

ROLE OF THE REAL ESTATE DEVELOPMENT CONSULTANT

Developing real estate is a complicated process involving years of effort, large sums of money, and the work of many professionals. In recent years, changes in financing requirements, shifting market demands, increasingly more complicated government programs, changing development regulations, and evolving design requirements have all added to the complexity of developing real estate. Engaging the services of an experienced real estate development consultant is a cost-effective way for organizations to acquire the knowledge and experience needed to successfully develop real estate in today's complex real estate development environment.



Real estate development consultants work with organizations to develop real estate projects by helping manage the entire development process - from concept to the start of operations of a finished project. While other professionals involved in the development process such as builders, architects, engineers, lawyers, appraisers, quantity surveyors, and mortgage lenders perform specific tasks at various stages during the process, the development consultant is involved through all stages.

WHO CAN BENEFIT FROM THE SERVICES OF A REAL ESTATE DEVELOPMENT CONSULTANT?

Real estate development consultants are engaged by organizations interested in developing multi-unit residential, health care, institutional, and commercial projects. These organizations include:

- Health care agencies and authorities
- Non-profit housing authorities and societies
- Churches and other faith-based organizations
- Hospitals and personal care/nursing homes
- Colleges and universities
- Community service organizations
- Government departments/agencies
- Private real estate investors/trusts

For many of these types of organizations developing real estate is an infrequent activity. Engaging a qualified development consultant to help manage the process is a cost effective and efficient way for organizations to acquire the skills and knowledge necessary to develop real estate in a professional manner.

WHAT DOES A REAL ESTATE DEVELOPMENT CONSULTANT DO?

By working together, the organization and development consultant become the developer. While the organization is responsible for decision making, the development consultant takes on the task of managing the development process, coordinating the work of the development team, serving as focal point for communication and decision making, and providing advice.

In addition, the development consultant typically takes on several tasks such as:

- Oversee preparation of development program and concept plan(s)
- Undertake market/need/demand analysis
- Identify, evaluate, and assist with negotiating property acquisition
- Assist with project design from market and budget perspectives
- Prepare capital and operating cost budgets
- Assist with zoning and other development approvals
- Prepare applications for government assistance
- Prepare marketing materials and coordinate marketing/application/pre-leasing/pre-sales process
- Prepare financing applications and assist with negotiating terms
- Coordinate an acceptable procurement method and construction contract
- Prepare financing advance requests and account for all project related costs
- Assist with initiating/organizing property management





THREE KEYS TO SUCCESSFUL REAL ESTATE DEVELOPMENT

1. AN INVOLVED AND EXPERIENCED DEVELOPER

All real estate development projects require a knowledgeable, experienced, active, and engaged developer. The involvement of an experienced developer can save significant money and is often the difference between a successful and an unsuccessful project.

2. COMMITMENT TO THE PROCESS

The real estate development process is cumulative with each stage forming a foundation for the next. It takes patience and commitment to make sure issues are investigated to the extent possible before moving between stages.

3. RECOGNITION THAT VIABILITY IS LARGELY DETERMINED AT THE CONCEPT STAGE

The ultimate success of a real estate project is largely determined before construction drawings are prepared and long before anyone sees construction starting.



DEVELOPMENT CONSULTANTS AND THE REAL ESTATE DEVELOPMENT PROCESS

For most projects development consultants guide organizations through a six-step development process.

Step 1 - Organization

At the beginning of a project the development consultant helps organizations assemble the development team, identify the project's goals and objectives, secure/define the property to be developed, and assess the organization's own financial and operational capacity to undertake development of the project.

Step 2 - Concept

Project planning starts with preparing an initial building concept. The development consultant's experience with other projects, understanding of local markets, and knowledge of financing options provides the organization with necessary parameters to help ensure the concept is reasonable and has a chance for success.

Step 3 - Feasibility

The next step is to determine if the concept is feasible. This step typically involves the development consultant undertaking specific tasks such as market/need/demand analysis, participating in preliminary design work, preparing preliminary capital and operating budgets, preparing preliminary financing applications, and assisting with zoning/development applications. The goal of the feasibility stage is to help organizations determine whether to proceed with further work.

Step 4 – Pre-construction

Once feasibility has been determined the next step is pre-construction. Deciding to go to pre-construction is a major step for an organization as it usually involves significant expenditure of funds for architectural and engineering services. During this stage a development consultant helps organizations determine an acceptable construction contract, finalize capital and operating cost budgets, finalize financing agreements, and achieve all necessary approvals to proceed with construction.

Step 5 – Construction

The next step is construction. Typical tasks for a development consultant during the construction stage include participation in regular construction meetings, monitoring changes during construction, preparing financing draws, monitoring the capital budget, overseeing construction stage marketing, set-up for property management.

Step 6 – Post-construction

Post Construction begins with permission from local authorities to occupy the project. Typical tasks for a development consultant include helping organizations set-up for ongoing operations and to monitor completion of deficiency work.

HOW DO DEVELOPMENT CONSULTANTS GET PAID?

Typically, real estate development consultants get paid fees based on a percentage of total project cost. The percentage amount depends on the size and complexity of the project, with smaller projects tending to have slightly higher percentages than larger projects.

For some projects, organizations ask development consultants to share the up-front financial risk by deferring payment of fees until the project proceeds to construction. This sharing of financial risk translates into the development consultant assuming more of a partnership role through pre-construction phases of the project. As a partner, the development consultant has a vested interest in the project's success.

CONCLUSION

Because developing real estate is a cumulative process with each step forming a foundation for the next, it is important for the development consultant to be engaged as early as possible. Decisions made, or not made, early in the development process can have a major impact on the future success of a project. If your organization does not have recent and comprehensive real estate development experience, its best to acquire this experience before proceeding.

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