Publication: The Big Project ME	**Date**: Thursday, December 13, 2012	**Country:** Online	**Page**: link

Clear Vision

Real estate in Saudi Arabia is driven by the government's commitment to the welfare of its people and the private sector's response to pent up demand. Despite the relative volume of projects however, something is clearly missing.

Reports about project delays come all too frequently. Land owners worry about cost overruns or quality issues. Investors and bankers speak about the mismatch between their investment appetite and the types of project opportunities that they are offered.

There is no shortage of technical vendors in the market. Architecture, engineering and project management firms – both domestic and international – have established themselves in the Kingdom. But real estate development is about more than putting up a building.

"Holistic thinking about real estate projects means that a clear vision and business target have to be part of the planning process. It's not enough to decide to simply construct new property" said Naveed Siddiqui, CEO Capitas Group International, CGI. He went on to add that the "the planning, design, funding, legal structuring, project management and so many other factors require detailed analysis and coordinated thinking".

To achieve this, development management should be the discipline that drives and guides real estate projects, large or small in size and public or private sector. This ability to integrate the commercial and technical execution of the projects is critical to delivery of successful projects in the Kingdom.

Limited development management expertise has been a pitfall for the way real estate has been developed in the Kingdom. Across the Kingdom, cities are littered with assets that are either vacant or partially occupied, lack basic services or where work has stopped due to lack of funds.

Too often sponsors do not understand the development process, have no clear vision for the project, don't have sound financial analysis and have limited control over execution.

Developments are often passed by default to the architect, project manager or, all too frequently, the contractor, who has little time or need to think through the key development decisions as they arise. The project ends up being lost in the numerous complexities of managing its delivery.

“Development management is not project management and it is not construction management. It is about making projects technically and commercially feasible and sustainable – beginning with concept, through design, funding, construction and operations”, said Wahid Sarij, Executive Vice President and Head of the Development Management Service, DMS Practice at CGI.

Development managers streamline and align the decision making process. At the onset, the development manager is able to devise a commercially viable and technically pragmatic development plan that is based on development know-how rather than desktop research.

Moving ahead with the development, the development manager can ensure that the technical works map to the development plan. As investment is needed, the development manager can build confidence with investors and financiers that the plan is financially sound and its execution will be well-managed.

And as construction and handover proceed, the development manager ensures that delivery details are managed for quality and quantity.

Such an approach requires development professionals that have integrated expertise across the real estate value chain – marketing, design, engineering, legal, financial and operations.

A single team that can manage an entire development across all stages of the project using a standardized, unified management thought process over various disciplines can help address the issues that challenge the success of projects in Saudi Arabia.

Case Studies:

In all development projects, decisions are made that deviate from the project plan without the risks being fully assessed. These can include cutting costs, changing design, and financing changes. The effect of such decisions in the general scope of the project are often unforeseen and overlooked.

However, these may result in potentially damaging effects that put a project at risk of cost and time overruns and even permanent deficiencies to design which may be costly to correct or altogether uncorrectable. Take for example the thought process required to avoid the following scenarios:

Scenario 1 – Value engineering gone wrong:

A business park with several five story buildings is in construction phase. Through a value engineering exercise at the design stage a suggestion was made to reduce the floor-to-ceiling height by 200mm in order to save SAR 1,200,000 in construction costs, primarily through reducing concrete in the structure. However the change in detailed design drawings took an additional three weeks of design time and resulted in tight space constraints in the ceiling void. This in turn then required changes in the installation layout of MEP services that took the contractor an additional two weeks to overcome. Conclusively, saving SAR 1,200,000 in construction costs resulted in an additional five week delay to the overall program which also caused a five week delay in rental income from tenants, extra design fees, extension of time claims and an overall cost that far exceeded the amount that was supposedly “saved” by the reduction in concrete usage.

Scenario 2 – Retail mix and space planning in malls:

A shopping mall is facing revenue management issues. The anchors (hypermarkets, department stores, etc.) in the mall are located on the ground floor and are designed with independent exterior entrances and exits direct to car parks as well as facing into the mall.

This is great for customers of the anchor tenants but is also a death knell to other retailers in the complex. Opening exterior entrances significantly reduces footfall through the interior of the mall and reduces the attractiveness of the retail space on the first and second floors to tenants.

These spaces end up, at best, with second tier tenants or, at worst, with high vacancy rates which all impacts the overall return on investment of the mall.

Scenario 3 – Selling unitized office space:

A commercial office tower was recently completed. The exit strategy for the developer was to sell individual small office space units like typical apartment complexes are sold. As a result, the office spaces are owned by numerous parties. The individual units will generally only attract tenants with small area requirements who have minimal capital for fit out.

If in the future a tenant wants to expand their office space in the same building they need to negotiate with different, and sometimes multiple, owners who may be using different lease contracts, rents, time frames etc. This can be difficult and time consuming. Multinational tenants are generally wary of such ownership structures and are therefore excluded from any potential tenant list.

This leads to the office owners losing out due to higher vacancy levels which also put rents under pressure as individual owners with their own financial requirements set the market rates. The tenants relocate, the office owners/investors will then be wary of future investments as they have poor returns