

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing

5. Market Analysis/Urban Economics/Real Estate
Process

- o. "A Real Estate Project is an Enterprise
and Therefore a Management System",
given at Hilton Hawaiian Village,
Honolulu during a Feasibility Seminar, no
date

FEASIBILITY SEMINAR

Hilton Hawaiian Village

PREMISE: A REAL ESTATE PROJECT IS AN ENTERPRISE AND THEREFORE A MANAGEMENT SYSTEM

SOURCE: Management Dynamics: The New Synthesis by John A. Beckett.
McGraw Hill's Series in Management, 1971. New York.

I. Traditional Management Functions

A. The traditional functions of management imply a sequence of:

- Planning
- Organizing
- Directing
- Controlling

B. An American oil company has expanded the functions of management to be:

- Environmental appraisal
- Objectives development
- Strategic planning
- Demand forecasting
- Logistics planning--Utilization
- Logistics planning--Development and operations scheduling
- Operations control

C. A similar but longer list of functions has been proposed by Marvin Bower, a well known management consultant:

- Setting objectives
- Planning strategy
- Establishing goals
- Developing a company philosophy
- Establishing policies
- Planning the organizational structure
- Providing personnel
- Establishing procedures
- Providing facilities
- Providing capital
- Setting standards
- Establishing management programs and operating plans
- Providing control information
- Activating people

II. A Systems Approach to Management Analysis

A. A revised list that does include some flavor of systems can be prepared. The elemental functions involved in man-made organizational undertakings might be listed like this:

Goal-setting
Forming policies
Searching for opportunities which are consistent with policies
Selecting opportunities which are consistent with policies
Designing systems for capturing selected opportunities
Installing systems for capturing selected opportunities
Operating the systems that have been installed
Maintaining and continuously perfecting the operating systems

B. This list captures some of the flavor of systems thinking in that:

It contains the word systems in several places
It includes some of the feeling for the flow of events
It defines somewhat more clearly the idea of the interrelationships of activities
It expresses the presence of standards (in the form of policies) at one point
It even hints at the presence of feedback

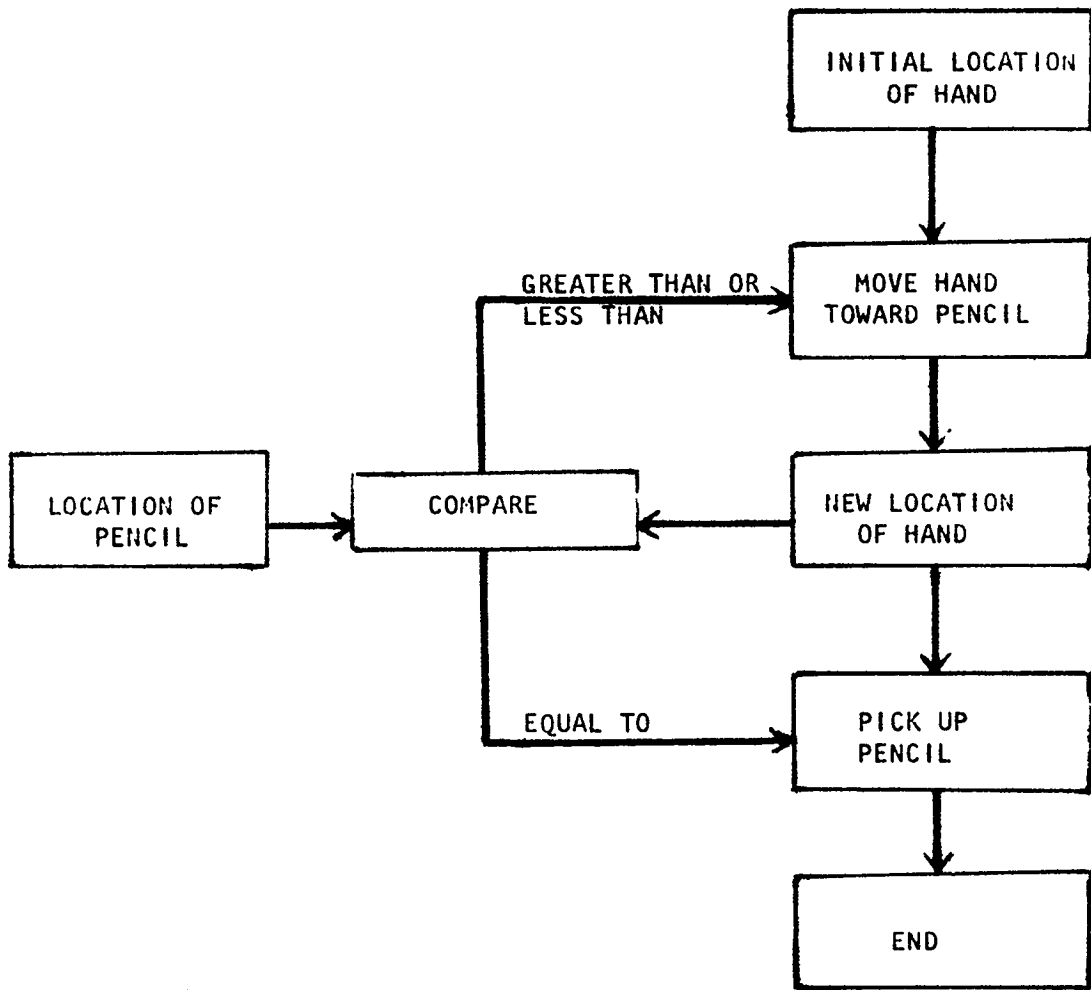
C. A careful look at these systems models will disclose that all systems have both structure and process that can be identified, if not completely isolated; they are comprised of:

Conditions in certain locations or with respect to certain factors at a given time. For example, the present position of the hand - its location at a given moment; the number of new cars on hand at a certain point in time. In systems parlance, these conditions are called levels, reservoirs, or states.

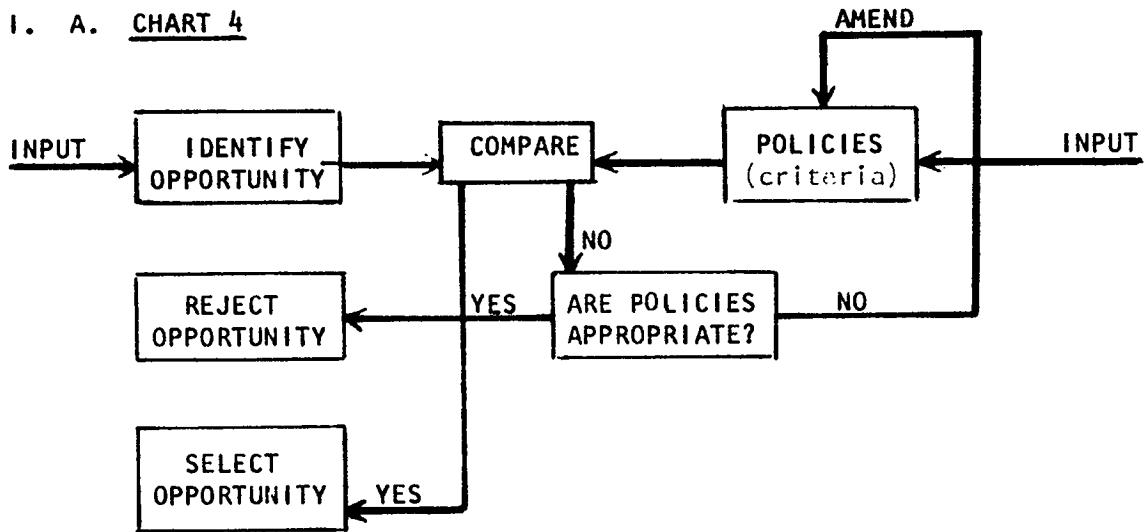
Action that occurs in moving the contents of one reservoir to another. For example, the movement of the hand from one position to another, the passage of light from the sun to the leaf, and the transfer of chlorophyll from the leaf to the tree. These are called flow rates.

Choices from among the alternatives available within the system. For example, a decision to continue to move the hand in the direction of the pencil, or a decision by the President of the United States to direct more federal government effort toward solution of problems in metropolitan areas, and less toward exploration of outer space. These are called decisions.

Lines of Communication that carry messages about states and flow rates and the actions that adjust their relationships to achieve some objective (or conform to some standard). For example eyeoptic nerve-cerebellum connections that inform the motor centers of the brain of the present position of the hand with respect to the pencil and transfer information back to the nerve-muscle connections to bring the hand closer to the pencil. These are called information channels.



III. A. CHART 4



- B. This whole process is more complex than a simple flow chart representation can depict, but the essence of the process can be discerned from such characterization as that shown in Chart 4; it is the beginning of a systems description of the management process.

This amended model, general though it is, recognizes the inputs to the system from other exogenous systems; characterizes the (circumscribed) whole as an integrated system; points out levels of states (policies, standards) within the system; identifies action points (decisions) within the system;

- documents the interrelationships between actions and information storage points;
- traces the flow of information from outside the system within the system
- depicts the process as dynamic.

This model, supported by the explanations, is helpful in providing a basis for assessing the validity of common presumptions; it should provide fair warning that policy-making/opportunity-selecting cannot be adequately understood by simply viewing it as "a process that man performs through the act of decision-making."

- C. Information plays the critical role in the process. To construct acceptable operating systems or models one must draw on information sources both inside and outside the decision making organization--- a real estate enterprise.

Outside: Information about alternative kinds of operating systems that can be constructed to supplement

Inside: Existing knowledge and skills relating to the construction of operating systems;

Inside: Inside information about existing standards for constructing operating systems, which in turn, are the product of information flows that come in part from within the organization,

to reflect its requirements, and in part from sources outside the organization.

D. As the movement of the system depends upon the external and internal inputs, the configuration and the behavior of a given system represent a negotiated consensus between two general sources of power--- "the power of the environment to dictate the form and the behavior of the organization, on the one hand, and the power of the organization to decide for itself what its conformation and behavior will be, on the other. To be mindful of the inevitable presence of both forces is to be able to penetrate the meaning of organization purpose--- in every system, every organization."---John A. Beckett.

E. Compare this to the definition of feasibility:

"A real estate project is 'feasible' when the real estate analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited resources."--- James A. Graaskamp

IV. There are so many variables in real estate, it can be systematic only in part and otherwise is a matter of intuitive art and improvisation. To borrow the language of the architect:

- A. Context is that part of the environment which will not change and to which one must adapt or one must achieve. A firm objective is as much a constraint as unchangeable zoning.
- B. Form is concerned with those elements of the environment which can be molded, adapted, or assembled to fit the critical requirements and objectives of the context.
- C. Success is evaluated by the fit of form to the critical elements of context - an ensemble which first requires identification of the context or problem to be solved.
- D. In the language of Beckett the need to define context and to test form requires one:
 - 1. to seek to identify the innumerable internal forces whose interplay among themselves and interaction with external forces may influence the formation of purpose; (business objectives and constraints)
 - 2. to seek to identify the innumerable external forces which may influence the conformation and the behavior of the system organization with which the system designer is concerned; (market, merchandise, legal, and political context)
 - 3. to comprehend the pattern within which all systems are combined: (physical plan and financial synthesis)
 - 4. to seek to measure the effects that will result from the interaction and the interplay of such internal and external forces under given conditions; (forecast model)

- D. to design the organization system in such a way that achievable alternative results (which have been selected from among them as purposes, objectives and goals) are, in fact, produced from the engineered combination of forces. (plan fit to context)
- E. The steps above can be the responsibilities of feasibility analysis, you may participate in the first five functions of Beckett's enterprise management below or test a project against a predetermined context:
 1. Goal setting
 2. Forming policies
 3. Searching for opportunities which are consistent with policies
 4. Selecting opportunities which are consistent with policies
 5. Designing systems for capturing selected opportunities
- F. To reduce this more abstract model to more familiar terms, feasibility analysis can be subdivided into 7 basic areas of investigation:
 1. Strategic objectives and tactics (policies)
 2. Market trends and opportunity areas
 3. Merchandising targets with monopoly characteristics
 4. Legal-political constraints
 5. Ethical-esthetic constraints
 6. Physical-technical constraints
 7. Financial constraints

V. Elements of the Financial Synthesis

- A. Identification of selected profit centers
- B. Specification of the common denominator - a time line - schedule of outlays and receipts
- C. The capital budget (source & application)
 1. Construction costs
 2. Carrying costs
- D. Operating budgets (source & application)
 1. Pattern of sales revenues
 2. Fixed management costs
 3. General sales costs and investment
- E. Financing plan
 1. Credit amounts and terms
 2. Equity amounts and terms
 3. Holding power
- F. Profits classified as to type and tax
 1. Cash from operations
 2. Cash from capital gains
 3. Cash surplus from financing
 4. Cash from tax savings on other income
 5. Cash from reduction or shift of fixed outlays
 6. Indirect non-cash benefits
- G. Selected measures of profitability

- VI. Modern management defines risk as the potential variance between expectations and realizations, i.e. between proforma prospects and balance sheet and P & L statements.
- A. Dynamic risks can produce profit or loss and are best controlled by the finesse of management execution of a plan.
 - B. Static risks are those which can only cause a loss due to surprise upset of a plan.
 - C. Risk management has two objectives:
 - 1. Conservation of existing enterprise assets despite surprise events
 - 2. Realization of budgeted expectations despite surprise events
 - D. The process of risk management involves:
 - 1. Identification of significant exposures to loss
 - 2. Estimation of potential loss frequency and severity
 - 3. Identification of alternative methods to avoid loss
 - 4. Selection of a risk management method
 - 5. Monitoring execution of risk management plan
 - E. Alternative methods for surviving potential risk losses:
 - 1. Eliminate risk exposure
 - 2. Reduce frequency or severity of accident
 - 3. Combine risks to increase predictability (reserves for expenses)
 - 4. Shift risk by contract (subcontracts or escape clauses)
 - 5. Shift risk by combination by contract (insurance)
 - 6. Limit maximum loss (corporate shell or limited partnership)
 - 7. Hedging

VII. Identification of Client Objectives and Constraints

- A. Feasibility consultant has three alternative situations:
 - 1. A site or product in search of a user
 - 2. A specific consumer in search of a site and a product
 - 3. A specific client in search of an opportunity in real estate
- B. Determine viewpoint of the intended leader of the study, that is the logic and decision criteria of the user who may not be a client.
 - 1. Strategy of equity vs credit
 - 2. Strategy of owner vs user vs public interest
 - 3. Value-objectives-criteria of viewpoint to be served
 - 4. Desirability of supplementary reports or modules
- C. Classification of report type by feasibility component
 - 1. Strategy study: selection of objectives, tactics, and decision criteria.
 - 2. Market analysis: economic base studies or other related aggregate data review.
 - 3. Merchandising studies: consumer surveys, competitive property analysis, marketability evaluation, etc.
 - 4. Legal studies: opinion on potential legal constraints, model contracts or forms of organization, and political briefs.
 - 5. Compatibility studies of project to community planning, conservation standards, or other public policies.
 - 6. Engineering, land planning, and architectural studies.
 - 7. Financial studies: Economic modeling, capital budgets, present value and discounted cash-flow forecasts, rate of return analysis, financial packages.

SKIER MOTEL ROOM DEMAND MODEL

$$P \times R \times T \times D \div PR \times MS = \text{Rooms per Average Weekend Day}$$

where:

P = Total population for counties in the overnight trade area.

R = Skier Participation rate on the average Winter Sunday.

T = For All skiers the average number of overnight skiing trips.

D = Average length (days) of overnight skiing trips.

MS = Market Share (%) of weekend skiers that the Wintergreen motel can capture.

PR = Number of people staying in each room of motel.

Total population for surrounding counties	x .0046	Average Sunday participation rate	x .9	trips per year	1.86	days per trip
three people per room	x 2.5%	conservative market share	= 208	rooms per average week- end day		