

UNIT SIX

OVERVIEW OF THE REAL PROPERTY DEVELOPMENT PROCESS

6.1 Introduction

- Before starting real property development the developer should do a **market and feasibility study** and so the **preconditions need to be in place** for the development process to be initiated through land acquisition are :
- The landowner's **willingness to sell** the land on terms and at a price to enable a viable development to proceed;
- **Planning permission** for the proposed development or allocation of the proposed use within the relevant development plan;

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- The **existence of infrastructure and services** to support the proposed development;
- The existence (if necessary after appropriate treatment at a reasonable cost) of **suitable ground conditions** to support the development;
- The necessary development **finance**;
- a known **end-user** or occupier demand for the proposed development.
- If any one of **the above preconditions is not** in place then development will not proceed or subsequent development will represent a considerable risk to the developer.

6.1.2 Definition and nature of real estate development

- “Real Estate Development” is defined as the **continual reconfiguration of built environment** to meet society’s needs. The development may be
 - A. **Modification** of the existing building through conversion (for example, houses divided into flats) or refurbishment (for example, new office or shop layouts)
 - B. **Redevelopment**, where existing buildings are demolished and replaced by new ones
 - C. **New development** through outward expansion on undeveloped land, (for example, suburban housing)

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- Development activities may be carried out either by **private developers or public developers.**
- In the private sector real estate development is undertaken to **generate profit.** In the private sector, development is carried out by
 - Occupiers
 - specialist developers
 - financial institutions
 - property companies or
 - construction firms working through the price system

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- In the public sector, property development has been undertaken in order to increase the **welfare of the society**.
- Most public sector development decisions are taken on a mixture of **political, social and economic** grounds
- The real estate development process **starts with the initiation of an idea** and ends by **completion and the formal opening of the subject property**

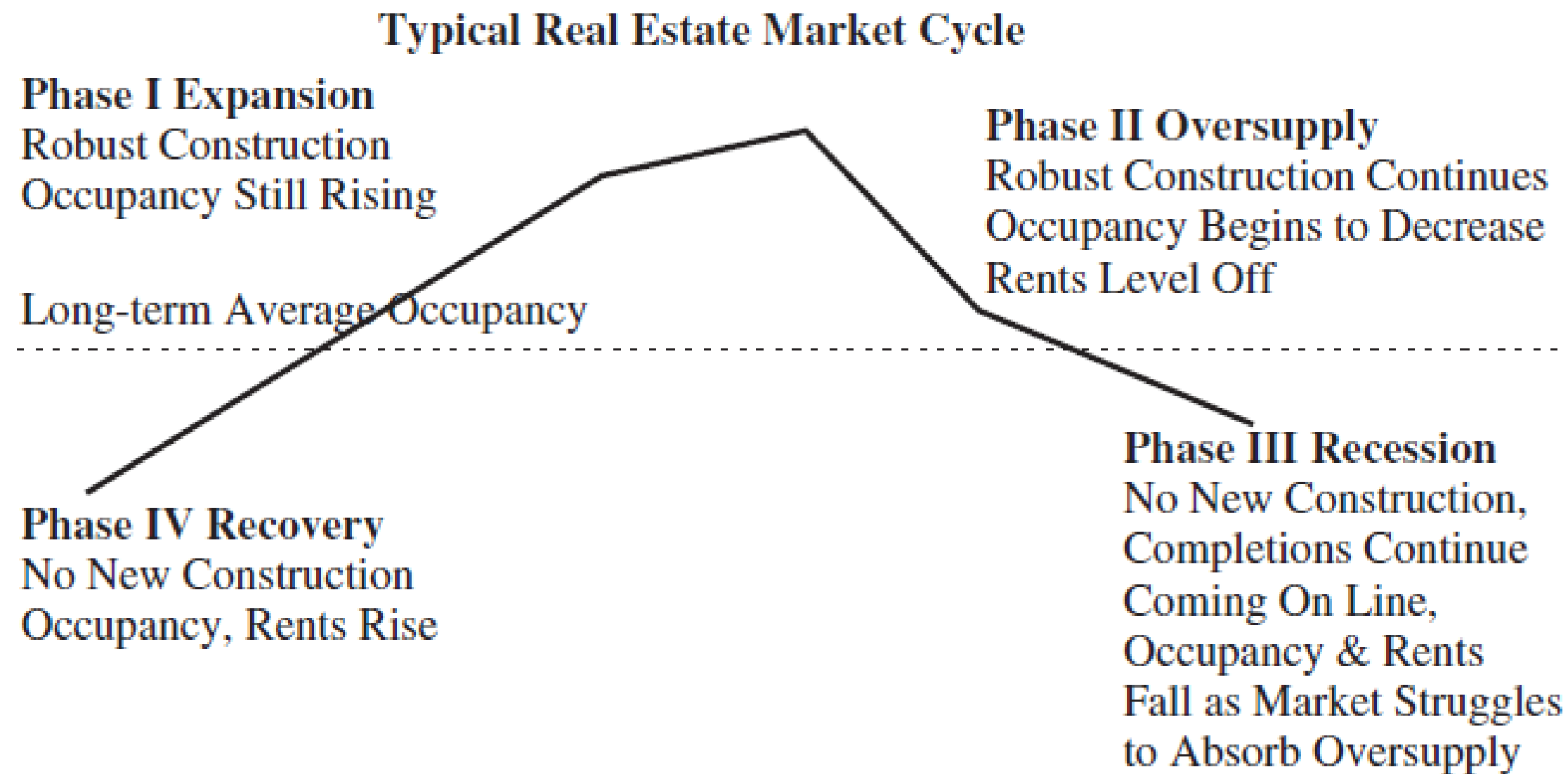
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Real estate has traditionally been a cyclical business and these basic **real estate cycles** are:

1. **Economic expansion**, robust construction, rising occupancy and increasing rents, good times, easy money, abundant financing at good rates, and boom times, resulting in overbuilding
2. **Oversupply**, robust construction increase occupancy level decrease and demand decrease rent will decrease
3. A **real estate recession** results when new-construction starts come to a virtual halt but, because of long planning and construction time frames, completions continue to come on line.

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4. **Recovery phase:** As the overcapacity is worked off, occupancy and rents begin to rise again, and the final **recovery phase** begins.



6.1.3 Economic perspective

- The real estate industry has a major impact on the economy. for instance Real Estate Development in U.S,
- Is more than a US\$5 trillion U.S. market segment
- Generates **about a third of U.S.** GDP
- Creates jobs for more than 9 million Americans
- Is responsible for nearly 70 percent of local property tax revenue, which pays for schools, roads, police, and other essential public services
- There is no any business or activity that does not directly or indirectly use real estate or is not a supplier of the real estate industry

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- The base for most of government revenue(70% as indicated above) was from the real estate and So, developers have to always address two factors when pursuing a development anywhere:
 - **What political changes will occur, and**
 - **what property tax revenue** changes will occur as a result of new development?

6.1.4 Relevancy of universal knowledge

- Everything you see, everything you hear, and everything you read is relevant to real estate development.

Universal knowledge is critical.

- Always be aware of **everything** that is going on around you, whether **you read about it in a newspaper**, **hear it on the radio**, **see it on television**, or **catch it on the Internet**.
- This universal knowledge is an application of the trend beyond the trend. If you, as a real estate developer, want to be successful, you will be aware of everything and be thinking about what opportunity is presenting itself to you.

6.1.5 GROUND-UP DEVELOPMENT Vs. REDEVELOPMENT

- There are **three basic types** of development: **greenfield** development, **brownfield** development, and **gray field** development
- 1. **Greenfield development** -takes place on a site where **nothing has ever been built previously.**
- The sites may be **old farmland or forest areas.** Greenfield development once was the most common type of development, as suburbanization continued out from the central business districts (CBDs).
- Today, greenfield development is probably the most difficult type of property development to execute.

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2. Brownfield development has two definitions

- these are -a site that has **environmental contamination** or **a site that has been built on** before. e. g an abandoned industrial plant or manufacturing site.

3. Gray field development:

- is a relatively new term that is being used more frequently today. these are redeveloped for the fact that it is not on the highest and best use(i.e **Under utilized**)

6.1.6 The development process

- *Real estate development is **the improvement of raw land or property** through the development process is **a highly creative process** in which **physical ingredients such as land and buildings** are effectively combined with **financial and marketing resources** to create an environment in which people live, work, and play*
- this definition contain four basic components and let us dissect.
 1. **The improvement of raw land or property**-The reality is that a real estate **developer cannot make money without first creating value**. Once value is created, then money or profit can be made.

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- 2. A highly creative process-** there may be limitations such as zoning, and you must meet all of the building codes and other requirements. However, you can build or design anything you wish. Your **imagination and the imagination of your project team are your limitations.**
- 3. Physical ingredients such as land and buildings are effectively combined-** The fact that real estate development involves physicality is very attractive to many people. People can actually see and touch what it is that they do. e.g for lending/borrow

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4. Financial and marketing resources. These two resources are essential to real estate developers. Clearly, financial resources are needed; otherwise, the developer would not have the money to build. marketing and market research and the resources associated with the real estate development process are also both essential

- you should perpetually ask yourself four **questions** in **real estate development**: These are
 1. **What is that we are doing?** What are you going to build? A hotel, a multifamily building, an office building, a retail complex? How big or small? How will it be designed?

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2. For whom are we doing it? Why is a real estate developer build a building? **A developer doesn't build the building just for fun.** A developer builds a building for a specific target market
3. whom are we affecting? The reality is that a real estate developer who builds a building is **causing change.** That change could be increased traffic, noise, odors, or just the reality that something has changed.
4. Will it economically fly? Is your project financially feasible?

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- ❑ **Note that** the financial analysis is the fourth , not the first thing, as many people think.
- ❑ While it's true that financial feasibility is important, as far as a real estate development project is concerned, it is clearly not the first consideration and can be **irrelevant** if the first **three questions are not sufficiently** answered.

If real estate developers do not know

- ✓ what they are doing,
- ✓ for whom they are building,
- ✓ whom their project is affecting, then the financial feasibility is absolutely useless information.

The eight process of development

The phases or process of development are

1. Establishing site control.
2. Feasibility analysis, refinement, and testing.
3. Obtaining permits.
4. Design.
5. Financing.
6. Construction.
7. Marketing and leasing.
8. Operation.

6.2 Business Ethics

6.2.1 Relevancy to the real estate industry

- Ethics is really about what you do or don't do
 - Ethics is equal to actions
 - Ethics in an environment of change include-
- ❑ **Principles** are moral guidelines, rules, and obligations. Probably the most common principle that we all know is the **Golden Rule**:

“Do unto others as you would have them do unto you.”

- ❑ A second term to understand is values.
- ❑ **Values** are temporary. They could be moral or immoral. They could be legal or illegal.

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- Two major aspects of the real estate environment cause ethical issues.
 - First, many problems arise from the low barrier to entry into the industry.
 - Second, the real estate industry is generally unregulated. One doesn't need a license to be a real estate developer
- Hence the real estate development industry and developers in general have a **negative reputation** from past developers who did not follow ethical practices.

6.2.2 Legislated ethics

- The legislation was meant to address the problems caused by companies
- good ethics is about good risk management.
- Be transparent
- Seek experience and to know what you don't know.
- A real estate developer also needs to **use common sense**. If something doesn't seem right, if something seems too good to be true, then you should trust your intuition, your common sense.
- Therefore legislated ethics play significant role in risk minimization

6.3 Project and Development Teams

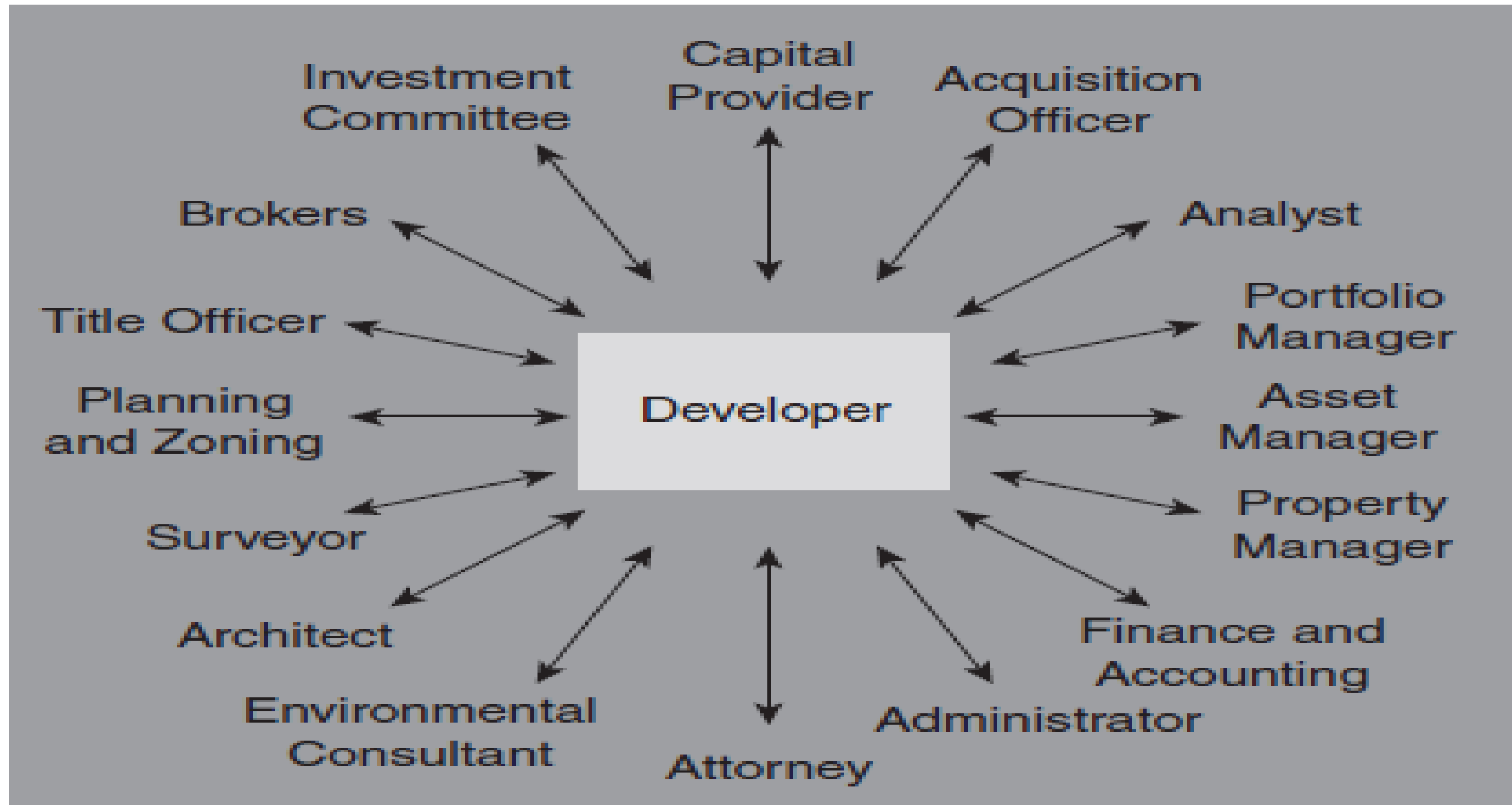
6.3.1 Types of developers

- Three broad developer types
 1. Private-sector developer
 2. Not-for-profit developer
 3. Public-sector developer
- “Teamwork is the ability to work **together toward a common vision** and in all of the above there is team work.
- The ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows common people to attain uncommon results.”

6.3.2 Functional disciplines in the development process

- ✓ development process uses a multitude of functional activities, that need experts in:
 - Legal
 - Environmental
 - Marketing
 - Finance
 - Architecture
 - Engineering
 - Construction
 - Quality control
 - Management And so on and so it is conducted with team

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6.3.3 FACTORS TO CONSIDER WHEN FORMING A DEVELOPMENT TEAM



1. Skill
2. Experience
3. Compatibility

6.4 International practice

6.4.1 Introduction

- Globalization has had a substantial impact on international property development, and it is an impact that looks set to increase.
- Globalization refers to the increasing worldwide **connections**, **integration** and **interdependence** in **political, economic, environmental, social and technological** areas of interest.

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- Globalization has a wide range and number of **impacts**, which are summarized as:
 - industrial
 - financial
 - economic
 - political
 - informational
 - cultural
 - ecological
 - social
 - technical and legal
- All of the above impacts can affect property developments

6.4.2 Globalization of property development

- To provide for **transnational businesses** and **cross-border developments**, there are **three** key ways in which property developers can **obtain general economic and property market information**.
 1. **Consultants:** an effective way is to use international property **consultants**.
 2. **Research and reports:** companies provide independent, accurate, comprehensive and up-to-date **research** on industries operating in the country. companies may prepare on the top nationally performing companies and provide reports with risk ratings on different industries.
 3. Third way for developers to find out about market conditions and opportunities is to use affiliated professional.
- For example, RICS (royal institute of chartered surveyors) is a global professional body representing land, property and construction.

6.4.3 Opportunities

- Developers seek opportunities to identify markets that have potential for **future growth** or, alternatively, are currently under-developed.
- property developers have expanded globally, there has been a parallel with increased global investment .The following creates opportunity for global developers.
- ✓ larger private sector participation in infrastructure projects;
- ✓ Increasing vertical integration in the packaging of construction projects;
- ✓ Increased foreign participation in domestic construction

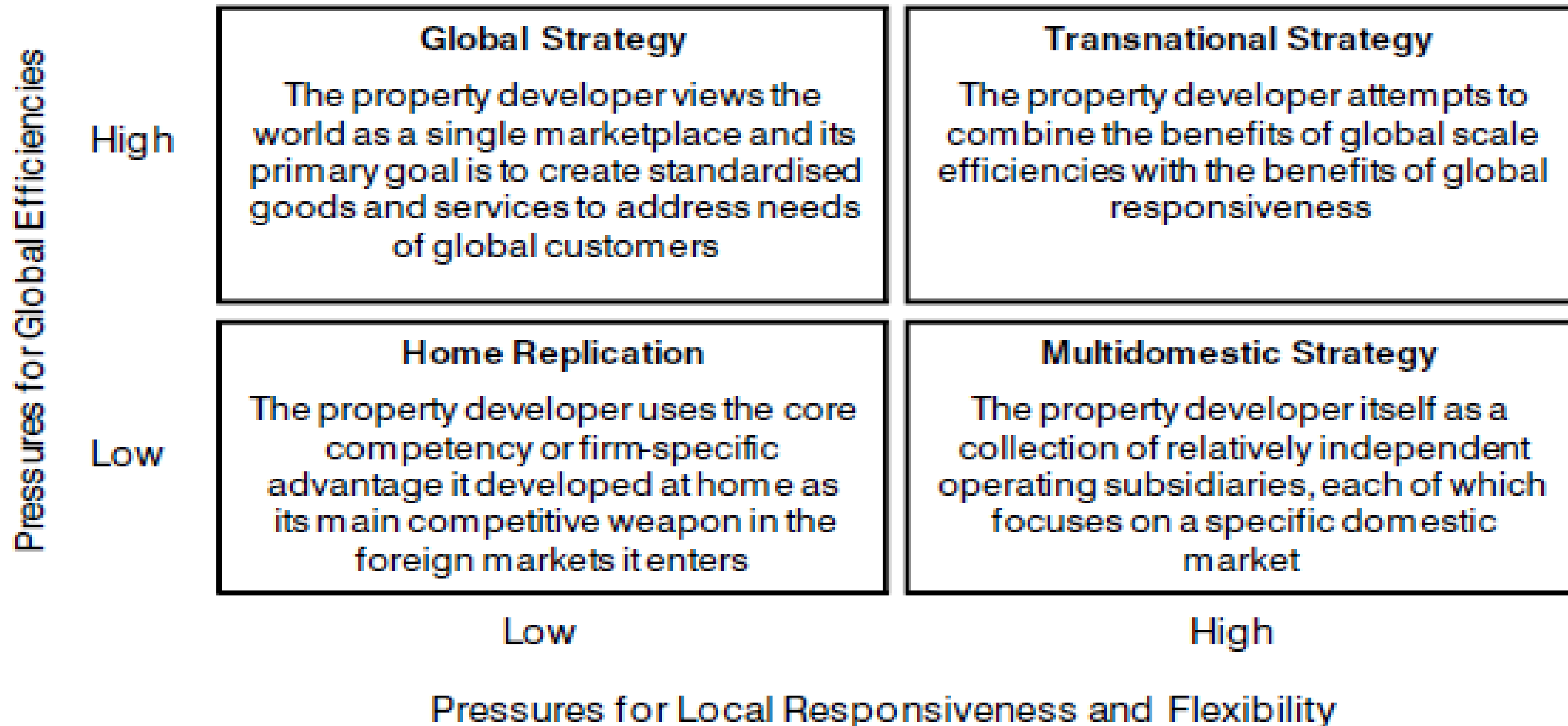
6.4.4 Barriers and limitations

- The transition to a truly international property market has been faced with challenges, like differences in currency, culture and varying levels of development in each country
- Some barriers to a successful property development are
 - ✓ **Lack of knowledge** about the inside workings of a property market (like terms of reliability, accessibility and cost, property-related information)
 - ✓ **Cultural barriers** and **Language barriers**

6.4.5 Risks in international property development

- An international property developer may be exposed to different types of risk.
- E.g. **highly volatile market and Currency risk.**
- **Structural risk** (may come from within the property development industry itself),
- **Growth risk** May occur from unpredictable growth
- **External risk** (can result from forces external to the development)

6.4.6 Approaches to balancing global expansion with the local market



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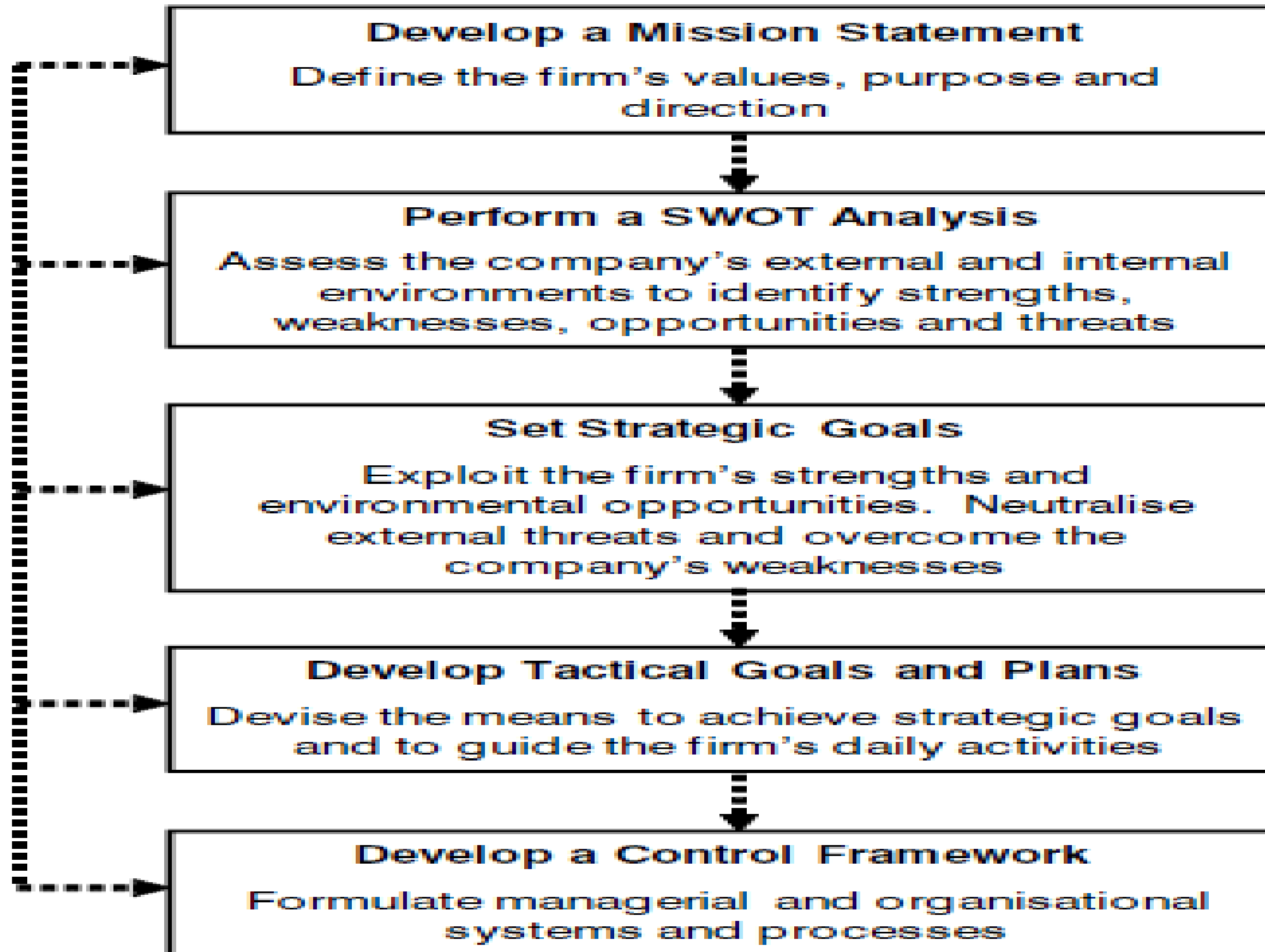
- **Global strategy** occurs when pressures for **global integration are high** but **the need for local responsiveness is low**
- **Transnational strategy** is when both global integration pressures and local responsiveness pressures are high
- **Home replication** is adopted when pressures for global integration and local responsiveness are low
- **Multi domestic strategy** occurs when the response to local conditions is high but pressures for global integration is low.

6.4.7 Developing an international strategy

□ Decision to develop a global profile must be accompanied by a **well planned and executed** strategy. According to Griffin and Putstay (2007) there are **five** independent steps that should be undertaken

1. Develop a mission statement. This clarifies the property developer's **purpose, values and directions and is a means of communicating** with internal and external constituents and stakeholders about the company's strategic direction.

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2. **Undertake environmental scanning** and a SWOT (strengths, weaknesses, opportunities and threats) analysis. An environmental scan is **a systematic collection** of data about all elements of the property developer's external and internal environments, **including**

- **markets,**
- regulatory issues,
- competitor's actions,
- production costs and
- labor productivity

3. **Set strategic goals.** These are the **major objectives** the **developer wishes** to accomplish through pursuing a particular course of action. Importantly, they **should be measurable, feasible and time restricted.**

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4. **Develop specific tactical goals** or plans that focus on the **details of implementing** the property developer's strategic goals.
5. **A control framework is required.** This is the set of organizational and managerial processes that keep the property developer moving towards its strategic goals.

Examples of international real estate

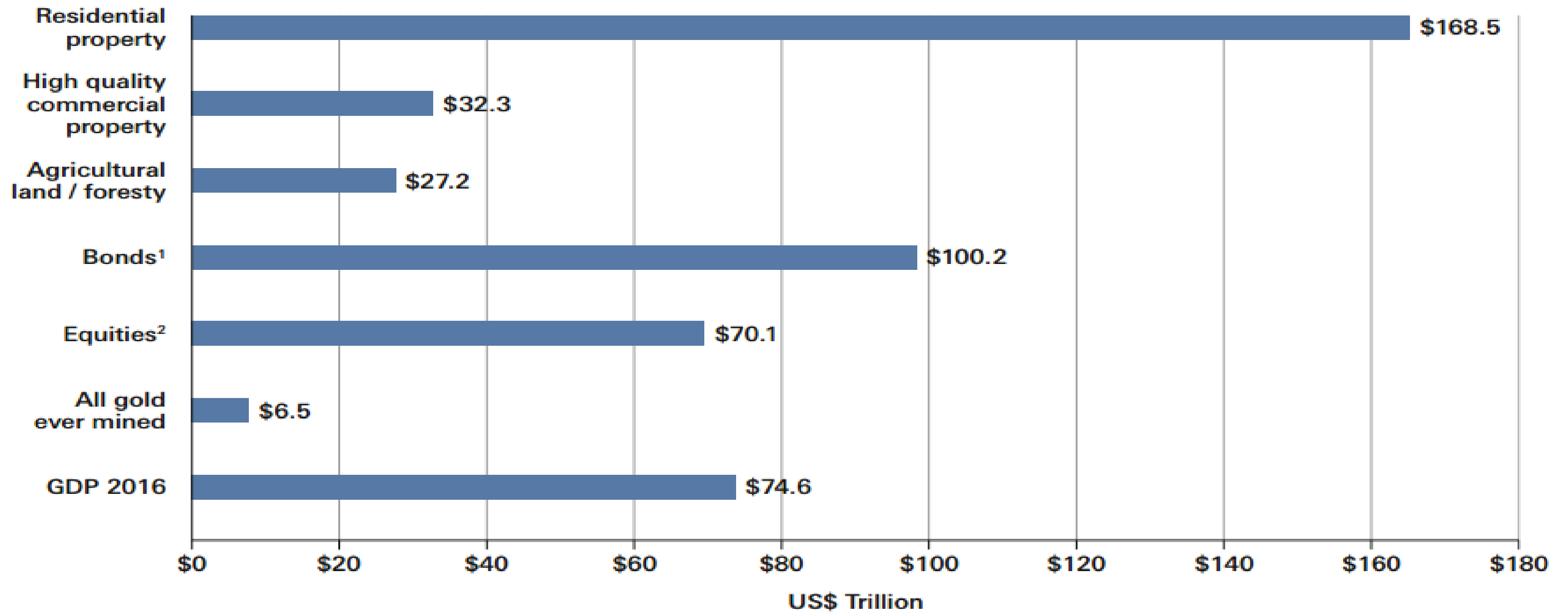
- Residential and commercial property have come into focus as a potentially rewarding source of income and capital growth.
- Those considering purchase will be interested in the performance and prospects for global real estate.
- As more people grow wealthier in new and emerging economies across the globe, they will seek a homes

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- Global real estate is an asset class **worth around \$228 trillion**
- real estate investors have looked for capital growth. In the global search for income, the true value of real estate to investors is its **attractive prospect for rental growth.**

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The value of asset classes compared



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- During 2016, a total of \$780 billion of real estate was traded across the globe .
- Most of this real estate was commercial and owned by large corporations and investing institutions.

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Examples ...

- **Dubai:** Dubai has emerged from a dramatic **boom and bust** and growth is now being driven by **occupier demand**.
- The emirate was opened up to foreign property ownership in 2006. Fuelled by cheap credit and speculation, prices more than doubled.
- **Los Angeles** is known for its sprawl, but a revival in urban living is bringing growth to its core.



Thank you!!!