

# Social Purpose Real Estate Table

## The ABCs of Development

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Terra Housing Consultants

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terra   
housing consultants

## Terra Housing Consultants



- Terra is a development management firm with 28 years experience, 260 projects, with more than 11,000 units completed or in development.
- Terra specializes in working with non-profit organizations to complete complex social purpose real estate developments. We have worked with more than 135 clients in 38 municipalities across British Columbia.
- Terra has been involved with the development and redevelopment of many different kinds of projects: affordable rental, strata units, co-ops, assisted living, transitional housing and shelters, mixed use including market residential and commercial units, community centres and student unions.
- We are fully experienced in all phases of project development from concept creation to warranty inspection and final cost audit. We co-ordinate the activities of dozens of builders, lenders, architects, cost consultants, engineers, lawyers, realtors and other professionals. We have also worked with local, provincial and federal levels of government, Crown Agencies and special purpose bodies to address development issues.

## Simon Davie, PMP Principal, Terra Housing Consultants



Simon joined Terra Housing in 1998 and became a principal in 2003. He is the Chief Operating Officer for Terra. He has been a certified Project Management Professional since 2003, with specialized experience in the areas of deal origination of social purpose real estate, seniors life lease housing and post-secondary student union development.

Simon succeeded in completing the Nikkei Home project in Burnaby, the first ever new construction project for non-profit assisted living in British Columbia. He was the lead principal on student union development projects for UBC Okanagan, Thompson Rivers University and Vancouver Community College and was the project manager for the redevelopment of the Mole Hill site in Vancouver which includes 26 heritage homes.

Simon is currently responsible for 5 of the City of Vancouver 12-Site projects, all of which are targeting LEED Gold certification.

# Outline of Presentation

- Introduction
- Background information
- Origination
- Procurement
- Development
- Construction
- Close Out
- Things to Think About

# Introduction

The purpose of this presentation is to discuss the ABCs of project development within the context of a social purpose real estate development.

# Background Information

Real estate development – an attempt to organize a project to be financially viable in the real world.

Social Purpose Real Estate – using land & development as powerful tools to create community benefit.

Successful Project – One that meets your objectives and satisfies your stakeholders' interests.

Objectives – stated goals of development including who you are intending to serve, acceptable rent or sales level and appropriate return on investment.

# Background Information

## The Development Components

**LAND:** negotiate, evaluate, acquire

**BUILDING:** design, construct and warranty

**PEOPLE:** owners, tenants, managers, stakeholders

**MONEY:** capital and operating

Note: For this presentation I have chosen financial milestones to anchor our discussion

# Background Information

Project Stages ( ▲ milestones )

ORIGINATION - the idea and planning

▲ lending proposal

DEVELOPMENT – designing and detail planning

▲ conditional approval

▲ funding commitment

# Background Information

CONSTRUCTION – building, monitoring and change order management

- ▲ substantial completion and occupancy
- ▲ IAD - Sales

CLOSE OUT – operating and reviewing

- ▲ full occupancy
- ▲ warranty expires

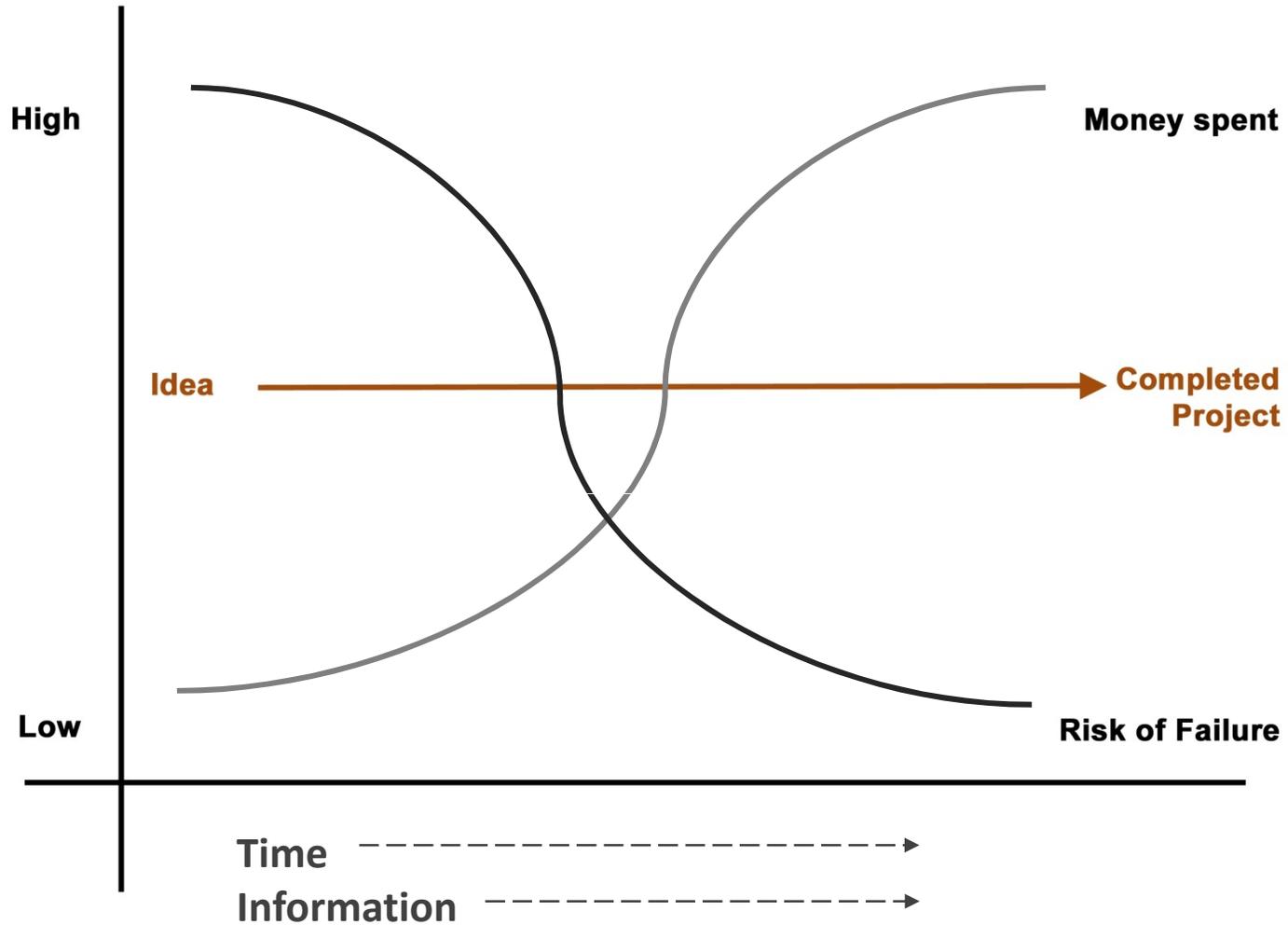
# Background Information

Risk – Property development is inherently uncertain

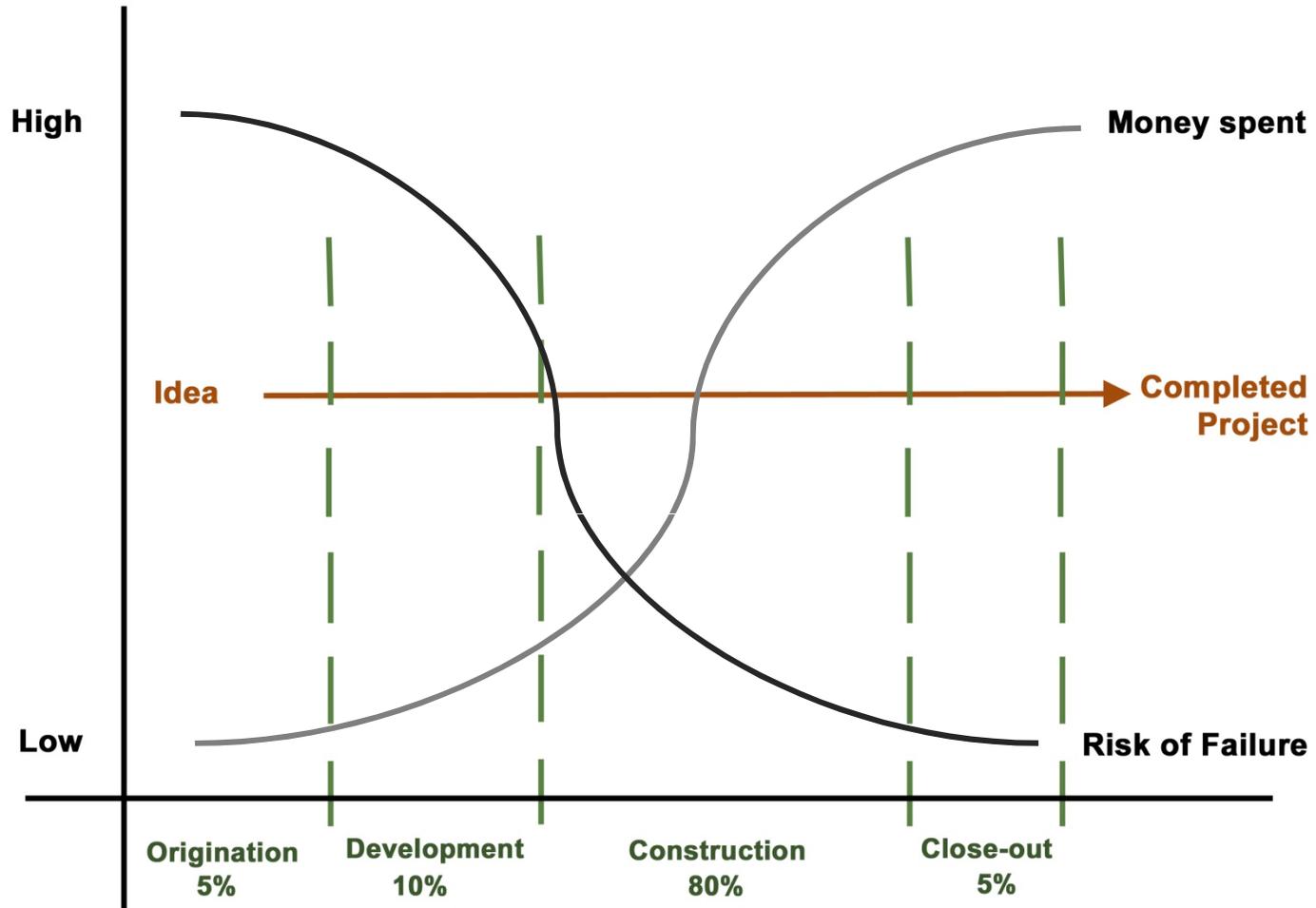
Key risk considerations:

- Land
- Inexperience of development team
- Municipal requirements
- Cost to build
- Cost of money
- Marketability
- Financing conditions

## Risk-Cost Profile of Development



## Risk-Cost Profile of Development



# Origination – the idea and planning

Goal to identify a feasible project

Proposed use satisfies a defined **program**, matches a specific **site** and **design** which fits a preliminary **pro forma** in an acceptable **time** with an experienced **team**

Program

- describe use and tenant requirements
- demonstrate need and demand
- consider operating objectives

# Origination – the idea and planning

## Site

- controlled
- preliminary geotechnical study
- phase 1 environmental
- hazmat and demolition reports if applicable
- offsite requirements
- market study

## Design

- efficiency important
- must satisfy program
- funder requirements
- sustainable goals and or requirements
- municipal requirements
- site constraints
- type of construction

# Origination – the idea and planning

Pro forma

outlines business case

includes:

land and building

capital budget

financing

revenue

expenses

NOI

debt service

cash flow after debt service

# Origination – the idea and planning

## Time

Base line schedule

Realistic – supports pro forma assumptions

## Team

Identify main members

Owner

Development Manager

Architect

Buildability and costing advisors

 Loan application

# Procurement

This is the process by which you will chose how you will procure construction services.

Type	Control	Overhead	Risk
Design-Bid-Build	High	High	High
Design-Build	Med	Low	Low
Negotiated	High	High	Med
Construction Mgmt	High	High	Med

- **Design – Bid –Build (Tender):** Design drawings are crucial, quantity surveyor necessary for team, change order risk, good method of judging costs for unique but specifiable designs also for declining market

# Procurement

- **Design-build:** Design consultants work for builder, fixed price, works for known product
- **Negotiated (CM at Risk):** builder joins team early, cost and design input under pre construction services contract, negotiates construction contract based on tender of subtrades, good in rising market
- **Construction Management:** good for renovation, bring in early in design process, monthly cost for CM all trades contracted to Owner

# Development – designing and detail planning

Goal to complete design, go through municipal process and meet all conditions for lending. This is a continuation of the Origination Phase.

▲ Conditional loan approval

Program – ensure units match market expectations and building functions for all user.

Site – close land deal, complete any additional studies to ensure pricing, design and schedule accurate

# Development – designing and detail planning

Design – progress through municipal process and ensure matches program and budget

DP design	owner review and sign off - pricing
DP application	municipal sign off (prior to letter)
Working dwgs	owner review and sign off - pricing
BP application	municipal sign off (BP)
Tender set	owner review and sign off (specification and general conditions)

# Development – designing and detail planning

Pro forma – move from higher level estimates to actual costs through design iterations. Contingency is reduced at design and approvals are achieved. The different procurement options require different contingency assumptions.

(contingency is the flip side of risk)

Time – schedule risk reduced as municipal process completed and builder input provided

Team – additional consultants brought on and construction contract is finalized

▲ funding commitment

# Construction – building, monitoring and change order management

If the development stage was successful the construction should go smoothly. One of the biggest risks and costs is owner initiated change orders.

- Certificates of payments / claims advancing
- Change order management

  - how initiated - in or out of scope
  - is pricing fair – critical path delay
  - execute paperwork

- Cash flows and cost to complete reporting

- Marketing – selling or rent up

- Operational Planning

  - ▲ substantial completion and occupancy

  - ▲ IAD

# Close Out – operating and reviewing

This is the process of completing the capital phase of a project and moving to the long term operating of a well designed project.

Complete rent up (sales)

Finalize operation plan

Oversee deficiency work

Payout lien holdbacks

Warranty period

▲ full occupancy

▲ warranty expires

# Things to Think About

- Create your plan early
  - Be open to opportunity
  - Look to future – create sustainability
  - Success is a product of implementing a good plan
  - Do your due diligence
  - Know your market
  - Get value for your money – use someone else's if possible
  - Negotiate fixed pricing wherever possible
  - Acquire approvals before committing
  - Good design = excellent cost control
  - Changes in design much cheaper early in process
- 
- Property development is inherently uncertain
  - Costs may rise beyond budget – markets may fall

# Thank You

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