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## The developer's dilemma: Know when to hold them...

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The catchy and the upbeat Kenny Roger's lyric "you've got to know when to hold 'em, know when to fold 'em" belies the extreme angst behind that decision. In real estate development, no one ever wants to be a quitter. Quitting implies you weren't good enough, you didn't have the stuff to stay in there, or you were bluffing all along. None of those conditions helps your reputation as a developer. On the other hand, folding (or at least tidying) things up might be the prudent thing to do in some circumstances. In fact, it may take more of the right stuff to face that reality than push forward against the odds. It's all about assessing and mitigating the risk.

There have been some interesting articles over the last year about stalled real estate development projects in the Boston area, as well as throughout key cities in the U.S. A few Boston ones are: the Washington Street crater, formerly known as Filenes's, a poster child for right project at the wrong time; lab projects in university areas, often targets of law suits; stalled towers downtown, tell tales of permit problems; Westwood Station, perhaps a vision too large; or various projects in East Boston, indicators of the market not quite there yet. Stalled projects are in trouble for one reason or another. Of course if you were to ask anyone involved in such a development, they would say that the solution to whatever has caused the stall, (permits, financing, or market timing) is right around the corner. Most would not be trying to mislead, because their natural optimism and enthusiasm causes them to be believers, regardless of the obstacles.

Most developers form an emotional commitment to projects the moment they put the money at risk. The potential for success of the project increases as designs are drawn, permits are obtained, and tenants show interest. Ironically, so does the risk, as the funds expended during the process reach higher and higher levels. Finally, after all contingencies are met, the lump sum payment is made at closing, construction money is borrowed, and you have to build something. If it's a weak economy such as we have today, where there is too much potential competitive supply, the developer may have to face the "holding, folding" question. Not all approved projects will be built. That can be the good news if in fact the cycle gets worse. We've often heard the saying "it's the best project I never did".

These are not new concepts, but they always are worthy of repetition. Emotional detachment, focused analytical analysis, responsibility to investors and oneself, all make for a successful business strategy. Sometimes, battling on, hoping that things will change is not a good idea. "Hanging in there", based on fear and pride, can lead to mistakes in judgment, further commitment to faulty ideas, and pouring good money after bad. At every step in the development process, participants need to think of backup plans, risk reduction strategies, and available evacuation routes.

As a golfing friend once told me, when you look out over the fairway, consider where the "misses" might lie, whether bunkers, water, or rough fescue, and determine what, if you were to miss, would

be your best miss. This seems like appropriate advice.

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