THE REAL ESTATE MANAGER: TOWARDS A FINANCIAL KNOWLEDGE AND SKILLS FRAMEWORK FOR PROFESSIONAL DEVELOPMENT

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The real estate manager's financial knowledge and skills are a critical factor to secure funding for projects. The decision to borrow involves a series of complex considerations related to current available resources, expected income, perceived needs, cost of borrowing and risks. The growth of financing options means that real estate managers have to be financially knowledgeable and skilful to make the best decisions. The aim of the study is to investigate the types of knowledge and skills required by the real estate manager and develop a financial knowledge and skills framework to access funding for real estate projects. The methodology adopted is a desk review of relevant literature and information from interviews and online survey. The study found that the real estate manager needs different types of financial knowledge and skills to access and effectively use funding from different sources. The study provided a matrix of financial knowledge and skills needed by real estate managers, which will act as a guide for training needs and professional development.

Keywords: financing options, financial knowledge, innovative finance, real estate manager, and skills.

INTRODUCTION

The problem of access to funding for real estate projects remains a global one (Moldoch, 2009). Arguably, a major contributor to this challenge is the lack of financial knowledge and skills for sourcing of funds for real estate development (Ogbenjuwa et al, 2018). Knowledge, the nature and level of skills can be attributed to formal or informal training and work experience. The contemporary manager in the real estate sector needs knowledge and skills sets which requires understanding of the global financial markets, ability to take advantage of the impact of international economic coordination, entrepreneurial skills, and ability to lead in multiple and virtual organisation (Fulmer & Conger , 2004). Enhanced managerial knowledge and skills is increasing important too as it helps to meet certain demands of lenders or financiers (Nitz, 1996; Rector, 2002). The real estate manager needs knowledge and critical skills, particularly financial knowledge. The increasing change and complexities in the built environment raises important questions about the nature and types of knowledge and skills set required by real estate managers involved in sourcing funding (Dale & Iles, 1992). However, to do this effectively, there is a need to understand what financiers require in applying for funding. The knowledge and specific skills needed by the real estate manager to access funding for projects has not be adequately addressed in the literature. Financial knowledge and skills are required for estimating, planning, gaining, spending and controlling resources (IPMA, 2015). The aim of this study is to document the financial knowledge and skills required by managers to source funding for real estate development and to develop a knowledge and skills matrix that will act as a guide to managers involved in sourcing funding for real estate projects.

STUDY METHODOLOGY

This study adopted a three-pronged approach (Table 1). The first stage involved an extensive review of existing literature focusing on manager's knowledge and skills required in the real estate sector from various journals. The second stage involved a pilot survey and preliminary interviews with managers involved in real estate project to capture their experiences and views on key knowledge and skills required to access funding. Thirdly, the findings from the literature and the interviews form the basis for developing a knowledge and skills framework consistent with the International Project Management Association's (IPMA) (2015) individual competence baseline.

Table 1: Study methodology

Table 2 shows the number of participants in the preliminary/exploratory survey and interviews conducted so far. Most of the managers were identified through Royal Institution of Chartered Surveyors (RICS), the Association of Real Estate Developers of Nigeria (REDAN) and real estate developers in South Africa.

Table 2: The overview of semi structured interview and online survey participants

Category of participants	**Managers in the real estate development sector**
Number of participants in pilot survey	13
Number of participants for interview	9
Region of coverage	United Kingdom , South African and Nigeria

Members of RICS were contacted via LinkedIn and emails and others were established based on contacts in ARCOM 2018 conference held in Belfast. As part of an ongoing study, the interviews were digitally recorded and transcribed using content analysis while the survey was conducted using the online survey platform provided by London South Bank University. The link for the survey was sent to respondents via email.

LITERATURE REVIEW

Knowledge and skills are often interchangeably used but there is a slight difference in both terms. According to Spencer (1993), skill is the ability to perform physical or mental task and it can be acquired through training and practice. Boyatzis (1982) sees skills as 'actions that lead to positive outcomes'. This study will use the definition of the IPMA (2015) and RICS where 'skill' is defined as the application of knowledge. Knowledge is the collection of information and experience that the manager in the real estate development sector possesses; it means that to skilfully execute a task, having knowledge will be a precondition to effectiveness.

Knowledge and skills needed for funding of real estate projects
For every development project, the cash inflows and outflows must be managed appropriately. Such inflows and outflows must be calculated and evaluated on a regular basis so that appropriate actions can be taken to ensure sufficient financial resources are available (IPMA, 2015). The IPMA (2015) recommended a number key areas for developing financial knowledge which includes financial accounting basics, finance options, funding sources, financial management, knowledge of relevant conventions, legislation, international commercial terms, methods of monitoring and controlling expenditures and others. All of these knowledge components are necessary for effective sourcing and management of project development funding (IPMA, 2015; Grizzle, 1985). Earlier work by Mann (1965) explored a three-skill approach focusing on technical, human and administrative or conceptual skills. Katz (1971) argued that if managers were to perform effectively in their roles, they needed managerial skills which followed a similar classification into technical, human and conceptual. More recent research by Sunindijo et al (2017) also classified the manager's skills into conceptual, human, political and technical skills.

The technical skills involve specialised knowledge, analytical ability and specialisation in the job roles and responsibilities. Individuals are promoted to managerial positions because they have showed a level of technical competency in their respective fields (Muthuveloo et al., 2017). According to Katz (1955), technical skills primarily means working with things and not people. Managers especially at the lower and middle levels should have technical skills because it enables them to train, direct and evaluate subordinates in performing specific tasks (Muthuveloo et al, 2017). In contrast to technical skills, the human skills are primarily about people (Katz, 1971), the ability to work cooperatively with others, to inspire enthusiasm, to motivate, get the best out of people and build trust (Muthuveloo et al., 2017). Human-related skills also include, team work, dealing with conflict, leadership, and creating enabling organisational climate. Findings from studies have shown that human skill is the prognosticator of managerial effectiveness (Boyatzis, 1982; Muthuveloo et al, 2017).

While human skill focuses on people and technical skills on things, conceptual skills focuses on ideas and concepts (Katz, 1955). Conceptual skills entail seeing the organisation as a whole, the need for interdependency of the firm to the industry, community, and political, social and economic forces of the nation (Mustapha, 1990). Conceptual skills are central to creating a vision and strategic plan for an organisation and is very important to senior managers. The uniqueness of Katz's (1955) analogy is that skills can be taught.

Political knowledge and skills are needed by managers to effectively influence stakeholders which include subordinates, superiors, government agencies and financiers (Montalvo & Byrne, 2016) . These skills are innate as well as learned but are an important antecedent of performance outcomes, particularly when increased social interactions are part of the manager's job requirement (Banister and Meriac, 2015). Political skills includes social astuteness, savvy and positioning (Mintzberg, 1983). Social astuteness is the skill to observe and accurately comprehend others and keenly attune to divers social situation (Junqi and Chen, 2012). A manager can be considered politically skilled when he has social intelligence which is the ability to understand and predict other people's behaviour and feelings (Banister and Meriac, 2015). A manager should also be skilled in agreeableness which signifies that the manager is sympathetic, kind, altruistic, generous, fair and eager to help others (Banister & Meriac, 2015).

The manager needs core financial knowledge and financial management skills to be able to access funding for their projects. These skills are considered amongst the critical management skills (Grizzle, 1985; Trimble & Trimble, 1993). They include, for example, budgeting, cost-benefit analysis and taxation skills. Lenders often have requirements to make them comfortable in providing funds for real estate projects. Traditionally lenders commonly use ratios, debt to worth and cash flow analysis to determine repayment ability of potential customers. However, in contemporary lending, additional requirements are often stipulated because of the increasingly complex nature of the financial markets (Rector, 2002). Some of the things the lender takes into consideration before lending include the company's current situation and repayment histories. Lenders need to know how the company has reacted to downturns, review its forecast and understand why the client needs the requested sum (Rector, 2002). Lenders also look at the long-term records of accomplishment of the firm to determine if it can repay the loan.

Lenders generally do not like re-financing to pay-off accounts that are past due as they are prone to further default. Lenders look at three areas of risk to justify lending and they are credit risk, collateral risk and structure risk. To mitigate against credit risk, the lender looks at three financial statements, which are balance sheet, income statement and cash-flow statement. These sets of accounts are then analysed using various tools for ratio analysis such as turnover ratio, debt-to-equity and current ratio (Nitz, 1996). These ratios will indicate the financial health of the company at different points in time, while the income statement helps the lender in analysing the revenue, income, profitability and margin trend of the company. The cash flow statement helps the lender to determine how a company generates cash. It will help the lender to ascertain if the company generates sufficient cash to meet up with its obligations. Collateral risk encompasses the type, age and value of collateral. The lender analyses the potential of selling the collateral property as well as the risk of keeping it. There are various collateral types acceptable to lenders for real estate projects and they include the real estate to be financed, stocks, equipment and other investments. The risk can be mitigated through how the loan is structured by allowing, skips in payments, reduced payments or over-extending credits could be a potential risks that may crystallise (Charles and Mori, 2016). Lenders traditionally look at three basic repayment sources and they are cash flow, guarantor and liquidation of collateral (Rector, 2002). The cash flow enables the lender to know if the developer can liquidate the proposed loan from his current financial position and / or in addition to the increased revenue from the project. Furthermore, a strong guarantor can support debt repayment prospects. Liquidation of collateral is the least preferred by lenders. It is often considered as a back-up source of repayment.

Creative and innovative financing for real estate projects

There is a need for real estate development managers to have the knowledge and skills to access innovative and creative financing (Ogbenjuwa & Egbu, 2017). There are various definitions of creative and innovative financing. The World Bank defines innovative finance as involving non-traditional forms of funding through private mechanisms, solidarity mechanism, public-private partnerships (PPP) and catalyst mechanism (Grishankar, 2009). For example, tax-exempt bond financing is a product used in the United States and it is authorised by the Congress. It is a platform where the State and Federal governments issue tax exempt bonds to provide finance for developments such as real estates (Guggenheim, 1999). This product has been in use in the US since 1986 and can be replicated in other countries (Mittereder, 2013).

Residential mortgage backed securitisation (RMBS) is a good funding option for real estate developers. Securitisation is a financing technique where debts are sold to investors. Despite the profitability of securitisation to stakeholders, it could be very dangerous if backed by poor credits, inadequate valuation methods and insufficient regulatory oversight. This was the danger that led to the credit crunch because of the actions and inactions of the rating agencies; regulatory agencies and financial institutions with large and unrestrained risks appetite (Smith, 2017). PPP / Private Finance Initiative (PFI) provides funding for different projects such as airports, highways, schools and communication including housing and residential development (Gibson et al, 1992).

Crowd funding as another innovative finance option that can be used by developers at the start of a new project before other means of innovative funding such as venture capital is sourced. It enables commencement of projects with some degree of independence that is commonly not considered for bank financing or investment by large financial institutions (Lam & Law, 2016). Crowd funding is relatively new as compared with other types of innovative financing but the use of social media and the internet has enhanced its effectiveness and popularity. The risk is widely spread because it taps relatively small contribution from a large number of individuals using internets, without assistance of financial intermediaries. It is a relationship between the entrepreneurs, investors (crowd funders) and the intermediaries (crowd funding platforms).

Syndicated loan is also a viable innovative finance option which can be used to finance real estate projects. Syndicated loans are parcelled amongst banks, ranging from two (2) lenders to more than thirty (30) in some cases (Berlin, 2007). Large real estate's development firms that are involved can borrow very large sums at lower rates and longer tenures when no single lender is too heavily exposed. The developers and financiers can then put in place long-tenured mortgages on the strength of properties developed with the proceeds of the syndicated loans. Housing microfinance is another option that has been used to develop housing projects for low-income communities in India and Latin America (Smets, 2001). A good example is the community mortgage programme used in the Philippines to help the lowest income to access land and housing. The assessment of this finance option shows high cost effectiveness, beneficiary reach and high loan repayment. The programme enables informal settlers in slums or tenants of blighted areas of over 10 years to own the land they are living on, or the property where they will be relocated through community mortgage (UN Habitat, 2009).

INITIAL ANALYSIS AND FINDINGS

A conceptual framework is presented in Table 3, drawing from the literature and building on previous works of Boyatzis (1982), Katz (1971), Egbu (1992), IPMA (2015) Grizzle (1985), Whetten and Cameron (2015) and Muthuveloo (2017) to identify the knowledge and skills required to access funding for real estate projects.

Table 3: Knowledge and Skills Framework

Human skills	Technical knowledge & skills	Conceptual knowledge & skills	Political knowledge & skills	Financial knowledge & skills
Team work	Quantity surveying	Logical thinking	Social astuteness	Cost benefit analysis
Conflict resolution	Architectural skills	Analytical abilities	Savvy	Budget processes
Leadership	Fluency in multiple cultures	Deductive reasoning	Positioning	Finance option
adaptability	Construction safety	Decision making	Interpersonal influence	Financial trend analysis
collaboration	Technological skills	System skills	Relationship management	Cost-effectiveness analysis
Emotional intelligence	Virtual skills	Strategic planning	Self-awareness	Finance source
Strong work ethics	Environmental analysis	Crisis management	Agreeableness	Financial accounting basics
Communication	Design skills	Risk management	Social intelligence	Strategies for managing risks
Self confidence	Construction skills	System skills	Conscientiousness	Professional regulation
Time management	Procurement skills	Information literacy	Network ability	Financial management
Planning skills	Project management skills	Organising	Positive impression management	Debt management
Diligence	Quality assurance	Change management	Apparent sincerity	Fiscal impact analysis

The real estate manager needs a blend of skills from the project initiation stage to hand-over stage (RIBA, 2013). However, financial knowledge and skills are considered amongst the most critical management skills (Grizzle, 1985; Trimble & Trimble, 1993). A detailed matrix for financial knowledge and skills is currently being developed using data sourced from the survey and interviews is as depicted in the Table 4.

Table 4: Core financial knowledge and skills

S/n	Key Knowledge & Skills	Interview response	Survey response
1	Strategies for managing risk & uncertainty	-	✓
2	Cash flow, debt-asset ratio, return on investment and rates of return	-	✓
3	Finance sources	-	✓
4	Finance options	-	✓
5	Finance and accounting basics	-	✓
6	Research skills/ market intelligence	-	✓
7	Developing confidence and building relationships	-	✓
8	Interpreting financial data and identifying trends	-	✓
9	Developing a project budget / planning skills	-	✓
10	Costing skills	✓	-
11	Budgeting skills	✓	-
12	Financial management skills	✓	-

The on-going analysis from the survey and interviews will determine the core financial knowledge and skills required at each stage of the development process to effectively secure and utilise real estate project financing. Examples of the types of knowledge and skills required at the pre-development phase (exploration, idea generation and pre-approval stages) are provided below.

Table 5: Examples of financial knowledge and skills required at the pre-development phase

	Stage 1	Stage 2	Stage 3	Stage 4
	Exploration – scanning for opportunities in the market	**Idea generation-** Identifying potential projects and real estate sub-sectors	**Pre-approval** - Contact financiers and prepare viable project proposal	**Approval** - Secure funding for project
Financial knowledge (examples)	+Finance sources and options + Risks and returns in real estate sub-sectors + market intelligence.	+ Acceptable debt-equity ratio in the sub-sector +Acceptable return on investment and rate of return	+ Funding options to reduce borrowing costs +Pricing risk and uncertainty + Credit enhancement techniques	+ disbursement schedule +conditions for loan effectiveness
Financial skills (examples)	+Acceptable return on investment + Confidence and relationship building with financiers	+ Project budgeting and planning Cash flow +Risk profile of different projects	+ Budgeting + Cost planning + Interpreting financial data and identifying trends +cost benefit analysis + Other evaluation methods	+ financial management +stage payments

CONCLUSION

The interplay of knowledge and skills is significant in the ability of managers to secure funding for their projects. This study has classified knowledge and skills into human, conceptual, technical, political and financial management. A single manager might not have all the skills. However, it is recommended that managers build up teams with the required knowledge and skills. Real estate managers also need different types of financial knowledge and skills critical to access and effectively use funding from different sources. The paper is part of an on-going study to develop a financial knowledge and skills framework needed for real estate managers. This framework is currently being developed for real estate managers and when completed will act as a guide for identifying training needs and career pathways for professional development through higher education and continuing professional education (CPD).

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