How to Cut Development Costs By 2-6% In Less Than 12 Months

While Increasing Returns and Development Fees

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Why the State of the Industry Is Creating New Budget Challenges

In the last five years, real estate development has undergone major changes, and the ripple effects from the COVID-19 pandemic and ongoing economic uncertainty continue to pose obstacles to successful project delivery. From rising material costs to stalled capital markets, your firm is likely facing new challenges as you look to get projects off the ground. Understanding the current market conditions, and the challenges posed to development budgets and timelines, is critical to keeping finances on track over the project lifecycle.

The economic landscape in 2022 and 2023 was defined by varying degrees of recovery from the pandemic, but many challenges continue to plague the industry.

Rising building costs frustrate developers, as it's now clear supply chain delays, inflation, and labor shortages will have a long-term impact on the market.

It is projected that while prices for key input commodities will fall over 2024, according to **a report from Oxford Economics,** building material costs are likely to remain greatly elevated in comparison to pre-pandemic levels. 82.5% of construction materials experienced a significant cost increase since 2020, with an average jump of 19%, according to a recent construction materials report. Increasing demand for materials and labor shortages will likely keep costs high into 2025. Looking toward the years beyond, the cost of energy transition and construction labor shortages could cause additional upward pressure.

High-interest rates and ongoing economic uncertainty also pose a challenge to getting projects off the ground. The Federal Reserve raised interest rates in 2022 and 2023 to quell rapid inflation.

By the end of 2023, economists were optimistic the Fed could achieve a "soft landing" where prices fell without the market going into recession. However, **recent inflation data** showed costs continuing to rise, indicating the economy is still too hot to accommodate rate cuts. As a result, borrowing costs remain high, and the earliest cuts could be expected is in late 2024. In a worst-case scenario, the Fed may raise rates again to ensure inflation doesn't continue to rise.

Keeping your development costs down and making sure projects stay on track and on budget is more critical in the current climate. Read on to learn why status quo methods aren't up for the job, and the modern solutions you should seek out instead.

Why Status Quo Methods Can't Meet Market Challenges

In the past, you've probably relied on status quo tools such as outdated and error-prone spreadsheets, point solutions built for tangential workflows, or in-house software created to meet the gap in the market. Here's a closer look at why these common methods are ill-equipped to meet current market challenges:

Spreadsheets

Spreadsheets have been the industry's standard project delivery tool for over twenty-five years. However, when delivering complex, multi-million dollar projects, spreadsheets create unnecessary and significant risk. Data entry errors, inconsistencies, and transparency issues are inevitable pitfalls. As a result, key personnel within your development team end up mired in tedious, manual data entry and reconciliation, decreasing efficiency across the organization.

Reliance on spreadsheets may be costing your firm in other ways as well. Without the ability to flag potential overruns in your budget, you risk unaddressed budget issues getting out of hand and causing timeline delays. Project managers and accountants do all they can to keep budgets on track, but without automation and other technology, human error is guaranteed. Since spreadsheets are highly customizable, your team will need to spend time building new workflows if an employee leaves and won't be able to leverage valuable project data from past successful projects to inform decision-making. In a down economy, where every dollar and minute counts, putting the fate of your projects into unwieldy and error-prone spreadsheets is a risky gamble.

Force Fit Legacy Software

It's also common to see development teams managing projects using legacy applications and point solutions designed for tangential workflows like accounting and construction. Even though these applications can be force-fit “to work”, they often lack the basic functionality developers need and have steep learning curves that require months of training.

After a pricey and time-consuming implementation, teams will spend more time tweaking the inflexible application to try to get it to do what they need. And, even then, many firms hire external consultants to help with deployment or to build customized, add-on functionality. This adds to cost, takes longer to roll out, and results in a disjointed user experience that often requires continued technical maintenance. In the current economy, firms need to stay lean and efficient. Bringing on additional consultants - and spending time with training - will further slow down your development process and incur unnecessary costs.

Building Software In-House

Larger real estate enterprises have ventured into building software in house to fill the gap in the market for developers. While custom-built software might sound like a perfect solution, in reality, it's more trouble than it's worth. Not only do you need to hire the best software developers, which is expensive, but they need to understand the nuances of real estate project delivery to build an effective tool. Once built, in-house software also requires significant time, effort, and money to maintain.

Think about how difficult it is to complete a complex real estate project on budget and on time - and you’re a highly skilled and seasoned expert. Teams leaning on software developers to create a perfect solution often end up disappointed because the process quickly becomes unwieldy, time-consuming, and expensive, resulting in glitchy software that fails to meet security and redundancy standards. It’s best not to create additional headaches for yourself and your team, especially as unprecedented market challenges are already complicating your process.

Strategies and Tools Forward-Thinking Development Firms Use to Cut Costs

The good news is that your development team doesn't need to rely on spreadsheets, force-fitting legacy applications, or cumbersome custom-built platforms anymore. Here you'll discover the strategies and tools forward-thinking firms are leveraging to boost efficiencies in the development process and ensure more predictable outcomes on complex projects.

Market Analysis + Feasibility Studies

Market analysis and feasibility studies help real estate developers gain valuable insight and mitigate risk, boost decision-making and lower costs. Feasibility studies are usually conducted as part of a project's initial due diligence and provide a predictive analysis of the success of the whole project and the probability of various outcomes. The study is likely to include market research, competitive analysis, demographic trends, and considerations around the macroeconomic outlook. You'll want to make sure your budget has the appropriate contingency funds to weather any unexpected construction material or labor costs or dramatic economic shifts. Ensuring your project is viable, even in the current market, as part of your pre-development process will prevent financial surprises down the road that could endanger your project.

Seek Out Alternative Financing

High interest rates have a cooling effect on capital deployment and make it difficult to secure funding for complex projects in the upcoming years. To stay competitive and continue to build the housing cities desperately need amid shortages, developers are getting creative and seeking out alternative financing. Uncertainty in the market has an outsized impact on the traditional debt markets necessary to secure multifamily construction loans. As a result, forward-thinking firms are looking into alternative capital sources to round out capital stacks and push projects forward.

Low-Income Housing Tax Credits (LIHTC) are a valuable funding source for firms willing to pursue projects with an affordable housing component.

Transit-Oriented Development Tax Credits, which subsidize mixed-use or mixed-income projects near transportation, offer a similar way to offset development costs and contribute positively to sustainable community building. Investors are increasingly looking to invest in sustainable development as hitting Environmental, Social, and Governance (ESG) goals become a priority and residents seeking out sustainable living options drive demand in the market.

Developers willing to pursue green or sustainable funding can offset costs with grants and tax credits. Commercial Property Assessed Clean Energy, or C-PACE, is a financing program legislated by the Department of Energy to fund green and renewable energy improvements on commercial properties without public funds. The program is unique in that it allows borrowers to secure financing for improvements or ground-up construction and make loan payments through an assessment of the property bill. This means the loan is attached to the property, not the borrower, and will transfer upon sale. For properties that incorporate green features, green loans are also an option. Green loans are readily available and typically offer a lower interest rate than a standard bank loan.

Incorporating alternative financing into your capital stack can help your firm grow and stay competitive while capital markets are stalled.

Embrace Technology & AI

The most competitive firms have already embraced modern real estate development software to increase efficiency, lower vendor costs, and manage budgets more effectively. Unlike the legacy and force-fit solutions the industry has typically relied on, a platform made by and for developers can improve your budgeting at nearly every stage of a project's life cycle. Here are some of the financial benefits you can expect by leveraging modern software designed with development teams in mind:

- Boost Organizational Efficiency
- Keep Teams Lean + Efficient
- Manage Budgets + Mitigate Risk
- Lower Vendor Costs + Improved Bidding
- AI-Powered Cost Savings

1. Boost Organizational Efficiency

Automation can drastically reduce the amount of manual entry and tedious document management your team needs to spend time on. Modern real estate development software can automatically capture and organize every project document, extracting data and organizing across budget lines in minutes. This means your team will complete what would've previously required days of manual entry in minutes. Once all your data is tagged and indexed, your team members can search for contracts, proposals, and change orders, empowering data-driven decision-making across your portfolio. Leveraging data and automation will allow you to stop relying on error-prone spreadsheets, and eliminate gut-decision-making and information silos that can cause budget issues on your projects.

2. Keep Teams Lean + Efficient

By leveraging technology to facilitate operations and increase organizational efficiency, you also gain a competitive advantage by scaling your team efficiently. Hiring and onboarding team members in an ad-hoc manner can be costly and time-consuming, requiring you to constantly reassess who is providing value throughout a project. Operating at maximal efficiency allows you to keep teams lean and be more deliberate in the hiring process as you seek out top industry talent.

3. Manage Budgets + Mitigate Risk

Modern real estate development software can ensure your projects don't run over budget, which is game-changing in an industry where only **31% of projects come within 10% of the proposed budget.** You no longer need to worry about sifting through data to catch errors or overruns. You can leverage technology to accurately track every aspect of your project finances including contingency, variance, available funds, cost per square foot, and acquisition costs, scanning for potential concerns

4. Lower Vendor Costs + Improved Bidding

Uncertainty in the economy makes it even more vital to set a project up for success in early project planning. Leveraging modern real estate development software can help you aggregate and leverage historical cost and vendor data to reduce risk and decrease project costs in the earliest stages of a project's lifecycle. These tools can also help you reduce reliance on past relationships, gut instinct, and ad hoc conversations in the bid process. To further boost profits, you can use technology to ensure a competitive bidding and vendor procurement process. You can also improve long-term project outcomes by providing greater visibility into vendor relationships.

5. AI-Powered Cost Savings

Artificial Intelligence (AI) is playing an increasingly significant role in reducing costs for Real Estate Development teams. AI-optimized budget tools can help you keep budgets lean and make data-driven decisions in the vendor selection process. You can use AI to accurately forecast vendor costs over the project lifecycle and reduce potential overruns or other unexpected expenses. AI also improves the bidding process, identifying missing scope or scope gaps before a change order is required and things get costly.

Northspyre's Proven Track Record of Helping Cut Costs

Northspyre was created specifically for real estate developers who want to leverage modern solutions to drive proactive and data-driven decision-making across their projects and portfolios. The platform ensures your team can increase returns and achieve easier, more predictable (and repeatable) outcomes. Northspyre makes it easy for developers to adopt and implement a new way of managing even the most complex real estate projects. Now, the platform comes with advanced AI functionality as well, all but ensuring your team can keep vendor costs down and prevent scope gaps from derailing budgets. Firms that have transformed their approach and mindset versus those that have not evolved their approach or philosophy will fare much better amid market turbulence.

If you want to improve your traditional real estate project delivery system with modern technology, Northspyre can facilitate the transformation. Northspyre is a purpose-built, single software solution designed using automation to reduce manual data entry, increase productivity, and maximize your returns from pre-development to project completion. The platform is used by modern real estate teams who want to increase returns and decrease project costs with a repeatable project delivery process by leveraging advanced technologies like automation, data analytics, and artificial intelligence to be more strategic, proactive, and data-driven in daily decision-making on individual projects as well as across an entire portfolio.

Northspyre makes an immediate difference - you can expect to reduce administrative costs by up to 80% and lower your project overruns by 66%.

Northspyre's advanced functionality simplifies the development process and ensures your team operates at maximal efficiency. You can leverage the technology to bring down costs at every stage of the development process, keeping projects on track and on budget even while vendor costs increase.

More Results You Can Expect To See:

- Higher returns on projects
- Become indispensable to your team. Have more predictability around project outcomes.
- Win more deals and beat your competitors to market.
- Take on more projects with a leaner, more agile team.
- Have greater visibility into project performance.
- Spend less time training and micromanaging, inexperienced or unaccountable team members

Drive Higher Returns With Northspyre AI

Northspyre AI is designed to help your team lower bidding costs, eliminate scope gaps, and remove the guesswork so you can maximize your profits. Modeled with over $175 billion in real estate development projects and hundreds of thousands of project documents, our AI's predictive algorithm enables developers to cut costs and refine their budget as early as the pre-development stage.

Here's a closer look at Northspyre AI's advanced functionality and how it can help you further reduce development costs and maximize your profits:

AI-Optimized Budget Tools

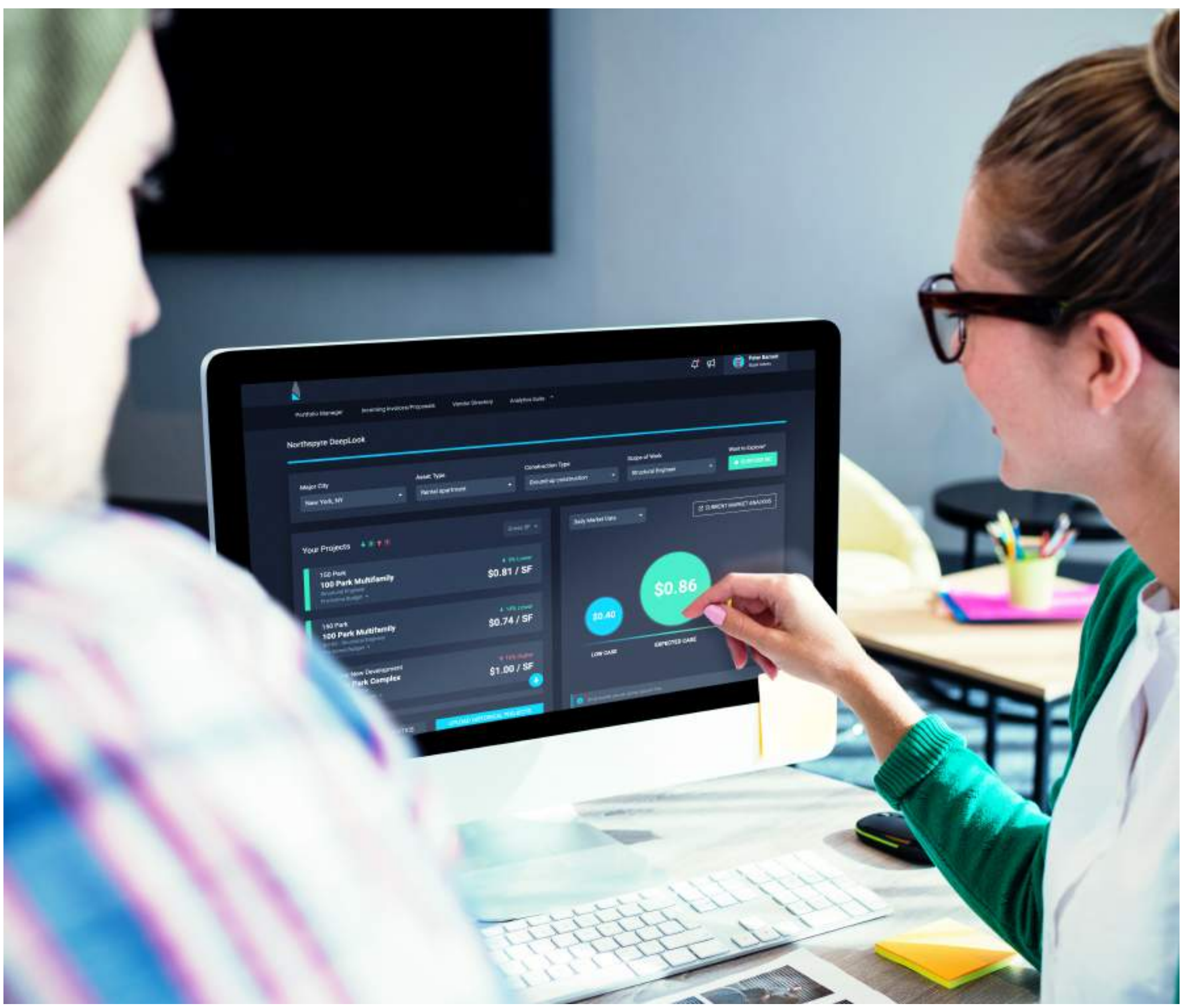
With Northspyre's AI Budget Optimizer, users can gain critical AI insights directly from Northspyre's Early Budget Planner, ensuring your budgets stay lean and eliminating any guesswork in the vendor selection process. Starting from the preliminary budget, AI Budget Optimizer estimates how much you can save based on data from our growing vendor database. Clicking on the savings prediction also reveals Northspyre's recommended vendors that we believe (based on data and timing) are primed to bid low.

Bidding Powered By AI

Users of Northspyre's Bidding Platform can harness generative AI to automatically review incoming bids from vendors to identify any potential missing scope or scope gaps. After you send out your RFP and receive your bids, Northspyre AI proactively flags scope gaps between proposals in real time, eliminating them before they cost you.

With large-scale construction projects often involving hundreds of vendors, countless change orders to address scope gaps can have a material impact on the financial viability of a development project; by eliminating the need for the vast majority of change orders, this functionality can provide developers with savings north of $1 million on large projects.

Northspyre's AI-optimized budget and Bidding tools can help your development team eliminate scope gaps, enhance collaboration, and boost additional savings by reducing change orders. Leveraging the power of AI can help your firm stay even further ahead of the competition and gain a strategic edge in a complicated market.



How Firms Are Using Advanced Strategies Today

Implementing modern technology is the key to increasing returns and reducing project costs. And Northspyre is the best - and only - way for developers to bring their project delivery processes into the 21st century. Below you'll find out how the industry's leading real estate professionals have benefited from Northspyre.

Redesign, Inc.

Minneapolis, Minnesota

Watch Case Study

Redesign, Inc., a community development corporation based in Minneapolis, Minnesota, brought on Northspyre to eliminate the time-consuming and inefficient spreadsheets the organization was using to manage complex projects. After considering various platforms, Redesign, Inc. chose Northspyre for its flexibility and customizability. Redesign, Inc. is using the platform to streamline budgeting processes, making tracking expenses easier and more efficient.

Executive Director Andy Hestness described how the software has transformed budgeting for the organization, saying, “It's allowed us to have that sense of: Where are we today in this project? And it gives us much better information to be able to make those quick decisions about: Do we have the budget room to take this contract on? Does it fit within our project scope?"

Newell Development

Bentonville, Arkansas

Watch Case Study

Northspyre gives Newell Development a global view into their project budget, schedules, and scope so their team can take control of project outcomes and budgets. Northspyre has also played a crucial role in reducing development costs for Newell Development. Theresa Leslie highlighted the platform's ability to provide visibility into areas where savings could be made based on comparisons with previous projects. "Northspyre's helped in reducing development costs by giving us visibility to areas that we can compare to previous projects and find savings," Leslie said.



Biddle Real Estate Ventures

New York, New York

Watch Case Study

Senior Leaders at Biddle Real Estate Ventures (BREV) brought on Northspyre to enable teams to forecast budgets with precision and confidence. The organization says the platform acts as a “crystal ball” that leverages historical data to help forecast budgets without the guesswork. “It enables us to feel like we’re in control of the real-time outcome of a project,” managing partner Peter Chavkin said. By removing the manual work involved in comparative analysis, Northspyre saves time and resources, allowing the team to focus on strategic decision-making.

Find out in the next section how your firm can join these industry leaders who are using Northspyre to save time and money, allowing them to operate at the industry’s highest level.

How to Get Started With Your Modern Real Estate Software Solution

Northspyre can help your organization transform how essential project tasks are completed, getting rid of the antiquated practices that are holding your organization from achieving higher returns and reducing project costs. Let's take a closer look at how Northspyre offers a fresh approach to unlocking better performance and outcomes.

Primary Task
Managing Your Budget

Primary Task
Make Decisions for New Projects Based on Past Projects Outcomes

Primary Task
Identify Top Vendors + Navigate the Bid Management Process

Primary Task
Managing Your Budget

Old Way

Turn to your draw request, a report that - by its accounting-focused nature - only tells you what happened on your project 30-45 days in the past. Keep two sets of books - one to share with investors and one for an internal forecast, which holds potential costs that you didn't share with your financial partners.

Old Result

Base day-to-day, reactive decisions on stale information that is only updated 12 times per year.

New Way

Lean on automation, real-time data, and early warning systems for effective, day-to-day management of your project. Pull your monthly draw request together in seconds with just a click of a button, allowing you to spend that time analyzing real-time data. Keep your financial partners informed with real-time reporting, and allow proactive insights to flag potential challenges and opportunities on your project before they happen.

New Result

Know what is happening with your project in real-time, not just 12 times a year. Anticipate budget issues before they occur and mitigate risk more effectively. Eliminate distracting administrative work, so you can focus on the strategic direction of your project. Gain increased visibility. Rely on more than just instinct or gut decisions to deliver your projects on time and on budget.

Takeaway:

Basing decisions on anticipated costs (current and potential cost data), instead of a backward-looking draw request, empowers teams to be more proactive and strategic, gain greater visibility, and make data-driven decisions.

Primary Task

Make Decisions for New Projects Based on Past Projects Outcomes

Old Way

Rack your brain and those of your colleagues to remember the last ground-up development you did in Atlanta, or which vendor was notorious for bidding low and then hitting you with change orders that sent your project over budget. Dig through old servers, emails, or filing cabinets to see what worked well in the past - and what went wrong - to try and avoid those mistakes a second, or third, time.

Old Result

Every project started from scratch, without the benefit of historical knowledge. You repeated many of the same mistakes over and over again - hiring the wrong vendors, or not having a solid benchmark for cost per square foot when it mattered most. You found yourself relying on instinct rather than facts - and watched your project go over budget.

New Way

Lean on historical data from past projects as a benchmark for expected costs to help you decide which vendors to hire and to use as leverage when negotiating contracts and change orders. Access current and historical data from a centralized dashboard to ensure your team doesn't lose critical information due to staffing changes or unexpected employee turnover.

New Result

Achieve easier, consistent, and more predictable outcomes on your projects or across your portfolio. Be more efficient and effective and save significant time - time that would have otherwise been wasted on course-correcting after making an ill-informed decision. Drive higher returns - since you'll be able to learn from past experiences and mitigate risk.

Takeaway:

Being able to leverage past project outcomes and data will help teams avoid repeatable mistakes and instead achieve easier, more predictable outcomes on future projects.

Primary Task

Identify Top Vendors + Navigate the Bid Management Process

Old Way

Rely on gut instinct or word of mouth in the vendor selection process, and manage bids in cumbersome and time-consuming spreadsheets.

Old Result

Risk costly delays in the construction process, or worse, needing to bring in new vendors and further slow down a project. An inaccurate bidding process leads to scope gaps, which can lead to further misunderstandings, delays, cost overruns, or even project failure.

New Way

Leverage AI to take your bidding and budgeting process to the next level, Yo can use the improved bidding platform to proactively flag scope gaps between proposals, tap into a vast vendor network to find the best ones to partner with, and recommend vendors based on data and algorithmic models who will bid competitively and help you lower overall development costs.

New Result

You'll be able to proactively address cost-saving opportunities, lower bidding costs, and easily identify top vendors to work with. Get potential savings of up to $1 million on large projects by eliminating the need for the vast majority of change orders.

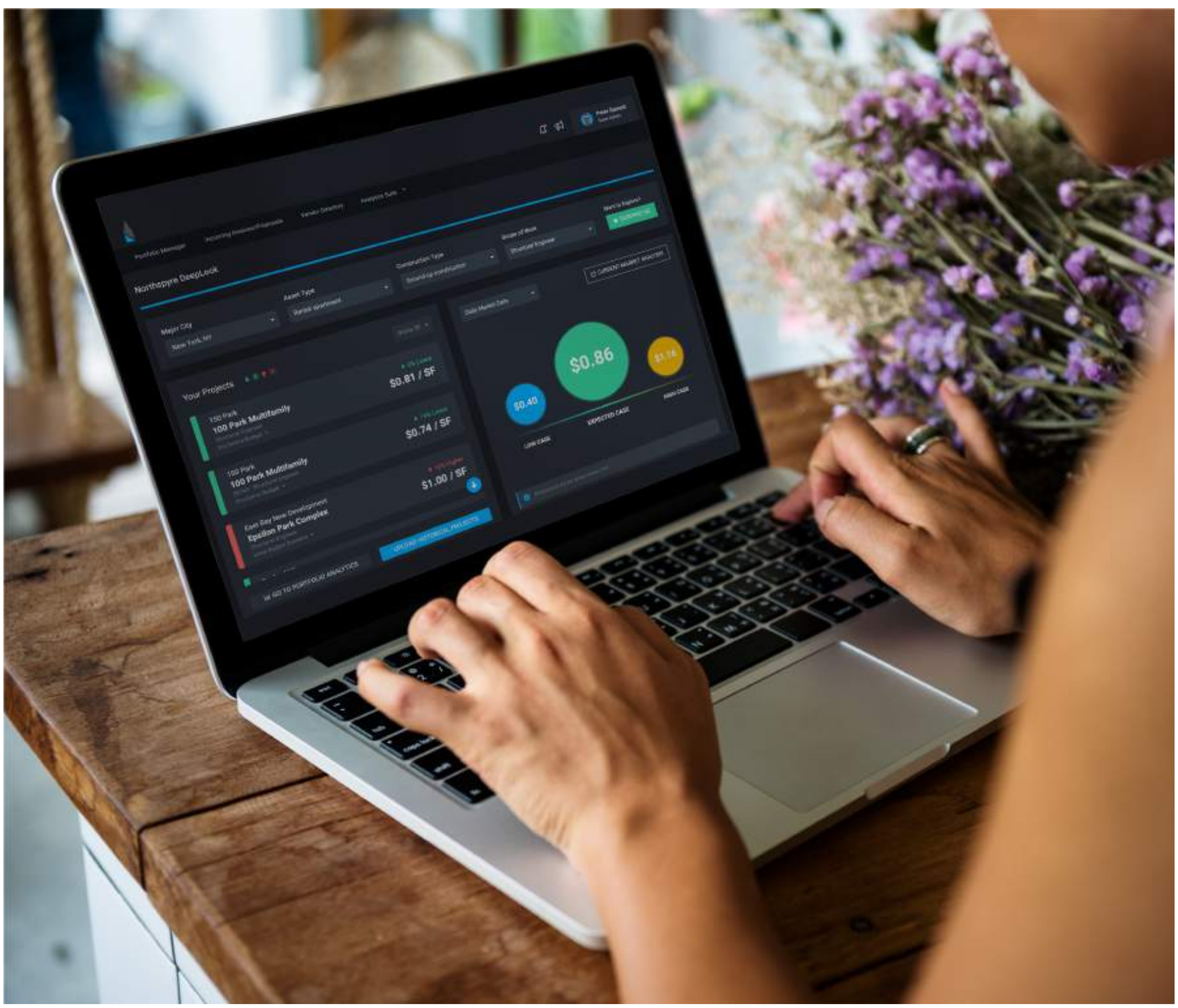
Takeaway:

Northspyre's AI-powered bidding platform can help eliminate scope gaps and save your firm a significant amount of money.

Ready to Start With Northspyre?

Leading real estate project delivery teams already have the necessary domain expertise and technical skills to manage complex projects. However, even the highest-performing team lead finds themselves bogged down by tedious administrative tasks, unable to make data-driven decisions, and taking a reactive versus proactive approach to project delivery. It's clear: traditional development processes are broken and have been for decades. But there is a path forward. Leading developers across the country are completely transforming the way they approach project delivery with modern real estate development technology. Once you see firsthand how intuitive Northspyre is and how much value you are missing out on - you'll kick yourself for not implementing the platform sooner.

Book a demo today and learn more about how you can transform your development process and be guaranteed to bring projects in on time and on budget.



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