.1 Preliminary review

A preliminary report is prepared and submitted to the lender before any loan advances are issued to the borrower. Its purpose is to confirm that the contract documents are sufficient to construct the project, that all requisite approvals have been obtained, and that the total budget provided by the borrower to the lender is adequate to construct the project as designed.

The core element of the preliminary review report includes an analytical investigation comprising of various spreadsheets which identify project costs, including original budget, any changes, current budget, holdback calculations, equity requirements, cash flow forecast and projections of loan advance payments.

A preliminary budget analysis is typically prepared using multiple spreadsheets, as outlined in Figure 1.

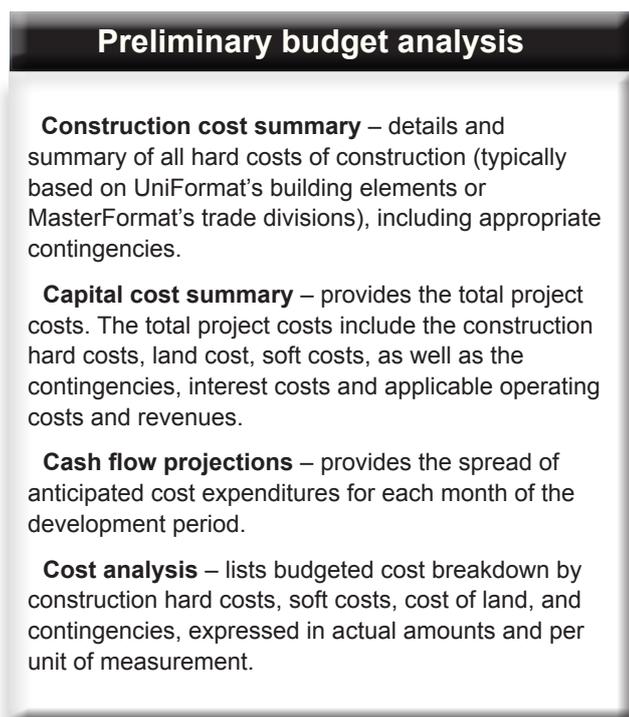


Figure 1: A preliminary budget analysis

The project monitor should address the main items listed in the sub-sections that follow.

3.1.1 Review of project plans and specifications

The project monitor should conduct a review of the project plans and specifications. The project monitor should determine whether all costs have been included in order to fully develop the project. Where final plans and specifications have not been provided, the project monitor will provide comments and recommendations.

3.1.2 Review of contract documents

The project monitor will review all prime contracts for completeness and consistency to ensure all work required is covered. The project monitor should determine any contract exclusions and/or amendments which may require project budget adjustments. Attention should be paid to any supplementary conditions in the contracts to identify unique requirements that may exist. Any items missing or inconsistent with the contract documents should be identified and quantified. The project monitor should comment on the form of contracts and any risks arising from it should be identified.

3.1.3 Review of general contracts, sub-contracts and suppliers

The project monitor should conduct a review of general contracts, subcontractors and suppliers as appropriate to the contract procurement method, and advise the lender of any concerns regarding their capabilities.

3.1.4 Review of geotechnical reports and environmental assessments

The project monitor should examine the geotechnical and any environmental reports and comment on whether the findings from these reports have been incorporated into the plans and specifications and the project budget.

3.1.5 Review of total project budget costs

The project monitor should examine the project budget item by item, comparing costs with the most recent costs on similar projects. If no comparables are available, the project monitor should make a comparable assessment based on an analysis of current market rates, ensuring that all work is accounted for in the budget. The project monitor should comment on the adequacy of budget amounts for work items and contingency allowances.

A total project cost summary should include the following (where applicable):

Total project cost summary	
1	Land cost
2	Hard costs
	MasterFormat trades or UniFormat elements
3	Soft costs
	Furniture, fixtures and equipment
	Development charges and municipal fees
	Consultant fees
	Administration
	Marketing
	Other soft costs
4	Financial charges
5	Interest charges
6	Contingencies
	Total project costs

Figure 2: Factors to consider including in the total project cost summary

3.1.6 Review of project schedule

The project monitor should obtain from the borrower the construction schedule and schedule of values and review to ensure the project schedule is feasible and that the allocation of contract value to various construction works is reasonable. An analysis must be undertaken to ascertain that the cost-loaded project schedule is checked for occurrences of inappropriate or excessive front-end loading.

3.1.7 Review of project cash flow

The project monitor should review the borrower's cash flow projections and comment on any revisions that may be required. The project monitor should conduct an independent cash flow projection as required. The cash flow analysis should show cash inflows and outflows and identify construction hard and soft costs, land costs, financing and interest charges and contingencies. The anticipated cash flow projections must identify funding requirements for the project on a month-by-month basis.

3.1.8 Review of change orders

The project monitor should review any approved, pending and contemplated change orders or revisions to date to determine their completeness, adequacy and reasonableness as to the scope of changes, cost estimates and time allowances.

3.1.9 Review of insurance certificates and bonding/performance security documents

The project monitor should obtain and review insurance certificates, performance security, bonding and surety documents, workers compensation authority certificates for compliance with loan agreement, level of coverage and period of coverage.

3.1.10 Verification of borrower's equity contribution

The project monitor should confirm the borrower's initial equity contribution prior to the first draw, by way of a review of paid invoices, bank statements or cancelled cheques for initial construction hard costs and soft costs incurred to date.

3.1.11 Verification of land value

The project monitor should incorporate land sale agreement documentation and the land appraisal prepared by a certified appraiser within the preliminary review report.

3.1.12 Review of lender's loan agreement

The project monitor should review the lender's loan documentation if requested. The project monitor should list all the conditions precedent within its scope of technical review that need to be met and verify that these technical conditions are met.

3.1.13 Review of permits and approvals

The project monitor should review and verify the development and building permits approvals, site plan agreements, development agreements and vendor financing agreements if applicable. The project monitor

should list all the conditions precedent covered by the project monitor's mandate that need to be met and verify that these conditions are met.

The project monitor should verify the conditions and dates of compliance for these requirements. These permits and approvals may include, but not limited to: building permits; land purchase agreement; the lender's commitment agreement; development and other municipal and regional agreements; cost sharing agreements; management agreements and consultants' agreements.

3.1.14 Review of presales and prelease agreements

The project monitor should conduct a review of pre-sales or pre-leases to date, including status of the purchase and sale agreements and lease agreements as well as any deposits payable under these agreements. The project monitor should verify the actual deposit amounts; where such deposits are held, and whether these deposits are to be used as a source of funds for the construction of the project. The project monitor should also determine whether purchaser upgrades or purchase/lease incentives have any material effect on the project budget and whether or not the upgrades have been paid for directly to the borrower.

3.1.15 Recommendations

The project monitor should identify and list any other items that may adversely impact completion of the project within the stipulated time and budget. The project monitor should make recommendations on any other risk factors identified during the preliminary review which the lender and the borrower should be aware of.

3.2. Progress review

During construction, the project monitor should review and verify the progress of the project through periodical site visits and examination of the progress documents obtained from the borrower. During the construction loan monitoring phase, the project monitor prepares and submits periodic progress reports to the lender.

A progress report is usually prepared for the purpose of the transfer of funds through loan advances for progress draws and is normally prepared on a monthly basis.

3.2.1 Executive summary

An executive summary is a brief description of the findings as they relate to the project's contract and compliance documents, budgets and status of the project. It also includes a disclosure, which outlines the project monitor's responsibilities with respect to the project under review.

3.2.2 Project monitor's certificate

If required by the lender, the project monitor should include with the progress report a fully executed

certificate. The project monitor's certificate should include, at a minimum, the following information:

- names of the lender, the borrower and legal name of the project
- number of advance, description and number of the loan facility(s)
- date when the site visit(s) was performed
- verified current cost in place based on the site visit and review of the project expenditure the project monitor should discuss any differences between the amount claimed and the amount physically in place during the site visit and the borrower should make any adjustments to their invoicing as appropriate
- value of unutilized project contingency stated in the loan currency and in percentage of cost to complete
- value of current advance being certified for progress draw, holdback and value of the loan outstanding to date.

3.2.3 Financial requirements

The project monitor should include the following information in the progress report:

Sources of funds: the project monitor should list all sources of funds used in the project in accordance with the lender's loan documentation, indicating any changes in financing the project as they relate to the current period. Typical sources of funds used in commercial lending may include:

- construction loan
- borrower's equity:
 - borrower's land equity
 - borrower's cash equity
- pre-construction sales deposits or lease commitments.
- deferred costs (postponement of invoice payments to suppliers or sub-contractors)
- any other sources of funds used in the project.

3.2.4 Progress analysis

During the construction phase of the project, the project monitor should track and update the budget with actual costs incurred to date and the estimated costs to complete. A detailed commentary of the project budget should address the following elements, but not limited to:

3.2.4.1 Project budget analysis

The project monitor should include a detailed analysis in the report verifying the cost of work completed to date, the amount of holdbacks for contracts, the value of any change orders and the current estimate of the cost to complete the project. The report must segregate construction costs from soft costs and its appendices should identify the contractors on the project and quantify the amounts of holdbacks in respect of the contracts retained and released from time to time pursuant to the applicable lien legislation or industry standards.

The report should be premised on a borrower's certificate that the monies advanced by the lender have been used on the project and that all bills have been paid. The report should also reconcile the amount of each draw requested by the borrower to the initial budget based on information made available to the project monitor.

3.2.4.2 Verification of borrower's equity contribution

The project monitor should conduct a review of the borrower's current accounts payable listing and a review of written evidence for the previous month's payables.

3.2.4.3 Review of project cash flow

The project monitor should review any update to the borrower's cash flow projections and comment on any revisions that may have occurred. The cash flow analysis must identify: construction hard and soft costs, land costs, financing and interest charges, contingencies, borrower's equity and amounts of holdback retained and released. The updated cash flow projections must identify funding requirements for the project on a month-by-month basis. The project monitor should update the projected cash flow from time to time to ensure that project expenditures are in line with original projections.

3.2.4.4 Examination of project contingency

The budget typically includes a contingency allowance and it is the project monitor's responsibility to track and report on the amount of contingency remaining and the cost to complete estimate. Funds are typically drawn from the contingency allowance line item to offset any changes to the project budget during construction. The project monitor should thoroughly examine the progress of the project to decide if the balance of contingency is adequate to complete the project. The decision primarily is based on the complexity of the project, level of the cost factors and the level of project completion.

3.2.4.5 Review of presales and prelease agreements

The project monitor should provide an update on pre-sales or pre-leases to date, including status of the purchase and sale agreements and lease agreements as well as any deposits payable under these agreements. The project monitor should report on:

- Number of pre-sales/pre-lease achieved by the borrower during the reporting period and project to date.
- Value of sales/lease revenue, project to date.
- Value of purchasers' deposits released into the project to date.
- Confirm that all sales/leases are arm's length.

3.2.4.6 Construction progress

The project monitor should indicate if there are any issues, which affected the construction schedule during the reporting period, referring to the relevant predetermined methodology for measuring progress. The project monitor should identify any apparent potential problem areas relating to the project which might affect its completion within the project budget and the project construction schedule, along with recommendations for budget and schedule revisions.

3.2.4.7 Review of borrowers accounting records and utilization of lender's prior advances

The project monitor should review borrower's monthly accounting reports and aged accounts payable for major contracts representing work in place specific to the project being funded.

3.2.4.8 Confirmation of consultants' reports

- When applicable, confirm requirements of the Provincial New Home Warranty Program are being met.
- Architect's certificates, and where appropriate, engineers' or other consultants' certificates, have been issued certifying that construction is being performed in accordance with the approved plans and specifications, municipal by-laws and regulations and the Provincial Building Code.
- Identified deficiencies are being reworked.

3.2.4.9 Site visits

The project monitor should prepare monthly site progress reports with photographs and physical observations/measurements detailing the progress of all important elements of construction works.

3.2.4.10 Loan advance margin calculations

Loan advances for progress draws are typically prepared using the following method:

- 1 **Primary loan advance margin** – this method of loan advance calculation is based on a cost-to-date basis.
- 2 **Secondary loan advance margin** – this method of loan advance calculation is based on a cost-to-complete basis.

In practice, most Lenders invariably require the loan advance margin calculations for progress draws be done on the cost-to-complete method.

3.2.5 Recommendations

The project monitor should comment on any other items that may adversely impact completion of the project within the stipulated time and budget. The project monitor should identify any other risk factors they have become aware of during the ongoing monitoring phase of which the lender and the borrower have to be aware.

The core element of the progress review report includes an analytical investigation comprising of various spreadsheets which identify project costs, including original budget, any changes, current budget, cost-to-date data, cost-to-complete estimates, holdback calculations, equity requirements, previously obtained payments, and loan advance payment due.

A progress draw analysis is typically prepared using multiple spreadsheets, as follows:

- **Construction cost summary** – details and summarizes all hard costs of construction (typically based on UniFormat's building elements or MasterFormat's trade divisions), including contingencies.
- **Capital cost summary** – provides the total project costs. The total project costs include the construction hard cost totals, the land cost total, the soft cost totals, as well as the contingencies and interest costs.
- **Cash flow projections** – provides the spread of anticipated cost expenditures for each month of the construction period.
- **Loan advance calculations** – show detailed computation of loan advances for the reporting period.
- **Cost analysis** – lists budgeted cost breakdown by construction hard costs, soft costs, cost of land, and contingencies, expressed in actual amounts and per unit of measurement.

In addition, the progress draw analysis could include HST, sales summary, deposit analysis, the lease spreadsheet and other components.

4 Professional Code of Ethics for the project monitor

In rendering professional services to the client, the project monitor should abide by the RICS Code of Ethics ([rics.org/ethics](https://www.rics.org/ethics)) or the CIQS Code of Ethics ([ciqs.org/english/ethics-professional-conduct](https://www.ciqs.org/english/ethics-professional-conduct)).

Appendix A: Appointment checklist

Typically a project monitor may provide all or some of the following services, as appropriate. For ease of reference this Scope of Service follows the same structure as sections two and three of this guidance note. In practice many of the services will cross over these boundaries. A project monitor is advised to agree a clear brief with the Lender to ensure that the Lender's interests are adequately protected and that the appropriate services are selected from this list. It is advised that the items marked 'M' should be considered *mandatory* for a brief, with items marked 'O' considered *optional*.

Preliminary review
1 Review of project plans and specifications – M
2 Review of prime contract documents – M
3 Review of sub-contractors and suppliers, if applicable – M
4 Review of geotechnical reports and environmental assessments – M
5 Review of project budget costs – M
6 Review of project schedule – M
7 Review of project cash flow – O
8 Review of change orders – O
9 Review of insurance and bonding certificates – M
10 Verification of borrower's equity contribution – M
11 Inclusion of appraiser's report of land value – O
12 Review of lender's commitment letter – M
13 Review of permits and approvals – M
14 Review of presales and prelease agreements – O
15 Recommendations – M
Progress review
Project budget analysis including change orders– M
Verification of borrower's equity contribution – O
Review of project cash flow – O
Examination of project contingency – M
Review of presales and prelease agreements – O
Construction progress – M
Confirmation of consultants' reports – M
Site visits – M
Holdback compliance – M
Loan advance margin calculations – M
GST or HST – O
Recommendations – M

Appendix B: Documents required for preliminary review

Documentation required	Documentation received
Complete set of approved site servicing drawings and specifications (roads, hydro, landscape, grading)	
Complete set of construction drawings	
Project budget for hard and soft costs, together with a projected cash flow schedule	
Construction contract(s) relating to site servicing (demolition, grading, roads, hydro, landscape) or consultants' estimates if no contracts are available	
Construction contracts or quotes if contracts are not as yet received	
Construction schedule	
Contracts related to hard and soft cost expenditures, as applicable (i.e. consulting agreements, leasing commission agreements, marketing agreements)	
Land purchase and sale agreement (if applicable)	
Management agreements, co-tenancy agreements	
Soils report	
Environmental audit	
Applicable development studies (noise, traffic, wind, etc.)	
Bonding procedure to be discussed	
Development permits	
Interim financing agreement	
Realty tax assessment (current year's realty tax bill)	
Development agreement(s) – city, region, hydro – evidence of site plan approval and conditions of draft plan approval and applicable zoning by-law and building permits	
Legal surveys and real property reports	
Typical lease or purchase and sale agreement and condominium documents (if applicable)	
Copies of sales listing or leases or offers to lease (if applicable)	
Up to date leasing schedule	
Confirmation of insurance coverage	
Loan conditions precedent/letter of engagement	

