

# Overview of the Real Estate Development Process



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# Development Process

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A series of steps that are required to take the idea of a development and turn it into a completed project.



# Community Real Estate Development Chart

## Primary Steps

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There is a major "decision point" at the end of each primary step.



# The Developer

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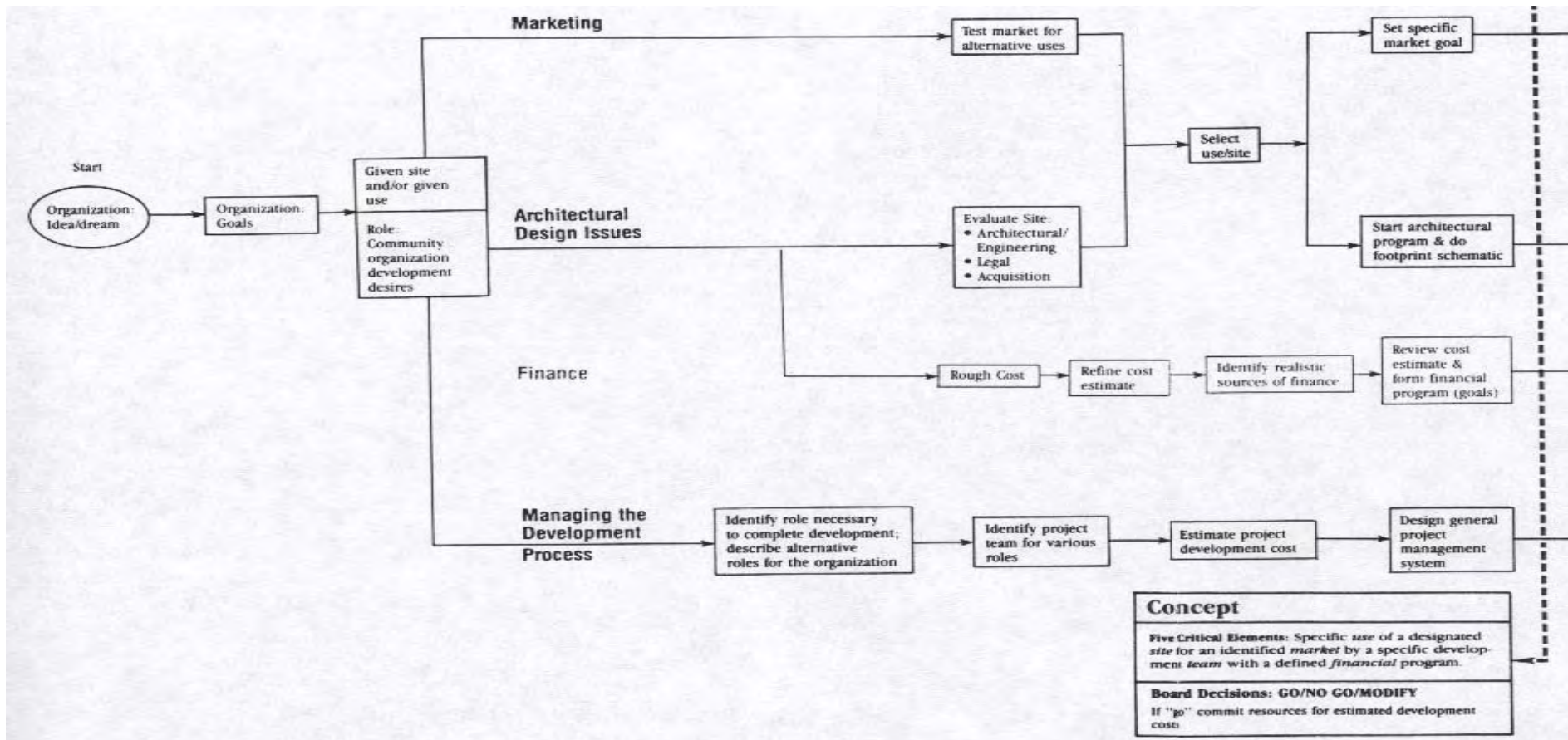
- › Traditional Developer
  - › Contribute equity to the projects
  - › Own the finished products
  - › Receive the financial returns the projects ultimately generate.
- › Community-Based Developer
  - › May or may not do the above
  - › Motivated by the creation of units more

# Rule of Thumb Allocations

## 3 Year/156 Week Project

	<u>% of total time</u>	<u>Duration</u>	<u>% of costs</u>
<b>Concept</b>	<b>5%-20%</b>	<b>8-31 weeks</b>	<b>0%-5%</b>
<b>Feasibility Study</b>	<b>10%-20%</b>	<b>16-31 weeks</b>	<b>5%-15%</b>
<b>Planning/Financing</b>	<b>15%-25%</b>	<b>23-39 weeks</b>	<b>15%-30%</b>
<b>Construction</b>	<b>30%-60%</b>	<b>47-94 weeks</b>	<b>40%-75%</b>
<b>Sales/Rent-up (operations)</b>	<b>5%-15%</b>	<b>8-23 weeks</b>	<b>5%-10%</b>

# Forming the Development Concept





# Development Concept Decision Point

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- › Five critical elements
  - › Specific use
  - › Designated site
  - › Identified market
  - › Specific development team
  - › Defined financial program
- › “Go/No Go/Modify decision = if “go” commit resources for estimated development costs



# Key Questions At This Step

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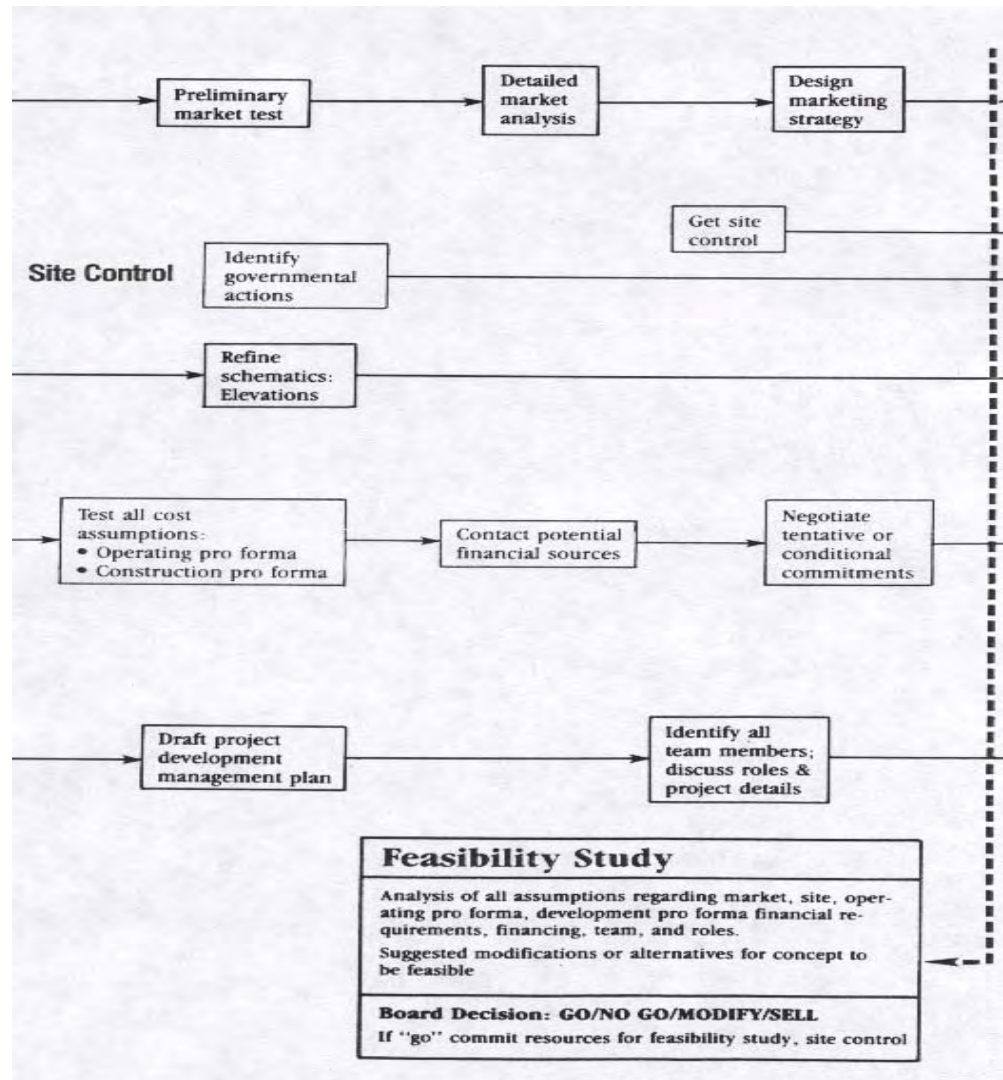
- › Who owns the development?
- › What are we building?
- › Is it for sale or lease?
- › Who is on the development team?
  - › Owner/Mortgagor Legal Name
  - › Developer
  - › Architect and Engineering
  - › Attorney
  - › Contractor



**CONCEPT STAGE ACTION PLAN**

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
C-1	IDENTIFY OPPORTUNITY					
	PROPERTY OPPORTUNITY					
	NEED/USE/IDEA OPPORTUNITY					
C-2	ASSEMBLE CO-DEVELOPMENT TEAM					
C-3	DEFINE ROLE OF CO-DEVELOPERS					
	OBJECTIVES					
	CONTRIBUTIONS					
C-4	CONSIDER APPROPRIATENESS OF CID					
C-5	FORMULATE SKELETAL PLAN					
C-6	IDENTIFY INFORMATION SOURCES AND ASSEMBLE AVAILABLE STUDIES					
C-7	IDENTIFY SOURCES OF HELP					
C-8	REVIEW AVAILABLE INFORMATION					
C-9	IDENTIFY SEED MONEY: SOURCE/USE					
C-10	EVALUATE INVESTMENT CLIMATE					
C-11	COMPARE OBJECTIVES, CONTRIBUTIONS AND CLIMATE					
C-12						
C-13						
C-14	DECISION POINT--OPTIONS					
	ABANDON PROJECT					
	RECONSIDER THIS STAGE					
	REVISE OBJECTIVES					
	REVISE CONTRIBUTIONS					
	PROCEED TO NEXT STAGE					

# Feasibility Study





# Feasibility Study Decision Point

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- › Analysis of all assumptions regarding
  - › Market
  - › Site
  - › operating pro forma
  - › development pro forma
  - › financial requirements, team & roles
- › Go/No Go/Modify decision = if “go” commit resources for feasibility study, site control

### ANALYSIS STAGE ACTION PLAN

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
	<b>PRELIMINARY MARKET ANALYSIS</b>					
A-1	COMMUNITY PROFILE					
A-2	TARGET AREA PROFILE					
A-3	SUPPLY ANALYSIS					
	OFFICE					
	RETAIL					
	RESIDENTIAL					
	MISCELLANEOUS					
A-4	COMPETITIVE ANALYSIS					
	OFFICE					
	RETAIL					
	RESIDENTIAL					
	MISCELLANEOUS					
A-5	ASSEMBLE TECHNICAL ASSISTANCE TEAM					
A-6	IDENTIFY POTENTIAL USERS					
A-7	CONSIDER SITE ALTERNATIVES					
A-8	NINE INVESTMENT STANDARDS					

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
A-12	PRELIMINARY FINANCIAL PLAN					
A-13	DECISION POINT - OPTIONS					
	ABANDON PROJECT					
	RETURN TO PREVIOUS STAGE					
	RECONSIDER THIS STAGE					
	REVISE OBJECTIVES					
	REVISE CONTRIBUTIONS					
	PROCEED TO FORMAL ANALYSIS					
	<b>FORMAL FEASIBILITY ANALYSIS</b>					
A-14	SITE ANALYSIS					
A-15	BUILDING ANALYSIS					
A-16	MARKET ANALYSIS					
A-17	MARKETABILITY ANALYSIS					
A-18	PHYSICAL DESIGN STUDIES					
A-19	FINANCIAL ANALYSIS					
A-20	APPRAISAL					
A-21	OTHER ANALYSES					
A-22	INVESTMENT THRESHOLD					
A-23	IDENTIFY LEGAL ISSUES					
A-24	IDENTIFY PUBLIC PARTICIPATION					
A-25	FORMS OF PUBLIC/NONPROFIT PARTICIPATION					
A-26	REVIEW AVAILABLE INFORMATION					

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
A-27	COMPARE OBJECTIVES AND INFORMATION					
A-28	THE DEVELOPER DECISION					
A-29						
A-30						
A-31	DECISION POINT - OPTIONS					
	ABANDON PROJECT					
	OBTAIN ADDITIONAL INFORMATION					
	RECONSIDER THIS STAGE					
	RETURN TO PREVIOUS STAGE					
	REVISE OBJECTIVES					
	REVISE CONTRIBUTIONS					
	PROCEED TO NEXT STAGE					



# Deal Making Decision Point

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- › All elements of the project made definite.
- › Letters of commitment, contracts, and loan documents binding all parties to specific elements of the deal, i.e. difficult for developer to back out.
- › Go/No Go/Modify/Sell decision = authorization given to negotiate financing, enter into contracts and loans, purchase property, etc.

**PREPARATION STAGE ACTION PLAN**

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
P-1	FINALIZE CO-DEVELOPMENT TEAM AND TECHNICAL ASSISTANCE TEAM					
P-2	CHOOSE OWNERSHIP FORM					
P-3	LEGAL WORK AS REQUIRED					
P-4	GAIN PROPERTY CONTROL					
P-5	PRELIMINARY PLANS AND SPECIFICATIONS					
P-6	PREPARE CITY PACKAGE					
P-7	NEGOTIATIONS WITH LOCAL GOVERNMENT					
	ZONING APPROVALS					
	VARIANCES					
	PERMITS					
	PUBLIC IMPROVEMENTS					
	PUBLIC PARTICIPATION					
	PUBLIC FUNDS					
	DESIGN REVIEW					
P-8	FINALIZE PLANS AND SPECIFICATIONS					
P-9	FINALIZE COST ESTIMATES					
P-10	REVISE FINANCIAL PROJECTIONS					
P-11	PREPARE LENDER PACKAGE					



STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
P-12	FINANCING NEGOTIATIONS					
	CONTACT MORTGAGE BROKER					
	PERMANENT LOAN COMMITMENT					
	CONSTRUCTION LOAN COMMITMENT					
P-13	PREPARE DEVELOPER PACKAGE					
P-14	FINALIZE EQUITY					
	CONTACT SYNDICATOR					
	EQUITY COMMITMENTS--PRIVATE					
	EQUITY COMMITMENTS--PUBLIC					
P-15	TAX ACT CERTIFICATION PROCESS					
P-16	REEVALUATE ALL INFORMATION					
P-17						
P-18						
P-19	DECISION POINT--OPTIONS					
	ABANDON PROJECT					
	OBTAIN ADDITIONAL INFORMATION					
	RECONSIDER THIS STAGE					
	RETURN TO PREVIOUS STAGE					
	REVISE OBJECTIVES					
	FINAL "GO/NO GO" DECISION					
	PROCEED TO NEXT STAGE					



# Project Construction

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- › Schedule of Work
  - › Payment/Draw Schedule
  - › Inspection Schedule
    - › Local Government
    - › Lenders
    - › Potential Homeowner if single-family sales
  - › Record-Keeping Requirements
- \* A Pre-construction meeting with the key players to cover roles, responsibilities, conflict resolutions, change orders, and the items above helps.

# Project Construction Decision Point



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- › Project is completely built and all inspections are passed.
- › If a rental project, the building is leased.
- › Decision point = possible change from rental to for sale project

**IMPLEMENTATION STAGE ACTION PLAN**

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
I-1	ACQUIRE PROPERTY					
I-2	PREPARE BID DOCUMENTS					
I-3	BID PROJECT					
I-4	SELECT CONSTRUCTION COMPANY					
I-5	REVISE PLANS/SPECS IF NECESSARY					
I-6	MARKETING AND LEASING					
	ASSEMBLE TEAM					
	MARKETING PLAN					
	PREPARE STANDARDIZED LEASE					
	PRELEASING					
I-7	FINALIZE FINANCING					
	LOAN DOCUMENTS					
	RECEIVE FUNDING					
I-8	COLLECT EQUITY FUNDS					
I-9	CONSTRUCTION MANAGEMENT					
	ASSEMBLE TEAM					
	CONSTRUCTION MANAGEMENT PLAN					
	SUPERVISE CONSTRUCTION					
I-10	TENANT INVOLVEMENT					
I-11	INSPECT CONSTRUCTION					
	PRELIMINARY					
	FINAL					
I-12						
I-13	CERTIFICATE OF OCCUPANCY					
I-14	PROCEED TO NEXT STAGE					



# Operation/Sale Decision Point

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- › Project is effectively rented up or sold out
- › It is meeting its financial and other project goals
- › Go/No Go decision = should we sell the project, refinance it or allow it to go into default

**OPERATION STAGE ACTION PLAN**

STEP #	ACTION REQUIRED	✓	WHO IS RESPONSIBLE	START DATE	END DATE	COMMENTS
O-1	PREPARE PROPERTY MANAGEMENT PLAN					
	POLICIES AND PROCEDURES					
	OPERATING BUDGET					
	MAINTENANCE PLAN					
	CAPITAL IMPROVEMENTS BUDGET					
O-2	REVISE MARKETING PLAN					
O-3	RENT-UP OF PROPERTY					
O-4	OVERSEE MARKETING OR LEASING					
O-5	IMPLEMENT PROPERTY MANAGEMENT					
O-6	MANAGEMENT OF OWNERSHIP ENTITY					
	REPORTS--OWNER RELATIONS					
O-7	UPDATE MARKET CONDITIONS					
O-8	PROPERTY IMPROVEMENTS AS REQUIRED					
O-9	PROPERTY DISPOSITION					
O-10						
O-11						
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O-13	CLOSING OF OWNERSHIP ENTITY					



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