

***Real Estate Development***

Real Estate 619  
Urban Land Development  
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***What is Development?***

- *Land development* involves altering raw land to turn it into a usable building site
- *Building development* involves constructing or altering improvements on a developed site
- *Real estate development* is a term that generally encompasses either or both of these activities

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***What do Developers Do?***

- Analyze market to identify some unmet demand
- Design the layout of a site and/or improvements on the site
- Secure zoning and public approvals

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***What do Developers Do?***

- Raise money to invest in the development
- Construct improvements
- Market the development
- Manage/dispose of the completed project

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***Rewards from Development***

- Development involves substantial personal and professional risk, so why do people do it?
  - Financial rewards
  - Personal satisfaction
  - Ego
  - Civic pride

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***The Development Team***

- Suppliers of financial capital
  - Equity partners
  - Joint venture partners
  - Construction financing lenders
  - Permanent financing lenders
- General contractor

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***The Development Team***

- Consulting professionals:
  - Market analysts
  - Lawyers
  - Architects
  - Engineers
  - Marketing agents
  - Property managers
- Public officials and the general public

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***Stage 1: The Idea***

- Two different ways to approach development
  - Use in search of a site – Either you specialize in a particular type of development or have a corner on tenants for a particular type of development
  - Site in search of a use – You have control of a site or know of a site over which you can gain control

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***Use in Search of a Site***

- Typically, you must conduct a preliminary feasibility analysis to determine which sites may meet the requirements of the user
  - Population and demographics
  - Traffic counts, visibility and access
  - Physical & legal constraints on a site
    - Site footprint/developable space Site layout
    - Zoning restrictions (including things such as setbacks, curb cut restrictions, signage, etc.)
    - Easements
    - Grading & drainage
    - Title issues

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***Use in Search of a Site***

- Utilities and public services
- Amenities in the area
- Neighborhood conflicts (neighborhood associations)
- Soil conditions
- Who owns the site? Can you get control of the site?

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***Site in Search of a Use***

- The preliminary feasibility analysis above is required, but now with respect to the one specific site rather than the general requirements for a site within a market area
  - Highest-and-best use analysis

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***Stage 2: Site Acquisition & Control***

- After the site is selected (or even before) the developer will want to acquire the development rights
  - Contracts for sale with contingencies
  - Option contracts
  - Binders
  - Letter of intent
  - Joint venture agreements
- Goal is time & flexibility to complete analysis on project

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***Stage 3: Due Diligence***

- Market studies
  - Provides inputs for financial analysis
  - Often required for lender
- Entitlement process
  - Zoning and subdivision approval
  - Historic preservation and other approvals

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***Stage 3: Due Diligence***

- Physical analysis of site
  - Continuing the site analysis begun in stage 1
  - Preliminary site layouts
  - Preliminary building design
- Financing commitment
- Environmental studies
  - Phase I EVA
  - Phase II EVA

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***Stage 4: Closing on Property***

- Assuming no problems arose in Stage 3 that killed the deal, all of those processes are finalized
  - Site and building design
  - Arranging for financing
  - Finalizing public approvals
- Close on property and begin construction

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***Stage 5: Improvements***

- Building or other improvements are constructed
  - On time and on budget is key to make a profit
- Leasing and sales activities proceed

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***Stage 6: Project Completion***

- *Certificate of occupancy* issued
- Permanent financing is acquired to replace the construction loan
- Equity owners take control of the property

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