



## Pressure has never been a good advisor



Sven Gade, director and head of consulting at PKF – The Consulting House, tackles the subject of dealing with pressure and effecting good decision-making in times of crisis

Not a day goes by without announcements of projects cancelled, postponed, placed on hold, or to be sold around the world. Yet it appears that Dubai is getting more than its fair share of attention. There seems to be an underlying 'told you so' mentality in the market which makes it 'chic' to report on the latest bad news surrounding various projects.

Business meetings in the region, which used to start with a good chat about the weather, business relations and friends, and the latest trends, now have a new first agenda point: industry lamentation – and it goes on for far longer than initial agenda discussions have in the past.

Yet, economically-minded people are aware that markets are not influenced so much by finance, demand and supply, but first of all by a much more human phenomenon – belief. If enough participants believe that the markets will see a downturn, guess what? They will. And on the flip side, if a sufficient number of knowledgeable industry experts started to present positive business opinions, surely that would help to turn the current scenario around?

Back in mid-2005 I made a presentation to the UAE-German Partnership Forum in Essen, Germany. My task was to show the audience that there is more to the UAE than just Dubai – even in real estate development terms. At that point Dubai was approaching US\$100 billion worth of announced

mixed-use developments, and the other emirates came in with a further combined project investment value of US\$60 billion.

One of my opening statements to set the scene was the introduction of a new monetary thinking unit for the UAE – using US\$ billions instead of millions. With hindsight, that statement and the figures quoted above strike me as very prudent as we have quickly become accustomed to quoting in trillions.

The last slide of my presentation in Essen dealt with the then popular question – will the bubble burst? To which my response was twofold: a) there is no bubble and, b) the planning timeline for Dubai is long-term (10 to 15 years).

Should demand slow down it would be relatively straightforward to slow down or stop developments altogether. At the time, I also indicated that there might be some slowdown in growth over the coming five years.

And that is exactly what is happening now, and the overall reaction is eminently sensible and reflects good practice – with the exception of market reaction in general and global press coverage in particular. Some decisions might not be popular, but no less practical or considered.

Real estate investment and development decisions are very complex and need to take into account a multitude of dimensions, as well as often being made under immense pressure. Frequently,



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they have to be based on market impressions (belief), especially in developing countries where statistical data is not available over a long-term history.

Contrary to public perception however, decision pressure does not only occur during crisis times. The phenomenon applies to both market boom and depression. In boom times, decisions are frequently made on a 'me too' basis. In recessionary times they are made based on pull-out panic to cut back on activities.

With either scenario, the decision makers often do not have the chance to explore all possible options and they opt for the obvious choices. Thus opportunities are missed and hence pressure is not a good advisor. Especially in recessionary periods, time should be given to taking a long quality-driven look at the various options – and preferably involve external expert advisors with a wealth of experience garnered from working on other projects, and in other regions.

You also need to keep in mind the fact that depressions in particular, typically reduce present or future supply (project cancellations). This is not a negative trend as it actually creates opportunities for those who stay and think strategically. The options for distressed projects range from repossessioning via refinancing to rescheduling, and exit should be the last option for projects already underway. For projects in early concept or plan-

ning stages the exit option is easier to take, but it will influence future demand-supply balance just as much.

We believe that strategic counter-cyclical behaviour is a fantastic way to maximise opportunities, which is why we launched a short assessment (due diligence) service to help participants to execute a fully-informed decision making process. Independent reviews often add further ideas and options, and have the ability to calm the decision making process while adding reassurance that the right decisions are being made; which is the best way to benefit from opportunities.

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