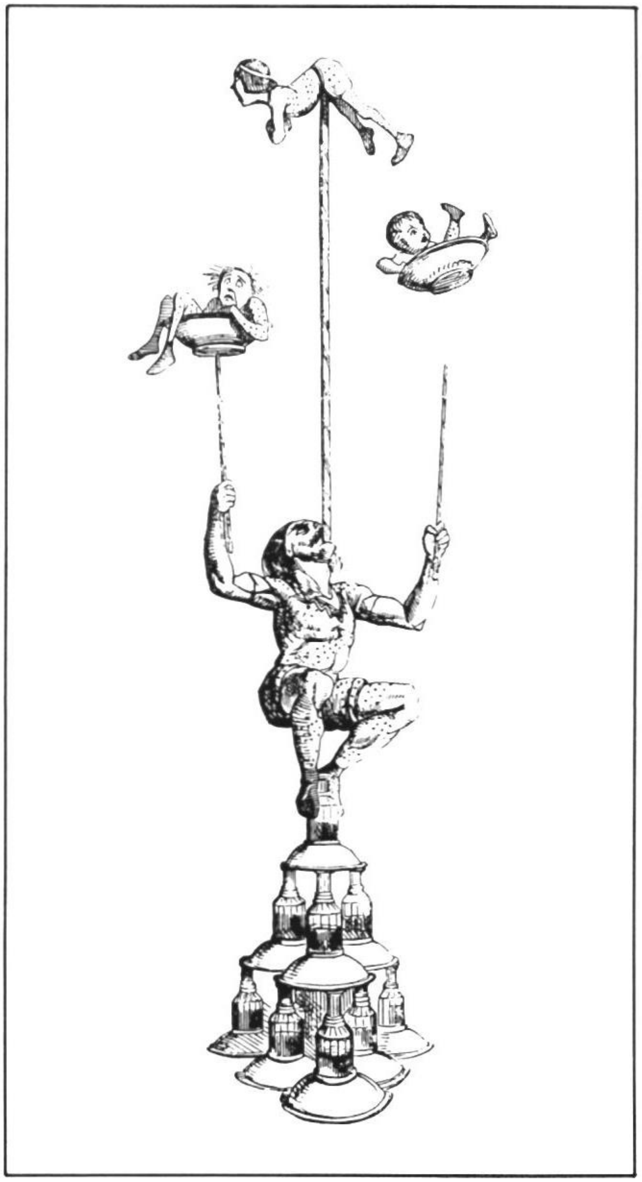
THE PERILS OF REAL ESTATE COUNSELING

by David Forbes Haddow

Real estate counseling is a dangerous profession because many problems await even the most successful practitioner. To offer well-reasoned advice consistently in the face of mounting business pressures is a constant challenge. The purpose of this article is to identify potential problem areas and suggest some remedies.



Snap Judgments

Real estate consultants attempt to remain objective with each client, but it is only natural to apply previous findings when solving new problems. There is no substitite for experience in understanding real estate, but this can become a trap for consultants either too casual or spontaneous in their judgment.

For instance, a consultant may be called upon to determine why a condominium project has not sold. The natural tendency is to conclude that the units are overpriced. While this may prove correct, it is a hypothesis that should be confirmed not only by analyzing competitive pricing, but also by evaluating product features, locational attributes, marketing techniques and the market served. Lowering prices may do nothing to accelerate sales if the units are too small or the architecture too contemporary.

The best protection against hasty judgments is to establish a personal system of checks and balances. When appropriate, an internal alarm should signal the need for additional documentation. For example, information obtained from persons lacking full knowledge of a particular situation should be confirmed by more informed sources. This sort of discipline becomes even more

David Forbes Haddow *is a divisional vice president in the Atlanta office of Landauer Associates, Inc. A former mortgage banker and city planner, he holds a master's degree in city planning from Georgia Institute of Technology and a master's degree in business administration from Georgia State University. He has previously contributed articles to* Real Estate Issues, The Appraisal Journal, *and* Real Estate Review.

important as success produces increased confidence. Basically, one must learn to pause and reflect, making sure the conclusions are well founded and supportable.

Miss The Flavor

Consultants are frequently called upon to evaluate properties and markets seen for the first time. This is a difficult task regardless of previous experience or level of competence. Each market has peculiar features that are easily lost to an outsider.

For example, to assess the marketability of a project in a small town, one must become totally immersed in the ways of that town. Secondary information sources will not provide the necessary insight. A consultant who relies simply on published data, surveys conducted by the local chamber of commerce and a windshield view of the market remains ignorant of the real factors that will influence the project's success or failure. Yet many consultants adopt a set approach to evaluating projects that often overlooks the most relevant issues.

The only way to learn about a community is through its people. Consultants should make every effort to meet with political leaders, government officials, real estate brokers, developers, business leaders and other influential citizens. These meetings are supplemented by information gleaned from published sources, which actually should be reviewed in advance. Questions asked should pertain to the city's history, economic base, social composition, investment climate, community perceptions and future outlook. A broad cross section of the community should be sampled because one bad source could prove misleading.

Too Little Analysis

A common flaw of market and feasibility studies is an abundance of data accompanied by too little analysis. The consultant does exhaustive fieldwork and writes a voluminous report but spends inadequate time analyzing the critical issues. A thorough researcher can easily fall prey to this shortcoming without even knowing.

Consultants have limited time to interpret enormous amounts of information, and actually devote much of their efforts to identifying sources and collecting data. Once satisfied that sufficient information is available, the material is organized to conform to a report format. Unfortunately, adequate time is often not available to sit back and fully contemplate the meaning of what has been learned.

The most familiar cause of this dilemma is the acceptance of an assignment with too short a time frame for adequate completion. The most conscientious researchers are also frequent victims because they are so intent on covering every base. Some consultants simply lack the necessary analytical skills or are reluctant to offer too many opinions. The important thing to remember is that anybody can collect information, but consultants are paid to extract the correct interpretation.

The obvious cure is to budget one's time more efficiently, but this is easier said than done. One way to overcome the big rush when writing the report is to complete sections of the report as the research is being conducted. For instance, the overview section can be drafted fairly early and modified later as more information becomes available. Sections of the report pertaining to the property, development plan and area of data can also be completed expeditiously. In this way, one can focus complete attention on competitive market factors and related issues at the culmination of the research effort when the mind is full of information and the tools of analysis are not yet frayed. Another alternative is to write the conclusions or recommendations prior to writing the body of the report.

Charmed By Client

The fourth peril is also faced by lenders, equity investors, prospective tenants and others exposed to the contagious enthusiasm of developers. Real estate consultants are employed by developers to evaluate projects often because a lender has required an independent opinion. The developer is obviously an advocate and strong supporter of the project. The problem faced by the consultant is the danger of being influenced by that conviction and thus less objective and critical in evaluating the project's downside risk.

The classic example is the developer who enters a new market with plans to build the same product that had been well accepted in another location. The consultant would have a natural propensity to believe in the project because of the developer's past success. If the developer touts the virtues of this new project with equal conviction, a consultant's judgment might be influenced. The obvious problem is that a successful project in one market may be totally inappropriate for another, and it is the consultant's job to test for market fit.

When evaluating a proposed development, it is possible to find supporting evidence for even the most ill-advised project. If one has a longtime relationship with a client, there might be a greater tendency to accentuate the good and minimize the bad. This hardly serves the developer in the long run.

The developer client is an advocate who is blessed with almost eternal optimism. His job is to conceive projects and sell them to lenders, investors and consumers. A consultant's job is to evaluate the match between project and market. Once charmed by a developer's vision, consultants lose objectivity or are less able to provide a critical analysis. Consultants should be devil's advocates and focus their attention on factors that could undermine a project's success. In other words, their function is to identify reasons why the project might fail and determine whether these are strong enough to justify modifications or project abandonment. The client is much better served by this approach.

Business Before Professionalism

Success introduces the greatest danger, that of placing new business development ahead of quality work. This problem manifests itself in many ways. First, assignments are accepted even though there is inadequate time to properly complete the task. Second, consultants accept an assignment for which they are not qualified because the fee is attractive. Third, unqualified personnel do all of the research in order to enhance the consultant's production capabilities. Fourth, the work load becomes so heavy that the consultant's energies and talents are spread too thin.

These problems are not unique to the real estate counseling profession, yet they can lead to disastrous consequences. For example, suppose a developer is required by a lender to get a short opinion letter from an independent real estate consultant prior to closing a construction loan. The closing is scheduled for Friday and the request comes on Tuesday. The developer explains to the consultant that all he needs is a one-page letter. Since he is a longstanding client and a cherished account, the consultant accepts the assignment and writes a favorable opinion based on one day's research. If the project is built and winds up a dismal failure, the consultant's reputation is tarnished and many people suffer. Why do consultants prostitute themselves in this way? Any service profession compensated on a fee basis faces this risk. To retain clients, one is often called upon to produce on short notice; however, neither party is well served by reaching beyond the bounds of professionalism.

There is no simple solution. The best approach is to establish consistent quality standards and operating rules. For instance: a junior associate should be given proper guidance and not be called upon to perform tasks for which he is unprepared; an internal review process can help ensure consistent quality throughout the organization; compensation should not be based solely on fee production, but also should reward work quality and timely performance. While emphasizing the importance of production, office managers should inspire a sense of professionalism, and constantly remind associates that reputation is a consultant's best asset.

In summary, the perils described in this article can be avoided by maintaining professional standards and active interest. Loss of reputation is a real threat, but the chief motivation should be the prospect of continued self-improvement. After all, real estate consultants are given a great deal of responsibility and should do what is necessary to accept that position of trust.