Understanding the role of a monitoring surveyor - TAB U Podcast - S2 E6 - #TABUniversity

Podcasts

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Have you wondered what a monitoring surveyor does, and how they can impact the development timeframe? Your top questions answered in #TABU podcast season 2, episode 6.

We're joined by Blane Perroton, founder and managing director of Pride IMS, a 100% specialist monitoring surveying practice.

Blane gave TAB an insight into what life is like as a monitoring surveyor, covering the types of developments he works on, the old-school tools he uses and the general highs and lows of the role.

The top five questions asked on this week's podcast are:

1. What is a monitoring surveyor?
2. Does a monitoring surveyor only look at property developments?
3. What kind of tools does a monitoring surveyor use?
4. Can you predict when things are going to go wrong on site?
5. How did you get into being a monitoring surveyor?

What is a monitoring surveyor?

The Response Surveying Services defines monitoring surveyors as independent lender's monitors, which means they are the eyes and ears of the bank or the lender. We are there to review development in terms of risk capacity, check there's no potential problem or foreseeable risk to the lender who is funding the development.

When do you get involved, and what does the work entail once a funder has employed your services?

There's a two part process. The first part is the initial appraisal - the lender has spoken to a borrower, has received some form of terms and sometimes information. We then have to try and access that for the bank. The initial appraisal is us setting the story and the scene for the bank to say, "in principle, does this development stack?" We look at costs, programme, statutory consents, surveys, any risk of development, and we review that and put forward our assessment to the bank to say, "you're good to go" so they can lend money on the deal at this moment in time.

The second part is then becoming the eyes and ears of the lender throughout the scheme until completion. We'll go once a month (or as often as agreed with the bank and the lender) and review the progress, review what's going on on site - costs or the programme, and statutory consents throughout the whole project.

Would a borrower be able to hire their own monitoring surveyor?

Yes, but they can't hire us as it would be a conflict of interest as we are acting specifically for the lender or the bank.

They can appoint a monitor, but they shouldn't need to as it's their development - they normally have their own professional team. We do not act for developers or borrowers, we solely act for lenders. Developers would probably have an in-house capability, but if they don't, they can appoint a surveying practice who will act on their behalf.

What is the difference between a monitoring surveyor and a quantity surveyor (QS)?

We are often referred to as a bank QS, but actually our remit is a lot more all encompassing than that.

A QS is purely looking at costs, procurement, and budgetary measures for a project, more on the developer side.

A monitoring surveyor looks at more than just costs, such as programme, any statutory issues (such as making sure the scheme is building the amount of units they say they are), and that they are in compliance with planning. We are a risk management function, not just looking at cost.

Does a monitoring surveyor only look at property developments?

The other capacity that a monitoring surveyor can provide is, in a more distressed scenario where there might be potential for the lender to step in or build out the asset or the development, we can also support the bank on that function. We would never be supporting the developer, it would always be on behalf of the bank, to keep our independence.

Yes, monitoring surveyors can get involved in other types, Pride are involved in all of them: residential, industrial, commercial, hotels, even chicken factories - you name it we can monitor it!

How often do you go down to the site?

This is very much dependent on what our instruction from the lender is, they may require monthly or bimonthly, but it is typically once a month. In my professional and personal view, you can't leave it longer than 6 weeks before going to the site. It's not necessarily just for drawdown - developers may push back as they might not need the cash or a drawdown that month, and so don't need to call you out. But monitoring surveyors are not just a cost function to the bank, a lot can go wrong in an 8 week period on a scheme, and I've seen it!

Are there any moments in a project that might need more attention than other stages, for example in the beginning stage, or the foundations going in, compared to final stages?

Normally it is down to developers' cash flow. Every time we visit the site there is a cost to the developer for that - it's written into the facilities, but it is still a cost. From my perspective, it is interesting how often we need to go because with most developers it's once a month. If they need more cash flow then it can be more often, maybe two weekly or whenever it's needed, or it can be longer. At the initial stage it tends to be professional fees, for example, professional design being work done, which is what I would define as a soft cost draw - it doesn't need a monitoring surveyor to attend site as they haven't actually done any work. There's nothing for us to see, it's just an open field! If it is more physical activity on site sometimes it's the latter part of the schemes where they're putting in high cost items such as kitchens, toilets, or where there are bulk costs, starter projects (foundations) but they tend to be phased so monthly periods work pretty well on that.

How long do you need on a site? When you do go, do you prefer to go with a developer or funder as well?

The time on site depends on the site and how much is needed, the size of the site, the type, what they're building, but I would say it typically ranges from an hour to an hour and a half on site.

You mentioned a chicken farm - is that the most exciting site you've been on? What is your bread and butter, and what is the most exciting site you've visited?

The bread and butter for us is whatever the appetite of the lender is. 85% of our portfolio is residential, the rest is comprised of things like hotels or industrial.

The most exciting site, although it wasn't in a monitoring capacity, was the London 2012 Olympics. Valuations on that site were incredible, and the scariest thing was that it was all public money that was being expended on these drawdowns. I still visit the site, and it still holds a special place for me. At the time it was a very minor role, on the Aquatic Centre.

The scheme that I am monitoring at the moment, and just about to complete, is the Redlands High School in Bristol, which is being delivered by Juniper Homes. That scheme has every type of build you could imagine - part new build, listed, permitted development, refurbishment, new build. It's a fantastic and highly complex site, and an incredible achievement especially considering they've delivered it through COVID and the political climate we've had.

What kind of tools does a monitoring surveyor use?

I'm quite old school in terms of, for me, technology always seems to fail so I'm still very much a notepad and pen type of surveyor. I know other people walk around with their iPads and other technology, just for me, I have all these technological things but they always tend to run out of battery as soon as I turn up on site!

The most critical things for myself and for most monitoring surveyors is your phone to take photographs of the site, I know back in the day it was a separate digital camera but phones are probably now taking better quality photographs, and a notepad and pen for walking round and marking up. I actually take a floor plan, or a site plan, so I can mark up on that, but a pen and paper is by far the most critical implement for a surveyor.

How do you present your findings, presumably it's not a scanned copy of your notes?

Following the site inspection we produce a report that is issued and published to the bank and the lender only, not to the borrower. That report is defined loosely by the bank in terms of what they want to see and what they want us to cover off, and we fill that in terms of 'what's the state of the costs, what's the state of the programme, what is the status on site, quality?' We're not necessarily qualified in terms of quality but we can make our own judgement, for example noticing a brick wall that isn't stable, we can take a judgement and say that we deem there could be some quality issues on this site. Health and safety issues - something as well that us as monitors and the lenders are liable for under the new health and safety laws CDM (Construction Design and Management) regulations. The lender is responsible for the scheme that they are lending on so we should be flagging that also. Then that report is published to the bank, they review it, come back with any queries potentially, hopefully there's none, and release their drawdowns based on our recommendations.

Does anyone ever challenge your report?

Yes, there might be a scenario where we may disagree with a drawing application from the borrower. A good practice in terms of monitor surveying should be that it is already negotiated, discussed and agreed with the borrower. A scenario where we might be challenged is if we go round and say, "Look, there are no windows on site but you've claimed 100% for windows." But then if they say, "Well here's a pro forma invoice," or "a deposit payment," then that's different so we give them an opportunity to justify what they're doing. It's not a case of 'we don't trust the borrowers or developers' but we are a risk protection mechanism for the bank.

We don’t really get challenged by the bank as ultimately they’re appointed us to advise them. The only times where possibly a challenge would be, “You've mentioned a delay on site, the borrowers are telling us that they're still going to be completing 12 months, is this happening?” The lender is always going to be looking at the facility term whereas if we say, “Well no, actually based on progress to date or cash flow run rate this can't be done.”

Can you predict when things are going to go wrong on site?

That’s a good question. There’s a lot of things that we can’t predict as surveyors, or anyone in the industry. A prime example of that would be COVID - no one could predict these things that happen on site and do have a huge impact. The supply chain and the labourers will never keep quiet, so if they’ve not been paid or if there are issues they will be the first people that will be shouting. I will always, if I go around the sites, talk to, not just the developer, but the subcontractors, because that’s the first way you can find out if something is going wrong. So that is an early warning sign if there has been non-payments or delayed payments to the supply chain because the first thing that will happen is that they will suspend work, or terminate work, and walk offsite, which is not good for the lender, not good for the borrower, not good for anyone on site.

The other thing is, what I call during the initial appraisal is the monitor sniff test which is I think you can get a vibe from a lot of the developers. When you walk around that site and do the initial meeting with them, there’s just a feeling. I always think you lend to who you like and to who you want to be working on these deals with. It’s not just a transactional piece where you’re lending a load of money and then off you go, you’re in bed with that deal as is the monitor, so it’s a relationship industry, and I think that’s what you should be lending off. So, it’s looking at the borrower - is this someone I can work with and I can deal with? It is a very close relationship - that facility could be 18 months, it could be four years, depending on the scheme. It is a long time to be working with someone and that initial test of ‘do I trust this person, if it was my money would I lend it to them?’ There are all questions that a lot of experienced monitors tend to ask as well because I think it is important, and that does help our view and when we’re looking at strategy and risk for the bank and reporting back and saying, “Well actually we’ve got a bad vibe about this, we don't really trust what they've been giving us and their information is weak so approach with caution Mr Lender".

It's in everyone's interest for the scheme to work and that's where sometimes I think we are an extension of the lender, we are managing that relationship as well with the borrower. It's not a case of 'you guys are just lending money and you're looking to make as much money as possible'. Yes, that is the ultimate goal, but it is a relationship thing and when times get tough, which, possibly, let's see the landscape of the market for the next few years, that's when actually the lender is critical, because that relationship part. There might be pain and gain to be had on all sides here in terms of the market, and a lender that understands that I think is critical to borrowers.

How did you get into being a monitoring surveyor?

Yeah, very good question. So I got into the industry - my father is a carpenter and I used to help him out in my ripe 15 year old teen days of just hod carrying on site.I used to help my dad onsite with just general labouring and hod carrying and I actually wanted to be a carpenter, but my Dad turned around to me at the age of 15 and said, "Be the cool guy in the suit, be that one in the car that comes around." It turned out that that was the surveyor. I went to the library and got a book, because there wasn't Google and things like that! I looked into the role of surveyor, thought it sounded really good, kind of part detective on schemes, thought that sounded really exciting. I went to university to do my surveying degree, then moved into contracting QS. That is actively building things, working for the developers and site based. Then moved into the PQS side which stands for professional QSing, working for the likes of Deloittes and JLL, again, still active with developers, but on the consultancy side. And then I got seconded into UBS Investment Bank and I was their inhouse monitor, and that's how actually I got exposed to monitoring, because I wasn't aware that there was such a function because it's such a niche part of surveying or QSing and I really liked that side of it. I loved the fact that we were advising the banks and we were at that strategic level, so it's a lot higher level in terms of, we're not just bricks and mortar - there's so much more to it. We're looking at sales, 'can we get out of this deal?', we're looking at the loan, at the facility terms. For me, I found it incredibly engaging, but it wasn't something I was aware of, even at university - it was pretty much if you were a surveyor you were project manager, QS or a building surveyor, and they were the only three forms of surveying that I was aware of.

Do you need an extra qualification on top of the one you need to be a QS?

I think it has changed. In my day it was pretty much a case of you had to go to university, get a degree, and then become chartered, but I don't think that is it the case now, I think you can actually do it via experience route now, so you can actually go straight into trade, you could become an apprentice surveyor, and actually in my opinion, I think people that have done that have probably gotten a lot more exposure to site, and certainly in terms of a monitoring surveyor capacity where you are walking around those sites and trying to see any risk or any issues - if you've always been a desktop surveyor, which is more consultancy side, then actually if you don't know how to build something how can you possibly advise a bank in terms of any issues on it?

What are the best bits, and what are the bad bits? Let's start with the bad bits so we can end on the best bits!

I genuinely love my role - I skip out of bed, I generally don't ever wake up thinking, "I don't want to do this." I love what I do, but I think the bad bits are - it's not necessarily a deal going distressed, because it's a risk industry, things go wrong, that's just the nature of the beast, development is risky by its very nature, it's how we manage that and how work together as a team to get over the line. I think it is where there is that fundamental breakdown in relationship between borrower and lender, and that is where it becomes very difficult because when you lose that fundamental relationship it is a different role we're playing then. We are playing middle man and it's mediator, and sometimes psychiatrist, but we are there just to mentally support the deal and whilst we're there in an independant capacity, which again, I do think that is the value of that independence, there are times where we have said to the lender, "Actually you're not correct to do this, you should be doing this by the letter of the contract." Whatever it might be, and then there's also the same scenario where the borrower is not conforming to what they are required to do. So, that bit I don't like, but ultimately it is part of our job.

The good bit is generally seeing successful deals, the textbook job - lend the money, no cost overruns, no programme overruns - a proper textbook scheme, in and out, 12 months, all sales gone - and that does happen and we genuinely do see that. Not often, but there have been some real success stories. For me, I like working for lenders where I think that we are valued, we're not just considered as 'we have to have a monitoring surveyor'. It's the ones that genuinely consider what we do, the value in what we do, and that's what I love about the role, that we're there to advise and protect the banks.

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