Why property developers need to create more agile business models

By Francois Schoeman

9 Dec 2019

Many business models around the world are under pressure, now more than ever, to be able to respond more speedily to volatile developments in the global markets and local political and economic climate. They have to demonstrate that they have the ability to carry out a 'fire drill' for recovery from severe shocks under a stress test and provide robust analysis of risks pertinent to potential barriers of survival.

Image source: www.pixabay.com

Following the conclusion earlier this year of the general election, property developers in South Africa need to be prepared for a similar stress test. Property developers need to create more agile business models that enable them to quantify risks in a much swifter manner, and to deal with impending crises at an early stage. There's no doubt that eye-watering legislation and new social and political pressures will act as a catalyst for action by all major property developers.

Rebuilding trust an ongoing challenge

Post the property market crash of the 90's, rebuilding trust to ensure investors still see property as a key part of their portfolios is an ongoing challenge. The property sector is now facing more intensive and intrusive re-regulation as legislators seek to delve into an arena of intense danger, for not only the property industry but for the economy as an whole. How the property industry reacts and aims to protect those who have placed their trust in what in essence is a consolidated long-term wealth survival model for many, in a volatile economic environment, is a critical question that needs investigation.

How does the property industry, especially developers, prove to the market that placing their investment in property is still a safe and viable option?

Property developers must demonstrate that it has mitigation actions in the event of the parameters being recalibrated under stress, so it must have a dynamic view of capital investments and possible returns for themselves and their potential clients.

Avoiding another boom-and-bust cycle

Regulators and property developers need to avoid another boom-and-bust cycle, and are now trying to ensure that new rules or laws are designed to stop it before it happens on a macro scale. The interface between these initiatives is prudent as well as efficient management models of the imposing risks.

The adoption of models inclusive of these impeding property risks is key to survival in economically hard and volatile times. As developments are forced to remain more conservative about their strategy, and focused on maintaining high liquidity and solvency ratios, the difficulty is to remain relevant in a fast-evolving world of possible investment strategies.

However, a lot of this new focus and future regulation is still bedding in, or is yet to start, and often it is experimental, overly bureaucratic and subject to the law of unintended consequences. As long as capital remains scarce, capital adequacy and capital management will top the strategic agenda and propel the adoption of risk aversion and capital-focused business models in the future.

Box-ticking compliance

The worry is that the property development environment may encourage box-ticking compliance only, as well as the generation of millions of pages of documentation and reports from even more powerful computing technologies, which don't positively impact the bottom line, or even integrate with a wider operational stack or risk. This leading to lower quality and further loss of confidence by those still willing to invest in property. Developers must be careful to not fall into a trap of being risk adverse to the level of producing low quality builds that further entrench a fear of investment in property.

Each wave of regulation has a direct, quantifiable impact on the target development model, profitability, and provisions feeding into the profit base of a development, but it also has an indirect but material impact on a wide range of factors contributing to investor value and ultimately the cost-to-pocket for investing in these developments.

In consulting on development risk, it's nose in, fingers out

Francois Schoeman 21 Nov 2019

Managing reality, not perception

We need to be mindful of managing reality, and not perception. In short, we know it's risky, but risk breeds profit for those who dare. Developers need to be brave and make proactive, difficult decisions that will probably cause short-term pain. These decisions to invest in property development can have long-term value if made prudently and in time. The reality remains that the average person in South Africa is challenged with the credit act regulations and the growing pinch of out-of-pocket living expenses makes the target market ever smaller.

Advice would be for property developers to not be silent but rather to own the problem, and then over-communicate it, exploring solutions with investors and peers. Once ownership of the situation is declared, waste no time bringing competition into the conversation, and hold nothing back. Accept that emotions will flow, remain deadly calm, sifting through egos, vendettas, emotions and misunderstandings to take what you can into the next phase of preparing for the future as not only an individual or single company, but as an industry.

It is only prudent to discuss the risks, lay out the facts, demonstrate a clear understanding and approach the matter from all sides. Amid industry-wide belt-tightening, with cost-cutting being the buzz word, the pressure in these situations can be compounded, and the problem becomes magnified.

Staying ahead of risk

One of the key challenges is to differentiate between the benefits of preservation and the dangers of stagnation and complacency.
Like any business, the property development industry needs to evolve in order to keep pace with, or stay ahead of risk. All of these factors make it necessary to be prepared to move forward at all levels, especially in terms of strategy, concept and delivery.

Many developers believe they're protecting property developments by ensuring the rigid and unyielding original concepts are protected, instead of investigated and improved upon. Unless developers start to think differently, the property industry will grow even less desirable with each passing year, and the spiral of decline in confidence in property as a key part of your investment portfolio will accelerate. This will have a long-term, corrosive effect on property values and damage the interests of the very people the developer was intending to make his investment returns with.

If the industry does not ensure that a balance is found, it can face the very real risk that the risk starts to outweigh the benefits of participating in the development of land. The industry will however be foolish to allow others to make those decisions without their participation in the process.

ABOUT FRANCOIS SCHOEMAN

Francois Schoeman's professional experience lies in driving business growth through strategic marketing and business company initiatives, including core competencies in governance, management, planning and directing launches for diverse sectors, and is known as a turnaround strategist. Currently, he is the COO of GEMS Property, consulting to more than 65 companies in diverse sectors.

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