



Core Competencies

Developer hones its skills to thrive despite downturn

Phillips International Drive

Phillips Development and Realty, LLC (PDR) is a leader and innovator in the multifamily real estate industry. The company has built multifamily upscale residential and mixed-use development projects throughout the United States. These projects range from Class A garden-style and high-density urban infill to high-rise condominiums. The company has won several awards including the Landmark Project of the Year by Houston Business Journal for the Mosaic on Hermann Park.

The downturns in the market have allowed the company to strengthen business processes and procedures to reposition itself to be a highly effective and efficient operation. PDR has always evolved—from a one-man operation to a full-service organization that is prepared to survive even in the toughest of times.

“The company has transitioned from being an operator to an operation as is the natural evolution of a business,” says Donald Phillips, President and CEO of PDR. “We’ve built a synergistic organization that

interfaces well across departments as our projects move through our mapped life cycle phases of a development. Our company works a lot like a wheel. Each hub of the wheel of the organization has a manager who synchronizes with our executive committee. This committee serves as the hub of the wheel to ensure all of our collective efforts have a destination in sight and we are working toward the right things, at the right time, with the right resources. I chair the hub, if you will.”

Phillips has begun the process of shifting his focus from daily operations to governance, and is positioning the company for the future with a long-term vision.

“We talk about our strategies constantly,” says Phil Baker, Vice President of Construction Services for PDR. “We start with the end in mind and work backwards, and we plan methodically where we want to be. We’ve right-sized during the real estate downturn and honed our skills to be laser focused on our desired outcomes. In all of the major challenges we faced in the past two years we have had a high success rate on achieving our desired outcome because we thoroughly planned and executed those plans.”

Rolling up its sleeves and getting to work on serious challenges in difficult times is a key factor in the company’s ongoing success. Doing

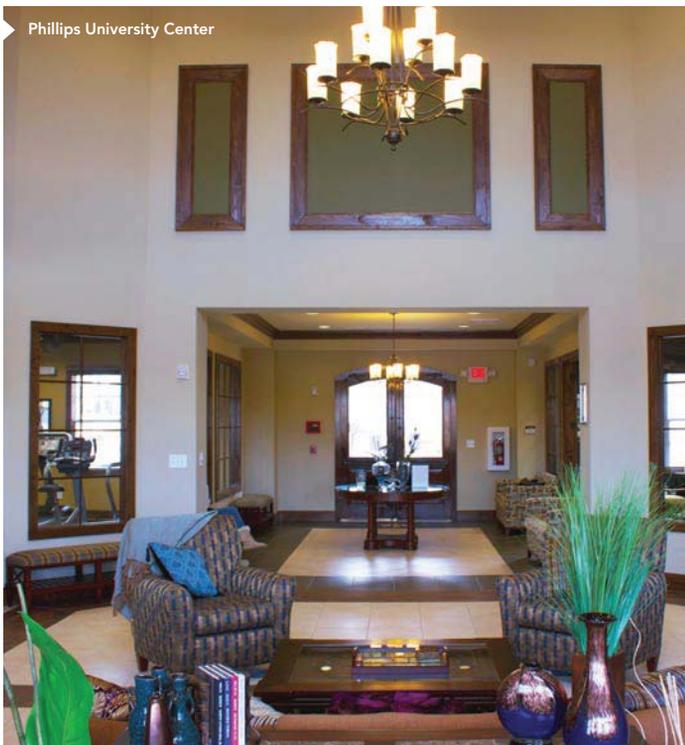
Phillips Development and Realty, LLC

Donald Phillips | President and CEO

Location: Tampa, Florida



Phillips McKinney Ranch



Phillips University Center

what's right for the business—and understanding what the core strengths of the business are—has led PDR through a perilous economy.

PDR takes a collaborative approach, empowering people to make decisions while providing them with the support they need to come to the best conclusions.

A WHOLE NEW WORLD

“The largest challenge we’re facing is that the business as I’ve known it doesn’t exist anymore,” says Phillips. “Merchant building is dead for the foreseeable future. There is little if any commercial credit available for new multifamily development. Where I find that people lost it in an environment like this is when they drift away from their core knowledge base and from their core disciplines.”

The challenge for PDR has been learning how to become more efficient while working with less and finding new closely aligned business opportunities.

One of the things Phillips realized was that in the past when the company did \$100 million worth of projects it generally reserved 2 to 3 percent of that in fees. While standing in a stream worth \$100 million surely there were greater opportunities being missed, he reasoned.

“What we recognized was that it’s not difficult to find 10 to 15 percent in additional profit centers,” says Phillips. “We have become more entrepreneurial in our business model of multifamily properties through the creation of new services. The other thing we’ve done is realize we are great mechanics so we’ve aligned ourselves closely with acquisitions groups that need a good mechanic to come in and find solutions for damaged assets.”



PHILLIPS

SWIFT CREEK

Phillips Development & Realty (PDR) recently started construction on the 196 unit Class A Swift Creek Apartments in Cary, North Carolina. PDR would like to thank our national partners for their hard work in assisting us on this project. We look forward to your continued support during the construction phase as we deliver first units Spring 2011.

The project is located at the northeast quadrant of Old Apex Road and West Chatham Street just three miles from downtown Cary.

PDR is currently working towards breaking ground on the 300 unit Mallard Creek Apartments in Charlotte, NC; the 292 unit Magnolia Park Apartments in Tampa, FL; the 292 unit Research Park Apartments in Durham, NC; and the 244 unit Kemah Apartments in Kemah, TX in 2010 and 2011.

PDR chooses projects with the interest of communities, the environment, and investors in mind. Since 2001, PDR has demonstrated itself as a leader and innovator in the multifamily industry, building progressive projects throughout the Southern United States. Visit our website for additional information on PDR's upcoming projects.

To view our progress on Phillips Swift Creek, visit:
<http://oxblue.com/pro/open/phillipsdev/SwiftCreek>





Gym

PDR took a good look at itself and its strengths in order to better understand what services it could offer that would be of value, and in what way it might have a tactical advantage over other firms. Other development firms have largely shifted operations to management. Phillips didn't think it was reasonable to try to compete in that market—PDR simply didn't have a natural advantage there.

"Where we do have an advantage is that we're a one-stop shop for a group that has an asset that needs to be managed, but that also has a substantial amount of work that needs to be done, be it deferred maintenance or further improvements," says Phillips. "In large acquisition deals, the buyer ends up with a big box of broken toys. We are a master at going in and finding the best utility for those parts."

PDR was able to navigate through the downturn and find itself on solid ground very quickly—in just 18 months. The company was aggressive in addressing any distressed assets or other issues. Phillips was pleasantly surprised to find that PDR had not lost favor with lenders but had gained respect for taking the reins swiftly.

"We not only survived the last few years, we prospered. And we did not disband our team. There are very few of our competitors that have not disbanded their team," says Phillips. "It's difficult to be an effective organization or partner when you are mired down in legacy issues and we don't have that."

To that end, PDR is still a company that operates with a great deal of internal expertise—they don't have to rely on a consultant to figure it out; the team can tell you what the answer is today.

They've also learned to make technology work for the company. "We leverage advanced information technology to collaborate with our architects, lenders, engineers and consultants," says Kevin Johnston, PDR's COO. "Whether our partners are on the West Coast or in the northeast we are able to share the same information in real time to keep the entire team focused. We don't waste a lot of time e-mailing documents around; we simply share desktops and/or give control of our desktops in Tampa with our Houston- or Seattle-based partners and eliminate a lot of uncertainty and travel. Our partners understand our collaboration sites and it eliminates duplication in efforts. This virtualization has helped a lot of other firms we do business with be more efficient in their operations; several have cloned what we do. We are always eager to help members of our external team."

A ROBUST PIPELINE

PDR is set to start four projects between winter 2010 and summer 2011. "We have a \$125 million pipeline and it's taken us 18 to 22 months to get financing," says Phillips. "I think we will always have an active, new development pipeline. It keeps us fresh and relevant."

The company recently closed on Phillips Swift Creek in Cary, North Carolina. The development will be a high-end rental development of 196 units in three-story, garden-style apartments on 13.2 acres. The one-, two- and three-bedroom apartments will range in size from 784 to 1,321 square feet. Amenities will include a clubhouse with a fitness center, a media room and a pool, as well as an on-site carwash, a fire pit, picnic areas and a two-acre wooded trail.

While quality is not negotiable, lots of other terms are.

"Our projects have a lot of amenities and we figured the best way to continue that trend was by working with national-level vendors that have robust business throughout the U.S.," says Baker. "We use our processes and our purchasing power to buy right in bulk so we can purchase the energy-efficient appliances or granite finishes at a much-reduced cost."

Creating purchasing efficiencies has worked in PDR's favor—and in the favor of its clients who are benefiting from the effort.

Phillips Swift Creek features energy-efficient windows and appliances, recycled flooring and LED lighting—PDR has a partnership with an LED lighting manufacturer.

As another product example, Baker cites Phillips International Drive in Tampa, Florida—a market-rate building that is one of the nicest properties in the market because of the deals that Phillips put together behind the scenes.

Two other popular projects are continuing to prosper: Phillips University Center in Charlotte, North Carolina, and Phillips McKinney Ranch in McKinney, Texas.

In the same way that PDR reviewed and honed its operations globally, it has drilled down to the projects themselves, looking at everything from an efficiency and a sustainability point of view.

"These five projects existed before we changed our focus and the sixth deal will be prototypical, efficiently oriented with very sustainable products," says Baker. "We're poised for the future and are somewhat grassroots again. We're at the ground level and healthy. Our properties average 90 percent leased right now." **DDC**



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