



Greenfield Construction: Design-Build vs. Developer

DEVELOPERS DEVELOP AND BUILDERS BUILD.

All developers are not created equal. In general, a developer finances capital projects and seek higher than market returns for the risk taken. They mitigate their risk through long term leases.

In many cases the developer orchestrates the land purchase, permits, utilities, design, and construction of facilities. Developers typically look to maximize leasable space and construct the simplest of facilities because owner needs differ.

You might hear the term “design-build” which refers to a firm that offers architectural and a full suite of design services as well as construction services. He’ll help you design the project and then build it.

Building and developing are two distinct and different tasks. Building a food and beverage manufacturing facility is a completely different animal than an office complex or an industrial distribution center.

Food and beverage manufacturing facilities have evolved over time. The latest Good Manufacturing Practices (GMPs), sanitation best practices, clean design techniques, allergen separation and chemical storage requirements are more unique and complex. These facilities are often one- of-a-kind and will never be duplicated.

The skillset, attention to detail, knowledge base, and training required by a design-builder to design to the customers’ needs is paramount. Industry and sub-category food safety and sanitation guidelines are extremely specialized and require deep industry knowledge and experience.

A design-builder must know the OEM processing, packaging, and warehouse automation equipment that will be used and how it will interact with the facility. Equipment supports and foundations, processing and packaging utilities, HVAC requirements, fire protection, floor drains, process waste lines, roof penetrations are all important considerations that affect the building. These items are owner specific and are not generally included in a developer build out. Modifying a newly completed building can be costly and frustrating. The design-builder must be knowledgeable about traffic flow of people, material, and products. The designer will have to consider incoming raw materials, storage of those raw materials, target room temperatures, and finished goods storage.

Customers often want to customize their floor plans, building design, add unique features like walk on ceilings, and upgrade their finishes. Most developers do not have the expertise to do this work and will likely get lost in translation if they are responsible for managing a designer or architect.

ADVANTAGES OF USING A DESIGN-BUILDER

The first and most obvious advantage of working directly with the design-builder is that there is one less layer of mark-ups to deal with by eliminating the middle-man. A developer will often mark-up the total cost of the project 4% or more. A developer is often selling the owner one thing and buying something very different from the design-builder.

It is always better to have the direct contractual relationship with a provider of services. If an owner works directly with a design-builder, they ensure their input will go directly to the designers. A design-builder adds value to the overall project by providing creative solutions and design ideas.

An owner will have to solicit the support of a design-build firm even if they chose to engage a developer to manage the project. A design-builder can do many of the same activities as a developer and has a much broader range of services. A design-builder will help their client find the optimum property to construct their facility and a developer will be selling a discrete property they own which may not be the best location for your facility.

A developer, will run financial models to ensure they are economically advantaged and will design and build in a way to attract future tenants.

or buyers. Developers are not focused on one particular owner's needs. A design-builder seeks to offer solutions that add long term operational value to the owner. The design-builder lives off their reputation and the solutions they provide for future project opportunities.

ADVANTAGES OF USING A DEVELOPER

If the owner does not have the required capital or does not want to commit to a large capital outlay for the project, a developer can fund the project. The owner can pay for the cost of the facility over time through a lease and may not even have to pay for the entire facility.

Another perceived advantage of using a developer is if the owner does not feel that they have the expertise or resources to directly manage a design-build contract then they can go through a developer to mitigate that risk, albeit at a considerably higher price. Many owners believe that using a developer reduces the amount of internal expertise and resources they need to commit to the project. In practice this is just kicking the can down the road. The owner project team must convert the space for production, but they are now making a manufacturing operation fit within a developed building.

If you selected to work directly with a developer here are some things to consider:

- Set up your contract documents to enable owner driven design and decision making flexibility. The developer will likely want to build a simple, low cost building shell that more closely fits their financial models.
- Negotiate the cost of capital and facility changes with your lease. Many owners have found they got a favorable lease rate, but the cost for any modifications come at a very high cost. Change orders should be open book plus mark up and include three bids. Owners often agree to fund these changes out of pocket due to cost of developer capital.
- Select a developer that has experience executing food manufacturing facilities and is willing to use designers and builders who are experienced with food facilities. Request that your developer provide you examples of food facilities they have developed and how they would do things differently for a food facility vs. an industrial warehouse or office building.

