Real Estate Development

Course Objective:

Real estate development involves many product types and delivery methods. This course explores the organization and practices employed by real estate development firms, the real estate development process, its methods and interactions with other professionals, ownership objectives, results, industry organization, resources, and the tools employed by developers in the creation of high quality profitable projects. As such, it will provide those who pursue high level positions in the construction industry with insight into the process, organization, and factors that impact and influence real estate development clients. Understanding the forces that impact their customers will allow them to effectively pursue and maintain work with developers and other similar clients. The best leaders in the construction industry are those who are not only good at what they do, but understand how consultants and owners do their work. This course addresses that point and provides the knowledge and access to resources needed to effectively deal with those individuals. Homework throughout the quarter will test and hone each of the skills in the development process.

Following is a week-by-week description of the course:

Week 1: Real Estate Development Overview
Introduction to market segmentation and differentiating the office, industrial, retail, residential, hospitality, and institutional segments, their principal trade organizations, and the influence of geographical reach in developer’s organizations. The development process is reviewed in detail, and the roles of design, building, marketing, sales, legal, insurance, lender, tenants/users, municipal authorities, and other involved parties are discussed. The development timeline is explained and differentiated from the construction schedule.

Week 2: Analyzing Development Opportunities
The science and art of market research are discussed and the difference between market research and market demand analysis is explored. The roles of leasing agents, sales brokers, and tenant representatives are made clear, including insight into their ethical boundaries and licensing regulation. The role of the build-to-suit delivery method is contrasted with the design-bid-build method.

Week 3: Site Evaluation and Acquisition
Methods of site identification and available resources are evaluated. The various factors of determining of site suitability for the contemplated use are evaluated, including zoning rights, physical and environmental constraints, configuration issues, parking, services, visibility, adjacencies, access, traffic, infrastructure, soil stability, grading, wet lands, and lease
and title encumbrances. The roles of the consultants involved are explained. Forms of acquisition contracts, financing, and partnerships are contrasted. A development case study is evaluated.

**Week 4:** Zoning and Entitlements

The relationships among the comprehensive plan, zoning regulations, permit and approval process times, and other issues are evaluated. The need for supporting materials and consultants for traffic, fiscal impacts, and EIR’s are shown. Non-traditional zoning methods for trips, TOD, and green initiatives are described. The language of zoning regulation agreements and the political process are considered.

**Week 5:** Project Design

The roles of the design consultants throughout the development process are considered. Consultant selection methods, compensation structures, owner supervision, and interactions with contractors are evaluated. The organization of the project team and the importance of design on perception, marketing, efficiencies, and cost control are reviewed. Industry standards of area measurement and program definition are defined and their importance is illustrated. The phases of the design process and schedule are defined. A case study of a high profile project with significant design issues is reviewed.

**Week 6:** Project Construction

Contractor selection methods are evaluated. Forms of agreement are considered and owners interests are contrasted with AIA forms and contractors interests. Key contract issues, such as cost of work, staffing, schedule, delays, damages, disputes, termination, assignability, and the role of the lender, are explored from the owner’s point of view. Methods of construction service delivery are evaluated, including cost plus, stipulated sum, and guaranteed minimum price. The completeness of design documents and owners schedule risks is considered. Preconstruction services and budget formats are reviewed. The development team project is assigned and development teams are formed.

**Week 7:** Renovation and Adaptive Reuse Projects

Considerations from the owner’s point of view in the design and renovation of existing properties are evaluated. Also discussed are the allocation of the site during the work, restrictions on contractors work hours and operations, parking, deliveries, temporary facilities, and handicap access. Costs are defined to allow for recoveries and tax allocations. Items not to overlooked in project planning and budgeting include storm water retention, tenant relocations, tenant disruptions, deferred maintenance, property management, operations input, existing warranties, municipal restrictions, and taxes. Viable alternate materials should be considered to realize cost savings. Additional revenue
enhancements include vending, ATMs, phones, cell phone carriers, advertizing, and sponsorships.

Week 8:  **Project Financing**
The current state of the capital markets, underwriting requirements, equity requirements, construction financing, permanent financing, costs of debit, and equity are discussed. The financing RFP process, lender requirements, loan terms, third party reports, documentation, preleasing and sales, and recourse requirements are explained. Financial metrics, NOI, debt coverage, loan-to-cost, and loan-to-value are reviewed and quantified. Proforma and cash flow creation are discussed, and a case study proforma is reviewed.

Week 9:  **Property Management**
Define owned property versus third party property. Leasing methods of delivery and the dynamics of the leasing agent with the development team affect the project, timing, exclusives, radius restrictions, use clauses, kickouts, and co-tenancy. Marketing responsibility differences between market segments, operations needs for energy efficiency, and capital versus operating are explained. Scope and design considerations, amenities, FFE, lighting, warranties, controls, start-up expenses, management recoveries, and pad rentals are discussed along with CAM and REA impacts.

Week 10:  **Team Development Project Reviews**
The student teams formed in Week 6 will present their development projects. Presentations will include analyzing and describing the development opportunity and evaluating market factors, entitlement restrictions, site suitability, architect and contractor selection, and financial proforma creation.

Exam Week: Multiple choice questions, true/false questions, and calculation problems will be included on the final examination.

Text:  No text is used. Class slides will be posted on the MPM web site after each class.

Software:  None

Grade Determination:

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