STRATEGIES ADOPTED BY A PROPERTY DEVELOPMENT FIRM TO SURVIVE IN AN ECONOMIC DOWNTURN

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ABSTRACT

This research paper addresses the question, “What strategies can a property development firm adopt to survive in an economic downturn?” The methodology used to answer the question was firstly researching the New Zealand economy over the economic downturn and more specifically the Auckland property market, and then interviewing a property development company to form a case study on the strategies they had in place and new strategies adopted to survive the recession.

This research topic is being looked at due to the large number of property development companies that went under in the recent economic downturn, so here we have identified strategies adopted by a company that managed effectively throughout the recession.

The literature and research found that companies strategies entering into a recession are as important as the strategies used to survive. The company researched entered the recession with clear strategies, management lines and risk management techniques in place so was positioned well when the recession occurred.

The key findings of this research paper identified the following strategies used to survive the economic downturn were:

- Reduction of operation costs
- Keeping funding lines in place
- Reducing debt exposure
- Setting clear strategic goals
- Shorter time frame developments
- Specialising in preferred market
- Growing other parts of the business to increase cash flow
- Keeping risk strategies in place
  - Tenant risk – pre-commitment required
  - Construction costs – fixed lump sum price
  - End value – good market understanding
CONFIDENTIALITY STATEMENT

The author has agreed that all personal and company names of participants in this research will be kept confidential.

In order to maintain confidentiality care was taken to ensure:

- The property development company has been referred to by the label, the company
- Participants are referred to by the labels, Interviewee 1 and Interviewee 2
- Some details of the projects have not been reported so that the company or people cannot be identified, the two projects have been referred to as Project 1 and Project 2
ACKNOWLEDGEMENTS

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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HR</td>
<td>Human Resources</td>
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<td>IPD</td>
<td>Investment Property Databank Limited</td>
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<td>NBER</td>
<td>National Bureau of Economic Research</td>
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<td>PD</td>
<td>Property Development</td>
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<td>PR</td>
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<td>RIBA</td>
<td>Royal Institute of British Architects</td>
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INTRODUCTION

As a requirement of the Bachelor of Construction Course at Unitec, we are required to take a paper that spans a year’s study in order to produce an in-depth industry project. The project must be of relevance to the construction industry and involves three main sections consisting of a literature review, research and analysis, together with a section comparing results and concluding on findings. This introduction explains what I will be doing my research on, why I chose this topic and the methods of doing.

1.1 Title

Strategies adopted by a Property Development Firm to survive in an economic downturn.

1.2 Research Question

What strategies can a property development firm adopt to survive in an economic downturn?
- What were the strategies before the downturn?
- What were the strategies after the downturn?

1.3 Description and Rationale

In early 2008 the New Zealand Economy entered a recession, the effects of the global recession set in later in the year. As the global financial crisis set in New Zealand’s economy was affected significantly. Economic activity contracted as the level of uncertainty increased in the economy, as business and consumer confidence was lost due to the uncertain environment. This can put significant strain on businesses and they must have clear strategies in place in order for them to survive and come out of the recession better for it.
Currently the economic climate in New Zealand is starting to be looking up, although there is still a lot of uncertainty. There has been economic growth and businesses will still need to be vigilant to ensure they are heading down the right track. The uncertainties for New Zealand’s outlook arise due to the global economic outlook. It has a major impact on the New Zealand economy especially in terms of global financial markets and commodity prices.

The aim of this research is to find out what are the stances taken by companies during an economic downturn and what strategies they used to last it out. Focusing on the positive strategies to try and find out what is the best position a company can take to survive and possibly benefit from the recession. This will vary for different businesses within the economy so I am focusing specifically on the property development industry and what are the best strategies for them to survive a global financial crisis.

The property industry was of particular interest as I am aware of its cyclical manner and how when things are booming, they can be really booming. So I decided I would like to look at the opposite side of the spectrum and look at how property developers managed when it wasn’t the best of times. Looking at in particular, methods used to survive these tough times and lessons they had learnt from previous tough times that could again be applied to help them make it through the current global financial crisis.

I chose this topic through firstly interest and furthermore to increase my knowledge on the subject matter, by getting a better understanding of the economic side of things and the ways businesses can prepare and handle themselves most appropriately in difficult economic and financial times. I feel this research question is very relevant to the current economy and industry as a whole.
2 LITERATURE REVIEW

2.1 Introduction

To understand the strategies property developers used in order to survive the recession we must first look at the background as to why and how economic downturns occur to fully understand strategies the companies’ imposed.

This literature review therefore examines relevant literature to get a clear understanding of recessions, property development, risks to property developers and lastly strategies used to survive the recession. The literature has been generally obtained from books, recent journal articles and a few other sources.

The review focuses on strategies, methods and processes put in place by the different authors and the way they believe processes should be done. These have been combined in the literature review so they can be analysed to see if there are commonalities amongst the literature or if views are opposing and why this may be occurring. Analysing them together helps us to understand the best methods as described by the wide range of sources.

The research has been separated up into the four main sections of: economic downturn, property development, risks, and how does risk affect property development. The earlier sections set the scene behind what is occurring and why, whereas the later sections go deeper into how property development firms deal with recessions and risks to survive through the rough times. Identifying lessons learnt from previous recessions and ways property developers can advance during financially unstable times.
2.2 Economic Downturn

2.2.1 What is an Economic Downturn/Recession?

A recession as described by Gupta (2009) “is a general slowdown in economic activity in a country over a sustained period of time, or a business cycle contraction” (p. 1). Iqbal (2010) identifies the NBER definition which agrees with Gupta, describing “a recession as a significant decline in economic activity spread across the economy; lasting more than a few months; and normally visible in production, employment, real income and other indicators” (p. 22). An economic recession can be confirmed when there are two or more consecutive quarters of negative GDP growth.

All definitions found in the literature identified recessions arising due to a slowdown or decline in economic activity. “Production as measured by GDP, employment, investment spending, capacity utilization, household incomes and business profits all fall during recessions” (Gupta, 2009, p. 1) causing a slowdown in economic activity.

Gupta (2009) recognises that the slowdown in economic activity takes place “when consumers lose confidence in the growth of the economy and spend less. This decreases the demand for goods and services, which in turn leads to a decrease in production, layoffs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment.” (p. 108)

2.2.2 Causes of an Economic Recession

Recessions arise due to changes of money supply in the economy. When inflation increases goods and services cost more, thus the higher the level of inflation the smaller the percentage of goods and services that can be bought with an amount of money. Inflation occurs due to: increased costs of production, higher costs of energy and/or national debt. When inflation occurs, the majority of people cut out leisure spending, they budget more, they spend less on items they would usually indulge in, and start saving money. People and businesses cut costs and stop unnecessary expenditures causing the GDP gap to decline. Triggering
unemployment to rise as companies lay off staff, due to the decrease in consumer spending. This pushes the economy into a state of recession. (United states economy & global economy recession, 2010)

Gupta (2009) explains how business cycles are a type of fluctuation found in the aggregate economic activity of nations that organise their work mainly in business enterprises. His business cycle varies in duration from one year to twelve years in length and consists of 4 stages:

i) Expansions (occurring at about the same time in many economic activities)
ii) Followed by similarly general recessions
iii) Contractions (shrinking/reducing economy)
iv) Revivals which merge into the expansion phase of the next cycle (p. 4)

This cycle is very generic and is similar to business cycle patterns identified by Rhoads and Gupta (2010) and Iqbal and Vitner (2010) who have similar cycles of expansion, followed by recessions, contraction and a revival which in turn merges into an expansion. (p. 559)

Gupta (2009) looks at Schumpeter’s economic business cycle known as the “Juglar cycle” which has four stages:
(i) “Expansion (increase in production and prices, low interests rates)
(ii) Crisis (stock exchanges crash and multiple bankruptcies of firms occur)
(iii) Recession (drops in prices and in output, high interests rates)
(iv) Recovery (stocks recover because of the fall in prices and incomes).” (p. 4)

This cycle is very similar to Gupta’s cycle. “In this model, recovery and prosperity are associated with increases in productivity, consumer confidence, aggregate demand, and prices.” (Gupta, 2009, pg. 4)
A recession is the period between a peak and a trough, and an expansion is the period between a trough and a peak as shown in figure 1. The NBER (2010) agrees with Gupta (2009) in that “during a recession a significant decline in economic activity spreads across the economy and can last from a few months to more than a year. Similarly, during an expansion, economic activity rises substantially, and usually lasts for several years.” (NBER, 2010)

When the business cycle is in the expansion period Gupta (2009) discusses how “interest rates are low and companies easily borrow money from banks to invest.” (p. 7) When the economy is booming “banks are not reluctant to grant them loans, because expanding economic activity allows business increasing cash flows and therefore they will be able to easily pay back the loans.” (p. 7) However this process leads to firms becoming excessively indebted, so that they stop investing, and the economy goes into recession. Iqbal and Vitner (2010) agrees with the above and adds more to it stating that a recession occurs due to a “build-up of imbalances during the expansion period, which cause resources to be misallocated, and then triggered by some sort of shock that causes risk tolerances to be suddenly and substantially reduced.” (p. 25)
2.2.3  Effects of an Economic Recession

As identified by Gupta (2009) “a recession has many attributes that can occur simultaneously and can include declines in coincident measures of activity such as employment, investment, and corporate profits.” (p. 2). This makes it hard for companies to continuing operating in the same way so strategies must be developed for how to manage the recession.

Altman (2009) view is that recessions are worsened by people who are “sitting on their hands in the expectation that things will get cheaper” (p. 79), consequently stalling economic activity. There are a lot of risk adverse people who are sitting on their money and holding in until times get better.

Rhoads and Gupta (2010) identified “how firms can be effectively managed through recessions remains one of the most important but overlooked areas in strategic management.” This is due to the complexity of the issue as it “sits at the intersection of several domains of knowledge, including economics, finance, strategic management, and leadership.”(p. 559)

“Despite the profound challenges recessions present to firms, very little research to date has examined what factors enable firms to weather economic recession. They found having excess capital allowed a company to increase strategic activities during recession. This enabled managers to smooth over short term disturbances in the environment and speed recovery to secure a post recessionary head start.” (Rhoads & Gupta, 2010, p. 561)

Gupta (2009), Rhoads and Gupta (2010) and Iqbal and Vitner (2010) all agree that in response to the recession companies “should react quickly in order to hoard cash and capital on the onset of the economic downturn” (Rhoads & Gupta, 2010, p. 561). Companies that came out of the recession as leaders had more cash and an average net debt-to-equity ratio.

Rhoads and Gupta (2010) go into more detail to describe that companies were successful by:
- Conserving cash by reducing dividend pay-outs at first sign of recession.
- Focus on internal growth during normal economic times and only grew externally at the end of the recession.
- Buying up inexpensive companies that didn’t make it.
- Focused on reducing operating costs without damaging the long-term health of their businesses. (p. 561)

Less successful companies maintained stable dividend pay-outs and “spent too much on mergers and acquisitions early on, which often caused the demise of the companies trying to expand during the recessions.” (Rhoads & Gupta, 2010, p. 561)

2.3 Property Development

2.3.1 What is Property Development?

Property development “is a change of land use and/or a new or altered building in a process which combines land, labour, materials and finance.” (Cadman & Topping, 1995, p. 2) Property development’s “purpose is usually clear: to make a direct financial profit from the process of development”—“developers either operate primarily as traders or investors” (Cadman & Topping, 1995, p. 12). Byrne (1996) describes the process very similarly as the process by which development agencies “seek to secure their social and economic objectives by the improvement of land and the construction or refurbishment of buildings for occupation by themselves or others.” (p. 3)

Harvard (2008) best described the different forms of property development. These are not absolutes; they are often combined and altered. Below are the types identified by Harvard:
- New build: development on a previous undeveloped site
- New build – Brownfield: development on a previous used site
- Redevelopment – demolition: clearance and new build of a functional and similar building.
- Refurbishment: retention of existing structure which is renewed or rebuilt
- Conversion/ change of use: existing structure substantially retained but for different use. (p. 2)

Peca (2009) defines the property development concept in seven simple steps: “a developer finds a site, comes up with an idea, pulls together a team, signs contracts, builds the building, leases it, and sells it” (p. 11). Boon (2010) identified that RIBA has a similar plan of work – involving “five main work stages, preparation, design, preconstruction, construction and use.” (p. 2)

The diagram below created by Peca (2009) shows what factors are involved in property development to come up with “The Plan” (p. 13)

**Figure 2 The Development Process (Peca, 2009, p. 13)**

In the literature there is commonly believed to be 3 main types of property developers:

1. Residential developers – developers who deal with property that is intended for residential use.
2. Commercial developer traders – developers whose idea of development is short term, they aim to produce a property, sell it on in order to release the profit. Dealing mainly with commercial/industrial buildings.
3. Commercial developer investors – same type as per above, but instead of aiming to sell they hold on to the property and lease it out generating a continual income from the property.

Harvard defines a commercial developer’s idea of development is usually short term; “they are interested in producing a property, selling it on and releasing the profit.” (Harvard, 2008, p. 3)

2.3.2 Property Development Process

A number of authors, including Byrne (1996), Cadman and Topping (1995) and Syms (2002) have looked at the property development process. Byrne (1996) defines the property development process as “the process by which development agencies, together or on their own, seek to secure their social and economic objectives by the improvement of land and the construction or refurbishment of buildings for occupation by themselves or others.” (p. 3)

Cadman and Topping describe the property development process in the following main stages:

1. “Initiation
2. Evaluation
3. Acquisition
4. Design and costing
5. Permissions
6. Commitment
7. Implementation
8. Let/manage/dispose” (p. 2)

They emphasised that these stages often overlap or repeat, they do not always need to follow the sequence. They also identified that this process applies to speculative development situations, where a developer may not find a tenant until the development is near complete or completed. In other situations where developments are pre-let/pre-sold the last stage of let/manage/dispose would occur much earlier in the development stage.

Syms (2002) looks at the property development in a more detailed approach with an eleven phase process broken down under three sub headings:
• **Planning and development**
  1. Project Inception – Involves “the initial idea, site identification, preliminary design, tentative demand studies, initial costs and development appraisals, etc.” (Syms, 2002, p. 6)

• **Land**
  2. Site acquisition and site assembly – This involves the purchasing of a single site and requires careful negotiation options and contracts.
  3. Site assessment – Involves an investigation of the site to check if the ground is contaminated or if any restrictions are placed on it that will restrict development e.g. historic uses.
  4. Risk analysis – Analysing any risks that could arise from the site assessment. Risk is a fundamental part of the development process so should be continued throughout every stage.

• **Development**
  5. Detailed design – Reworking initial ideas to take into account for new factors that have come about from the research taken to this stage.
  6. Feasibility study – A full feasibility study should now be produced to take into account any financial implications that have arisen from the earlier stages.
  7. Planning and regulatory approval – A full planning application can now be submitted in order to gain approval for the proposed works. Contact with the planning department should have been initiated much earlier to reduce risks or it being rejected.
  8. Land and development finance – Most developers cannot fund projects from their own resources so need to look at getting finance from banks or other financial institutions.
  9. Tendering – Involves the selection of the contractor to construct the building, the development team must be involved with sorting out the most appropriate contract.
  11. Sale and marketing – this is usually started earlier in order to help fund the development, it involves selling and/or letting out the building.

6. Occupancy and investment phase” (p. 15-16). This is a simple yet clear cut definition which is essentially the same as the others.


2.4 Risk

2.4.1 What are Risks?

“No construction project is risk free. Risk can be managed, minimized, shared, transferred or accepted. It cannot be ignored.” (Latham, 1994, p. 49) The literature makes it apparent that risk is a very important factor in any construction activity and should not be overlooked. The property and construction industry is exposed to risk and uncertainty. Harvard (2008) discusses how “the concept of risk is not uniform” (p. 296), high probability of occurrence risks have a low level of consequences whereas those risks with a low occurrence have severe consequences. Flanagan and Norman (2000) agree with this stating that risk essentially stems from uncertainty, which in turn is caused by lack of information. (p. 1)

Flanagan and Norman (2000) recognised what they see as the two most important questions; “whether the returns on the project justify the risks and the extent of the loss if everything goes wrong.” (p. 3)

2.4.2 Risk Management

Risk management is best described by Flanagan and Norman (2000) as “a system which aims to identify and quantify all risks to which the business or project is exposed so that a conscious decision can be taken as to how to manage the risks.” (p. 45). “Once a risk is
identified and defined, it ceases to be a risk, it becomes a management problem.” (Flanagan and Norman, 2000, p. 5)

However as pointed out by Harvard (2008), you can never fully eliminate risk so you must be sensible with it. “Risk should be identified, quantified and then either avoided, mitigated or accepted. This should be a standard process throughout the development.” (p. 296)

Flanagan and Norman (2000) have come up with five steps for a risk management system:

1. “Risk identification – identifying the source and type of risk
2. Risk classification – consider the type of risk and its effect on the person or organisation
3. Risk analysis – evaluate the consequences associated with the type of risk, or combination of risks, by using analytical techniques. Assess the impact of risk by using various risk measurement techniques.
4. Risk attitude – any decision about risk will be affected by the attitude of the person or organisation making the decision.
5. Risk response – consider how the risk should be managed by either transferring it to another party or retaining it.” (p. 46)

Harvard (2008) does not have a set process but goes by the same principles: putting a large importance on identifying risks as the most important stage in order “to minimise the risk of the development costing more than it’s worth.” (p. 296)

Flanagan and Norman (2000) go on to introduce us to four main methods of tackling risk:

1. “The umbrella approach: where you must allow for every possible eventuality by adding a large risk premium to the price.
2. The ostrich approach: where you bury your head in the sand and assume everything will be alright.
3. The intuitive approach: that says doesn’t trust all the fancy analysis, trust your intuition and gut feel.
4. The brute force approach: that focuses on the uncontrollable risk and says we can force things to be controlled, which of course they cannot.” (p. 4)
Property developers have the potential to make great returns on a development as noted by Harvard (2008) “development is also subject to upside risk” (p. 305), which means the risk factors could move in favour of the developer to bring great returns. Peca (2009) recognises that depending on the type of developer the risks will be different.

Development process follows a standard path from the beginning to the end. “A developer faces many tangential issues that need to be addressed, but a developer must have this set path in mind throughout the development process to be successful.” (Peca, 2009, p. xi)

Five types of risk:
1. Credit risk: the risk that the homeowner or borrower will be unable or unwilling to pay back the loan
2. Asset price risk: the risk of assets depreciating in value, resulting in financial losses, markdowns and possibly margin calls
3. Liquidity risk: the risk that a business entity will be unable to obtain financing, such as from the commercial paper market
4. Counterparty risk: the risk that a party to a contract will be unable or unwilling to uphold their obligations
5. Systematic risk: the aggregate effect of these and other risks has recently been called systematic risk, which refers to when formerly uncorrelated risks shift and become highly correlated, damaging the entire financial system. (Gupta, 2009, p. 27)

Harvard (2008) best summarises the view in that commercial developer’s idea of development is short term; they are interested in producing a property, selling it on and releasing the profit. The companies tend to be large but they have few assets and instead trade on a track record of making profits.

He sees commercial property developers as entrepreneurial risk takers, who make good profits in buoyant markets but tend to disappear when the market takes a downturn.

Harvard’s view is that developers go out of business due to their inability to sell or let their schemes when the market falls. As commercial property developers owned very little in the way of assets, therefore they were unable to meet interest payments on loans and therefore the banks foreclosed. (p. 18)
Property markets can be hard to anticipate as the demand is continually changing; therefore developers must be careful if they are “analysing past trends to determine future demand.” (Harvard, 2008, p. 31) Harvard (2008) does point out that there are also “opportunities for the risk-taking developer to spot or to anticipate trends in the market.” (p. 31) Understanding of the market they operate in will keep them well-informed of developments in those markets. As identified by Qu and Boon (2010) it is important to note that “the risk profile of the development may change due to changes in the economy or with technology” throughout the length of the development. (p. 1)

Financial risks are the risks that will need to be most closely monitored in times of financial instability. The major risks concerned with finance as identified by Harvard (2008) are:
- “Interest rate fluctuations
- Project over runs
- Withdrawal of support by lender
- Incorrect forecasting of future values or cash flows” (p. 148)

Interest rate fluctuations can be solved at the beginning of a project by using a fixed rate loan; this gives certainty to the profitability of the project and cash flow.

“The other three areas of risk tend to arise either out of changing market conditions over the life of a project or from a failure to carry out the project appraisal correctly or to be realistic in the assumptions made.” (Harvard, 2008, p. 148)

Harvard summarises his view on financial risks by stating, “Financial matters are often the lifeblood of development. It is very important to secure the right amount of finance, at the right cost and with the right flexibility and risk profile for development.” (Harvard, 2008, p. 163)
2.5 How does risk affect Property Development

2.5.1 How Does Property Development Handle Risk

Harvard (2008) believes the ways you can tell property development is a risky business by:
- “The returns from the development are high” (p. 293)
- People in the property development are compensated for their high levels of risk. The degree of risk involved can be seen by the “number of property developers who go out of business” (p. 293).

Flanagan and Norman (2000) support these beliefs of the insecurity of the property development industry discussing how property development “belongs to a risk category which does not provide a guarantee of return… property, unlike equity and gilts, is not highly liquid and marketable.” (p. 14)

Moricz and Murphy (1997) identify the “boom bust nature of property development has long been recognised within the literature,” (p. 11) this poses as a great risk as property developers must keep a close eye on the current market to ensure they position themselves correctly. It is important to realise that the “risk profile of the property development may change due to changes in the economy or with technology” (p. 1) as identified by Qu and Boon (2010).

Three main areas of consideration for property development risks identified by Harvard (2008) were:
- Delays in construction and overall programme – problems in the ground, planning delays, problems with existing structure, failure of contractor/subcontractor, build ability issues, weather related delays, delays from poor project planning.
- Unforeseen costs – rise in interest rates, rise in construction costs.
- A reduction in value of the completed development as compared with original appraisal – adverse movement in market, delays in letting, changes in the quality of the investment vehicle produced.

Flanagan and Norman (2000) points out “the fundamental difference between the property market and the equity and fixed interest markets lies in the individual characteristics of property investment. All properties are different, and the value of a property is the product of its location, design, age and a host of other factors making monitoring much more difficult
compared to the range of performance indicators available in the stock market. Stocks are liquid, property is not, it takes a long time to complete a property transaction.” (p. 14) As all properties are different it means they all have a range of different risks which come with each property.

“Investment in property will involve cost, revenue and value risks which result in profit or loss. Investments are concerned with: annual yield, capital growth, growth in capital over both short and long term, total return, growth and net rental income, growth in rental income and outgoings.” (Flanagan and Norman, 2000, p. 15) “Companies investing in property face a sector risk which relates to the value of investments in a particular property sector, such as shops, offices or industrial property.” (Flanagan and Norman, 2000, p. 15)

“When considering an investment the options should be:
- Purchase of an existing development or undertake a new development
- Which location
- Primary or secondary site
- What tenant mix
- Freehold or leasehold
- Expected minimum acceptable return
- Growth potential” (Flanagan and Norman, 2000, p. 15)

Categories of Risks as identified by Peca (2009) are listed below. These risks are all risks that property developers are exposed to, these must be identified and mitigated to control the risk.
- Business risk: whether your project is right, mitigate through market analysis
- Management risk: whether you can execute the feasibility study, mitigate by surrounding yourself with experienced people if you are inexperienced.
- Financial risk: limited to your budget.
- Interest rate risk: risk of interest rate rising, should obtain fixed interest rate loans
- Liquidity risk: won’t have the cash when you need the cash
- Legislative risk: addresses changes in law etc.
- Inflation risk: risk of rise in inflation rate.
- Environmental risk: current and future site contamination risk. (p. 129)
Miles, Berens and Weiss (2000) identify ways in which property developers can reduce risks:
- “Know yourself and capabilities
- Know what a developer is and their image so you can communicate with public easier
- Know your team
- Coordinate – both activities and individuals
- Keep current with readings and networking. Trends in national economy, supply conditions, the political climate, tax laws.
- Behave ethically – critical to have good personal relationships” (p. 24)

These are all important operating factors of the company that will help them reduce risk through good communication. More and better market research is another technique for controlling risk. (Miles, Berens & Weiss, 2000) Qu and Boon (2010) also discusses the importance of “clear use of review points and decision gates as a means of exercising project governance and control.” (p. 1)

A “component of the developers risk management strategy was to negotiate with the principle tenant and landowner (bank) for a period of over four years. At the end of this period the developer had either eliminated or reduced to an acceptable level all major risks.” (Qu and Boon, 2010, p. 1)

Peca (2009) follows a six phase development process as shown below; if this is followed risk will be significantly reduced. The development process starts by firstly “starting with your idea, testing your idea by doing some market research, proving your idea by doing a marketability study, and preparing a financial feasibility study.” (p. 73) Peca suggests that if after doing this the return calculations do not meet the PD companies hurdle rates then they should start the process again refining the idea until it is supported by the market research, marketability study and financial feasibility study. Once these are all satisfactory the company can move to the preconstruction phase.
2.5.2 What Survival Techniques do Companies take to Survive an Economic Downturn?

Survival techniques as discussed here are techniques used by companies in order to survive in times of economic downturn. They are techniques adopted in order for their company to remain operational and not go bankrupt. Peca (2009) states that depending on the company’s financial position and how they are operating when entering into a recession will determine how drastically a company will need to apply survival techniques. Survival techniques have been split into two different categories by the majority of the literature, short term actions and long term actions.

Short term actions as described by Gupta (2009) are done as managers act quickly to address difficult conditions. These include “initiating layoffs, delaying new product development, halting people development and conserving cash.” (p. 143). Raghavan (2009) believes all organisations started with “cost reduction as a single major initiative,” (p. 67) reducing costs and focusing on cash, cutting costs in travel, communication and discretionary expenses. Hyland (2010) has similar believes in that common responses to a recession are: “layoffs, reorganisation, pay cuts and budget reductions.” (p. 2)
Altman (2009) has a list of ways in which companies can fight the recession as listed below. These are generic to medium sized companies but the majority of these factors are still relevant for the property development industry.

- “Watch stock positions closely to avoid over or under stocking and having to turn away customers.
- Avoid sitting on dead stock because you can’t get the right price or there is no demand. It must be turned into cash even at a loss to avoid tying up cash and taking space.
- Take a fresh look at your customers’ point of view.
- Negotiate with customers, contractors and landlords. They don’t want to lose your business.
- Bargain hard, you may have to drop some unprofitable suppliers and customers
- Look for new markets
- Watch costs and expenses
- Stay lean
- Try renegotiating your lease.” (p. 77)

The main concept above in order to survive the recession is basic and that is cutting down the unnecessary operations of the company by: improving productivity, cutting costs and waste in terms of time, money, effort and energy, lastly investing in things that are working and are productive and getting rid of things that are not. (Altman, 2009, p. 78)

Banerji, McArthur, Mainardi & Ammann (2009) back up the need for failing companies to accelerate their efforts to preserve cash, doing so by disposing of assets or securing new funding. Banerji et al. (2009) would expect financially unhealthy companies to, “accelerate their efforts to improve working capital positions, slash overheads, drive process improvements, and renegotiate deals with suppliers.” (p. 6)

Common long term coping strategies are identified by Raghavan (2009) as: “cost reduction, cash management, operational excellence” -refine production and quality management
systems to reduce waste, “people management” - salary cuts, people reduction and redundancies and “customer portfolio optimization” – making good use of the downturn by expanding the customer range to deal with a greater market share. (p. 67). These five factors seem to be reoccurring throughout literature by Raghavan (2009), Gupta (2009), Banerji et al. (2009), Hyland (2010), and Altman (2009). Raghavan recognises that most of these strategies are still commonly about managing the short term and that managers must be aware that they need to “run a parallel track of strategies which will safeguard the long term interest of the company.” (p. 69). These strategies mainly consist of decisions on: “people, new products/projects, research and development, capital expenditure.” (Raghavan, 2009, p. 69)

For companies in financially healthy positions it is commonly agreed by the literature that in time of an economic downturn it “is not a time to hunker down” (Gupta, 2009, p. 146) they, should “take advantage of opportunities the crisis affords them.” (Banerji, McArthur, Mainardi & Ammann, 2009, p. 3) A recession as seen by Gupta (2009) is a “priceless opportunity to improve your position relative to your competitors” (p. 146) this is done through extensive planning, Gupta encourages companies to focus on their customers who are more profitable as during economic downturn it is important to focus on the customers who will be bringing in the most cash. The three steps needed to take as identified by Banerji et al. (2009) are: “making a realistic assessment of the business environment, identifying the company’s position in those environments, deciding on a strategy, and the pursuing the strategy forcefully and effectively.” (p. 11)

Employee morale is a common point throughout the literature, it has been identified that if the people are unhappy it is more likely the company will fail due to poor performance. It has been identified that it is very important to consider the employees situation when restructuring during a recession. Bidya (2009) has identified a few key ways to keep employees moral up: by restructuring the organisation in a systematic way so employees do not need to suffer, and by conducting performance management in an appropriate way by doing a proper assessment of employees and their output. This matters to both the employees and the organisation. (p. 27)

HR roles become much more demanding in tough times than during normal growth periods, they need to look at ways the company can slim down but without upsetting the employees which could disrupt performance. Common methods HR can slim down costs as identified by
Bidya is through; “reducing bonuses, making parties and other non-necessary events smaller or doing away with them, cutting back on training budget.” (p. 27)

A manager’s position in surviving a recession has been looked at by Altman (2009) he believes that managers should focus on four things: “keeping a sense of perspective, setting priorities, having the right people around them, and leading from the front.” (p. 78) This is a leadership concept which is very motivational for employees, however in order for this to work the manager must ensure that all these steps are analysed correctly especially in setting priorities. It is important the right people are involved and the manager is not making choices on his own accord without consulting other, more appropriate people.

Banerji, McArthur, Mainardi and Ammann (2009) have identified four status types in a recession: strong, stable, struggling or failing. We would expect stable companies, given their strong finances and weak competitive positions, to capitalize on the crisis by buying up companies that are struggling and/or by pursuing other growth initiatives. Companies that fall under the struggling or failing categories must ensure they implement both short term and long term survival strategies identified above in order to survive the recession. (p. 5)

2.5.3 What Ways Can Companies Improve During the Recession?

As mentioned throughout this review the market is volatile in times of economic downturn. If companies manage themselves in a well-structured and planned manner they can not only survive the recession but improve their company as a whole. Gupta (2009) agrees with this stating “if you have a viable business model, you must continue to invest in your business.” (p. 143) Gupta encourages the method of cutting back two parts of the company and investing in the one part that is generating the most profit. “Generated cash during the recession will be reinvested to grow the company.” (Driscoll, 2010, p. 26)

Gupta (2009) best describes the keys to success in improving your business in times of economic downturn. He identifies the main key influencing factors as operational excellence, technology, project management and financial capacity. Below are factors Gupta believes to be important to enable a company to come out of a recession in a good financial position:
- Saving costs is one thing but a firm also has to reinvest in other areas. Slywotzky abides by the principle of cut two, invest one.

- Spending more can be beneficial through innovation, being able to produce goods quicker and cheaper than usual.

- Acquisitions, a firm needs to have enough cash of course, asset values fall during a recession, making potential targets cheap.

- Advertising, advertising dollars drop in the recession, creating an advantage to make use of the reduced clutter in the marketplace.

- Companies should strive to be agile if intended to undertake large investments and look at outsourcing or joint ventures.

- Managers need to reassess their companies’ balance sheets to determine their cash position in preparation for the downturn. Don’t wait until they absolutely need to, should assess right away.

- Job cuts are a result, taking a hard look at who you cannot afford to lose. (p. 147)

Raghavan (2009) has similar views in that he has four essentials for businesses to succeed, these are: “a clear view of the customer and their emerging needs, a motivated team of employees, a well thought out strategy, and a steady hand at the wheel.” (p. 71) Raghavan also identifies three key management initiatives and responsibilities in order to improve during the recession:

- “Hanging on to the gains once a business picks up again.

- The board of directors has an aggressive role in setting strategic direction for the company, and reviewing subsequent process.

- Incorporating risk mitigating approaches in their strategic planning exercises.” (p. 79)

Hyland (2010) has a list of important decisions that need to be made during a recession in order to be able to improve, these consist of:

- “Setting new strategic goals

- Setting new budgets and cost reduction goals

- Developing new cost reduction strategies to reduce expenses

- Identifying new revenue streams/business opportunities

- Identifying opportunities to improve operating expenses

- Implementing opportunities to improve organisational performance” (p. 17)
This list here gives a clear and concise view of decisions that have to be made. These are the primary important decisions for a company to have a clear view of what they are aiming for and how they are going to achieve it. Potential options for new growth initiatives as identified by Banerji et al. (2009) are by: “expansion in emerging markets, investment in new products, investment in people/talent, acquiring assets/companies.” (p. 7)

Performance management and employee management pops up through-out the literature as important factors for companies to improve during the recession. Gupta (2009) discusses how businesses shall, “Communicate consistently and honestly today’s economic realities and your strategy for emerging as a stronger organisation.” (p. 144) he discusses how making an accountability system gives employees a clear productive focus and knowledge that their work counts.

Hyland (2010) looks into the critical needs employees have during a recession, he identified these as:

- “Information: particularly about organisational changes, job security and future
- Access to leaders
- Support, acknowledgement, respect
- Growth and development opportunities
- Involvement in business decisions/improvement efforts” (p. 16)

Hyland encourages management do their best to meet these needs as meeting them will keep employee moral up and subsequently employees will keep up their good work with a clear understanding that they are valued in the company.

Performance management as describes by Bidya (2009) is effectively the same as employee management described by Hyland. The idea has been developed so “organisations can ensure that its employees fulfil their responsibilities to be the best of their abilities and up to the organisations expectations.” (Bidya, 2009, p. 27) Important aspects of performance management as identified by Bidya are:

- “Involve employees in planning stage.
- Monitoring the progress of employees.
- Ensuring all around development of employees.
- Evaluation of individual performance.” (p. 28)
A common theme is preparing for after the recession, Altman (2009) says “it’s about releasing cash for future investment and is not about downsizing business.” (p.79) Altman also quote’s Michael Foster, Chief Executive of Charter International, who says, “My advice to companies that are struggling at the moment is draw in your horns. You have to cut salaries, remuneration and costs. However ruthless it may seem, you have to stay in the business. The good times will come again.” (p. 79) Both of these statements enforce the importance to take the appropriate measures to survive the recession as business cycles are cyclical and the good times will come again.

2.5.4 What Lessons can be learnt From Previous Recessions?

Looking back at previous recessions, each recession is caused by different economic factors and the property development industry is ever evolving which makes it hard to draw parallels from previous recessions. The literature does however identify some lessons learnt and factors that are important for companies to maintain consistently in order to be in a good position if a recession occurs. Miles (2000) agrees with this saying that practitioners must stay well informed and not become complacent, and that, “participants in the industry should assume that the unforeseen is always just around the corner – and be ready to confront it.” (p. 12)

Hyland (2010) identifies lessons learnt from previous economic downturns that should be applied in times of a recession. Hyland was one of the people to identify lessons learnt from previous recession. The lessons learnt as identified by Hyland are listed and explained below. Lessons learnt:
- “Communication is critical: make fast immediate decisions, which prevents long term anxiety and uncertainty for employees.
- Employee involvement builds workforce resilience: people will respond to difficult times without a lot of upset and resistance if they are asked for their opinions and kept informed. That we can weather the storm and that if we talk openly and honestly with our employees about the situation, they will step up and help us find efficiencies.
- Pay attention to the human side of financial crisis: security is the utmost importance in difficult times, pay attention to human detail.
- Avoid death by a thousand cuts: it was effective to plan for and implement one restructuring and layoff vs. several smaller layoffs which is happening in 2001.
- Forecasting is increasing important: we learned that being proactive and trying to predict the future and taking the necessary steps to put us in a position to weather the storm is critical.
- Set context and remind employees about good things: still promote what is great about the benefits on offer. While there are salary freezes and no bonuses we must still emphasis what our peers are doing.” (p. 19)

Hyland identifies that “clear communication, information dissemination, involvement, and shared decision making may mitigate the potentially negative impacts of crisis based change on employees.” (p.20) In general limiting the amount of changes in the workforce will ensure the employees remain loyal and don’t have negative factors affecting their loyalty and commitment. This is agreed by Bidya (2009) who states, “Keeping good and effective employees should be the motto of an organisation, so that they can be utilized in anyway round during the bad time also.” (p. 30) Bidya also recognises the importance here of retaining a good workforce in all times so when a recession strikes the employees working are the best suited to help the company cope through the tough times.
2.6 Summary

Recessions are part of the cyclical business cycle; a recession is a slowdown in economic activity in a country over a sustained period of time. This occurs after the economy is booming and when banks are not reluctant to grant loans. As the expanding economic activity allows businesses increasing cash flow so they are easily able to pay back loans. This however leads to companies becoming increasingly indebt so they stop investing and the economy goes into a recession. Recessions make it hard for companies to continue operating in the same way so they must develop strategies to compensate for declines in economic activity, investment and profits. Recession management strategies found in the literature were:

- Having excess capital allowed a company to increase strategic activities
- Conserving cash
- Focusing on internal growth
- Buying up inexpensive companies
- Focused on reducing operating costs

As described in the literature, property development, “is a change of land use and/or a new or altered building in a process which combines land, labour, materials and finance.” (Cadman & Topping, 1995, p. 2) With its main purpose usually clear, in aiming at making profit from the process of development.

As identified in all literature all construction projects have risks that must be managed, minimized, shared, transferred or accepted. Risk management is a process which identifies and quantifies risks so a ruling can be made to how to manage these risks. Commercial property developers are seen as entrepreneurial risk takers; they make good profits in buoyant markets but tend to disappear when the market takes a downturn. The property market is risky in that it is continually changing so developers must be careful when analysing past trends in order to determine future demand. Risk profiles of developments may change throughout the duration of the development.

In times of economic downturn the financial risks need to be closely monitored, these risks consist of:

- Interest rate fluctuations
- Project over runs
- Withdrawal of support by lender
- Incorrect forecasting of future values or cash flows

The three risks in property development as commonly identified are:
- Delays in construction and overall programme
- Unforeseen costs – rise in interest rates, rise in construction costs
- A reduction in value of the completed development

Strategies property developers can use to reduce risks and survive an economic downturn are:
- Knowing yourself and capabilities
- Coordination of both activities and individuals
- Keep up to date with the national economy, supply conditions, the political climate, tax laws.
- Short term actions such as: initiating layoffs, delaying new product development, halting people development and conserving cash.
- Long term coping strategies such as: cost reduction, cash management, operational excellence, people management, customer portfolio optimization.

Recessions are also potentially an opportunity to improve your position relative to your competitors and focus on customers who are more profitable. To improve your position there is a need to make a realistic assessment of the business environment, identifying the company’s position and pursue a strategy forcefully and effectively. Companies cannot become complacent; they should assume the unforeseen is always just around the corner so they are always prepared.
3 RESEARCH DESIGN

3.1 Introduction

The research question being answered is “What strategies can a property development firm adopt to survive in an economic downturn?” This chapter will identify and explain why the chosen methods of research were used to answer this question, and how they were to be carried out.

In order to answer the research question, the following areas are to be examined:

- In the context of the Auckland market how has commercial property development been affected by the recession.
- Strategies taken by a property development firm in times of economic downturn, and their perception of the problems they faced.
- The drivers for adopting these strategies, and the outcome.
- Ways in which the company could position itself better in the next recession

This chapter will discuss the methods used to conduct research for the above areas and justify the theory behind these research methods.
3.2 Research Strategy

The first part of this research is to identify what is occurring in the Auckland market, the required information will be regarding the state of the Auckland property development market and how it has been affected by recessions. This research is partly quantitative as it is looking at statistical information of the market conditions and analysing trends. The research strategy is also qualitative as it is looking at descriptions of individuals interpretations of the events and analysis.

The research strategies used to answer the other questions will be in the form of qualitative data. The literature review showed that there are many strategies adopted by companies to survive a recession and the aim of this research is to identify which of these strategies were adopted by a company and which of these were seen as successful in order to survive the recession. Qualitative research is the best means of pursuing this research as it is rich in detail, an “in-depth study of a relatively focused area” (Denscombe, 2010, p. 304).

As stated by Fellows & Liu (2008, p. 27) “Qualitative approaches seek to gain insights and to understand people’s perceptions of ‘the world’” This is the approach adopted for this research project as we are looking into the businesses perception of the recession and ways in which they could survive it. Qualitative data as described by Denscombe (2010) can be regarded as ‘iterative’, meaning rather than it being an analysis “at a single point in time, the analysis tends to be an evolving process in which the data collection and data analysis phases occur alongside each other.” (p. 272). This is why qualitative research is the type of research being pursued as the literature showed that strategies and management techniques are continuously changing to best suit the data as each economic downturn is different. Fellows and Liu (2008) state that in qualitative research “The object is to gain understanding and collect information and data such that theories will emerge” (p. 8) this is what will be gathered from the research.
3.3 Research Approach

The research method used is in the form of a case study. In order to carry out the exploratory research required for the case study two approaches are to be used to collect the necessary information. The first being document analysis for the market information and the second being a semi structure interview to answer the questions identified above in order to find out the strategies used to survive the economic downturn.

3.3.1 Case Study

“A case study approach facilitates in-depth investigation of a particular instance of a phenomenon.” (Fellows & Liu, 2009, p. 23) this definition is similar to Denscombe (2010) who defines a case study as a “focus on one (or just a few) instances of a particular phenomenon with a view to providing an in-depth account of events, relationships, experiences or processes in that particular instance.” (p. 52)

The definitions describe the process used in this report, looking at a particular instance and doing an in-depth analysis of this. The particular instance occurs as each and every company would have entered the recession in a different economic position, and depending on what their position was would decide what strategies they would adopt to survive the recession. A case study is therefore used as this report can look into one particular instance and the results that occurred. A main characteristic of the case study approach is its, “focus on just one instance of the thing that is to be investigated.” (Denscombe, 2010, p. 52)

A major advantage of case studies is that they allow the researcher to use “a variety of sources, variety of types of data and a variety of research methods as part of the investigation.” (Denscombe, 2010, p. 53) This is evident in the research conducted here which is using a variety of sources, types and methods as describes in the research approach and data collection sections.

3.3.2 Document Analysis

To find out how the property development market has been affected by the recession a document analysis has been selected. A document analysis identified by Patton (2002) can
consist of: “documents from organisational, clinical, or programs records; memoranda and correspondence; official publications and reports; personal diaries, letters, artistic works, photographs, and memorabilia; and written responses to open ended surveys.” (p. 4)

Denscombe (2010) identifies that government publications and official statistics are an attractive resource, as they provide a documentary source that is authoritative, objective and factual. (p.217) Furthermore documentary sources are easily accessed with vast amounts of material conveniently accessible. Therefore analysing of these documents is ideal for setting a background of the situation and obtaining information about the market conditions.

The World Bank Group (2011) identifies “A major advantage of this method is the documents were generated contemporaneously with the events they refer to. Hence, they are less likely to be subject to memory decay or memory distortion compared with data obtained from an interview.”

3.3.3 Semi Structured Interview

There are three main types of interviews as identified by Denscombe (2010). These are, structured interviews, semi structured interviews and unstructured interviews. The method selected to be used is semi structured interviews as is still “a clear list of issues to be addressed and questions to be answered” (p. 176) but it is flexible and open to discussion. Therefore this works as a good form of qualitative research as the interviewee can speak more widely on the questions as they are left open ended.

Patton (2002) has a similar view and describes semi structured interviews as “Open-ended questions and probes yield in-depth responses about people’s experiences, perceptions, opinions, feelings and knowledge.” (p. 4)

Semi-structured interviews should be tape recorded rather than solely relying on hand written notes taken by the interviewer. FQS (2006) states “Using a tape recorder has the advantage that the interview report is more accurate than writing out notes” this is because it can be transcribed later. Recording also has the advantage of being able to focus on the information exchanged and giving attention to the interviewee, which is more difficult when taking down notes.

As in the case with semi structure interviews, as items were discussed they were checked off on a check list to ensure all areas had been covered. In certain instances the interviewee was questioned further to ensure a more in depth analysis was gathered.
It is because of these factors semi-structured interviews were used, it allows the interviewer to ask much broader questions so the interviewee’s answers can be open ended, it is flexible for discussion which is useful in order to answer the question of what were the strategies used to survive the economic downturn. It gives the interviewee an opportunity to expand on their answers whereas in a structured interview format this opportunity could be missed.

### 3.4 Data Collection

#### 3.4.1 Participant Selection

As this is a case study of one company and how they managed throughout the economic downturn two participants were selected within the company in order to ensure the information is more reliable. Participant one is a founder and the current Managing Director of the company since early 2000 when the company was established. Participant two is also a current Managing Director of the company. This company was selected as they have had experience operating through an economic downturn so will be aware of the strategies they put in place and management changes that were made to deal with the economic conditions.

#### 3.4.2 Document Analysis

Data was collected from publicly available documents of the market conditions relevant to the context of this study. These documents are published reliable data that is up to date with the current market in Auckland, New Zealand. The data collected is more specifically looking at economic sectors within the Auckland market, focusing on the building and property sectors. Looking at the degree these sectors have been affected by the recession and what patterns have developed. Sources used were web based as these are current, publicly available data that is easy to get access to. It included: The Auckland City Council’s data consisting of multiple analysis’s of the NZ Economy, The Treasury – NZ Economic & Financial Overview and Colliers International Research Reports. Publicly available data has also been collected on the company to ensure validity of the information given in the interviews is correct.
3.4.3 Semi Structured Interview

Data was collected through recording the interviews and writing a transcript, notes were also made throughout the interview in order to note down the interviewee’s physical reactions and body language that would not be able to be picked up through the recording. The semi structured interview was based around my research question with a series of topic headings and questions based from the literature review for discussion, the interviewee was given the opportunity to talk freely about their thoughts around the questions and to expand on any answers if they believed necessary.

3.4.4 Research Design/Framework:

The research design/framework is set up in the following way; the first part consists of research on the background of the company through document analysis; the second part is a document analysis looking at the economic conditions during the recession; and the third and final part is the case study which lists topic areas that need to be discussed which has been conducted by interviews.

1. Qualifying – Background information on the person(s)/company.
2. The Case - Context:
   i. Economic environment before to after September 2009
   ii. What happened to property values in NZ
   iii. What happened to finance companies in NZ
3. Case Study:
   i. The Company – General Description
   ii. Strategy before September 2009
   iii. Situation at September 2009 – What projects; Exposure on those projects i.e. Lease or Sale
   iv. What happened with existing projects
   v. How did September 2009 change their thinking
   vi. What have they done with new projects
   vii. What is their strategy now.
3.5 Data Analysis

The most common theme for analysing data is by means of coding which allows ideas and themes from the data to be grouped easily and displaying the prominent themes that are reoccurring. Denscombe (2010) split data analysis up into 5 stages:

1. Data preparation: this stage involves transcribing the text and cataloguing of the text or any visual data.
2. Initial exploration of the data: the data is initially looked at for any reoccurring themes or issues. Notes are added to the data to capture any ideas.
3. Analysis of the data: this involves coding the data grouping it under different categories.
4. Presentation and display of data: the physical presentation of the data in forms of; written interpretations, quotes, pictures, figures and tables.
5. Validation of the data: reviewing the data and method used and member validation. Compare it with alternative explanations. (p. 240)

The steps identified by Denscombe have been undertaken in my research to analyse the qualitative data gained from the semi structured interviews and document analysis. The market data in the document analysis is compared against itself to find patterns of the economic conditions and the semi structured interviews are transcribed then compared against each other to look at common trends and reoccurring issues/themes.
3.6 Reliability and Validity

As identified by Denscombe (2010) no documentary source should be considered at face value, validity is something that needs to be established not taken for granted. Denscombe has identified four basic criteria that must be examined: Authenticity, representativeness, meaning and credibility. (p. 222) This criteria must be examined in order to prove that the document is a reliable, accurate and appropriate source to use.

In semi-structured interviews there is no way of identifying that what someone has told you is correct. However checks can be done to verify the credibility of what the interviewee has stated. Denscombe (2010) describes how that if certain “checks are used, the researcher can have greater confidence in the interview data, knowing that some effort has been made to ensure its validity.” (p. 188). The four checks described by Denscombe are:

- Checking the data with other sources
- Checking the transcript with the informant
- Checking the plausibility of the data
- Looking for themes in the transcripts

The first three identified here are relevant to the research taking place and have been applied, the last factor will be the most useful to ensure the data is reliable as with interviewing two people within the company it reduces the chances for misinterpretation and wrongful answers as getting two answers makes the information more valid than just from one singular interview. The data was checked with other publically available sources to confirm that the information gained from the interview was in align with data available.
3.7 Ethics

3.7.1 Harm Minimisation

Ethics must be incorporated to ensure the interviewee is not exposed to any unnecessary harm by conducting the interview. Harm was eliminated by ensuring the following:

- Privacy: Participants are given the control over the extent of the interview involving the time, place and their contribution.
- Confidentiality: Participants are given full confidentiality with all their information treated as confidential; no material is given to any third party without consent.
- Right to Access: It was ensured that the participant partaking in the interview had the authority to be there.
- Data Storage: The interviewee was advised of Unitec’s Research Ethics Committee policy of keeping all data for 5 years.
- Social and Cultural Sensitivity: No cultural/social preferences were relevant to the participant.
- Research Design: The research was designed to minimise participants used to obtain all the necessary data. (Davies, 2011)

3.7.2 Informed Consent

To ensure ethics are considered the interviewee must be aware to any benefits or risks to them as a participant of the research. The issues that are relevant are:

- Impaired ability: interviewees must only be someone who has the ability and rights to answer the questions freely and is not impaired in any way.
- Vulnerability: consent to do the interview must be obtained by someone who does not have “explicit or implicit coercion” (Davies, 2011, p. 2) limiting the freedom of the interviewee.
- Deception/Misrepresentation: interviewees have the right to know what they are participating in. (Davies, 2011)
4 CASE STUDY OF AUCKLAND PROPERTY DEVELOPMENT COMPANY

4.1 Introduction

The purpose of this case study is to answer the research question “What strategies can a property development firm adopt to survive in an economic downturn?” This case study looks at the market and economic conditions in Auckland and New Zealand throughout the recent economic downturn. This is done through the methods identified in the research design section, using document analysis to assess the current conditions. The case study also involves looking at a Property Development company that has survived during this economic downturn, looking into their history and the strategies they used in order to survive.

This has been dealt with by interviews with two of their managing directors, and a document analysis was undertaken here to ensure validity of the interview data. The company interviewed is a private company whose business focus is property development, investment and management. As per the Ministry of Economic Development they are classified as a small business as they have fewer than 10 employees (Ministry of Economic Development, 2005). The company consistently has a few major developments under way varying in size from less than 10 million to over 200 million. The company is not a pure property developer; they also have an associated funds management business. The fund management company was formed by the property development company in early 2000; it is an unlisted property company with funds under management of approximately 400 million.

This case study is formatted in that it first looks into detail of the Auckland economy and property market. The case study then moves into the company, looking at who the company is and their history. Then lastly the main body which is primarily targeted to answer the research question.
4.2 The Auckland Market

Before looking at the case study on the individual company we must first determine the conditions of the environment at that time and assess what is happening in the market. This will give a good understanding of what the company was up against before moving into the research gathered from the interviews.

4.2.1 The Case – Auckland Economy:

Auckland City is the largest city in New Zealand. Approximately 401,500 people live within the city boundary and 1.25 million in the greater Auckland area. This represents about one third of the population of the whole country. (Auckland Council, 2011)

Auckland region’s economy has underperformed relative to the economies of many of its international comparator cities over the past decade. Auckland’s GDP growth rate was well below the average of the nine comparator cities. (Auckland Council, 2011)

However, Auckland is ranked fourth equal out of 320 cities worldwide for quality of living, number one in the Asia Pacific region in the Mercer 2010 Quality of Living Survey. (Mercer, 2011)

4.3 Economic Environment before to after September 2008

4.3.1 Background of the Market

Auckland City’s economy along with the rest of New Zealand and the most of the world moved into a recession in the year leading up to March 2009. Over this period Auckland has been hard hit by the recession and the city’s economic output has declined by 2.4%. A major contributor to this was consumer confidence falling, unemployment rising, lower imports and exports and a weak property market which has had a massive impact on the trade
sector. Annual retail sales declined by 1.6% in the year to March 2009, this was the first decline in over a decade. Output in manufacturing decreased due to reduced demand internationally and domestically. Auckland’s two growth leaders, property and business services, and finance and insurance, were major contributors to the city’s poor performance. (Auckland Council, 2011)

Annual GDP growth in NZ following the 1998 ‘Asian crisis’ had a period from 2001 through to 2004 where GDP growth exceeded that of its major trading partners, partly as a result of strong net inward migration and associated population growth.

The global recession had a significant adverse effect on the global economic activity throughout 2008 and 2009 as displayed below where most of New Zealand’s trading partners experienced contractions in GDP. (Reserve Bank of New Zealand, 2011)

Figure 4 Real Gross Domestic Product (Reserve Bank of New Zealand, 2011)

4.4 Property Market in New Zealand

Below are a series of graphs produced by Investment Property Databank Limited (IPD, 2010). These are current as of March 2010 and are a good representation of what was happening in the New Zealand Property Market.

Figure 5 below shows the market now coming into a recovery phase with the decline in capital growth decelerating after a period of declining capital growth.
Figure 5 Total return for commercial property (Francesco & Garimort, 2010, p. 8)

![Total return for NZ direct commercial property](chart)

Source: IPD Research.

Figure 6 below looking at global property cycles this shows in comparison New Zealand had a rather shallow downturn and is now showing signs of recovery. The UK, US and other countries with steep declines in capital growth have experienced a rapid deterioration in the real economy and labour markets.

Figure 6 Return profiles for property markets (Francesco & Garimort, 2010, p. 14)

![Return profiles for selected property markets](chart)

Note: Direct property returns based on global IPD indices. Source: IPD Research.
This last graph, Figure 7 shows the influence of the macro-economy, showing the impact of real economy against the country’s property markets. From the graph we can see the direct relationship between economic growth and the property market.

Figure 7 NZ direct property & macroeconomy (Francesco & Garimort, 2010, p. 15)

Currently the economy is in the recovery phase as we return to positive growth; however the economy remains fragile and is vulnerable to external shocks.

### 4.5 Auckland Industrial Property Market

In Figure 8 it is shown that as the economy came into a recession investment returns on the industrial sector were directly affected. This is evident in the graph with the sharp decline beginning in 2007 until the middle of 2008. During this period vacancy rates across Auckland climbed sharply in the recession and are only improving now as leasing activity is increasing. This was due to “the combination of companies contracting in order to cut costs, and a continual rise in inventory, as development projects commissioned in late 2007 and 2008 were completed.” (Bayleys Research, 2011)
The industry sector in comparison has performed better throughout the recession, it was steadier than the other sectors declining by less and recovering faster. As identified by Bayleys research the Industrial sector fell into negative territory for just one quarter, whereas the retail and office sectors fell into negative territory for four quarters as shown on Figure 9 below.

**Figure 9 Total Returns - All Sectors (Bayleys Research, 2011)**
As shown above, the industrial sector was the first to fall, and also the first to come out of the recession. Colliers International state that “Industrial property is the most exposed property sector to the real economy, and given that property as a whole is a lag economic indicator, this means that the industrial market is usually the first property sector into a downturn and first to come out”. (Colliers International Market Indicators Report, 2009)

4.6 Property Development Finance Companies in New Zealand

The economic downturn lead to a series of finance company failures in New Zealand. The main cause of finance companies failure was as a result of a ‘run on funds’. This is based on the fact that “any financial institution, regardless of how robust their reserves, governance and lending policies, needs new deposits to maintain their business. If deposits dry up then the institution cannot write new business and ultimately the business will falter.” (Hammond, 2009) Finance companies are put under pressure if the public loses faith in the company or finance companies as a whole, as the lack of confidence leads to withdrawal of funds. This inevitably puts the finance company in a state where they cannot maintain both the rate of deposit withdrawals and reinvestment in new loans to sustain profitability and interest return to remaining depositors. So the finance company will ultimately fail.

This was the case in New Zealand as the collapse of finance companies began in 2006. John Edmundson states that “the finance company collapses have been characterised by massive over-extension of lending, far beyond the margins considered “safe” by the industry.” This over-extension was risky but manageable as long as everyone continued to make repayments. However, as soon as one company failed it exposed others, especially in some circumstances where there were direct financial connections between various companies, this lead to a lot of finance companies failing. (Workers Party New Zealand, 2008)

“The loss of finance companies themselves and their key role in providing mezzanine finance for the bulk of New Zealand small businesses (not just property development) will be a major impediment to economic recovery in New Zealand.” (Hammond, 2009) The collapse of mezzanine and finance companies was a major factor that took so many property developers in the industry down.
In Bayleys Industrial Property Research Report published in the first half of 2008 they identified that there had been 17 finance companies collapse over the past 18 months and that this, as discussed above, “has reduced the sources of second tier, or mezzanine finance, available to developers and that which is available is at slightly higher rates than they have faced in recent years.” (Bayleys Research, 2008)

### 4.7 Case Study of Property Development Company

As identified in the previous section the research method was to be conducted through a case study. Below is the data collected and summarised from two interviews of individuals within a Property Development Company. These answers have been summarised, however in general the two participants answered similarly without any conflicting ideas. To ensure the data given from the company was correct and accurate a brief data analysis was carried out on the company. Due to confidentiality the property development company has been referred to as the ‘Company’ and references have been edited adequately in order for the source to remain confidential. All the data found on the company was accurate with what was discussed in the interviews; from carrying out a document analysis no variance in the data was found.

### 4.8 The Company

#### 4.8.1 The Company’s Focus

The business is focused on industrial development and city fringe office development. That covers everything including new build, redevelopment, refurbishment and conversion, but specifically that. The company does not do residential, retail or main CBD office development.
4.8.2 Methods of Funding

The company uses senior bank debt, their own equity and equity pulled from joint ventures. They do not and have never used mezzanine finance or finance company debt.

4.8.3 Target Tenants

The company’s target tenants are national or multinational businesses, however they have signed up tenants from locally owned businesses in the past. But invariably, they see industrial tenants and office tenants as usually pretty well healed so tend to focus on the blue chip tenants.

4.8.4 Company’s Growth and Development Plans for the Future Pre-recession

The company had no plans to grow the size of their activities or move into different markets. The company decided to focus their growth and development on Auckland as a local market, so weren’t planning on growing into different markets. Purely focusing on what they knew the best, Auckland industrial, city fringe office development.

4.8.5 Interviewee’s Background

Two interviews took place to ensure validity, the two interviewees were:
Interviewee 1 – Managing Director
Interviewee 2 – Managing Director
4.9 Company’s Strategy before September 2008

4.9.1 Company’s Approach to Risk, Risk Strategies in Place.

The company identified three main risk areas they focus on with property development.

- Tenant: the tenant or occupiers risk is about cash flow of the development so the company always aims to get pre-commitment to a development before they commence so they don’t build speculatively. They always aim to delay purchasing land or not purchasing land at all until they have sufficient lease commitment from tenants.

- Construction Cost: as a result of the company’s joint ventures with a medium-large sized construction company they are able to mitigate the risk of that cost blowout by them being joint venture partners so involved in all aspects of the development. They are able to fix the construction costs as a lump sum fixed price, so they don’t have any cost escalations. They do this by putting a lot of the design back on the contractor to enable them to have flexibility to fix a price. This also reduces the company’s risk as they are not taking on all the risk from an equity point of view.

- Value: this is where they have their best shot at where the valuation or markets going to be when they’ve finished the development. Interviewee 1 discussed how this is the risk that they tend to accept as unlike the others it cannot be mitigated as it is market driven.

One other risk avoidance strategy they have identified is that they always quarantine the risk without giving a personal guarantee.

The Auckland and New Zealand Property Report (2009) described the approach taken by the company. This extract agrees with the main point imposed by the company in that pre-commitment from tenants is the most important factor in development.

“The company has also worked the reverse of many developers, who found a site then hunted for someone to fill it: “We tend to find the tenant first, and then find the site. In the past, he who had the land had control. We haven’t purchased any large tracts of
land for many years because we haven’t got our minds around the cost of land.”
(Auckland and New Zealand Property Report, 2009)

4.9.2 Were Risk Strategies reviewed Throughout the Whole Development or Merely Looked at Before Taking on the Development.

The company is constantly reassessing risk, reassessing whether the occupiers going to be there at the end, and assessing where the valuation is heading on completion. They aim to eliminate all risks possible at the pre development stage where all risks are severely looked at so risk strategies are put in place from the beginning.

4.10 Situation at September 2008

4.10.1 Current Developments leading up to the Recession & the Company’s Position.

Their current focus pre 2008 was on city fringe office development with a few smaller industrial developments underway. The smaller projects varied from around 6-20 million in value. The main two to note that will be mentioned later are:

- Project 1 – large mixed use commercial development (4-5 year development) with an end value of over 200 million on completion. This project started in 2006, so was mid-way through when the recession hit.
- Project 2 – large mixed use commercial development, which he states to be a risky development as they had only one third pre committed before construction started. This project was commenced in 2007 so was only starting construction when the recession hit; this project had an end value of under 50 million at completion.

Further research into the Company’s website I was able to confirm that leading up to the recession they did have two large developments underway, one over 200 million dollars and the other under 50 million. The interviewees stated that these projects had pre-commitment by quality multinational tenants, this was confirmed by an article in the New Zealand

4.10.2 The Exposure on these Projects

The interviewees agree an upside of the recession was that a lot of their competition was taken out of the market, so they had these two developments rising up and little competition in terms of lease competition. Therefore they were able to mitigate the risk of both those developments as they both leased up well, therefore having cash flow, and therefore the banks were happy to stay involved with them rather than other developments which didn’t have cash flow or leases in place.

The company was in a good position as they had Project 1 which was a large development as described above and was sold so they weren’t exposed on that, so the company was not exposed to takeout risk. The company had a few other smaller developments they were carrying out that weren’t sold but they were happy as having no exposure on the large project could handle that.

4.10.3 Main Methods of Funding on these Projects

Main methods of funding as mentioned previously were through the senior banks and through equity partnerships. In particular Project 2 was effectively a private equity development where the company pulled a lot more equity than they normally would through a number of people. This mitigated the risk because they weren’t taking all of the risk from an equity point of view, nor were they receiving all the profit.
4.11 What happened with existing projects when the recession came

4.11.1 Were Projects carried out as Planned, or did Changes Occur due to the Economic Conditions.

One of the changes that occurred was the first thing that happened was the banks turned up and were suddenly concerned with the company’s projects, whereas a month or two before they had no concerns, which added pressure to the company. However as a result of the company mitigating the risks correctly all projects were continued as planned. “In terms of development the banks are your strongest and your weakest link, so they’re very strong when the markets good and their very weak when the markets bad”. (Interviewee 1, personal communication, September 10, 2011)

The company remained in such a position that they didn’t end up needing to start funding the rent themselves because they had their buildings tenanted adequately, but there was an exposure period for them which they recall as “quite nerve racking”. (Interviewee 2, personal communication, September 10, 2011)

4.11.2 Issues Faced because of the Recession

Market rentals changed, which impacted valuation so the company had to reassess the feasibilities of all their developments that were underway to see whether it was still feasible and what rental deals they could do to get them leased up for. For Project 2 the face rentals didn’t change in terms of what was being charged per square metre but the incentives required changed dramatically. For example, Project 2 they budgeted to provide a 9 month rent free period to new tenants but they ended up providing a 20 month rent free period to incentivise the tenants to come into the building. In the company’s view the recession causes everyone to become nervous about making decisions on moving, amalgamating, and spending any money. This impacted on valuation and feasibility.
4.12 How did September 2008 Change their Thinking

4.12.1 What Changes Occurred within the Company, what Survival Techniques were Adopted

Like all businesses they looked at their overheads and trimmed them back but they didn’t lose people. The company is all about people so the main drive was not to cut back on over and above people. He explains how they saw the recession as a potential opportunity as the market was reasonably unstable. So in the last three years they have spent a lot of time looking at other opportunities or developments which other companies couldn’t enter into. The interviewees stated that the company has actually grown throughout the recession rather than contracted. Interviewee 1 states, “the only reason we’ve been able to do that is because we’ve had cash flow and without cash flow we wouldn’t be here” (Interviewee 1, personal communication, September 10, 2011). So the survival techniques they used were keeping the bank lines they had in place and having not withdrawn, so a lot of PR was required. They were able to do this because of cash flow and to keep people moving and not make too many steps backwards.

They also identified that an immense amount of debt was paid off as part of their strategy which reduced their debt exposure dramatically over a two year period which came from completed projects and from the fund management business which reduced dividend payments. Because of this they stopped taking on any new developments when they entered the recession as the money they had was paying back the bank because values were going down. Therefore one of their main survival techniques was no new projects.

Lastly one of the main changes was in the way the company operated. As mentioned previously the company has two lines of business, one a funds management business that provides cash flow and the other the development business. The development business takes risks, likes risks, and the other business is a good cash flow for the development business. The recession changed their thinking in that they have grown the funds management business to entirely underpin the overhead of the development business; so that if they hit the lumpy road again they have absolutely no exposure to overheads outweighing cash flow. That has
been one of their main focuses that they have been working towards over the past few years. In the past the company was happy to carry from a cash flow perspective their development business being a drain on the cash flow side, negatively geared, so they have changed their thinking to make themselves stable to attack development in a well stable manner because the risk of cash flow is mitigate.

4.12.2 Employees Roles and how were they Affected

As mentioned above employees were not made redundant as each employee has a role and the company managed in a way that there were no excess people. The company identified that roles were affected as there have been no dramatic pay rises for the last three years, and people have had to focus on all areas of business not just their core activity prior to the recession.

4.12.3 Risk Strategies in Projects and how they were changed.

The company continually heard a lot of economic commentators saying that it was a new environment, a new economy, the world had changed and there was not going to be a crash like 1987. The company identified with that in mind a lot of developers took on longer programmable timeframe developments, and as a result many developers became unstuck as they couldn’t see the recession through. So one of the company’s new strategies is taking on shorter time frame developments, the faster turnaround means the company doesn’t need to second guess what’s going to happen 2-3 years out. The company’s strategy has changed here in that they are doing a lot more industrial development that has about a 12-18 month turn around where as Project 1 had a 4-5 year turn around. The company did this as it reduces the risk of the market changing during that period so it is a way of mitigating valuation market change.

The company also persistently identified that “sticking to our knitting, we know industrial so well and we know that there’s a good demand from buyers for it” (Interviewee 2, personal communication, September 10, 2011). This was a main way the company changed in that
they moved back to what they knew best and because they know it so well they will probably get the turnaround time down.

Below is an extract recorded in 2009 from an interview with one of the managing directors of the company, this extract directly links to what I was informed the company’s view was at this time.

“There’s no doubt the development world got a kick in the guts by finance & business slowing down in general. But in the last 6 months there’s been new inquiry on the industrial side and a little on the office side. For some that inquiry is due to contraction, for others their businesses are amalgamating and for some it’s for efficiencies.” (Auckland and New Zealand Property Report, 2009)

4.12.4 Status Type the Company Falls Under, Strong, Stable, Struggling or Failing

The company falls under the strong/stable category. Interviewee 1 goes into detail stating “we weren’t in free-fall but we were declining which every business in New Zealand was probably declining earlier than 2009 to be honest, we probably felt the wrath of the finance companies collapse in about the beginning on 2008. So we’ve had a decline, and then we’ve stabilised and now we’re a business that is actually looking at acquiring, merging and actually growing… and this is the first year we’ve been able to put hand on heart and actually say it is that we’re genuinely in growth mode” (Interviewee 1, personal communication, September 10, 2011). He states how currently they are looking at another business to pick up and that is because the competition to buy that businesses does not exist anymore, so they are able to look at something that would not have been on the market back in 2008 because it would have been so sought after for, however now it is something they can consider. Interviewee 1 agrees that “we’ve had a recession that is probably in living memory the worst New Zealand’s ever seen and we’re certainly had other recessions but they haven’t affected our business, it hasn’t been something as monumental whereas the last 2008-09 period was a monumental change in the market.” (Interviewee 1, personal communication, September 10, 2011)
The reason they were strong enough to get through was because of their balance sheet. They discussed the unevenness of cash flow, due to the fact that with having large projects on the go, you do not have a continuum being complete on an annual basis so you are getting income, therefore there can be a long time between incomes. The company realised two things, one was that cash flow was uneven and that recessions do occur and there has been a long time without one. Therefore, in early 2000 the company deliberately started a funds management company that had some great benefits for them. One benefit was they could sell their developments, so they created a sort of buyer; and the second was that they managed it for a fee, so got fee income off it. This fee income helped them dramatically during the last 2-3 years because they have not had much development income at all. In this way the company is unique in New Zealand as they have put both funds management and property development businesses which enables them to sell their developments and get the fee income out and get a more regular income. This gave them good cash flow which made them strong throughout the recession.

4.13 What have they done with New Projects

4.13.1 Has the Company’s Approach to New Projects Changed, and how the Company’s Strategy has Changed

The company’s approach has changed towards short term development cycle and towards industrial property. They steered away from developing office orientated property as they see it as fickle because the occupier makes the decision on whether they feel comfortable with their own business and whether they are happy to effectively lease a nice new office versus an old one. Their view is that industrial property is different in that as people do not stop making things throughout the recession so the demand is still there; therefore the company’s focus has gone back to industrial which is very stable. From a development perspective this has been their strategy to go back to their “core business which has been industrial, mitigate the risks, keep it simple, not get too complex in terms of the development and stay within the same market where we can”. (Interviewee 1, personal communication, September 10, 2011)
4.13.2 Lessons Learnt from the Recession

“Cash flow is king” (Interviewee 1, personal communication, September 10, 2011). The key lesson learnt is cash flow is everything and they believe it is the same for any business. If cash flow doesn’t match your expenses its ok when you are making profits that top that up in the good times but in the bad times those profits do not happen. They identified cash flow as being everything as the number one lesson learnt.

4.13.3 Other comments on the Property Development Industry

The company’s view is that there are not many developers left in Auckland, and that the reality is with the last three years they have looked at who they were competing against and now there are only three development companies in Auckland. Their company is not viewed as a pure developer as they have the funds management side so they are seen in the market as a quasi-developer. So the recession has been a monumental cleanout and he believes that all the textbooks will say developers have an ability to mitigate risk but the reality is most of them did not.
4.14 Summary – Key Findings Relative to Research Question

Economy

- Auckland City’s economy along with the rest of New Zealand moved into a recession in the year leading up to March 2009.
- The industrial sector in comparison has performed better throughout the recession, it was steadier than other sectors declining by less and recovering faster – industrial property is the most exposed property sector to the real economy, and given that property as a whole is a lag economic indicator.

The Company

- The company used senior bank debt, their own equity and equity pulled from joint ventures. They did not use mezzanine finance.
- The company’s target tenants are national or multinational business.
- The company focused on what they knew best – Auckland industrial and city fringe office development.

Strategy Pre Global Economic Crash

- Three main risks they looked at:
  1. Tenant – always aim for pre-commitment, delaying purchasing and until they have sufficient lease commitment
  2. Construction Costs – aim to fix these as a fixed lump sum price, do so with joint ventures and putting park of the design back on the contractor.
  3. Value – mitigate this risk as much as possible by feasibility studies to determine the end value of the project.
- Risk avoidance strategy was to never give a personal guarantee.
- Limited exposure on projects as projects were leased up well, therefore banks were content.
- Equity partnerships mitigate the risks as they weren’t taking all of the risks from an equity point of view.
Strategy Post Recession

- Reassessment of feasibilities on all the current projects was required to see if the projects were still feasible.
- Not to cut back on people
- Looking at other opportunities that arose due to reduced competition
- Keeping bank lines in place through good PR
- No new projects, focused on paying back debts to reduce debt exposure.
- Have grown the funds management side of business so it underpins the overheads of the development business.
- Shorter time frame projects
- Focused on what they knew best
5 DISCUSSION AND CONCLUSIONS

The following sections summarise the findings in the literature review and case study in order to answer the research question of “What strategies can a property development firm adopt to survive in an economic downturn?” The strategies adopted would vary depending on the position of the company leading into the recession, so they are specific to this case study.

5.1 Economic Environment

The research shows that along with most of the world New Zealand entered into a recession in the year leading up to March 2009. The industrial sector in comparison performed better, declining by less and recovering faster. The recession experienced was typical of the common definitions found in the literature. Gupta (2009) described a recession as “a general slowdown in economic activity in a country over a sustained period of time, or a business cycle contraction” (p. 1). This can be clearly seen in Figure 4 where we can see GDP declining over a period from 2008-2009.

5.2 Strategies Pre Recession – September 2008

The company the case study is based on had the following strategies pre-recession.
Operational/Management strategies:

- Focus on industrial development and city fringe office development
- Senior bank debt, their own equity and equity pulled from joint ventures was the methods of funding their projects, did not use mezzanine finance.
- Targeted large national or multinational businesses as tenants
- Focus on Auckland as a local market
- Grow their funds management business to provide cash flow through fee income to reduce the inconsistent cash flow in property development

The literature commonly identifies “know yourself and capabilities” (Miles, Berens & Weiss, 2000, p. 24) as an important factor for property developers to reduce their risk and maintain a
good strategic position. As listed above the company has a clear strategic approach they stick to which they know works. The literature identifies how imperative it is to have a good understanding of your own capabilities and an operational strategy to be successful. The refined operational strategies above significantly reduce the company’s risk exposure as it is very specific. If the company took an open stance to any developments, multiple methods of funding and taking on a more relaxed approach with development, they would significantly increase their risk exposure.

Risk Strategies identified by the company:

- Tenant risk – always have pre-commitment before commencing a development
- Construction Costs – fix construction costs as a lump sum fixed price
- End Value – accurate estimate of where the market will be at the end of the development
- No Personal Guarantees

The case study and the literature both convey the important message throughout that risk management systems must be in place to ensure all risks are identified and quantified in order to manage those risks. The risks are then managed by avoiding, transferring, mitigating or accepting the risk. Risks in property development are dealt with in the feasibility stage and although each project has its own individual risks there are a few major ones that must be dealt with each time, which will determine how successful the development is. These have been identified above by the company; their view is very similar to that of the literature where Harvard (2008) identifies three major risks as:

- Project overruns – this is effectively the same as what the company has identified as construction costs, which they have mitigated the risk through joint ventures and fixing the construction costs as a lump sum fixed price.
- Withdrawal of support by lender – this is not seen as a major risk by the company pre-recession as their method of funding is through senior banks and their own equity, which was fairly risk free as long as good PR were kept with the banks.
- Incorrect forecasting of future values or cash flows – as mentioned previously the company ensured pre-commitment before commencement so didn’t have issues with cash flow. Incorrect forecasting is however, the one main risk they identified that could not be avoided; they had to manage this as best as possible.
5.3 Situation at September 2008

The company was in a strong position going into the recession, they had two large projects that were halfway through the development stage and were for the most part of all leased up or sold. They had a few smaller developments on the go but they were confident with little exposure on the larger ones they could handle not having these sold. Funding being through senior banks, the banks did show up when the economic downturn arose but interest payments were being paid on time so the banks continued funding.

Market rentals did change which impacted valuation so the company had to reassess the feasibility of their developments that were underway. As well as this, incentives increased dramatically in order to incentivise the tenants to come into the building as many became nervous about making decisions on moving, amalgamating and spending any money.

As discussed in the literature if companies manage themselves in a well-structured and planned manner they can not only survive the recession but also improve their company as a whole. As mentioned above the company has a very clear operational approach that is working for them, Gupta (2009) states that “if you have a viable business model, you must continue to invest in your business.” (p. 143) The Company was in a good position leading into the recession so they were able to continue to operate as they had been. Refining some parts of the business but effectively carrying out all projects as planned.

5.4 Strategies During the Recession

The company’s survival strategies adopted were:

- Reducing operation costs by cutting back on overheads but not cutting back on people as all people in their business is important they do not operate with over and above people.

- Keeping bank lines in place and having not withdrawn, involves a lot of PR.

- Pay off debt to reduce debt exposure

- No new projects, as the money they had was paying back the bank and debt

As identified by Peca (2009) depending on a company’s financial position and how they are operating when entering a recession will determine how they have applied survival
techniques. The company entered the recession in a good position this is why the survival techniques listed above are fairly minor techniques. The techniques above are common with those described in the literature, identified by Altman (2009) as improving productivity, cutting costs, minimising waste and investing in things that are working. This effectively is what the company did throughout the recession.

The company saw the recession as a potential opportunity so they spent a lot of time looking at other opportunities and developments that other companies could not enter into. The literature agreed that companies in financially healthy positions should “take advantage of opportunities the crisis affords them” (Banerji, McArthur, Mainardi & Ammann, 2009, p. 3). This is what the company did by researching into opportunities that would grow their company and improve their position relative to their competitors. Hyland (2010) has a list of important decisions that need to be made during a recession in order to be able to improve, these consist of:

- Setting new strategic goals
- Setting new budgets and cost reduction goals
- Developing new cost reduction strategies to reduce expenses
- Identifying new revenue streams/business opportunities
- Identifying opportunities to improve operating expenses
- Implementing opportunities to improve organisational performance” (p. 17)

From the case study it was clear that the company has looked at all these aspects, which have been described throughout this findings chapter.

5.5 New Strategies

New strategies taken on by the company during the recession and now applied to their everyday strategies are:

- Grow the Funds Management Business to underpin the overheads of the development business, therefore there is no exposure to overheads outweighing cash flow

- Focusing on shorter time frame development, so the company does not need to second guess what’s going to happen 3-5 years out.

- Focusing on the sector they knew best and can specialise in.
- Increased market research, looking at other opportunities that arose due to reduced competition.

Basically the company’s new strategies along with their standard operating and risk strategies was to focus on the industrial sector and short time frame developments with continual research and development and a focus on growing their funds management business. As identified by Banerji et al. (2009) there are three steps needed to take which are, “making a realistic assessment of the business environment, identifying the company’s position in those environments, deciding on a strategy, and the pursuing the strategy forcefully and effectively.” (p. 11). This is effectively what the company did with their new strategies.

5.6 Significance of Findings

The results gained from the document analysis and case study were very beneficial for this research. The research questions were developed from the literature review so that the findings could be directly compared to the literature to look for any commonalities or variations. The findings were overall very consistent with what the literature stated. All the main ideas, strategies, approaches were consistent with the literature. The literature did however struggle to go into depth on these points due to the limited amount of research into how property development companies operate in times of economic downturn. Therefore common data on how businesses within the industry operated was assessed and used for this research.
5.7 Conclusion

In order to conclude an answer to the research question, “What strategies can a property development firm adopt to survive in an economic downturn?” The data collected from the case study of a property development company participating in the industry has found strategies used to survive the recession. This question does not only involve the strategies used during the recession but also the strategies the company used going into the recession which determined their position going into the recession. This was done as a case study for this reason, as strategies will differ for different companies’ positions.

The strategies used when entered into the recession will determine significantly how the company will cope. As gathered from this study it is important to have a clear objective, good source of funding, reliable tenants, and limited risk exposure. Risks such as tenant risk, construction costs and end value of developments should be mitigated as much as possible to avoid problems throughout the developments.

Strategies adopted to survive in an economic downturn in this case study were:

- Reduction of operating costs
- Keeping funding lines in place
- Paying off debt to reduce debt exposure
- Setting strategic new goals for the future – increased market research
- Shorter time frame developments
- Specialisation on what they knew best
- Growing the funds management side of the business to underpin overheads of the development business.

The strategies adopted at the outbreak of the recession were originally survival strategies attempting at reducing operating costs and overheads. This then moved on to management strategies to create a clear aim of where they were heading and how they were going to move forward from the global economic crash. The main strategy applied in terms of the type of development was the company sticking to their roots, going back to industrial development which they knew best and taking on shorter time frame development so they didn’t need to second guess where the market would be at in a few years’ time. This mitigated what they
identified as being the biggest risk to development, which is the end value of the development at completion.

In order to come out of the recession effectively they also stuck by their other main risk strategies identified. By having pre-commitment from tenants before commencing any development, this significantly reduced the risk of the development. Also in order to not blow out the construction costs they fixed all construction costs at the feasibility stage by going in joint ventures with a main contractor and putting some of the design back on the contractor so they can have involvement to fix the price.

One of the main factors identified that will help them in the future is the growing of the Funds Management Business; this business was developed a few years before the recession. Since the recession came the company has been growing this business so that it reduces the risk of the property developments company’s overheads outweighing cash flow.

5.8 Further Research

This paper has raised a few areas where further research could be undertaken.

- How did property development companies as a whole survive the recession
- What were the major factors for property developers going under during the recession
- What was the impact of finance companies failures to property developers
6 REFERENCES


