

Development Management

Contributing Factors as an Intrinsic Component
in the Real Estate Project Lifecycle

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What is Development Management (DM) and how is it different from Project Management (PM)? The answer first requires a brief historical analysis of the UAE’s real estate development industry.

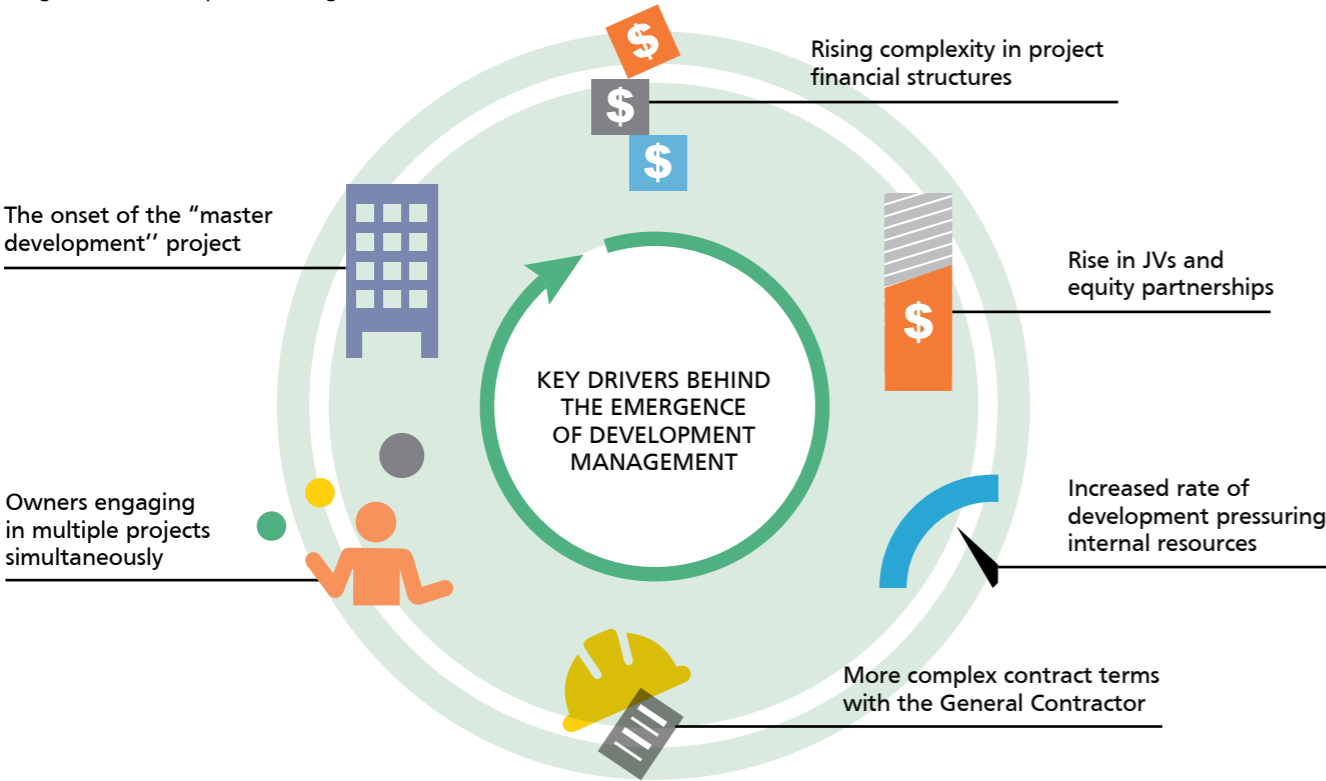
In the early days of the UAE’s development when projects were small-scale and relatively simple, projects were often executed solely by the Project Architect who worked directly with the Owner / Investor. Neither an independent Project Manager (PM) nor Development Manager (DM) was needed. This still holds true for small, private projects such as the construction of a few villas for personal use or refurbishment of a retail strip. As projects became more complex and the Project Owner became a development company, the value of an independent Project Manager (PM) began to surface.

The PM’s primary role became to control cost and time elements in a development project, to institute a document control

system, and to monitor terms and conditions of commercial contracts. As a variety of sub-consultants and specialty consultants (such as traffic, environmental, acoustic, etc.) were assigned to projects and commercial structures with the Contractor became more complex, the Architect’s role moved to a design/deliverable format and the PM was inserted into the development team as both a project control mechanism and an “extra set of eyes” on behalf of the Project Owner. The onset of Development Management (DM) as a trade craft came about largely as a result of several more recent core changes to the real estate development industry. (Exhibit 1)

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EXHIBIT 1
The rising need for development management



As evidenced by major institutions such as MIT and LSE offering a Graduate Level Degree - the “MRED” (Master’s in Real Estate Development) – the trend towards DM is rising. The simplest way to differentiate Development Management from Project Management is the yardstick for each service provider. The PM is primarily tasked with controlling cost and time as key output parameters, whereas the DM is primarily tasked with achieving a higher rate of project profit as a key output parameter.

On nearly all projects where DM is needed, PM is also needed (although the reverse is not necessarily true); the functions of each trade craft are not mutually exclusive and indeed often complement each other.

So then, what value does DM offer the Project Owner, and how does it work in an actual project scenario? Simply put, DM increases the investment returns for the Project Owner while minimizing the financial risk on the project. (Exhibit 3)

EXHIBIT 2
Responsibilities and typical activities, Development Management (PM) and Project Management (PM)

DEVELOPMENT MANAGEMENT	PROJECT MANAGEMENT
Key areas of Responsibility	
<ul style="list-style-type: none">• Maximise project profitability• Minimise project risk	<ul style="list-style-type: none">• Control cost and stay within development cost budget• Ensure timely delivery
Risk Management	
<ul style="list-style-type: none">• Minimize project and financial risk by taking an integrated project approach	<ul style="list-style-type: none">• Minimize commercial risk by managing contractual arrangements.
Design and Construction	
<ul style="list-style-type: none">• Conduct Value Engineering / Design Workshops to maximise achievable project profit, increase sales absorption or decrease financial risk	<ul style="list-style-type: none">• Check deliverables to ensure compliance with Scope and Contract
Handover	
<ul style="list-style-type: none">• Coordinate with the sales and marketing teams to set sales, advertising and customer relations strategies; set and execute an Asset Management Strategy	<ul style="list-style-type: none">• Manage the punch-list and close-out procedure



Sky View Towers by Emaar Properties

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The DM's target is an investment return metric – ROI, IRR, NPV and Development Margin. A DM measures their performance on a project against these financial metrics utilizing the full range of the "project toolbox" - design, engineering, business, and financial tools. In this way the DM serves as the Project Owner's "trusted advisor" and looks out for the Project Owner's best financial interest throughout the project lifecycle.

If the Project Owner is a large-scale development company, then the typical solution is to hire an in-house team to handle DM functions. Large semi-government master developers will have staff with titles such as VP of Development, Chief Development Officer, Director of Development, and etc.

However, when the Project Owner is not a large-scale development company with a strong in-house team, often times the best solution is to retain an outsourced DM consultancy team that can provide

the necessary services and expertise to the project on an ad-hoc basis or full life-cycle process. This solution is often best for HNW Investors, Family Offices, Investment Houses, and etc.

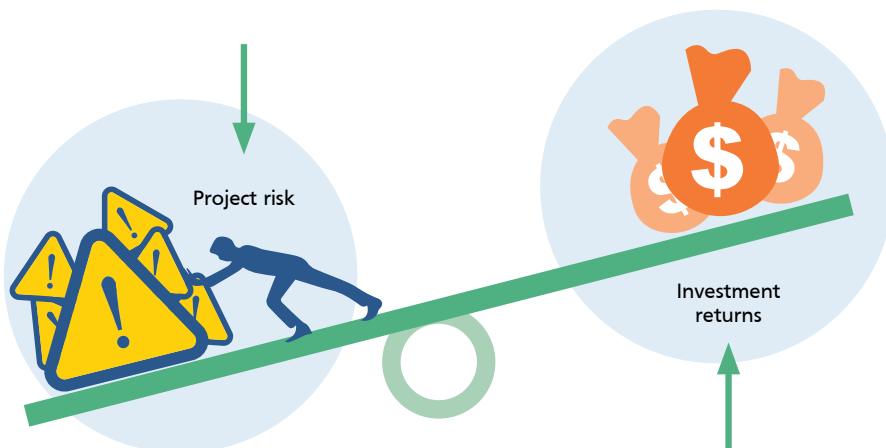
The option of either foregoing DM, or trying to perform this function in-house without the necessary expertise, means that the project is now competing against other developers at a disadvantage. As the UAE market matures, development margins are shrinking, competition is increasing, sales are more difficult, and investment yields are compressing. While still a far more profitable place to do business than a fully mature market such as the USA or Europe (where DM is an absolute must), the UAE is moving into a new phase in its market dynamics. And in this new phase, a lack of DM services is a competitive disadvantage that no new project can afford.

"Simply put, DM increases the investment returns for the Project Owner while minimizing the financial risk on the project."

"The DM serves as the Project Owner's "trusted advisor" and looks out for the Project Owner's best financial interest throughout the project lifecycle."

EXHIBIT 3

Key performance indicators, Development Management



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