

PLAN 823 Section 1

Planning Workshop—Real Estate Development, Design & Preservation

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Emil E. Malizia

Dept. of City & Regional Planning

UNC-CH

I. Office Hours:

Malizia: After class or by appointment

II. Course Prerequisites:

Specialization in real estate development, in design and preservation of the built environment, or with permission of the instructor

III. Meeting Times/Location:

Monday, Wednesday

3:30 p.m. to 4:45 p.m.

New East 301

IV. Course Description:

In this course, students apply knowledge gained in the specializations mentioned above. Student teams function as entrepreneurial real estate development entities seeking development opportunities. This year, the teams will determine the feasibility of a speculative development project of their own choosing from the institutional, economic, physical, and financial perspectives. Teams will identify and evaluate the critical assumptions required to create, construct, and operate an economically viable real estate product. The feasibility analysis requires extensive due-diligence research using library, internet, and especially expert sources.

V. Course Objectives:

The purpose of the course is to determine whether the team's proposed project is feasible from the perspectives of all participants and, if not, what changes would be necessary to attain feasibility. Students should learn the intricacies of the development process, the many trade offs involved between risk and return, the value of careful and comprehensive research, and the potential for promoting the public interest through property development.

VI. Method of Instruction:

Each student team will complete the assignments described below. A commitment of about 10 hours per week is expected. The teams will produce feasibility reports at the end of the semester. Team members will collectively identify tasks that will be assigned to individual team

members. Since few economies exist in assembling and analyzing real estate information, the quality of the final report will be directly related to the combined effort of team members. The assignments require a substantial but not unreasonable amount of effort.

Each team is expected to submit eight assignments by the deadlines. The sequential assignment deadlines will help teams stay on task to complete the required work. The instructor will review Assignments 1-6 and return them to the teams for improvement. These assignments will not be graded. However, the instructor will impose severe penalties if assignments are not submitted on time.

Since most of the work will occur outside of class, the class will not meet regularly after the first few weeks. Class sessions will be used to 1) review assignments # 1-7, 2) receive feedback from the instructor, 3) prepare for the formal presentations, 4) de-brief the first panel session, and 5) hold team meetings.

Each team will present their work to two expert panels. The first presentation will describe the project concept and development objectives, market analysis, government relations plan, and preliminary site plan and conceptual building design. The panel will consist of local experts with backgrounds in real estate market research, government/public relations, architecture, landscape architecture, and real estate redevelopment. The public sector will be represented on the panel. Teams may distribute written materials to the panelists at the session.

The final presentation will describe the development project to a panel of real estate developers and investors with the considerable experience and financial capacity. The public sector will also be represented to comment on the viability of the public-private partnership assumed necessary to make the deal work. Executive summaries of the projects will be eMailed and/or express mailed to the panelists four days before the presentations. These panelists will be asked to grade the quality and thoroughness of the written work and the presentations.

The final report will be due during exam week. One hard copy and a pdf file should be submitted. The use of color is encouraged. Students will receive a copy of their team's final report.

## VII. Grading:

Each team member will grade his or her own work and the work of other team members. S/he will submit these grades to the instructor when the final report is completed. The final grade will be based on the final feasibility report (60%), the final expert panel evaluations (15%), and the grade provided by team members (25%).

Students demonstrating consistent exceptional work will be considered for a high-pass grade. Teams that turn in two assignments late will receive a low-pass (L) grade. If any additional assignments are turned in late, the instructor will fail the entire team.

## VIII. Project Assignments:

	Assignment Description	Due Date
Assignment 1: Project Description	Each team shall specify its development objectives, refine the initial project idea, identify the specific project site	Feb. 18 (initial)
Market Analysis	Each team will conduct a thorough market analysis for the proposed uses at this location	March 7

	Assigned: Jan. 16	
Assignment 2: Government Relations Plan	Each team shall describe how the project will advance public-sector objectives, how neighborhood concerns will be addressed, and how the entitlement process will be navigated. The plan will identify relevant regulations as well as potential incentives.  Assigned : Jan. 28	Feb. 25
Assignment 3: Site Plan & Conceptual Building Design	Each team shall prepare a site plan, supported by a suitability analysis, and conceptual design plan of the building(s).  Assigned: Feb. 11	March 7
Assignment 4: Capital Budget Estimation	Each team will be responsible for preparing a detailed capital budget which will include sources and detailed uses of funds. Assigned: March 5	March 26 (initial)  April 14
Assignment 5: Revenue & Expense Analysis	Each team shall submit a detailed analysis of revenues and expenses from the time of initial cash outlays through stabilized occupancy (or break-even sales) to demonstrate solvency. Assigned: March 19	April 2
Assignment 6: Financial Plan & Investment Analysis	Each team shall finalize the sources of funds and conduct a discounted cash flow analysis to determine the project's ability to meet financial return criteria. Assigned: March 31	April 14
Project Executive Summary	Each team shall submit a project summary emphasizing critical assumptions and risk areas for final panel review on April 25.	April 22  (by noon)
Assignment 7: Final Project Feasibility	Each team will determine project feasibility by collating revised versions of Assignments #1-6, considering feedback from panelists, and pursuing additional work.	May 2

### **Assignment 1: Project Description & Market Analysis**

#### A. Project Description

1. Proposed redevelopment concept—primary property type(s) with brief description of retail element and parking treatment
2. The proposed site—location and acreage on the subject block  
  
(Provide location/area map(s) and site map)
3. Team objectives—public interest, financial, others in addition to gaining relevant experience
4. Feasibility criteria including critical public concerns and equity return requirements (cash-on-cash returns, IRR, or other financial criteria)
5. Initial comparison of cost to value using simple static analysis

## 6. Initial consideration of market, entitlement, construction, and financial risk factors

### B. Market Analysis

#### 1. Market overview

- A. Tastes, technology, demographics, public policy, mega trends that support project idea.
- B. Timing and location of project in relation to
  - 1) Local economy: downtown and metro area.
  - 2) Local regulatory environment—difficulty in developing future supply.
- C. Team capabilities to manage risk and market the project.
- D. Compare to similar metro areas (optional).
- E. Long-term rate of property appreciation compared to inflation rate (optional).

#### 3. Market Study: Demand analysis

- A. Market area delineation
- B. Space users and demand indicators
- C. Historic and current market absorption
- D. Projected market absorption (future demand) for next 10-15 years

#### 4. Market Study: Supply analysis

- A. Existing inventory and near term projection of new inventory
- B. Business/building cycles and regulatory trends affecting development
- C. Future supply for next 10-15 years

#### 5. Market Study: Future market conditions

- A. Forecast Rents (10-15 years out) based on rental time series
- B. Forecast Vacancies (10-15 years out) based on forecasts of absorption and supply
- C. Discuss the cyclical behavior of rents and vacancies anticipated in the future

#### 6. Marketability Study: Segmentation

- A. Target specific market segment(s)
- B. Specify project functions & features that should attract segment(s)

## 7. Marketability Study: Differentiation

- A. Identify competitive supply
- B. Specify project functions & features needed to compete with supply

## 8. Marketability Study: Project absorption and capture

A.1 Calculate the capture rate for each segment compared to project's fair share of demand for year when target occupancy is to be achieved

AND/OR

A.2 Create "grid" that assigns total absorption to competitive projects and subject project for each segment for year when target occupancy is to be achieved

B. Project monthly absorption and the number of months needed from certificate of occupancy (CO) to reach target occupancy.

## 9. Marking the Project to the Market

A. Project rental income and vacancies consistent with forecasted market rents and vacancies (if not consistent, explain why)

B. Project annual absorption schedule for 10-15 years consistent with forecasted market vacancy rates (if not consistent, explain why)

C. Identify key marketing features that distinguish the project from the competition

## 10. Executive summary of the market analysis emphasizing the extent and nature of market risk

### **Assignment 2: Government Relations Plan**

#### 1. Public development objectives

A. Identify the local government objectives relevant to the project

B. Identify important issues relevant to the neighbors

C. Comment on the general attitudes towards development within the jurisdiction

#### 2. Approach to redevelopment within the jurisdiction

A. Describe the requirements expected of developers interested in redevelopment

B. Describe the incentives available in the jurisdiction to encourage redevelopment

C. Comment on the project/product types sought after or discouraged and the expected public reaction to the proposed redevelopment

#### 3. Infrastructure

- A. Describe the availability and condition of public infrastructure and facilities needed for the proposed project including transportation, water, sewer, telecommunications.
- B. If available infrastructure is not adequate, explain how and when infrastructure will become available.
- C. Explain how required parking will be estimated and provided.

#### 4. Regulatory process

- A. Regulatory requirements: permits, fees, documents to be submitted
- B. Development review process: expected amount of time required and critical path of necessary public hearings, board meetings, and anticipated approvals
- C. Account for policies and regulations of other jurisdictions (state, federal) will impact the project

#### 5. Co-development

- A. Describe how the proposed project can help achieve local public objectives
- B. Describe how any applicable local and public assistance may be utilized

#### 6. Strategies

- A. Synthesize the above by identifying the strategies to be used to have adequate infrastructure, receive project approvals, and fashion an attractive public-private partnership
- B. Identify critical contingencies and how they may be met

#### 7. Development potential of the site: allowable versus feasible

- A. Overlay all land-use regulations on the site: zoning, buffers, parking, etc. to indicate the development envelope of the site
- B. Calculate the maximum square footage (or number of units) permitted within the development envelope of the site
- C. Estimate the amount and cost of concessions, in terms of square footage or number of units that may be required to gain project approval and compare to anticipated incentives

#### 8. Executive summary of the GRP emphasizing entitlement risk and other political risk factors

### **Assignment 3: Site Plan & Conceptual Building Design**

#### 1. Suitability analysis

- A. Discussion of important project attributes, appeal of project, and design features.
- B. Project's compatibility with surrounding area and conformance to comprehensive plan

C. Important aesthetic factors

D. Site constraints, including steep slopes, streams, floodplains, wetlands, etc.

2. Concept plan

A. Land use

B. Relationship among off-site and on-site activities

C. General circulation flow

D. Big idea of design: organizing concept for layout such as Main Street business area, clustered residential project, etc.

3. Site plan elements

A. Land use allotments and percentage of site.

B. On-site and off-site traffic patterns and traffic impacts

C. Relationship among uses within the site and on adjacent sites, including preliminary indication of spatial relationships among tenants

D. Phasing of development, as appropriate

E. Landscaping, pedestrian flows, parking layout, and open space, as appropriate

F. Special amenities to be provided

G. On-site and off-site public improvements

4. Preliminary site plan

A. Two-dimensional rendering at 1" = 40 ft.

B. Building footprint(s), roads, utilities, parking, circulation, topography, and landscaping

C. Amount of square footage (or number of units) to be developed compared to the development envelope--the maximum permissible square footage (or number of units)

5. Conceptual building design

A. Three-dimensional schematic rendering of building(s)

B. Photographs of similar projects and building features

6. Executive summary emphasizing the physical constraints and opportunities of the site

**Assignment 4: Capital Budget Estimation**

1. General construction information

- A. Type of project and materials to be used
- B. General/sub-contractor relationships
- C. Compatibility of finished product with development objectives
- D. Summary of costs associated with normative capital budget estimation

2. Construction schedule

- A. Major components of construction schedule, both on-site and off-site
- B. Timing of construction process, from start to receipt of all relevant approvals required for occupancy (Relate to required permitting from Assignment 2)

3. Description of all relevant hard costs

- A. Cost of land
- B. Site development costs
- C. Amount of space and mix of uses
- D. Quality of project, including general materials specification
- E. Building shell costs
- F. Building systems and tenant build out

5. Description of relevant soft costs

- A. Anticipated construction period
- B. Estimation of construction interest
- C. Professional service costs (e.g., architectural, engineering, environmental, etc.)
- C. Government fees and cost of required studies
- D. Interim/permanent loan fees and closing costs
- E. Marketing budget
- F. Overhead/administrative costs

6. Discussion of anticipated interim/permanent financing package, to include:

- A. Anticipated interim lender
- B. Anticipated take out financing arrangement
- C. Anticipated financial arrangements, including construction loan guarantees

## 7. Capital budget contingencies

- A. Construction contingency
- B. Other contingencies

## 8. Cost/value analysis using cost and market driven techniques

If cost is greater than value, conducted an analysis to determine the assumptions needed to equate cost and value

## 9. Executive summary emphasizing construction risk and risk mitigation options

**Assignment 5: Revenue & Expense Analysis**

## 1. Identify key assumptions

- A. Anticipated holding period of project
- B. Estimated time in months for development review (see Assignment 2.) and construction (see Assignment 4.)
- C. Estimated time from CO to stabilized occupancy/break-even sales (see Assignment 1.)
- D. Key assumptions used to estimate project revenues and expenses

## 2. Revenue analysis monthly from initial cash outflows through stabilized occupancy

- A. Tenant/income identification
- B. Space allocation
- C. Minimum rent specification
- D. Estimated contract increases/escalation charges
- E. Overage revenue - base levels/amounts
- F. Tenant sales volume estimates
- G. Utility collections
- H. Common area charges
- I. Miscellaneous income

## 3. Expense analysis monthly from initial cash outflows through stabilized occupancy

- A. Building and grounds maintenance
- B. Common areas

- C. Central utility systems
  - D. Office area service
  - E. Advertising and promotion
  - F. Fix-up costs associated with tenant turnover
  - G. Real estate taxes
  - H. Insurance
  - I. General administrative
4. Detailed discussion of how project will be financed from CO to stabilized occupancy
  5. Executive summary emphasizing how project solvency will be achieved given market, entitlement, construction and lease-up risk factors

### **Assignment 6: Financial Plan & Investment Analysis**

1. Review/refinement of ownership structure and investment objectives
  - A. Structure and legal form of ownership
  - B. Distribution and liquidation arrangements
  - C. Regulatory considerations related to lending and investment
2. Review/refinement of financial plan
  - A. Sources of debt and equity financing
    - B. Restate investment criteria and objectives of all parties
3. Describe proposed permanent financing arrangements
  - A. Consistency between ownership and financing arrangement
  - B. Review interim financing arrangements
  - C. Detailed sources to be used for permanent financing
4. Cash flow analysis on an annual basis
  - A. Development cost estimates
  - B. Revenue/expense estimates for project over holding period from financial inception of project through anticipated disposition
  - C. Explicit analysis of disposition, including underlying assumptions associated with reversionary cash flows

5. Investment analysis on an annual basis

- A. Demonstrate the project's ability to meet the minimum yield requirements of equity investors
- B. Indicate how the project could achieve profit maximization
- C. Explain the project's use of public financing to achieve public development objectives
- D. Describe cash-on cash returns (at stabilized and on average) and IRR
- E. Partition returns from cash flows and from reversion

6. Non-pecuniary benefits associated with the project

- A. Achieving public objectives
  - B. Enhancing the developer's reputation
  - C. Moving up the learning curve.
  - D. Benefits accruing to other participants.

7. Identification of financial risks and risk mitigation

8. Executive summary to include re-evaluation of Assignments 1-5 to meet investment objectives within constraints of all participants.

### **Project Executive Summary**

- 1. Synopsis of the project that brings together the executive summaries from Assignments 1-6
- 2. Highlight the critical factors that must be resolved for feasibility to be achieved.
- 3a. Explain clearly why the panel should join your team to develop the project or invest in it.

or

3b. Explain why the project is not feasible at this time and the factors or costs that would have to change to achieve feasibility.

### **Assignment 7: Final Project Feasibility**

- 1. Executive summary relating all project elements to initial objectives
- 2. Revision of Assignments 1-6 as necessary to create consistent, integrated presentation Component areas to be presented include the following:
  - A. Project description/development objectives/team capabilities
  - B. Market analysis
  - C. Government relations plan

- D. Site plan and conceptual building design
- E. Capital budget estimates and development schedule
- F. Financing plan
- G. Marketing strategy for leasing/sale of product (new component)
- H. Investment analysis to include revenue expense components
- I. Risk mitigation and management plan (new component)

3. Sensitivity analysis of project

- A. Identify critical assumptions
- B. Vary assumptions within expected ranges
- C. Analyze impact of variations on time needed for development, financial returns, and risk factors.
  - D. Overall project feasibility with synthesis of all aspects of plan

4. Summary recommendations (e.g., go/no-go/postpone)

If no-go or postpone, which factors or costs must change to make the project feasible?