



CBI Crash Course Part II

Understanding the Real Estate Development Process

A Guided Tour Through the Brain of a Real Estate Developer

Mark D. Waterhouse, CECD

President

Garnet Consulting Services, Inc.

157 Park Road Pleasant Valley, CT 06063

860-379-7449 mwaterhouse@snet.net



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: NAIOP (formerly the 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?**



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**
- ❖ **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