

BUSI 445/446 Real Estate Development

Note: BUSI 445 - Lessons 1-7, BUSI 446 - Lessons 8-14

PURPOSE AND SCOPE

The *Real Estate Development* courses I and II (445 and 446) are intended to acquaint the student with real estate development planning and management. The courses will immerse the student in the real estate development planning process starting with market analysis and ending with marketing and sales. The first chapter of the course text is the introduction to real estate development. The next two chapters of the course text deal with the context within which real estate development occurs. Chapters 4 through 13 deal with the development process. The last chapter is an exposition on real development, particularly, decision-making during different phases of a business cycle. Although BUSI 445 and 446 is offered as two courses, the division is strictly administrative and arbitrary, for there is too much information to digest and too much work in one combined course. If you take only BUSI 445 you will learn less than one half of the development process. The courses assume that you have a sound understanding of the foundations of real estate, including finance, appraisal, economics, construction, and law, and will build on this background with applications to real estate development. The first of these two courses, *Real Estate Development I* (445), will introduce you to what the players in real estate development do, including planners, landscape architects, urban designers, engineers, and design architects. The course will examine the factors and processes that influence real estate development and will provide you with an overview of development from the project idea to the cursory feasibility stage. The steps in development planning that will be investigated are research analysis, design, and evaluation. Different types of real estate projects will be evaluated from economic, social, political, and environmental perspectives. The second course in the series, *Real Estate Development II* (446), will continue with an examination of economic feasibility studies, approval processes, project financing, construction, project management, and marketing phases.

After reading the course manual and proceeding through the course workbook, the student should have a basic understanding of what drives the development industry and how a development project proceeds from initial conception through to completion.

Listed below are general objectives for what a student should learn from BUSI 445 and 446:

- Understand the basic structure of the real estate development industry and development process.
- Understand the economic forces that shape real estate development.
- Understand how political and government forces shape real estate development.
- Understand and be able to conduct the research and analyses needed to determine the development potential of a real estate project and its associated risks.
- Understand the basics of land acquisition and be able to apply these in preparing an offer to purchase.
- Understand the principles of urban planning and design and be able to apply these principles to a real estate development project.
- Understand the purpose and scope of feasibility studies.
- Understand the purpose and requirements of an economic feasibility analysis, and be able to prepare a pro forma budget and NPV/IRR discounted cash flow for a development project.
- Understand the development approval process, including the actors and dynamics involved.

- Understand the basic relationship between real estate development and finance, equity and debt, the occasions for raising finance, and underwriting finance.
- Understand the role of financing in real estate development and the various forms this financing can take.
- Understand the construction organization, its mandate, and its central activities of estimating, budgeting, scheduling, and monitoring.
- Understand the marketing and sales process, and the approaches and products used to attract buyers.
- Understand how corporate strategy and decision-making can be influenced by business cycles.

LESSON 1 – Real Estate Development Overview

Upon completion of this lesson, the student should have an understanding of:

1. The nature of real estate development;
2. The significant changes in the industry and market, and the changing ground rules in real estate development;
3. The participants in and the nature of the industry;
4. Managing the real estate development process; and,
5. The basic stages of the process.

LESSON 2 – Economic Forces and Trends in Real Estate Development

Upon completion of this lesson, the student should have an understanding of:

1. The key demand factors in real estate development;
2. The factors affecting the supply of real estate products;
3. The characteristics and sources of fluctuations in real estate supply and demand;
4. Trends in real estate development influenced by transportation innovation; and,
5. Trends in real estate products created by consumer choices.

LESSON 3 – Forces Shaping Real Estate Development: Political and Governmental

Upon completion of this lesson, the student should have an understanding of:

1. How governments influence real estate development;
2. Local political forces affecting development;
3. Techniques used by governments to manage growth; and,
4. Planning Legislation.

LESSON 4 – Analysis of Development Potential

Upon completion of this lesson, the student should have an understanding of:

1. The analysis of development potential;
2. The purpose and method of development planning;
3. The various types of development research available and when each is expected;
4. Market analysis;
5. Neighbourhood analysis;
6. Location analysis;
7. Site analysis; and,
8. Political analysis.

LESSON 5 – Land Acquisition

Upon completion of this lesson, the student should have an understanding of:

1. How to acquire property;
2. Negotiating a deal and arriving at the best price;
3. Conditional offers and options and vendor financing; and,
4. The structure and content of an offer to purchase.

LESSON 6 – Urban Planning and Design

Upon completion of this lesson, the student should have an understanding of:

1. The importance of planning and design;
2. The planning and design problems found in real estate development;
3. The principles of good design; and,
4. The planning and design process in real estate development and, in particular, the steps in the planning process, the composition of the development team, the output of the process, and the focus of planning and design at different project scales.

LESSON 7 – Introduction to Feasibility Analysis

Upon completion of this lesson, the student should have an understanding of:

1. The purpose of a feasibility study;
2. The different kinds of feasibility studies;
3. Investment risks (both market and site);
4. When a feasibility study is necessary;
5. The project evaluation process;
6. Additional methods for measuring economic performance; and,
7. The concepts of value and profit in real estate development.

LESSON 8 – Economic Feasibility Analysis

1. The purpose and content of an economic feasibility analysis;
2. The importance of research;
3. Pro forma budgets and cash flows for development projects;
4. Measures of profit and return on capital employed;
5. Discounted cash flow (DCF) analysis using net present value (NPV) and internal rate of return (IRR) in measuring return on capital employed in the project;
6. Role of the pro forma budgets and cash flow analysis in the project planning process;
7. Preparing pro forma budgets and cash flows;
8. Criteria used in measuring a project's economic performance; and
9. How to calculate the NPV and IRR when land costs are incurred at the beginning of the year.

LESSON 9 – Development Approval Process

Upon completion of this lesson, the student should have an understanding of:

1. The public approval process in general;
2. Changing public attitudes and values, and changing municipal requirements based on the demands placed upon municipalities;
3. The six approval processes developers participate in:
 - Official Community Plan Amendment;
 - Area Structure Plans, Neighbourhood Concept Plans and Area Redevelopment Plan;
 - Zoning Bylaw Amendment;
 - Subdivision Approval;
 - Development Permit; and
 - Building Permit;
4. The dynamics of the approval process, including:
 - The ground rules;
 - The actors in the approval process;
 - Citizen participation; and
 - Strategy and tactics used in gaining development approval.

LESSON 10 – Introduction to Development Finance

Upon completion of this lesson, the student should have an understanding of:

1. The role of financing in real estate development;
2. Real estate as a vehicle for financing;
3. Equity investing;
4. Debt financing;
5. Underwriting financing; and
6. Mortgage insurance.

LESSON 11 – Financing Development

Upon completion of this lesson, the student should have an understanding of:

1. How financing relates to the real estate development process;
2. Development financing in greater detail, specifically:
 - Initiating a project and financing;
 - Development management and financing;
 - Sources of development financing;
 - The interim (construction) loan; and
3. Alternative sources of development financing.

LESSON 12 – Project Management in Construction

Upon completion of this lesson, the student should have an understanding of:

1. Managing the construction phase of the development process and the management team;
2. Organizing a project before and during construction;
3. The different approaches to construction;
4. The basis for selecting a contractor and construction contracts;
5. Key tasks in land and building development;
6. Project risks; and,
7. The attributes of both successful and unsuccessful projects.

LESSON 13 – Marketing and Sales

Upon completion of this lesson, the student should have an understanding of:

1. Real estate marketing and, in particular, the marketing strategy, the marketing plan, and the marketing program;
2. The role of public relations in real estate development and marketing;
3. The roles of the marketing and sales teams;
4. The selling process;
5. Accounting for sales; and,
6. The different approaches to marketing different real estate projects.

LESSON 14 – Strategic Decision Making

Upon completion of this lesson, the student should have an understanding of:

1. Corporate strategies employed by growth oriented companies in real estate development;
2. The problems encountered by these companies during a real estate boom and bust;
3. The sources of error in strategic decision making; and,
4. Developer behaviour during business cycles.