

# CHOOSING AND USING REAL ESTATE CONSULTANTS

by David F. Haddow

Real estate consultants provide a service for a fee. The value of their contribution has a measured cost. When cost exceeds value, however, buyers of these services become dissatisfied and question their decision to buy. If a consultant's report is voluminous but vague and merely sets the stage instead of providing answers, the client may feel cheated and wonder why he/she sought outside counsel in the first place.

This article shows one how to get the most from real estate consultants. Topics covered range from when to call a consultant to how to use and interpret the findings. A fundamental question raised at the outset is: How do consultants benefit their clients? Also addressed is the question: Why are clients often denied the full value of consulting services? A practical guide on managing the client/consultant relationship is offered.

## Valuing Consultant Services

The three benefits to be gained by hiring real estate consultants are a fresh perspective, objectivity, and professional expertise. In evaluating real estate, developers and lenders often contract acute tunnel vision. Once they set their sights on a location, building design, product choice, or any other critical aspect of a real estate project, they tend to block out contradicting evidence. The consultant's fresh perspective is invaluable because he/she is not yet "deal weary" and probably can offer insights which may be obvious to an outsider but well hidden at close range.

Objectivity is a virtue related to a fresh perspective. The consultant owes no favors and comes with no strings attached. It is the consultant's job to determine not only why a project will work but if it is feasible in the first

place. Who else can a developer turn to for objective advice? Surely not the real estate broker who hopes to handle the leasing, nor the mortgage broker whose loan origination fee hangs in the balance.

Professional expertise is often needed to aid the decision-making process. Qualified consultants have research and analytical skills that enable them to extract relevant market information and evaluate it in a meaningful way. Where others are left pondering the various outcomes, they are expected to explain cause/effect relationships.

## When To Call A Consultant

Consultants are often used merely as sounding boards after the real decision-making has been completed. They are called in to build a developer's case to a lender or a loan underwriter's presentation to an investment committee. In other words, consultants are often summoned after the fact and usually are called only because an independent opinion is required to satisfy potential investors.

Not surprisingly, a consultant in this position is cajoled and encouraged to accept the development plan as proposed and to "bless" the cash flow projections. Although the professional standards of the consultant require independent inquiry and evaluation, his/her position is rather compromised from the start, making it difficult to be objective in judging the merits of the project.

To most clients, consultants are a necessary evil. One reason for this attitude is that clients often fail to secure consulting services at a point where more than a rubber stamp is needed. The critical stages of project planning and conception are rightly the domain of the entrepreneur. In many cases, however, outside input is beneficial in resolving product and market decisions, particularly in the early stages.

Consulting services are not always needed. There are many situations in which the market provides clear signals as to what to build and when to build. For example,

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an owner of a vacant tract in an industrial area would have little need for outside counsel if approached by a company seeking a "build-to-suit" warehouse building, particularly if the company agreed to lease the building at a rate sufficient to provide an attractive return. The developer should know the costs and yield requirements.

One should call a consultant when market conditions or other factors raise the level of uncertainty to an unacceptable level. A good example is the proposed redevelopment of a garden apartment complex to a higher use. The property is purchased with the intention of building a high-rise office building or condominiums. The site location is good and well suited for either type of use, except that both the office and condominium markets suffer from excess supply. The apartment project is generating reasonable cash flow, but the land cost effectively prohibits prolonged operations.

In this case, there are no simple answers. At the very least, however, the property owner would benefit from a full accounting of market supply/demand conditions for offices and condominiums, and an independent assessment of the site location and price paid. This information should be available before the purchase transaction is closed, and preferably before the property is placed under contract.

### **Requirements Of A Good Consultant**

There are essentially four qualities to look for in a consultant: 1) broad background and experience; 2) investigative and analytical capabilities; 3) communication skills; and 4) a strong level of interest. It is obvious that the profession is not universally endowed with equal measures of these qualities. Deficiencies in consulting services result when the person handling the assignment is lacking in one or more of these qualifications.

The consultant's chief role is to digest the "big picture," not only by taking inventory of market factors and economic trends, but by drawing meaningful conclusions from these data and making intelligent forecasts. It is not an easy job. A consultant must be part economist, historian, planner, and social scientist, and most importantly have a good understanding of real estate.

A consultant acts in much the same way as an investigative reporter, identifying data sources and interviewing knowledgeable persons who can help clarify and supplement the initial findings. The consultant's market coverage must be thorough because misinformed sources can present many obstacles along the way. It is not uncommon to get five different opinions on the same subject from five sources who are equally well regarded and present their views with similar conviction. Consultants must sift through the conflicting accounts and, based on insights gleaned from other sources, draw their own opinions.

As suggested earlier, this is one of the chief benefits derived from outside consultants. They are in a unique position to fully sample information sources and objec-

tively evaluate the contents and relative merits of each source. To do the job properly, consultants must be willing and able to probe and analyze, and to go beyond the periphery by delving into the heart of the matter.

Communication is crucial to any business which sells information. If a wealth of insights is diminished when communicated, the information source has effectively lowered the value of its services. The inability to communicate both verbal and written ideas is a problem that all businesses must contend with. It is a death knell to consulting firms.

Concise report writing and effective presentations complete with a clear definition of the problem and a systematic treatment of the relevant issues should be the goal of every consultant. Many times consultants know more than they are able to convey in writing; consultants often surround the critical points in a report with so much fat, caused by poor organization and improper emphasis, that the client retains nothing of substance.

A more intangible quality which is necessary in the profile of the consultant is a strong level of interest. The nature of consulting work requires an inquisitive nature and a search/probe mentality. An economist who tracks trends in business activity but does not attempt to explain causal relationships is not a valuable economist. If consultants do not approach each assignment with an innate curiosity and a penchant for digging, they are liable to draw pat conclusions and mislead their clients.

### **Choosing A Consultant**

The selection process is summarized by the following steps:

- 1) Contact several reputable consulting firms by telephone and fully describe your situation and needs.
- 2) Request that the firm submit a written proposal and fee quote which fully describe the scope of services.
- 3) After reviewing the proposals, conduct interviews with the person or persons from each firm who will be chiefly responsible for the assignment and request their credentials in writing.
- 4) Check references on recent assignments of a similar nature.

A few points deserve additional emphasis. First of all, a consultant's ability to address a client's particular problem in a proposal letter and to outline a method for arriving at a solution is a good preliminary indication of his/her ability to perform. Secondly, it is always important to interview, preferably in person, the individual who will handle the assignment because even a big-name firm may have a few little league players, one of whom may wind up on your team. This also affords a good opportunity to gauge the consultant's level of interest and establish personal rapport. Thirdly, it never hurts to review the consultant's credentials and to confer with one or two previous clients to assess his/her background and competence.

This selection process is ideal but is rarely followed. Most assignments are obtained through referrals from satisfied customers and business associates. The prospective client expects a consistent level of performance. This approach is inherently risky. Although most firms usually can deliver good results on a consistent basis, a firm in actuality is no better than the person assigned to the individual consulting job. Another pitfall to avoid is to base the hiring of a consultant on cost alone. While financial considerations are obviously important, they should never be the controlling factor when choosing a consultant. There is simply too much at stake.

### **Managing The Client/Consultant Relationship**

Any inquiry begins with a definition of the problem. If a consultant fails to adequately identify and resolve the pertinent issues, he/she has not served the client well even though the work produced may be excellent. A client needs to clearly state the problem at the outset and ensure that his/her counsel is on common footing. For example, if an apartment developer were interested in knowing current demographic and employment trends in the market area and how these impact the apartment market, he/she would hardly benefit from a standard survey of market rental and occupancy rates. Therefore, it is in the best interests of the client to define the objectives of the assignment and the desired output. Occasional contact during the early stages of the assignment also helps ensure the proper focus.

When the assignment is completed, the client should review not only the conclusions but the logic employed in arriving at those conclusions. If a narrative report is not involved, a conference should be held to discuss the findings and underlying assumptions. It is obvious that a set of recommendations is only as good as the analysis that produced them. A sound guideline is to make the consultant convince the client of his/her findings. Sometimes even the views of consultants may change as they reason verbally instead of in writing.

It is most important for a client to use outside counsel as a resource. It is not uncommon for the client/consultant relationship to become combative, especially when the consultant does not share the client's views. One should not go outside of the organization to find another "yes" man. As suggested earlier, consultants have essentially three assets to offer: objectivity, professional expertise, and a fresh perspective. To compromise in any one of these areas cheapens the whole relationship. Therefore, the client should avoid guiding the consultant to his/her point of view. In addition, it is far more helpful to have a consultant explore unknown areas than to dwell on widely known factors.

Finally, a consultant's report is not inscribed on a tablet but represents the views of another mere mortal and should be weighed accordingly. Although the consultant should not be hired if he/she is not professionally competent, good credentials do not entitle carte blanche in rendering opinions. It sounds almost self-defeating to question the validity of purchased information. However,

consulting services are not unlike consumer goods which may be defective; the main difference is that consulting services do not come with a money back guarantee. Therefore, a consultant's findings should carry the weight of that person's opinion. It is assumed that the work product is well reasoned, thorough, imaginative, and insightful; but it may not always hold the right answer.

### **Summary**

The real estate consulting profession is still in its infancy. The increasing complexity of real estate transactions and financing, the expanded realm of participants, and the sheer size of projects and markets create a need for sophisticated and informed advice to developers, brokers, equity investors, syndicators and other players in the real estate game. Consultants can provide a valuable service.

The client must take certain measures to receive the full value of the services offered by real estate consultants. First of all, clients must recognize when outside counsel is needed and act early enough to reap its full benefits. Consultants should aid in making decisions instead of simply reviewing them.

Secondly, there are definite criteria for evaluating prospective consultants, which help guide the selection process. Choosing a consultant is often passed over lightly. This is a major cause of unsatisfactory results.

Finally, the client must take an active role in managing the client/consultant relationship. The client must clearly define the problem at the outset and require a full explanation of and justification for the recommended solution upon completion of the assignment. In this way, the buyers of these services can realize fully the promise of real estate consulting.

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