



The little Harlem penthouse that couldn't

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Changes made after completion of the design documents are common causes for delays and cost overruns. Often developers will push to complete drawings and break ground without thoroughly understanding the design. That push can lead to an untimely realization that various design aspects have not been thoroughly considered by the owner, and possibly not optimized for the specific market demand.

If the sales team comes in later and suggests changes to add value, a critical decision point arrives for the developer. Should I make changes and risk delays and overruns? Will the benefits outweigh the costs? This is not a decision to be taken lightly as the overall rate of return could be enhanced or diminished based on the next move.

Take the case of this new condo development project in Harlem, built during the last boom cycle. Plans were presented by the owner to the construction team as complete and ready for construction, and ground was to have been broken within 60 days. Indeed the plans were sufficiently complete, a permit was obtained and the work was bid and awarded on time to start excavation. During the excavation the owner announced that he had engaged a condo marketing firm who would have some suggestions on revisions to certain finishes, primarily in the kitchens and bathrooms. These changes were made early enough not to affect the construction schedule, and barely increased the overall budget. These changes were important; however, as they added value to the apartments and better aligned the units to what the market was demanding. There is no doubt the project's internal rate of return (IRR) was enhanced by these value-added changes that had minimal impact on the time and cost to complete construction and sell the units.

Months later and after the structural work was in progress the owner announced one more change. The addition of a small cupola penthouse, allowed by the existing zoning rights, would increase the sales value of the penthouse apartment, and therefore bolster the rate of return for the project. This addition seemed like a "no-brainer" to the owner. By the time the design documents for the cupola were issued, the erection of the structural framing was nearly complete. The cupola design called for changes in the already purchased and coordinated structure, as well as mechanical and electrical systems. Integrating the cupola would result in construction delays to re-coordinate the existing structural and mechanical systems, as well as add additional costs to the project. When all was said and done, the cost of the additional work, as well as the time-value of the delays, outweighed the additional sales value of the penthouse apartment. The addition of this small, yet complicated component, meant to enhance the return of the developer's capital investment, actually diminished the investment's return.

It is always advisable to make 100% of all the design decisions as early as possible in the design process. The developer of any type of project should always have the design vetted in real time, by the sales or leasing team and end users. The possible elongation of the design process by several

weeks is trivial when compared to either "missing the market" with a mis-matched design or untimely changes which upset the construction costs and schedule.

In residential projects, the unit mix and layouts are crucial, as well as the finishes, cabinetry and fixtures. In high-rise construction major structural elements may be substantially affected by changes in unit mix, due to the placement of columns, bearing walls and mechanical risers. Altering unit layouts after the structural design has commenced can have a devastating effect on the schedule, even before the first shovel hits the dirt. Owners are well advised to consult with marketing experts and end users before putting the first pen to paper.

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