



# WINNING STRATEGIES IN RECESSIONARY REAL ESTATE CYCLES

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A practical approach  
to securing revenues and optimizing costs

March 2009



# It's not because it's difficult that we don't make decisions, it's because we don't make decisions that it becomes difficult

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The financial meltdown of the 4<sup>th</sup> quarter of 2008 changed the world forever. And so should your strategies, especially if you are a leader in the real estate industry. What have helped you ride the wave of growth and profits till just a few months ago, won't work to help you survive what could be the worst recession that the world has witnessed since 1930.

As a global management consultancy firm with a leading reputation for connecting strategy with action and with an active role in the real estate industry, Solving Efeso has developed practical approaches to help its clients manage their real estate projects through crisis.

**Thanks to its unique expertise, Solving Efeso delivers:**

- Positioning and/or Re-positioning development strategies aligned with the new market conditions, and**
- The maximization of value through implementation of powerful levers of competitiveness.**

In the following pages, we invite you to explore how we structured this approach to thoughtful ideas and practical methodologies that will help you unlock the value “trapped” in your real estate projects – planned, under construction or completed – within the current economic downturn.

We would like to have the opportunity to meet with you and tell you more about our capabilities.

Respectfully submitted,

 **Solving Efeso**

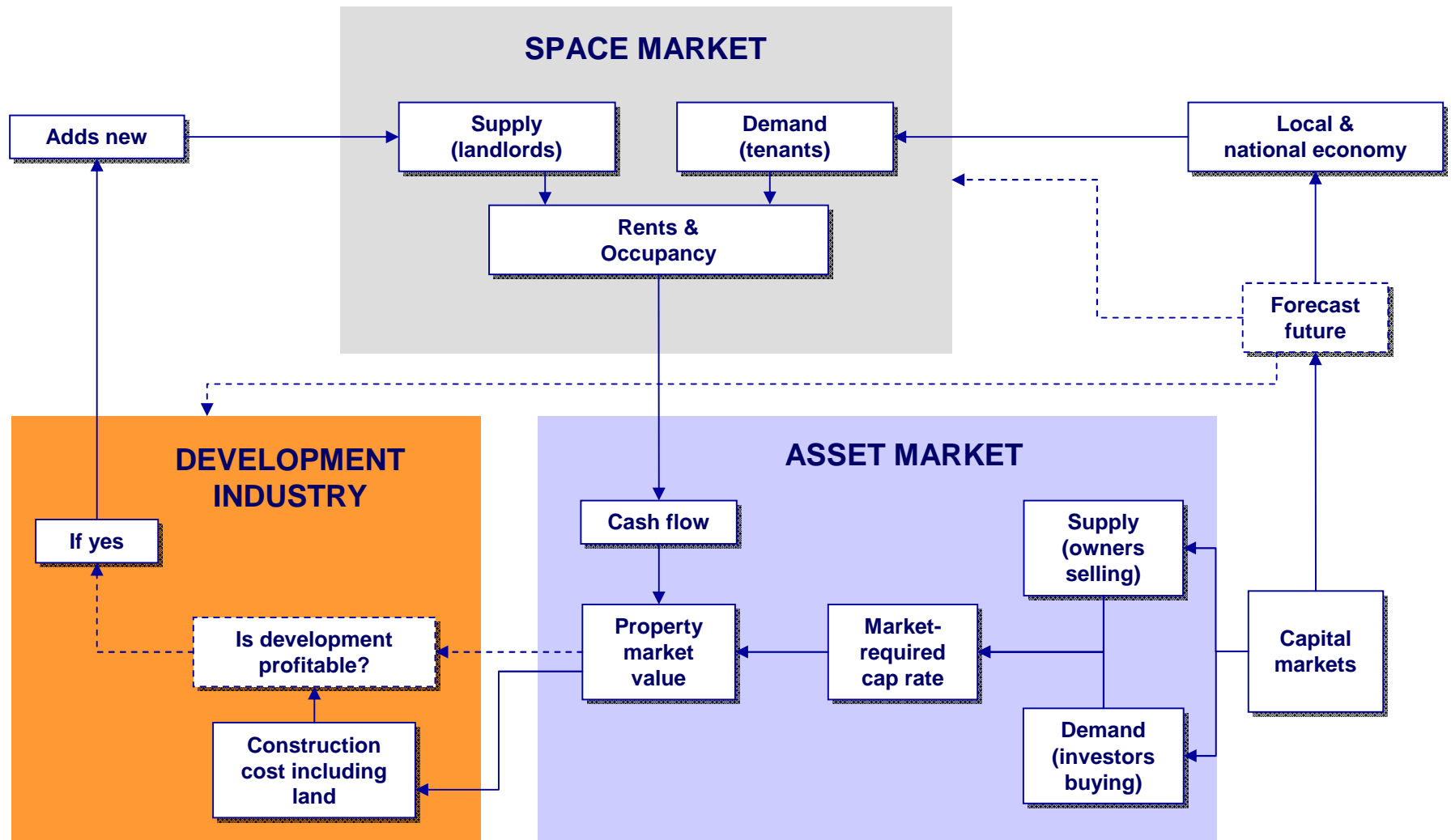


# The economic trends are changing, and it's time to re-think the development strategy

	Before the financial Crisis		After the financial Crisis
<b>LTV (loan-to-value):</b>	80-90%	↑ ↓	50-60% if available
<b>Geographical span:</b>	International (MENA)	↑ ↓	Focused (country of origin)
<b>Price escalation:</b>	+55% p.a.	↑ ↓	-20 to -30% p.a.
<b>Construction costs:</b>	+1% to +1.5% per month	↑ ↓	0% to -1% per month
<b>Absorption:</b>	1-2 years <u>before</u> delivery	↑ ↓	1-2 years <u>after</u> delivery
<b>IRR levered equity:</b>	25-35%	↑ ↓	15-20%
<b>Cost of debt:</b>	6% to 7%	↑ ↓	8% to 9% if available
<b>Mortgage lending:</b>	+50% year on year	↑ ↓	0%
<b>Market focus:</b>	Speculative	↑ ↓	End-user driven



# Strategy must be considered in light of the interaction between the space/asset markets and the development industry



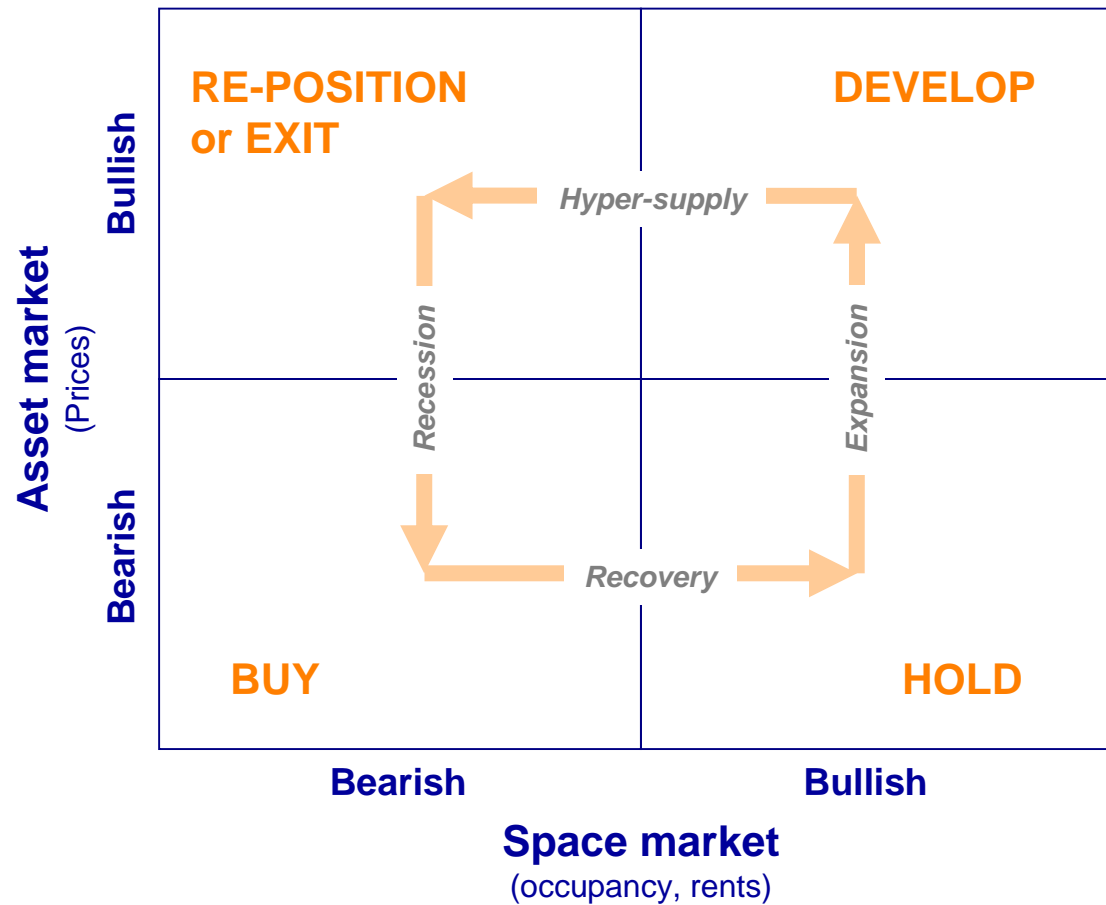
—————▶ Causal flows  
- - - - -▶ Information gathering and use

Source: Commercial Real Estate Analysis and Investments, David Geltner, Norman G. Miller, 2001



# Do the right things ... ... at a certain point in time of the real estate cycle

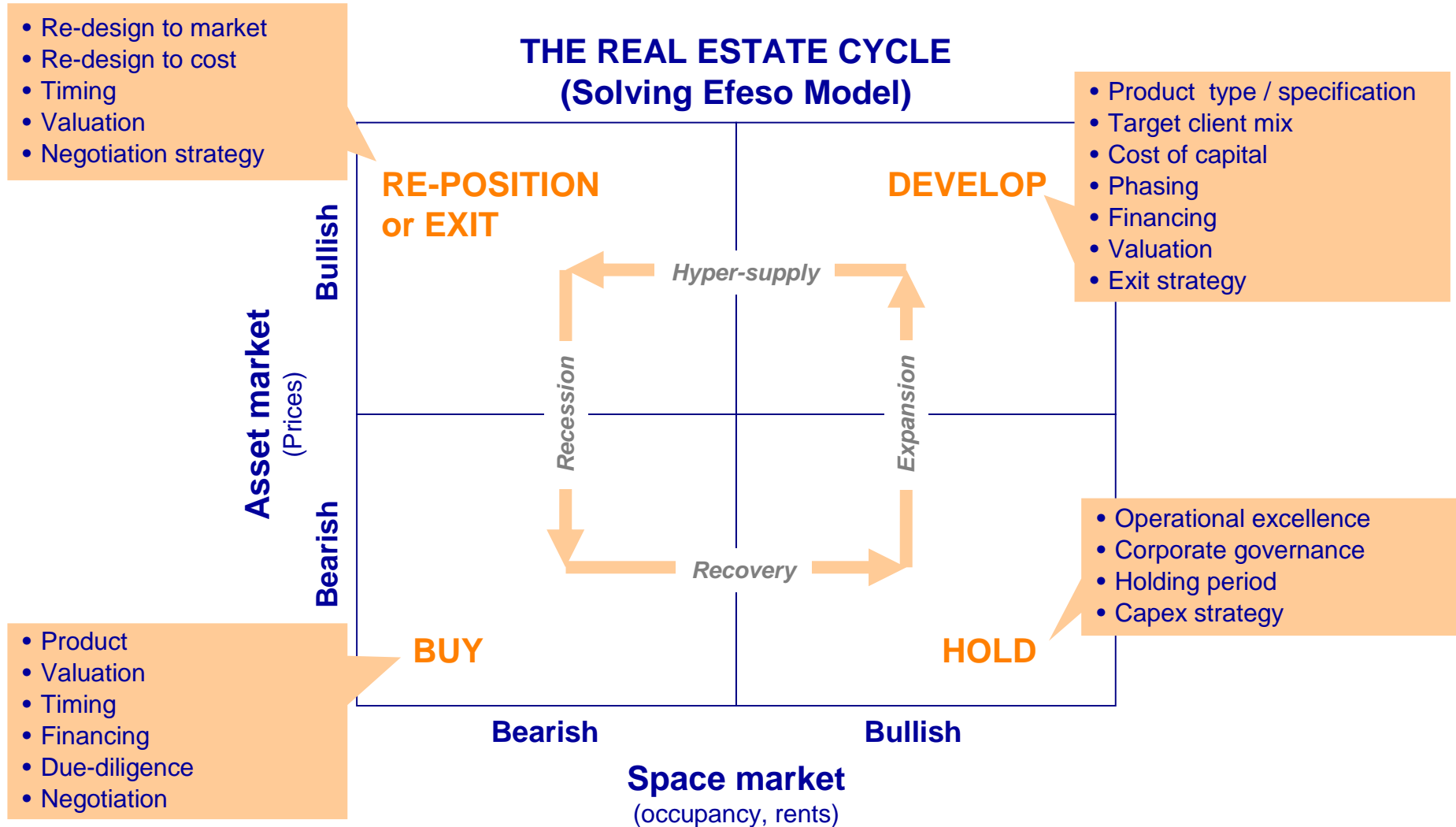
## THE REAL ESTATE CYCLE (Solving Efeso Model)



Source: Solving Efeso. Cannot be printed or re-used without the prior written authorization of the author.



# Do the right things ... ... at a certain point in time of the real estate cycle

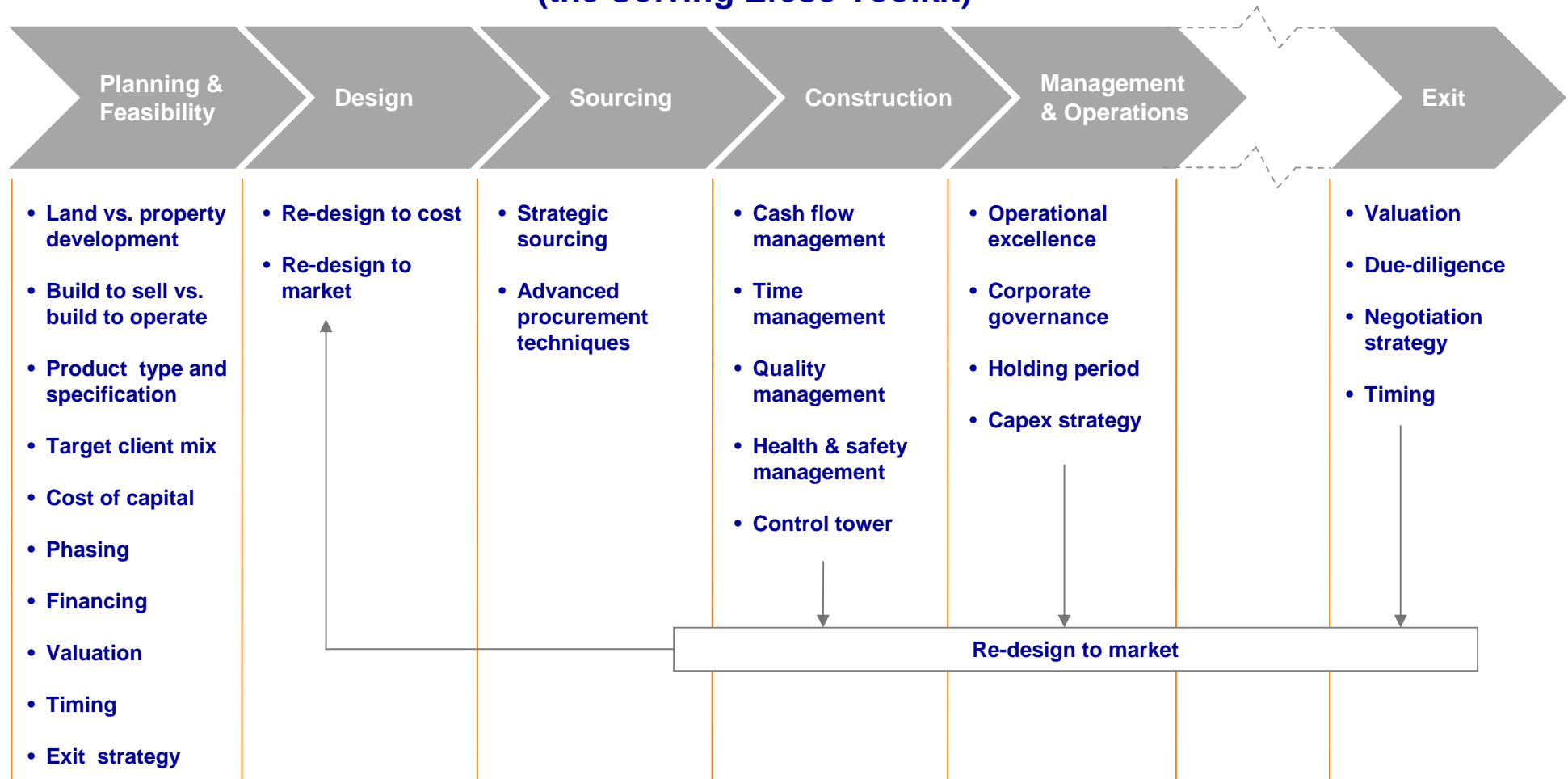


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# Do the things right ... ... at each stage of the development value chain

## Advanced levers of competitiveness for reaching excellence in property development (the Solving Efeso Toolkit)

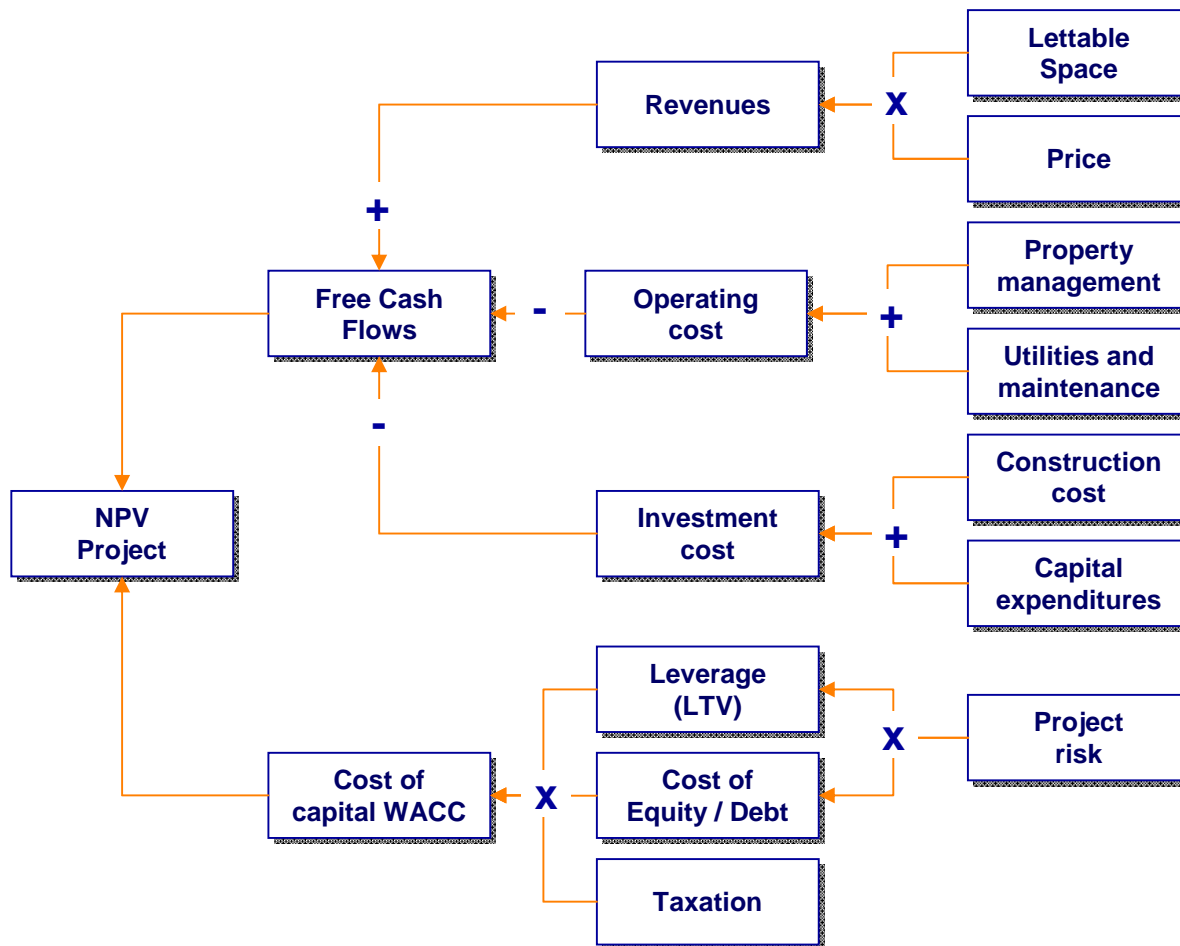


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# The simultaneous action on all improvement levers has an amplifying effect on the final value delivered to investors

## Value drivers in property development (the Solving Efeso Toolkit)



- Highest and best use of site leading to optimum [product x client ] mix
- Maximization of lettable area
- Space / Price elasticity
- Payment terms
  
- Integration in design stage of advanced technology to reduce total cost of ownership
- Integration in design stage of energy efficient and sustainable solutions
  
- Value engineering
- Strategic sourcing and advanced negotiation techniques
- Capital expenditure policy
- Market value of land
- Terminal value of the property
  
- Construction phasing
- Build-to-Suit option
- Pre-leasing, off-take agreement
- Variable discount rate: risk = F(time)
- Optimal capital structure
- Scenario planning / option analysis

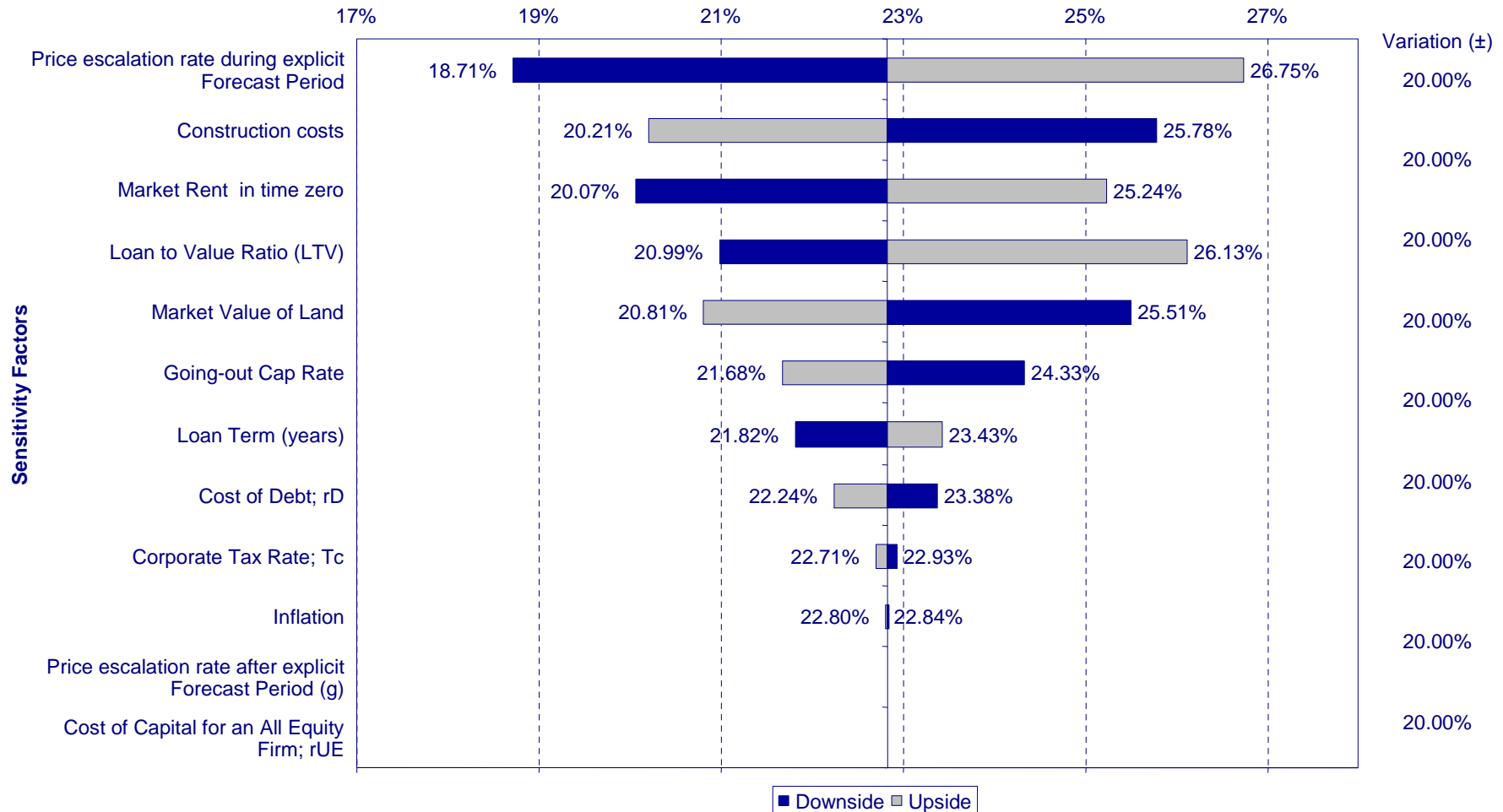
Source: Solving Efeso. Cannot be printed or re-used without the prior written authorization of the author.



# We tackle the most critical and sensitive project parameters

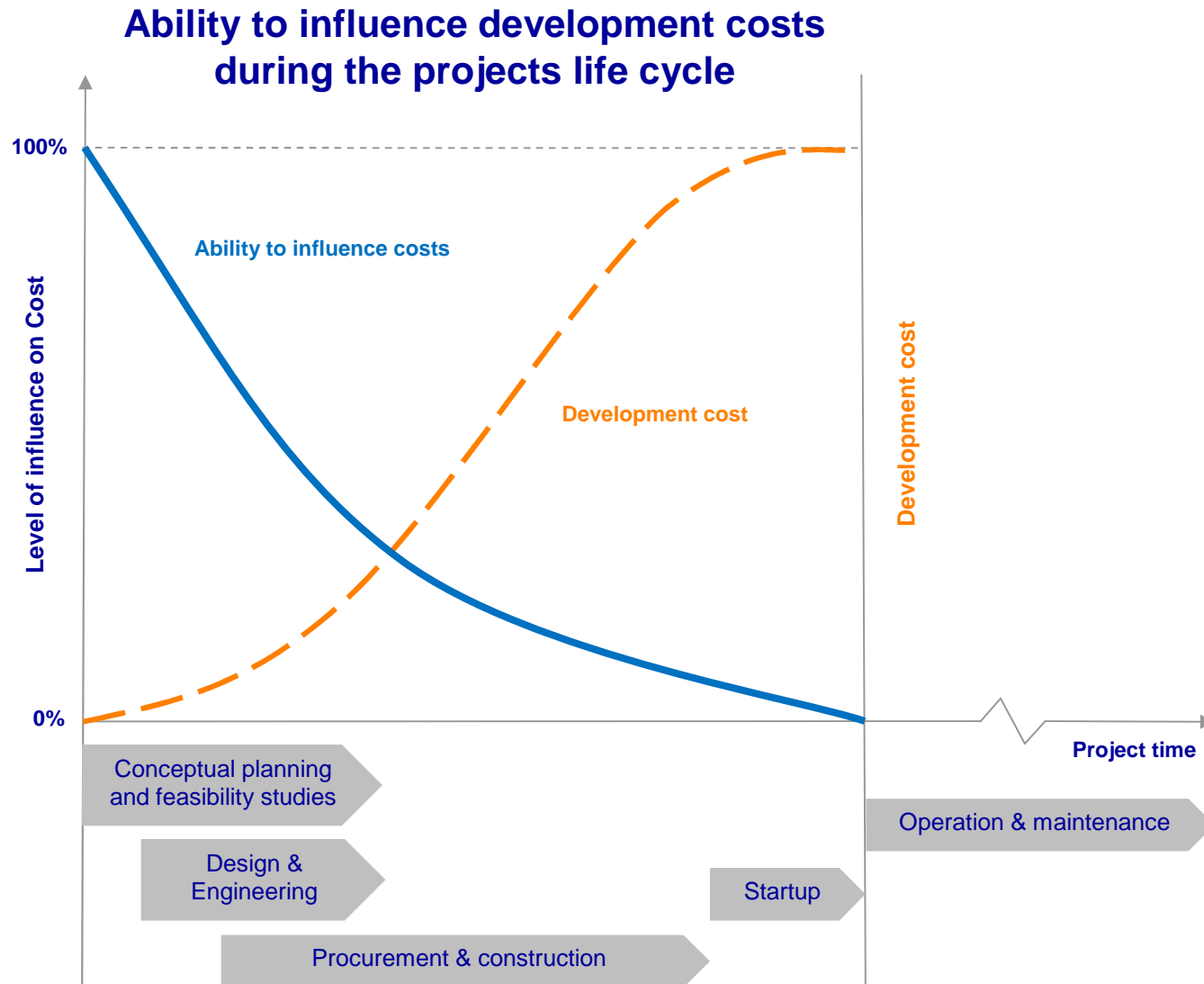
## Sensitivity of IRR of levered equity to critical project parameters (the Tornado Plot)

-ILLUSTRATIVE EXAMPLE -





# Right decision-making at early stages of the development is key to success





## Our core team of specialists are set to turnaround your projects

<b>Consultant</b>	<b>Position</b>	<b>Office</b>	<b>Scope of expertise</b>
■ Mr. Rabih Chehour	Vice-President	Abu Dhabi	Real estate development strategy
■ Mr. Hicham Bou Habib	Principal	Abu Dhabi	Real estate finance
■ Mr. Martijn Peters	Senior Manager	Netherlands	Valuation and due-diligence
■ Dr. Robert Edwards	Vice-President	Dubai	Economic and market research
■ Mr. Guy Wilkinson	Vice-President	Dubai	Hospitality services
■ Mr. Marc Bellini	Vice-President	Dubai	Value engineering
■ Mr. Philippe Agostini	Senior Manager	France	Procurement, Re-design to cost, Negotiation
■ Mr. Frank Van Goethem	Vice-President	Netherlands	Cash flow management
■ Mr. Virginio Peluzzi	Vice-President	Milano	Operational excellence



# ABOUT US

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# We are strategy consultants with a strong culture for cost savings and change management

## Who we are

Solving Efeso is a top management consultancy firm with a leading reputation for **connecting strategy with action**.

## Our mission

To support Client Organisations in releasing the **opportunities “locked” in their value chains** with substantial, tangible and lasting gains.

## Our key points

- We provide a unique combination of **multi-specialist skills** beyond those found in other management consultancies.
- The combination of our **strategic and operational teams** widens the scope of opportunities open for the client.
- We create the climate and evolve the capability of the organization to **accelerate and sustain the change**.
- **Proprietary and progressive tools**, and techniques proven & fine tuned.

## Strategy in Action

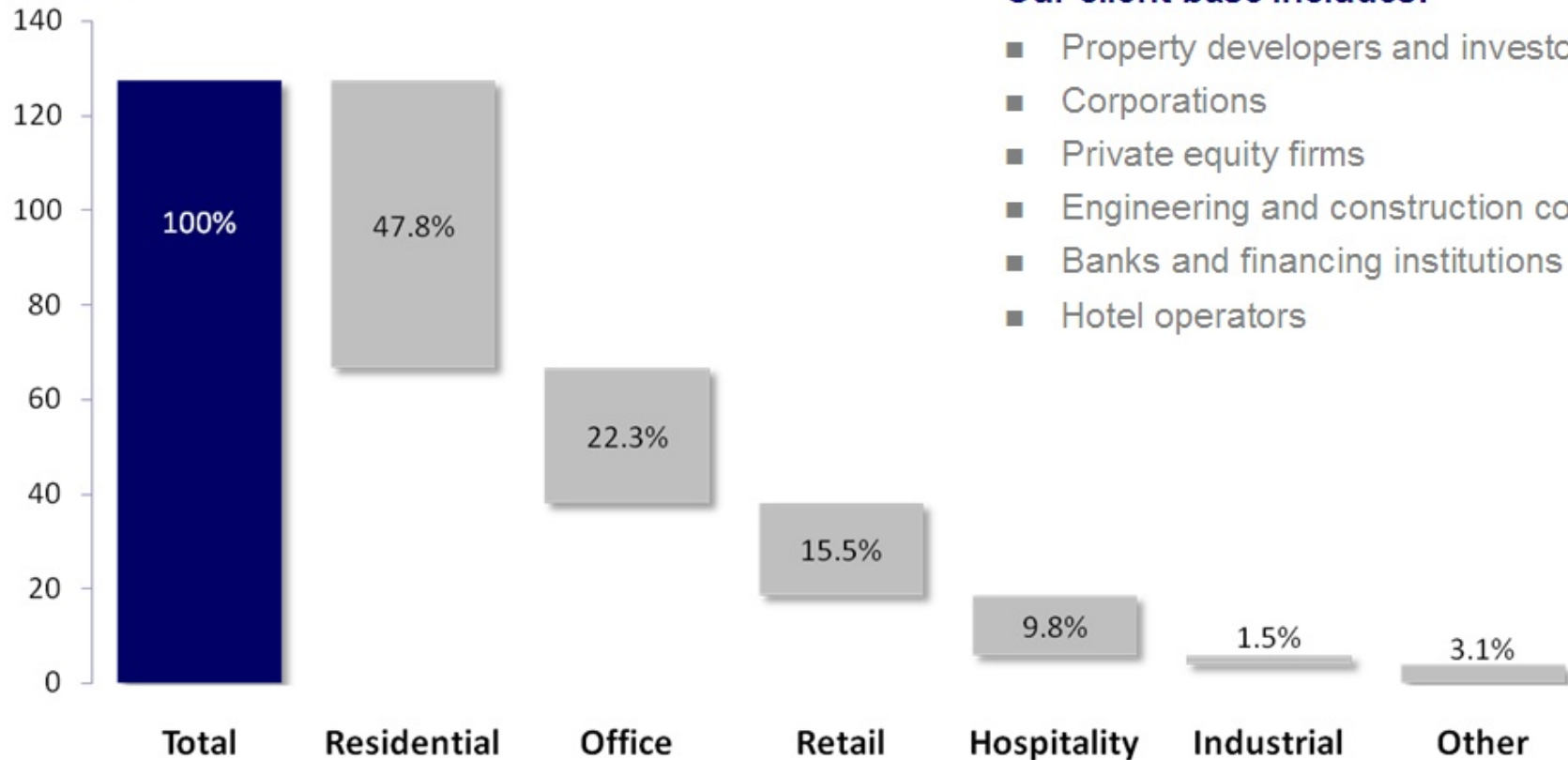




# A proven track record in real estate strategic advisory

Total investment value of Real Estate projects: \$127 billion

USD billions



## Our client base includes:

- Property developers and investors
- Corporations
- Private equity firms
- Engineering and construction companies
- Banks and financing institutions
- Hotel operators

\* Note: projects as of end of January 2009. Others category includes entertainment, facilities, marinas, F&B, etc.



# Contact

Mr. Rabih Chehouri

Solving Efeso Middle East & Africa

E-mail: [rabih.chehouri@solvingefeso.com](mailto:rabih.chehouri@solvingefeso.com)

Mr. Hicham Bou Habib

Solving Efeso Middle East & Africa

E-mail: [hicham.bou-habib@solvingefeso.com](mailto:hicham.bou-habib@solvingefeso.com)



## **Middle East & Africa office:**

Solving Efeso Middle East & Africa

CERT Technology Park

PO Box 109383 Abu Dhabi, UAE

Tel: +971 2 443 69 45

## **Main office:**

Solving Efeso Group

144, Avenue des Champs-Elysees

75008 Paris, FRANCE

Tel: +33 1 53 53 57 00

[www.solvingefeso.com](http://www.solvingefeso.com)