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

- S
- P
- A
- C
- E
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?
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
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?
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?
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
- 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
GEORGETOWN BUSINESS PARK MASTER PLAN
GEORGETOWN, KENTUCKY
CITY OF GEORGETOWN, KENTUCKY, OWNER
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)**

- **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