



Understanding the Real Estate Development Process

A Guided Tour Through the Brain of a Real Estate Developer

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Purpose of This Session

- ❖ **Discuss the important concepts and techniques related to real estate development**
 - **Will focus on development of a business park**
BUT
 - **Variation on this process pertains to most every kind of development, no matter what the type, location or size**



Some Competitive Realities

- ❖ **When it comes to sites, it's a Buyer's Market**
 - You are both the Seller and the Commodity being sold
- ❖ **Speed is of the essence**
 - Timeframe for selection process is half that allowed 10 years ago
- ❖ **It is essential to have a reasonable choice of buildings & sites available NOW.**

Historical Background

- ❖ **Industrial Buildings and Districts**
 - Weaknesses with older industrial districts
- ❖ **When and Where was the first Industrial Park?**
 - ❑ Manchester, England – 1896
 - ❑ Chicago, IL – 1902 – 1910
 - ❑ New England Industrial Center, Needham, MA - 1949



What is an Industrial Park?

The assembly of land, under one continuing control, to provide facilities for business and industry consistent with a master plan and restrictions resulting in the creation of a physical environment achieving the following objectives:



What is an Industrial Park?

- ❖ **Consistency with community goals**
- ❖ **Efficient business and industrial operations**
- ❖ **Human scale and values**
- ❖ **Compatibility with the natural environment**
- ❖ **Achieving and sustaining highest land values**

Source: National Association of Industrial and Office Properties



Corollary Requirements

- **Many special disciplines**
- **Long term commitment**
- **Investment mentality**



Nutshell Development Philosophy

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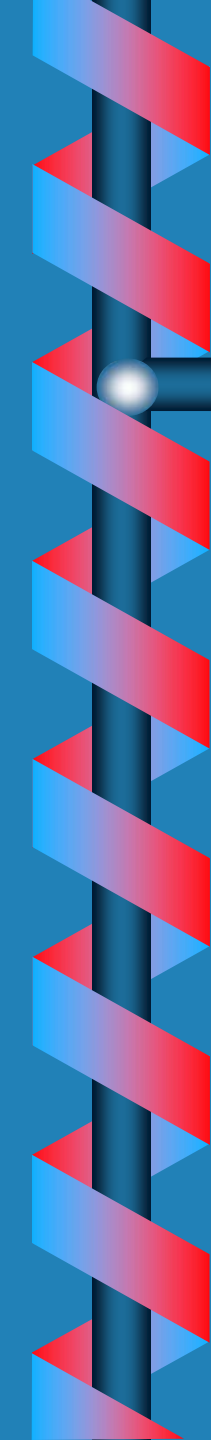
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General Ground Rules

- ❖ **Project development is usually a long-term commitment**
 - 1 – 3 years to plan and prepare
 - Up to 20 years to develop
- ❖ **Development analysis goes through 2 rounds**
 - Macro-analysis to determine if major planning effort is justified – and if so –
 - Comprehensive planning process



How Do You Do It?

The Development Business Plan

❖ The Major Elements of a Property Development Master Plan

- Priority goals and development philosophies
- Market analysis
- Planning and engineering analysis
- Financial analysis
- Implementation plan

The Planning & Development Process

- ❖ **Deciding to do the project**
- ❖ **Market Analysis**
 - Do we have a project?
 - If so, what does it look like?
- ❖ **Comparative site analysis:**
 - Which of several sites is better?
-or-
 - Can our site provide the characteristics the market is looking for?



The Planning & Development Process

- ❖ **Conceptual site design(s)**
- ❖ **Gain control of site**
- ❖ **Complete master plan**
- ❖ **Prepare financial analysis**
- ❖ **Arrange financing**
- ❖ **Obtain permits and approvals**
- ❖ **Prepare bid specifications**



The Planning & Development Process

- ❖ **Select contractors**
- ❖ **Ground breaking ceremony**
- ❖ **Begin marketing**
- ❖ **Construct infrastructure**
- ❖ **Ribbon cutting ceremony**
- ❖ **Manage project during build-out**
- ❖ **Retire to St. Croix**



Goals and Philosophies

- ❖ **What kind of development will this be?**
 - Single or mixed use
 - Business park or district
- ❖ **How long are we willing to be involved?**
- ❖ **How much are we willing to invest--and what return do we want?**
- ❖ **Jobs or taxes?**
- ❖ **Quick or quality?**



The Market Analysis

- ❖ **Is there a market at all?**
- ❖ **If so, what does it look like?**
 - Types of uses
 - Demand characteristics
 - Size parameters
 - Cost expectations
- ❖ **Competition**
- ❖ **Market strength--how much in what period?**



The Market Analysis-continued

❖ Shaping forces

- Supporting infrastructure and public services
- Permit & approval process
- Community attitude
- Locational variables related to:
 - Markets
 - Labor supply and characteristics
 - Cost competitiveness



Market Analysis

End Products

- ❖ Primary uses and mix
- ❖ Annual construction level
- ❖ Annual land absorption
- ❖ Pricing structure
- ❖ Necessary special features
- ❖ Ideal site characteristics
- ❖ Revenue projections
- ❖ Maybe:
 - New taxes generated
 - Jobs created



Property Control Methods

- ❖ **Outright purchase**
- ❖ **Option**
- ❖ **Partnership with land owner**
- ❖ **Partnership with investor**
- ❖ **Preferred developer status**



Key Acquisition Elements

- ❖ **It's not just the price!**
- ❖ **What is your primary market looking for?**
- ❖ **Location**
 - **Accessibility / Transportation**
 - Available goods & services / Company markets
 - Labor or employment
 - Amenities
 - **Utility availability & adequacy**
 - **Neighborhood compatibility**



Key Acquisition Elements

❖ Zoning

- Current
- Possible

❖ Site size, configuration and “yield”

- How much is enough?
 - Patience vs. ROI
 - Aim high
- Think about multiple phases

❖ Price/value



Planning & Engineering Analysis

- ❖ **Property characteristics**
- ❖ **Surrounding neighborhood characteristics**
- ❖ **Zoning and other development regulations and community “master plan”**
- ❖ **Access and existing interior roads**
- ❖ **Traffic generation**



Planning & Engineering Analysis

❖ Physical features of land:

- Size and shape
- Soils
- Wetlands and watercourses
- Topography
- Bedrock and sub-surface geology
- Vegetation
- Views



Planning & Engineering Analysis

❖ Physical features of buildings:

- Total size and configuration
 - Is this a single building or a multi-building complex?
 - Is this a single or multi-story building?
 - Is there a basement?
- Type of construction
 - Structural system (wood, metal, concrete)
 - Exterior wall system (wood, metal, masonry, asbestos shingles)



Planning & Engineering Analysis

❖ Physical features of buildings:

- Column spacing and bay sizes
- Do they match with typical space needs in the market?
- Roof structure
 - Does it leak?
 - Does it meet current codes for load (weight) bearing?
 - Is it flat or peaked?
 - Is it tar & gravel, membrane, shingles, other material?



Planning & Engineering Analysis

❖ Physical features of buildings:

- Utility Systems (electric, water, sewer, gas, HVAC, communications)
 - How well do they work?
 - Are they modern?
 - Are they centralized or scattered in the building?
 - Can they be redistributed for multiple occupants?



Planning & Engineering Analysis

❖ Physical features of buildings:

- Truck docks and doors
 - How many are there?
 - Do they have levelers?
 - Are they adequate to serve multiple occupants?
 - Can more be installed?
- Is the building attractive?
 - If not, what is required to make it so?



Planning & Engineering Analysis

❖ Physical features of buildings:

- Other factors
 - Any special features (e.g. rail)
 - Any problems (e.g. termites)
 - Does the building meet handicapped requirements?
 - Is the building insulated?
 - Does it have sprinklers?
 - Any special equipment (e.g. overhead cranes, security systems)



Planning & Engineering Analysis

❖ Environmental, legal and other factors

- Environmental audits
- Stormwater management
- Water supply watersheds and aquifers
- Suitability for on-site septic/PTP systems
- Wetlands tradeoffs
- Easements and rights-of-way
- Historical or archeological significance
- Protected species
- Zoning
- Traffic



Some Planning Principles

- ❑ If possible, double load your roads
- ❑ Roads and utilities will each have their own best locations
- ❑ As much as possible, work with the natural features of the site
- ❑ 2 schools of thought on subdivision/
platting

Planning Process End Products

❖ Conceptual Development Plan

-or-

❖ Plat (Subdivision) Plan

❖ Either one should show

- Potential sites to meet market needs
- Road & Utility Layout
- Stormwater Management Plan
- Landscaping Plan
- Phasing Plan

❖ Necessary Zoning Changes Identified

❖ Cost Estimates



Planning Process End Products

- ❖ **Amount of potential development**
 - Total land or existing building space
 - Developable land
 - Saleable land
 - Total building potential



Financial Analysis

- ❖ **Compile development costs**
 - Site and related acquisition costs
 - Design
 - Infrastructure construction
 - Building construction
 - Project management and administration
 - Marketing
- ❖ **Project start-up, absorption and close-out phases**



Financial Analysis

❖ Revenue and financing costs

- Land or building sales or leases
- Other site related revenues (e.g., timber)
- Loans
- Grants
- Bonds
- Equity



Financial Analysis End Products

- ❖ **Costs and Revenues (Duh)**
- ❖ **Sources and Uses of Funds Table**
- ❖ ***Pro forma* cash flow analysis**
- ❖ **ROI calculation**
 - Private sector = Cash-on-cash
 - Public sector = \$ + jobs + taxes + ???
- ❖ **Does the deal make sense?**



3 Important Financial Topics

1. Land Release Payments
2. IRS regulations on capitalizing cost of acquisition and development
3. Discount rate = time value of money

Implementation Plan

(How to convert plan on paper to reality)

- ❖ Final design, permits and approvals
- ❖ Bid specifications, contract documents and consultant selection procedures
- ❖ Legal filings & related elements
 - Land purchase
 - Title insurance
 - Covenants (CC&Rs)
 - Park Association
 - Development Authority



Implementation Plan

- ❖ **Infrastructure development**
 - Regular field inspection
 - As-Built drawings
- ❖ **Project Management**
- ❖ **Project Marketing**
- ❖ **Project Maintenance**



Some Thoughts Related to Marketing

- ❖ Marketing is the art of human persuasion through the provision of information to solve problems
- ❖ The need for patience
- ❖ Insistence on quality
- ❖ Selecting the right first project



You Can Use This Process For

- ❖ Greenfield development
- ❖ Brownfield redevelopment
- ❖ Building adaptive reuse
- ❖ Spec or BTS building development
- ❖ Shopping center development
- ❖ Residential development
- ❖ Most any other kind of development



The Essence of the Process

- ❖ The same thought process should be followed for any kind of development:
 - **Market analysis** to determine if there is a market and what the design features must be
 - **Planning and engineering analysis** to design it and make it fit the environment
 - **Financial analysis** to make sure it is economically viable
 - **Implementation plan** to make it real



The Essence of the Process

- ❖ **You must look at the project in 4 phases:**
 - **Planning & Design**
 - **Start-up**
 - **Absorption**
 - **Close-out**



In Closing-

- ❖ **You must have product to be competitive**
- ❖ **The world of industrial parks is increasingly competitive:**
 - **More parks and buildings**
 - More “pocket parks’
 - Larger parks are mixed use neighborhoods
 - **Selling amenities**
 - **More sophisticated telecommunications**



In Closing-

- ❖ **Never do a speculative development without adequate market data to justify it.**
- ❖ **The bottom line--**
Land is a resource that almost never gets an economical second chance to be developed--do it right the first time.

Resources

- ❖ **Urban Land Institute (ULI)**
Washington, DC, 202-624-7000, www.uli.org
 - *Business Park and Industrial Development Handbook*, 2nd Edition (2001) Development Handbook Series,
 - *Real Estate Development Principles and Process*, 4th Edition (2008)

- ❖ **National Association of Industrial and Office Properties (NAIOP)**, Herndon, VA
703-904-7100, www.naiop.org

- ❖ **IEDC *Real Estate Development and Reuse Manual (Revised 2004)***, www.iedconline.org