



Business-led Design – instead of Design-led Business

Good advice doesn't come cheap – but taking cheap advice can cost you a fortune.

In times of economic crises, investors and developers tend to seek ways to reduce their expenditures and cost base – still the most popular 'be-all and end-all' to survival.

In the real estate sector, the region has seen many projects 'put on hold' in the first half of the year. Many developers struggle with a lack of buyer confidence and decreases in sales rates. Yet, many of them continue to maintain the same 'vision' for their projects as before.



It does not take a clairvoyant to understand that the real estate markets in the region have undergone fundamental changes over the past months; and that as a consequence the supply side of the market adapted to the changes on the demand side in order to continue to function.

But what does this actually mean for existing projects or projects that were put on hold – or indeed for new projects under consideration? Many investors and developers state that they are currently 'reviewing' their projects. In many cases, this means that existing concepts are being tested and re-assessed in terms of their financial viability.

As a matter of fact, not only have the real estate sales prices dropped substantially – but so have the prices for construction materials. So, an 'easy way out' is to try to take advantage of the downwards trend in cost for construction materials based on re-assessing the time lines, value engineering, more affordable ways and methods (of construction), and probably also benefit from alternative procurement methods (especially when it comes to interior design and fit-out).

For a number of cases, this may save an existing concept or even whole projects. But: is it worth saving? What is the chance of a project concept born during the 'hype' phase in times of crisis which may be followed by a long and slow recovery cycle?

Most of the above-mentioned projects concepts are based on visions created during the boom era of seemingly never-ending upwards potential. Ever new superlatives were built into new projects at concept stage – often at the expense of budget control and cost management.

Investors spent millions on impressive pictures, sketches and models of their visions following a ‘design-led business’ approach. The questions whether the concept was actually a ‘fit’ and if the project was financially viable were often discussed too late; hence many projects are currently ‘on hold’ or ‘under review’.

As mentioned: after the crisis is not the same as before the crisis. Markets have changed – and so real estate projects may need to adjust.

Instead of trying to find ways on how to safeguard the financial viability of ‘hype’ concepts and projects, investors and developers should accept that they have to adapt to market changes – and take a ‘fresh’ approach.

First, investors and developers should face the fact that – in most cases – the times when literally anyone could ‘make a quick buck’ are over. In other words, payback periods have changed from short-term to medium- and long-term and returns are no longer expressed in $IRR > 25\%$; and this is the view a potential and responsible investor in real estate should take.

Second, the above implies the necessity of taking a longer-term view for projects and concepts initially. Developing profitable and sustainable projects that have the potential to ‘last’ in the markets of the future – instead of trying to ‘reanimate’ dead-born pre-crises projects by reassessing their (potential) financial non-viability – should be one of the primary objectives of any responsible investor and developer these days.

This is where good business advisory services based on ‘Business-led Design’ come into play. Note: good business advisors do not offer the cheapest advice available – but the best! They will not attempt to take the ‘easy way out’, trying to convince clients that the ‘old’ project is actually still financially viable (if in fact it is not) by doing some ‘quick number crunching’ (all too often using ‘one-button’ modelling software), providing a short ‘recycled’ report – and then walk away.

Good business advisors will take on responsibility to add value to projects by taking a detailed and in-depth look at the market (both ends), at project vision as well as at the concept. They will advise on the ‘optimum use’, using a project-specific (and not generic) as well as tailor-made approach to research and projections.

Business-led Design will ascertain that:

- based on the above, a financially viable and sustainable **Business Case** is established and agreed with the investor first – before engaging in any planning or architectural concept design works;
- **Highest and Best-Use** in terms of component mix, massing and sizing is identified – before creating costly and non-value adding series of ‘nice’ pictures and drawings;
- following an initial **Investment Appraisal**, a solid financial control framework is established; setting the overall permissible **Development Cost Budget**;
- a solid **Development Brief** is established and issued to all involved 3rd party consultants; clearly communicating project vision as well as a set of solid key findings, conclusions and recommendations derived from in-depth market and financial analyses in planning language, thus providing the link to the planners and architects.

Particularly in this region, each real estate investment project is different and therefore deserves an individual (and not: ‘recycled’) approach. Sound techniques and methodologies in line with highest international advisory standards and best industry practices should be employed and applied. A detailed and in-depth analysis in line with a set of key findings, conclusions and robust recommendations are the least any project(s) deserve(s)!

‘Cheap’ advice may not be costly – yet, it may cost a fortune. What is the value of ordering a ‘cheap and cheerful’ recycled ‘feasibility study’ vs. a full ‘highest and best use’ assessment that will help to establish the maximum potential of a project? No further discussion required here...

The recommendations to investors and developers in these times are:

- Don’t go ‘cheap’ when asking for good advice! Get the best advisors you possibly can get. It will more than pay back.
- Don’t hold on to project visions that are no longer in line with markets expectations. Take a ‘fresh’ approach, do a 360° review of your projects using a ‘Highest and Best Use’ approach, thus maximising the development potential of any project.
- Adopt the philosophy of ‘Business-led Design’ when developing projects. Build a solid ‘Business Case’ and establish the permissible Development Cost Budget first.
- Communicate your project vision to all participating stakeholders using a sound Development Brief document.
- During all of the above, allow for frequent meetings with your Business Advisors and 3rd party consultants. Good advisors will ‘co-develop’ your projects together with you and demonstrate a level of commitment that goes beyond ‘delivering a report’.
- Meet with the people that actually ‘get the job done’. Insist on meeting the professionals that will actually carry out the work on your assignment. You should be

convinced of their calibre, experience, expertise and levels of skills and knowledge that it takes to successfully complete and deliver complex project assignments. At times, one Director with 'grey hair' is just not good enough; and, as a Client of PKF-TCH recently said: -"There are still too many 'light-weight' consultants out there." Make sure you feel comfortable with the people that you are going to entrust your project – and don't go 'cheap'.

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