



# Guide

## Real Estate Development Process Overview

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### 1. The keys to success for real estate development

The term “real estate development” describes the entire process of conceptualizing, designing, planning, funding, and managing the construction of physical buildings that operate with an intended use.

#### FOUR KEYS TO A SUCCESSFUL PROJECT

##### What is the financial feasibility of your project?

Assess the financial feasibility of your project by completing a cost/benefit analysis, a forecast of expected return on investment, and a summary of any financial risks.

##### Do you have an experienced team?

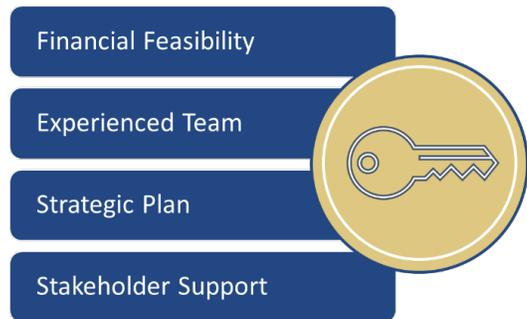
Complete the contracting process with key team members early in the process to maximize their expertise.

##### What is your strategic plan?

Develop a road map that aligns the mission and vision of the project with the steps you need to follow to reach the destination you have in mind.

##### Do you have strong stakeholder support?

Seek out input from stakeholders, acknowledge their feedback, and work to build relationships to develop a building that will be a welcomed community asset.



This guide provides an overview of a very complex process, and there are many steps not addressed. Additionally, depending upon where you are in the development process, some content may not be relevant to your needs.

## 2. The process of real estate development

Real estate development can be considered an art and a science. It is an art because the full process is never the same twice; it requires leadership with mental flexibility, good timing, and political sensibility. At the same time, it is a science that depends on financial models, exacting legal contracts, complex design drawings, critical engineering calculations, and detailed codes and building standards that must be met. A new real estate development project on raw land (called “ground up development”) can often take 2+ years, millions of dollars of construction costs (hard costs), and millions of dollars of consultant fees (soft costs).

The real estate development process can be broken down into six incremental phases:

- Concept Planning, Feasibility, and Due Diligence
- Pre-Development Design
- Development Planning
- Acquisition
- Construction
- Close Out / Move In



The six phases of the real estate development process build on each other, starting with a development concept and ending with a finished structure. While these phases are presented in an orderly flow, activities often begin in one phase and end in another.

*Note:* The process of real estate development is very location specific, which is one of the reasons that familiarity with the specific region can be an important consideration when building your team. Variables include:

- Laws and guidelines regarding zoning, building codes, and permitting processes
- Demographics and local political influences
- Site-specific soils, water conditions, and infrastructure
- Fees, taxes, and insurance

## 3. The real estate development phases

### PREPARATION: BUILDING YOUR TEAM

When building your team, you will seek out experienced professionals who will manage and conduct most of the operations related to the project. You will identify, interview, research the backgrounds of, and talk with referrals to determine your selection for the real estate attorney, health care architect, construction manager, and general contractor.

Some team members, such as the health care architect and construction manager, will have significant involvement at every phase. Others, such as the real estate attorney and general contractor, will play key roles at different stages. The experience and skills team members bring to the project are critical for its success.

### PHASE 1. CONCEPT PLANNING, FEASIBILITY, AND DUE DILIGENCE

This phase identifies the facility's big-picture needs, such as the goals that will be achieved by building the structure, where it will be built, and the people and businesses that will benefit from it when it is finished. During this phase, you will also hire the team that will be responsible for the entire development process.

#### Activities

##### Concept planning

- Define the needs and goals of the facility.
- Define your scope, budget, and schedule.
- Select key development team members.
- Build relationships with your stakeholders: local businesses, nonprofits, agencies, service partners, and clients.
- Identify potential funding sources.

#### Conducting a feasibility study

The feasibility study is an assessment of numerous factors, including economic, technical, demographic, legal, competition, and organizational capacity, to assess the strengths and weaknesses of a proposed project based on its cost and value.

#### Working with the architect during concept planning

After the feasibility study is complete, the first step in creating architectural drawings for the project is called site programming. Some owners complete this work on their own, but it is more typical to work with the architect. This work is an "add-on" service to the standard contractual agreement with the architect. At this point, your goal is to determine the scope of work to be designed.

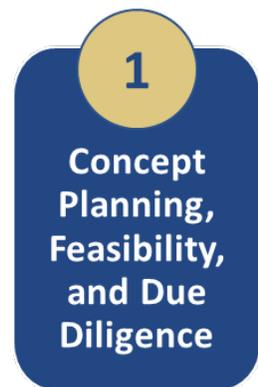
#### For acquisitions: Site selection begins

Conduct due diligence.

If you are purchasing a property, you will need to make sure the selected property can meet the project goals. Due diligence is the research conducted before engaging in an acquisition transaction to determine the associated risks. It is a process with several defined steps and outputs.

#### Actions and outcomes

- Feasibility study finished
- Programming plan and initial architectural renderings done
- Market analysis and business plan complete
- Funding strategy created





## 2 Pre-Development Design

### PHASE 2. PRE-DEVELOPMENT DESIGN

In this phase, you will finalize your initial architectural fit study and initial site plan and address every issue and contingency that pops up before you start development of the detailed construction drawings.

At this stage, all the core development team members (real estate attorney, health care architect, and construction manager) are contracted, the architectural drawings become schematic drawings, and all reviews and studies are finalized.

This phase is usually the longest of the entire real estate development process.

#### Activities

- Finalize the development team and define the roles of each member.
- Finalize feasibility study, due diligence, and environmental reviews.
- Develop the preliminary budget and negotiate preliminary financing commitments.
- Complete the site plan and schematic design.
- Evaluate design alternatives and options.

#### Actions and outcomes

- Contracts with team members complete
- Environmental Review (Phases I & II) complete
- Proof of site control either by letter of intent, option, or purchase agreement
- Preliminary building plans and other schematic drawings complete

#### *What is schematic design?*

Schematic design, sometimes called concept design, is the first step of architectural design. In this phase, architects use rough sketches to produce more detailed drawings. These drawings show floor-by-floor and room-by-room dimensions, including common areas, hallways, entrances, and exits, and should include internal and external views. Additionally, the architect will begin to develop more detailed specifications about major components of the project. These include:

- Type, quantity, and quality of materials
- Systems such as electrical, plumbing, and heating, ventilation, and air condition (HVAC)
- Stairways, roofs, foundation, walls, and doors
- Landscaping, open space, parking, and traffic flow



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## 3 Development Planning

### PHASE 3. DEVELOPMENT PLANNING

The development planning phase begins with the architect and engineers creating the design drawings. It ends with completion of the construction drawings.

In this phase, building plans are submitted to planning departments, a building permit is issued, a closing date or lease (site control) on the land where the building will sit is set, and an RFP is released to solicit general contractors.

This phase takes approximately 6 months and involves hundreds of hours of detailed work by architects and engineers.

#### Activities

- Finalize financing commitments.
- Finalize the design drawings (DDs) and construction drawings (CDs).
- When CDs are 50% complete, issue an RFP for general contractors.
- When CDs are 85% complete, submit them to the local planning department and receive a building permit.
- Hire a general contractor with a GMAX contract.

#### Actions and outcomes

- Final update of project schedule, scope, and budget with project entities and stakeholders before construction begins, and contracts reviewed
- Furniture, fixtures and equipment (FFE) package and interior design planning finalized
- Approvals from local agencies (fire, water, utilities) obtained
- Relocation plan for residents completed

### PHASE 4. ACQUISITION COMPLETION

Acquisition begins as a process involving feasibility and due diligence studies of the physical property, performed by the buyer's team. This team includes a brokerage company and real estate legal team. If the studies are positive, the legal team will send a letter of intent (LOI) outlining their terms of purchase.

If the seller agrees, an escrow account is opened and earnest money is deposited. A more thorough due diligence and Physical Needs Assessment (PNA) is performed after the LOI. Once the Will Serve letter and other acquisition milestones are achieved, the closing transfers title and ownership to you.

#### Activities

- Advance an LOI with terms and dates to complete the sale
- Complete due diligence
- Achieve clear title and transfer ownership

#### Actions and outcomes

- Reports on the site, title, and any legal issues involving the property obtained
- American Land Title Association (ALTA) survey completed
- Will Serve letters from utility companies received

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## 4 Acquisition Completion



## PHASE 5. CONSTRUCTION

In the construction phase, the general contractor will sign on subcontractors at prevailing wage and manage reporting requirements. Upon issuance of the building permit, the owner (or owner's agent) issues a Notice to Proceed, and the general contractor begins construction as defined in the contract.

The construction contract negotiated during the acquisition phase will define the cost and duration of construction. Throughout the construction phase, the construction manager will serve as the owner's representative per the terms of their contract and should prioritize keeping the site secure and safe to avoid accidents. Construction can easily make up 50–75% of a development budget, depending on a variety of factors.

### Activities

- Perform demolition and grading to prepare for construction.
- Hire and manage subcontractors.
- Oversee all construction activity.
- Schedule and complete building inspections.

### Actions and outcomes

- Facility is readied for walkthrough and closeout
- All bills paid; no liens, no lawsuits, no accidents, no theft, no problems

## PHASE 6. CLOSE OUT AND MOVE IN

Close out is the final opportunity for inspections, revisions, and corrections. It is the phase that confirms all details and quality standards are met. It occurs when the structure is 99% completed and the general contractor notifies you, the owner, that the building is ready for occupancy. Your construction project is complete when you receive a Certificate of Occupancy.



### Activities

- Attend a walkthrough and inspection with the general contractor.
- Attend inspections by third parties to obtain a Certificate of Occupancy.
- Ensure ownership documents and any maintenance manuals are transferred to you.

### Actions and outcomes

- Receive a Certificate of Completion and become the owner
- Receive all paperwork, guarantees, manuals, and instructions for maintaining your property

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