

The myth of the development team

The relation between developer and architect in real estate development projects

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Gunther Maier, Maximilian Schimanko

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- Many textbooks in Real Estate Development talk about the developer and his/her „development team“ as the driving force in RE development.
- Image of a team working together in harmony to achieve a common goal.
- Our research question:

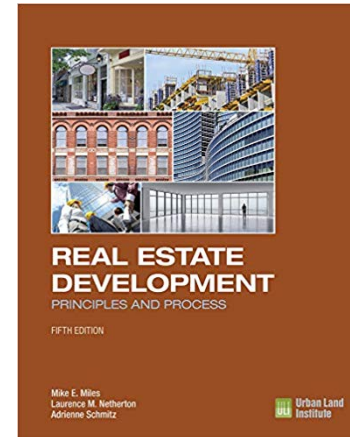
**Isn't this image misleading?
Aren't there major conflicts of interest between
key members of the development team?**

- If this view is correct, more emphasis should be given to conflict management and conflict resolution in RE management as well as in RE education.

- Part of a larger issue
 - Various layers of the „development team“
 - Developer – architect
 - Builder – contractor
 - Contractor - subcontractor
 - Between companies – within a company
 - Public – private
 - Public vs. Private interests
 - In PPPs
 - In case of public developers
 - Part of behavioral real estate economics
 - We will investigate these questions from a conceptual perspective and empirically with interviews

Development team

- E.g. Miles et al.:
 - **“THE DEVELOPMENT TEAM** The developer is the leader of a development team. He coordinates people and helps realize a vision. That vision may be his own, that of the community, one that is shaped by the team, or a blend of all of these. Developers seldom work in isolation. To design, finance, build, lease or sell their products, developers must engage the services of many other experts—public and private—some of them specialized professionals, others entrepreneurs like themselves. Chapter 3 describes the typical array of team members in detail. With each project, developers must shape and sell an idea to secure commitments from others. Thus, they are first and foremost promoters. Like any team leader, they must also motivate players, often with incentives beyond money—with pride in the project, with the hope of future work, and with fear of the consequences of nonperformance. Knowing when and with whom to use different incentives is a key leadership skill for developers.”



Development team – major players

- Private sector developers
- Public/private partnerships
- Architects
- Engineers
- Landscape architects
- Land planners
- Urban designers
- Building contractors
- Site development and grading contractors
- Environmental consultants
- Traffic and transportation consultants
- Biology consultants
- Geotechnical and soils consultants
- Hazardous substance consultants
- Air quality consultants
- Greenhouse gas consultants
- Noise consultants
- Market research analysts
- Lenders
- Construction lenders
- Permanent lenders
- Joint venture partners
- Appraisers
- Public finance consultants
- Attorneys
- Accountants
- Real estate leasing agents and/or sales brokers
- Marketing and public relations consultants
- Property managers
- Regulators
- End users

Development team

- In reality every project is unique
- In larger projects we have
 - Very complex and interrelated tasks
 - Many different actors, some with executive, some with controlling functions
 - Different types of contracts with conditional clauses and financial penalties
- Therefore, in reality development teams differ considerably
- Results are very difficult to generalize

Development team – a stylized view

- We reduce the focus onto two actors:
 1. The developer
 2. The architect
- We assume:
 - The **developer** bears the financial risk of the project. He/she is interested in the financial success of the project (sale or rent). If the project is a commercial failure, the developer loses money. If the project is particularly successful, the developer enjoys a higher development profit.
 - The **architect** works for the developer on the basis of a contract. The architect determines the key design features of the project. They have implications for the construction costs and the operation costs as well as the revenue. The architect is paid for his/her services by the developer out of the development profit.

Conflicts in the development team

- This stylized view makes clear that there is a potential conflict between developer and architect.
- The architect's fee is paid out of the developer's development profit.
- The architect can influence the image of the project, the revenue, the construction and the operation costs
- Classical principal-agent-relation
- Principal (developer) wants the agent (architect) to act in his/her best interest.
- But, the agent has his/her own objectives, which (may) conflict with those of the principal.

- In reality, there are many more principal-agent-relations in a real estate development project.
- Ignored here. We leave them for future research.

Conflicts in the development team

- Conflicts can also result from other circumstances of RE development
 - Complexity of the project
 - Larger RE development projects involve hundreds of actors whose activities may have implications for others and for the overall project
 - Growing number of norms and legal requirements that have to be taken into account
 - Long production process with unforeseeable changes in environmental conditions
 - Increasing specialization of tasks and actors
 - Overlapping competences and tasks
 - Specialized tasks in a highly complex project cannot be delineated perfectly
 - Action vs. Responsibility
 - Two or more actors may be responsible for one task (overlapping responsibilities)
 - Nobody will be responsible for one task
 - Depends upon success of the task

Conflicts in the development team

- Conflicts can also result from other circumstances of RE development
 - Qualification and knowledge of actors
 - Actors may lack the necessary qualifications for a specific task
 - People tend to overestimate their own qualification and underestimate that of others
 - Learning by doing strategy
 - Lack of resources
 - Actors may be overwhelmed by the resource requirements (personal, financial, organizational) of a large project
- All these circumstances can spill over to other actors – source of conflict
 - Need for adaptations in the project design, in the time plan, in financing
 - Delays in the project
 - Higher costs
 - Image costs

Conflict management and conflict resolution

- Although conflicts seem to be quite common in RE development, conflict management and modern techniques of conflict resolution (reconciliation, mediation, arbitration) are rare in RE development.
- Standard procedure are court cases
- “Conflict management is the process of limiting the negative aspects of conflict while increasing the positive aspects of conflict” (Wikipedia). It uses resources to
 - Identify conflicts,
 - Keep them from escalating, and
 - Turn them into positive learning and innovation.
- Hitzel (2008) argues that in the German construction industry management of conflicts is non-existing.
- Traces this to the principal-agent-relation
 - Every dispute is turned into extra costs or reduced payment

Conflict management and conflict resolution

- **Reconciliation:** Partners bring forward their arguments, third party evaluates them and suggests a solution
- **Mediation:** Third party does not evaluate and suggest a solution, but supports the partners to find a solution together
- **Arbitration:** The partners agree in advance to accept the verdict of the third party

- Modern techniques of conflict resolution are usually cheaper, faster, but not legally binding.

- H1: Conflicts between developers and architects (and in RE development in general) are quite common. This can be attributed to the principal-agent-relation between them.
- H2: Increasing complexity leads to more and more severe conflicts
- H3: Many actors in RE development overestimate their own expertise and knowledge which leads to conflicts with other actors
- H4: In Austria, the dominant form of conflict resolution is via court cases.

- We want to investigate these hypotheses by use of qualitative interviews with developers and architects.
- So far, very limited empirical evidence: only 3 interviews (2 developer, 1 architect).

- Nevertheless, the interviews have led to a number of statements, which illustrate the situation and support our hypotheses:
- **H1: Conflicts are common and result from principal-agent-relations**
- All three interview partners can report major conflicts between developer and architect.
 - *„When something is not right, the construction company tries to blame the architect. The architect does the same with the construction company“*
 - *„There are three fields; a developer, an architect, and a construction company. Since our company does not outsource architectural services, developer and architect are on the same side.“*
 - *„There is always some level of distrust. Then, also the other side takes appropriate actions.“*

- **H2: Increasing complexity leads to more and more severe conflicts**
- Again, all three interview partners confirm increasing complexity as well as complexity as a source of conflicts.
 - *„it gets more and more difficult with all the requirements and norm that one has to observe“.*
 - *„Over time one learns to avoid many problems through proper planning. But avoid them 100%, I don't think so“.*
 - *„In construction, the communication problem gets larger and larger because it becomes more comprehensive“*

- **H3: Many actors in RE development overestimate their own expertise and knowledge which leads to conflicts with other actors**
- All three interview partners confirm this observation and see it as a source of conflicts
 - *„construction is operated to 50% by dilettantes.“*
 - *„on a construction site many get involved who are not authorized or lack the expertise.“*
 - *„One side has practical experience and the other side has theoretical knowledge. Quite often the two do not match. Then, it is difficult for me to find out where the real expertise is.“*
 - *„And when no one feels responsible, something is left behind and that then leads to extra costs.“*

- **H4: The dominant form of conflict resolution is via court cases.**
- One of the interview partners reports personal experience with a mediation process. He views this experience as positive because the conflict resolution was faster and cheaper than via the court.
- The experience of the other interview partners is quite contrary:
 - *„I personally have never heard of a mediation in construction.“*
 - *„Mediation in RE development? I have never heard that such a thing exists.“*

Summary and conclusions

- In our view, the „Myth of the Development Team“ is busted
- Because of conflicting interests, conflicts between actors in a RE development project are the norm rather than the exception.
- Our theoretical analysis and our (very limited) empirical evidence support this view.
- Larger and more complex RE projects tend to generate more conflicts between actors.
- We see „relations between actors in a RE development project“ and „conflicts and conflict resolution in RE development projects“ as exciting areas for future research related to behavioral economics and behavioral real estate.



THANK YOU
for your
ATTENTION!



VIENNA UNIVERSITY OF
ECONOMICS AND BUSINESS

DEPARTMENT OF SOCIOECONOMICS
Welthandelsplatz 1, 1020 Vienna, Austria

Ao.UNIV.PROF. DR. GUNTHER MAIER

T +43-1-313 36-4780
gunther.maier@wu.ac.at
www.wu.ac.at/mlgd