



CELEBRATING  
55 YEARS

# nerej

## Changing roles in changing times - adjusting to the new market

June 24, 2009 - Retail

As the real estate development arena continues to change and reinvent itself in light of the past year's market turn, everyone in the industry has gone through a dramatic change in how they do business. From landlords to tenants and developers to consultants, no one is doing business the same way they were a year ago. Between rising cap rates and lowering rents, deals have become much tighter and the margin for error in evaluation has virtually been eliminated. Where speed to market used to be the driving force for projects, the focus has squarely moved to guarded, incremental steps with ongoing project evaluation at all stages to ensure deals still pencil out.

In the past, project direction typically consisted of: get filed quickly, get approvals as soon as possible, break ground immediately after, and start collecting rent. While controlling costs and value engineering have always been paramount, the reduction in demand for gross leasable area and still high construction costs have shifted priorities for clients to cost control and careful assessment and re-assessment of their projects. As consultants, we are spending more time with clients, from local developers to the largest national tenants, focusing on timing and costs, strategizing on various options and their bottom line impacts, minimizing soft costs up front, and carefully evaluating critical paths to understand when product will come to market. From a site design standpoint we've found ourselves evaluating multiple design options such as using underground detention facilities to help increase GLA vs. open basins, or building walls on grade challenged sites to create developable pad areas. The formerly almighty filing deadline may fall by the wayside in order to more thoroughly evaluate the financials of such options, and ensure that everyone on the development team is on board with the decision. While the up front fees to evaluate these multiple options may be slightly higher, the long-term project savings realized from a comprehensive understanding of multiple options can be the difference in a project's viability.

Clients are spending more resources studying their projects prior to going hard on contracts, and a similar effort negotiating contracts to help take into consideration all the changing market situations. At this point, most people have smashed their crystal balls and are doing whatever they can to protect themselves in both the estimating and due diligence phases as well as the contractual obligations, keeping options open as long as possible. The structure of the deal and timing are significantly impacting the approach and strategy on potential projects. It's become of vital importance to flush out and quantify all significant cost drivers from both construction and schedule perspectives. From traffic consultants estimating offsite improvement costs to local counsel contemplating permit time frames, there is no room for error, and currently we are noticing more effort being put forth to resolve issues to a 90% confidence level prior to a go/no-go decision, where a 75% confidence level may have been appropriate a year ago.

For a civil engineering consultant, understanding the development business is no longer a luxury,

but a pre-requisite. Every member of a project team needs to understand the issues, the implications of their work, and have a firm grasp of the big picture for a given development and how to communicate potential digressions from same in real time. Clients need consultants that are not just thinking about their isolated responsibilities, but are continually asking the right questions and providing multiple, intelligent options, with technical, cost, and business related concerns in mind.

William Goebel, P.E. is a principal at Bohler Engineering, Southborough, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540