

HOW FINANCIAL KNOWLEDGE CAN LIBERATE YOUR DESIGN

INSIGHTS FROM PARAGON GROUP CO-FOUNDER AND DIRECTOR ANTHONY ORELOWITZ'S MASTERCLASS PRESENTATION ON 29 OCTOBER

Keeping track of the financials and knowing how to keep generating income are probably the most important aspects of running any business. In South Africa's ever volatile economic landscape, exacerbated by the effects of Covid-19, being able to receive first-hand advice from one of our country's leading architectural firm's co-founder and director, Anthony Orelowitz, is worth more than its weight in gold.

During his recent presentation, Anthony shared valuable knowledge, insightful experience and advice on how today's architects can navigate and mitigate financial risk. He also shared useful examples of how these principles – when applied at the project level – can not only mitigate risk and save costs, but also elevate the architect's influence and the overall project's success.

THE IMPORTANCE OF MITIGATING RISK

According to Anthony, one of the most important aspects in mitigating risk is an architect's understanding of the market in which they operate and knowing where to access the right information. He mentioned various industry sources, providing vital data and information to help inform, build and develop an architect's practice.

These include:



1. The South African Property Owners Association (SAPOA) – that offers information on office and industrial vacancy reports presented in a user-friendly format, providing insights into the market and where activity is happening.
2. Brokers such as JLL offer, for instance, the top five projects, giving crucial information such as who is selling and, more importantly, who is buying. This

is great insight if you wish to build your client base.

3. Specialised agencies such as Rode & Associates – property consultants, valuers and town planners – have developed a forecasting model using historical data to predict where the market is moving and where areas of risk may be developing.

These resources are extremely useful, and according to Anthony, "Offer valuable insight into what our market is doing, which is vital when deciding on future projects."

UNDERSTANDING CLIENT RISK

One would think that having many clients is the ideal scenario. "Not if they are not the right type of clients," says Anthony.

He explains that at Paragon they have long realised the value of determining various risk factors before embarking on new work. His team (including Director Estelle Meiring) has designed a risk-management assessment tool whereby each job is measured by analysing the risk factors of the client, the project and the site.

"Taking a critical look at the risk profiles of each of these categories is essential to proactively mitigate the



Aerial view of the site around the Gautrain station (indicated by the handmarked red block with a cross). The red block is known as the Stella Street site, yellow is the Goro site and the blue block represents the Eagle's Cry site.

risks that form part of our practice," Anthony explains.

Risk assessment at the practice

The Paragon team reviews each client against a checklist that includes elements such as:

- Has the client committed to the fees in writing?
- Does the client have experience in this type of project?
- Does the client have a good reputation – are they easy to work with?
- Is the site's zoning in place?
- Has council approval been given?
- Project funding in place?
- Are we competing with other clients?

Each of these questions contributes to the overall score upon which the risk assessment is then made, indicating the viability of the project.

Financial institutions' risk assessment

It is also important to understand that just as architects evaluate these elements, so do the financial institutions. Their assessments of their

client (the developer) are similar, but far more rigorous and the overall score is determined by the credit rating awarded to the client by the credit agencies. By considering the client's risk profile and affordability, this rating determines if the banks award the funding or not.

It therefore makes sense for architects to conduct their own form of due diligence to mitigate the risk to their practice.

UNDERSTANDING PROJECT RISK

Project risk is such a vital element because without a project being greenlit, there is no project. To demonstrate the importance of this factor, Anthony referenced three specific sites around the popular Gautrain station in Sandton.

By looking at these sites, they seem to be "prime property", given their proximity, size and being in the centre of Gauteng's most affluent business hub. This is where the value of understanding project risk becomes clear.

Anthony explains, "In each of these examples, the sites offer massive space in terms of square meters and one would think that at a bulk cost of R4 000 p/m², these sites must offer massive income potential."

Stella Street – 90 000m² of rights

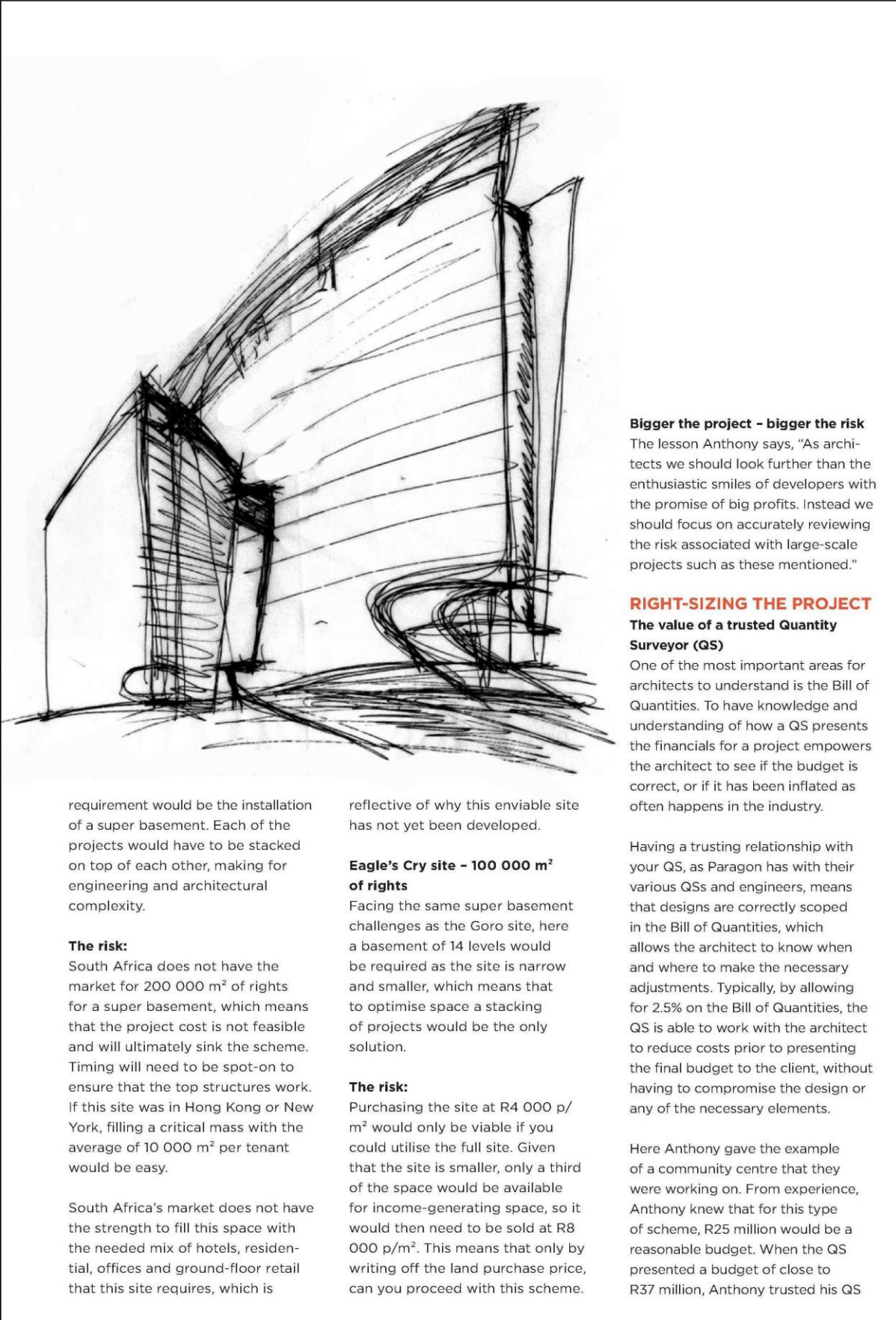
He then continues to explain that in the case of Stella Street, the building offers 90 000m² of rights, with the developers doing everything right by developing basements to service the top structure and making provision for future development, with a projected 9 000 vehicles entering and existing the building.

The risk:

All the traffic from Stella Street merges at the intersection, which is directly opposite the proposed site's exit. This makes it extremely difficult to turn against the traffic. The City Council has also indicated that they would like to reduce traffic in the area by creating various pedestrian crossings and this intersection has been identified as one such pedestrian point.

Goro site – 200 000 m² of rights

Given the size of the site, the first



requirement would be the installation of a super basement. Each of the projects would have to be stacked on top of each other, making for engineering and architectural complexity.

The risk:

South Africa does not have the market for 200 000 m² of rights for a super basement, which means that the project cost is not feasible and will ultimately sink the scheme. Timing will need to be spot-on to ensure that the top structures work. If this site was in Hong Kong or New York, filling a critical mass with the average of 10 000 m² per tenant would be easy.

South Africa's market does not have the strength to fill this space with the needed mix of hotels, residential, offices and ground-floor retail that this site requires, which is

reflective of why this enviable site has not yet been developed.

Eagle's Cry site - 100 000 m² of rights

Facing the same super basement challenges as the Goro site, here a basement of 14 levels would be required as the site is narrow and smaller, which means that to optimise space a stacking of projects would be the only solution.

The risk:

Purchasing the site at R4 000 p/m² would only be viable if you could utilise the full site. Given that the site is smaller, only a third of the space would be available for income-generating space, so it would then need to be sold at R8 000 p/m². This means that only by writing off the land purchase price, can you proceed with this scheme.

Bigger the project - bigger the risk

The lesson Anthony says, "As architects we should look further than the enthusiastic smiles of developers with the promise of big profits. Instead we should focus on accurately reviewing the risk associated with large-scale projects such as these mentioned."

RIGHT-SIZING THE PROJECT

The value of a trusted Quantity Surveyor (QS)

One of the most important areas for architects to understand is the Bill of Quantities. To have knowledge and understanding of how a QS presents the financials for a project empowers the architect to see if the budget is correct, or if it has been inflated as often happens in the industry.

Having a trusting relationship with your QS, as Paragon has with their various QSs and engineers, means that designs are correctly scoped in the Bill of Quantities, which allows the architect to know when and where to make the necessary adjustments. Typically, by allowing for 2.5% on the Bill of Quantities, the QS is able to work with the architect to reduce costs prior to presenting the final budget to the client, without having to compromise the design or any of the necessary elements.

Here Anthony gave the example of a community centre that they were working on. From experience, Anthony knew that for this type of scheme, R25 million would be a reasonable budget. When the QS presented a budget of close to R37 million, Anthony trusted his QS

because of their 15-year relationship. He knew that no additional fat had been added, but that for the budget to be approved they would need to get as close to the R25 million as possible.

By working with the QS and his team, they made smart cuts without compromising the integrity of the design. Upon further discussion, they realised that by purchasing the land next door and removing the basement, they could reduce the scheme's budget even further.

In the end they presented a budget of R23 million, which was accepted on the spot. The combined experience and trusting relationship meant that the work got greenlit, without

scaring the client with an inflated budget, compromising the design or eliminating any of the vital project elements.

Working Closely with Engineers

Anthony explained that the same principle holds true for engineers, but that in their case, the safety of the project is paramount. Finding viable solutions in cases where the engineer has scoped or is sticking with a proposed solution can be done. Such was the case with the Alice Lane building where the Paragon team found oil drums to be a solution for a massive steel strut.

Anthony also urges architects to keep looking for new and fresh ideas when they are faced with what seems

an "only option". "Architects can be empowered to shape the way they work and to influence projects, but it takes dedication, practice and knowledge to find these viable and innovative solutions to ensure that projects go ahead," he comments.

FINANCIAL CONTROL SYSTEMS

Cost control systems

Anthony notes that technology has vastly changed the way architects operate and that besides 3D technology fast-tracking rendering and the manufacturing of specialised components, financial management has also been elevated.

He explains that an Enterprise Resource Planning (ERP) system is vital to understanding what resources cost and where to allocate them on specific projects.

"In my opinion, each practice should have a daily, weekly and monthly review of their resources, expenses and profit."

He notes that in cases of crisis, ERP systems have on numerous occasions given architects a view on how to channel and optimise resources.

FINAL WORDS

"These components all form a holistic system that must be managed effectively to ensure a healthy and viable practice," Anthony notes.

They are all vital, beyond value engineering, because being able to effectively assess, identify and manage risk will ensure that the right projects are taken on and finances are effectively managed, which will influence the way you look at profits.

"We don't always get everything right, but we keep analysing all the components of our business – exploring ways to do things better," Anthony concludes.

For more information, please contact Paragon Group:
Tel: +27 11 482 3781
Email: cindyf@paragon.co.za
Website: www.paragon.co.za 

