As we move further into the 21st century, we continue to see new trends develop in project delivery for the construction industry. The industry is experimenting with different project delivery formats and combining them with the incorporation of Building Information Modeling (BIM) into the design and construction process. Today’s contract trends are moving beyond the traditional Design – Bid/Price – Build delivery format into a more collaborative approach. The developer of a project, whether public or private, now has multiple format choices including Design-Build, Integrated Project Delivery (IPD), Construction Manager At Risk (CMAR), Public Private Partnership (PPP) and variations of lean delivery philosophy incorporated into design and construction delivery methodologies.

Documented productivity gains and reduction of disputes anticipated with these formats have yet to materialize. The amount of data is not yet significant enough to determine what is working well. The promise of productivity advancements and avoidance of costly dispute resolution remains unfulfilled. Some would argue these new contract format trends open a new frontier to greater complexity with unanticipated and nontraditional risk.

If progress is to be made utilizing newer formats, there needs to be more focus to better manage the risk and complexity these formats bring to the process. Success with these formats is largely dependent on collaboration which cannot be underestimated in terms of making these alternate formats reach their productivity potential. There is also a greater need to simplify the payment process which has grown unnecessarily complex in terms of product delivery and timing mechanisms triggering payment. There has been great focus on Alternate Dispute Resolution (ADR) to resolve disputes over the past decade, but not enough commitment has gone into dispute avoidance which is a function of collaboration.

The key component to the success of the nontraditional delivery methods is a collaborative working environment where responsibility, risk and reward are proportionally shared and collectively owned in a better way to deliver client requirements. It is disappointing to see that the number of disputes remains at comparable historical levels, and that as a whole, the industry is more likely to see the number of disputes increased rather than decreased. Research has shown that disputes remain constant regardless of economic conditions.

Without relationships, achieving collaboration is made more difficult. Collaboration can take many forms; some forms are structured and more prescribed than others. Contracts need to include an ethos of “mutual trust and cooperation” including affirmative obligations stated in the contract to accomplish the collaborative purpose. The least structured approach is affirmation of mutual trust and cooperation to a more structured approach such as partnering and even more formally by the use of contractual alliancing agreements.

Implementation of collaboration starts with a collaborative culture and commitment to procedures to implement that commitment. It is essential to define what is collaborative and to establish the techniques used for collaboration to be successful. Integrated contract agreements are best able to support collaborative working. It is not enough to have a single collaborative agreement between two parties, all project agreements with team members need to be collaborative. All contracts need to be integrated on the concept of collaboration. Collaboration will only come with more transparency in information systems, where all involved have the opportunity to see their role and their obligations more or less in real time. A good tool to accomplish this is BIM. Serious consideration should be given to have BIM requirements included in the contract suite of documents.

Payment issues undermine trust and collaboration. Payment procedures have grown too complex. Payment disputes remain too commonplace in the construction industry, often arising from or are exacerbated by the relatively complex payment provisions in the contract. Layers of procedure are becoming the norm further complicated by convoluted timing mechanisms triggering payment and the requirements to be paid. The key objective is to ensure that the contract contains clear mechanisms that enable both parties to be aware clear contractual deadlines for payment.

Contradictory or unclear wording inserted into other relevant provisions of the contract concerning progress payment applications, milestone payment dates, substantial completion date, final completion date, final acceptance date and other similar “target” dates serve to confuse when and what amount is due to be paid. The problem is made worse when payment obligations are not integrated throughout the various construction agreements.

Layered on top of the payment timing are the “paperwork” requirements. Use of “paperwork” as a sword instead of a shield undermines the collaborative process. It is essential that contract language sets forth a clear and precise statement of the due date and final date for payment and the steps surrounding them from initial applications for payment to interim certificates certifying completion. Timing is everything in payment practice.

Collaboration is a tool to be used for dispute avoidance. When properly deployed, there will be fewer disputes and less need to engage in dispute resolution processes. Most existing construction contracts focus on alternate dispute resolution technique as opposed to dispute avoidance. The alternate dispute resolution process has become a process that too often delays resolution of issues.

Generally, most construction contracts are written to enable the dispute resolution process to be engaged in during the course of the work. However, in the practical world, this rarely happens. Too many contracts have too many steps to the dispute resolution process. By the time the parties get around to the final steps, the work is near or at completion. This delay leads to damaged relationships, a hardening of positions and financial hardship, all of which undermines the collaborative process. The dispute resolution procedures serve to avoid resolving the problem by engaging in procedure. Lawyers like procedure and process, owners and construction professionals prefer dispute avoidance.

Additionally, with the advent of BIM, such modeling represents a single source of information which the parties can use to avoid disputes. BIM means that data from several places has already been brought together in the same place. This data comes from architects, engineers, constructors, planners, and surveyors, and it will all have been coordinated, clash checked, organized and integrated before being included in the model itself. The subsequent “architectural” plans, “engineering” layouts, drawings, elevations, schedules and data sheets will be complete from and can be used to resolve or avoid disputes. The advantage of BIM is that it allows visualization of the issue and a means to identify and correct the problem in real time. If one accepts that uncertainty is one of the major causes of disputes, then BIM should reduce that aspect. Lack of understanding of BIM, and lack of a BIM specification in the contract can be a great obstacle to collaboration.

If the future of productivity gain and dispute avoidance does lie in a collaborative approach then contracts need to incorporate and reinforce the culture of collaboration. For these innovative delivery methods to succeed it is essential to define what is collaborative. The construction sector is viewed as fundamentally adversarial rather than collaborative, where narrow margins are expanded through dispute procedure. Contracts that provide a framework for collaboration may just be the catalyst to a better way.
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As real estate attorneys serving multiple sectors of the real estate industry, clients often ask us about trends we see in the real estate market. While some of our responses are anecdotal, from patterns in the transactions we handle, we also monitor developments in federal, state and local law, giving us added insight into developing trends in the market.

Recent changes in two Federal laws point to potentially positive trends for real estate investment. The Protecting Americans from Tax Hikes Act of 2015 (the “PATH Act”) has modified the Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”), which should result in increased investment in U.S. real estate by foreign investors. For U.S. investors looking for new investment opportunities outside the U.S., the restoration of diplomatic relations between the U.S. and Cuba, and the subsequent modifications to the Cuban Assets Control Regulations (the “Cuban Regulations”) implemented by the Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), appear to be the first steps toward eventual investment opportunities in Cuban real estate.

Following the PATH around FIRPTA
When FIRPTA was enacted in 1980, one of the notable requirements imposed on non-U.S. investors was a tax withholding requirement when disposing of U.S. real property interests. Specifically, FIRPTA treated nonresident alien individuals, foreign corporations, foreign partnerships, foreign trusts, and foreign estates as “foreign persons” for the purpose of being subjected to tax withholding upon the sale of real property, or of interests in entities that held real property.

The PATH Act, which became law in December 2015, and for which the IRS issued final regulations in February 2016, creates a new carve-out to the “foreign person” category under FIRPTA, excluding qualified foreign pension funds, and any entity that is wholly owned by such a qualified foreign pension fund. So, for the first time in more than 35 years, a significant deterrent to investment in U.S. real property by foreign pension funds has been removed.

From our perspective, there was already an increase in foreign investment in U.S. real estate during this cycle, from qualified foreign pension funds and other foreign entities. Now, with the PATH Act clearing the way for qualified foreign pension funds to avoid tax withholding when disposing of U.S. real property investments, we expect to see more qualified foreign pension funds bidding on acquisitions, and getting involved in equity investment and joint ventures in the U.S. real estate market.

The New Revolution in Cuba
As opposed to the “inconvenience” FIRPTA created with tax withholding on foreign investment, President Kennedy’s 1962 Proclamation 3447, the embargo on All Trade with Cuba, began the long-standing prohibition on U.S. investment in Cuba, further reinforced by the Cuban Assets Control Regulations, codified in 1963. That, coupled with Cuba’s own laws prohibiting foreign-owned real estate in Cuba since 1962, has made U.S. real estate investment in Cuba a non-starter.

Even with the recent diplomatic developments between the countries, there is a very long way to go before a U.S. national will be able to “own” real property in Cuba. But the recent OFAC modifications to the Cuban Regulations have begun to open those long-closed doors to economic opportunity in Cuba.

When the Obama administration announced that OFAC would amend the Cuban Regulations to implement policies designed to engage and empower the Cuban people, specific directives cited were to facilitate travel, expand financial transactions, and authorize additional business and physical presence in Cuba.

Following the 2015 restoration of diplomatic relations between the countries, OFAC issued an order on March 16, 2016, to further expand the Cuban Regulations to allow U.S. persons to establish business presence in Cuba, for the exporting of goods, providing of mail, parcel and cargo services, and travel and carrier services.

That same month, President Obama became the first sitting president to visit Cuba since Calvin Coolidge. During that visit, an announcement was made to illustrate what these OFAC changes would bring: Starwood and Marriott were being authorized by OFAC to operate hotels in Cuba. While their pending merger awaits regulatory approval in Europe and China, Starwood and Marriott are not purchasing real property (which is still prohibited under Cuban law and U.S. law), nor are they building new hotels in Cuba. Instead, they will simply be managing and operating existing properties for the existing Cuban ownership. In a press release issued on March 19, 2016, Starwood indicated it was engaged in transactions to rebrand and manage three hotels in Havana. Marriott’s press release the next day referenced the opportunity to provide Cubans with hospitality training, generate new economic opportunities, and support opportunities for youth, women and other communities in Cuba, as a corporate citizen.

This historic development followed on the tails of an agreement between the U.S. and Cuba to allow U.S. airlines to resume and expand commercial service to Cuba. Under President Raul Castro since 2006, the Cuban government has also started to allow residential real estate ownership by Cubans, something that was also, until recently, not permitted.

And with that, after almost 55 years of prohibited trade with Cuba, we see the first steps toward a “new” revolution in Cuba for economic development, and potentially investment opportunities for the U.S. and the rest of the world.

Looking Ahead
With the implementation of the PATH Act, we look forward to monitoring deal flow in 2016, to see if there is indeed an increase in the number of qualified foreign pension funds that invest in the U.S. real estate market. Ideally, the new law should precipitate increases in the volume of transactions, and the dollar amounts involved. For our clients, we hope it translates to a greater number of transaction partners, and new sources of capital.

Similarly, with the easing of restrictions by OFAC on U.S. economic activity in Cuba, the events to come in 2016 should be the start of a historic period in both diplomatic and economic relations between the U.S. and Cuba. It will be interesting to see how real estate and other investment opportunities in Cuba evolve in the years to come, following this new revolution in U.S. relations with Cuba.
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Defending Wrongful Foreclosure Suits Just Got Harder in California

by Todd C. Bouton, Call & Jensen

Until recently, post-foreclosure wrongful foreclosure suits in California did not have much teeth. But thanks to the California Supreme Court, they now have more bite.

Until recently, savvy lenders (or attorneys) could often convince trial courts at the outset of such lawsuits to dismiss them without much expense. Lenders could simply point out in court briefs (called demurrers or motions to dismiss) that the borrowers could not allege they had tendered the amount due on their mortgages. Under prior case law, where borrowers could not have cured their default, the courts would dismiss the lawsuits on motion at the outset. See, e.g., Fontenot v. Wells Fargo Bank, N.A., 198 Cal. App. 4th 256, 269, 272 (2011).

Courts reasoned there was no basis to allow such lawsuits to proceed because the borrowers could not have become current on their mortgages anyway and were thus not prejudiced by any foreclosure. Fontenot 198 Cal. App. 4th at 272 (plaintiff in a wrongful foreclosure suit must show prejudice); Jenkins v. J.P. Morgan Chase Bank, N.A., 216 Cal. App. 4th 497, 1507-1508 (2013) (same). This logic appealed to the many homeowners who remained current on their mortgages and to their lenders who benefited from their faithful mortgage payments. The common defense strategy tended to result in a quick and relatively cheap dismissal of such cases. It worked for lenders and their assignees.

Thanks to the California Supreme Court, however, this strategy will no longer work against savvy plaintiff’s attorneys in post-foreclosure wrongful foreclosure cases. The Court recently ruled that a borrower may sue for wrongful foreclosure based on allegations that the foreclosing entity’s purported authority to order a trustee’s sale was based on a void assignment of the note and deed of trust for a property. Yvanova v. New Century Mortg. Corp., 62 Cal. 4th 919, 939-950 (2016). Even worse for lenders, the Court rejected arguments that such claims should be dismissed where borrowers could not allege they could have tendered the money due on their mortgages. Id. at 938-940. The Court reasoned that a borrower does not owe money “to the world at large” but only to a particular person or institution entitled to enforce the borrower’s debt through foreclosure. Id. at 938. This means that a borrower can now avoid dismissal of its wrongful foreclosure suit at the outset merely by alleging a defect in the assignment of the note and deed of trust for a home mortgage—even where the borrower clearly was in default and could not have cured the default.

Borrowers will no longer need to prove that an assignment of a note and deed of trust was defective at the pleading stage. Nor will borrowers need to prove that they could have cured their defaults. Defaulted borrowers can now bring post-foreclosure wrongful foreclosure lawsuits and force their lenders to prove at an evidentiary hearing that they had authority to foreclose.

This new case law will undermine the old strategy for defending wrongful foreclosure suits and make defending such suits more costly and time consuming. Lenders facing such lawsuits can no longer follow the same playbook. Trial courts will no longer dismiss such cases at the outset based on the tender rule. Borrowers will be able to increase the duration and expense of the litigation simply by alleging (without proving) that their lenders did not have authority to foreclose because of a void assignment. Yvanova, 62 Cal. 4th at 938-940. These allegations, which will likely become commonplace, will force lenders to prove their foreclosure rights at evidentiary hearings. Filing motions at the outset of the case, without supporting evidence, will no longer be enough to dispose of such cases anymore. Therefore, lenders will need to implement a different strategy to convince courts to dismiss such lawsuits.

What should lenders do?

In this new normal, lenders facing wrongful foreclosure lawsuits containing allegations that the lenders did not have authority to foreclose on particular homes should change their defense strategy. First, lenders should forego wasting time and resources filing demurrers or motions to dismiss based on no-longer-viable tender arguments. Second, lenders should instead devote their resources to gathering evidence to prove that they had authority to foreclose. Third, lenders should provide this evidence to each borrower’s counsel and explain that the lenders will ultimately prove their authority at an evidentiary hearing (with a motion for summary judgment) if a borrower does not dismiss his or her case. This should be done in a letter notifying the borrower’s attorney that if the borrower does not dismiss the case after seeing the evidence, the lender will seek sanctions for the pursuit of a frivolous lawsuit. Fourth, if a borrower refuses to dismiss a case, lenders should proceed with an evidentiary hearing, prove they had the authority to foreclose, and seek a judgment in their favor. At that point, the trial court will likely dismiss the borrower’s case. Fifth, lenders should consider pursuing sanctions against any borrower and/or plaintiff’s attorney who refuses to dismiss such a case once the authority to foreclose is demonstrated.

This new strategic defense approach will admittedly be more time consuming and expensive. But given the new normal imposed by the California Supreme Court, it is the best option.

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The “Letter of Intent”

It Happens All The Time...

Opportunities present themselves, there is a flurry of activity, the last piece of the puzzle falls into place and voila - a deal has been struck and a letter of intent (LOI) signed. Congratulations are made all around and, oh, by the way, someone get the LOI over to the attorney to document the deal.

Not enough is said about the importance of the LOI. It is, in most instances, the course headings of the race to close the transaction. For better or worse each party will hold steadfast to the terms of the LOI, leaving little room for course correction. This then makes for a less than desirable experience for those parties who paid little attention to the LOI. And, it makes little difference whether the transaction is a “purchase/sale” or “loan” or “investment contract,” because if you do not pay attention to the following issues and address each in the LOI, you stand to lose.

The Purpose: It needs to be said, and more importantly stated in the LOI, that the LOI is to be a non-binding expression of intent and that only upon execution of a definitive agreement are the parties bound (and then only to the terms of the definitive agreement, not the LOI). If a party desires confidentiality, a separate written agreement should be prepared.

The Players: All those who will have vested interests in the outcome of the transaction should be parties to the LOI. If a party’s participation in the transaction is to change prior to the closing, the requirements of any such change should be stated.

The Goods: The property to change hands should be described with detail allowing an outsider to understand what is being transferred (and what is not being transferred).

The Promises: If the success of the transaction is dependant on the truthfulness of any party’s representation(s), some form of each of the representation should be included in the LOI. This should include the expectations of the parties as to the condition and functionality of the goods, as well as the extent to which the parties may be allowed to inspect and test the goods, or, the parties may be required to “make good” after the closing (in the event that the goods are not as expected).

The Transfer: The conditions which must exist for the transfer of goods, including necessary consents and governmental approvals, as well as the location and timing of the transfer should be stated.

Expenses: Responsibility for the direct and third-party costs and expenses going into, throughout, and coming out of the transaction (successful or not), should be addressed and allocated among the players.

The Documentation: Identifying the documents necessary to close and assigning initial responsibility for drafting each is just good planning. The added benefit is that the mental process causes the parties to consider items which should be addressed elsewhere in the LOI.

Mr. Scholte is a Partner at Ferruzzo & Ferruzzo, LLP, practicing in the firm’s corporate, real estate and finance department. Mr. Scholte represents business owners and owners and users of commercial real estate. Within the last year Mr. Scholte has completed more than a dozen notable real estate transactions throughout California valued in excess of $150 million. Mr. Scholte also assists clients in securing acquisition, construction and permanent financing from capital markets and recently completed a $62 million loan to refinance a portfolio of self-storage facilities in Southern California.

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