



Approaching a Real Estate Project

This worksheet is designed to help an organization approach and plan a real estate project. It serves as a general overview to the entire real estate development project. Other worksheets in this series provide more detail on the

steps outlined below; these worksheets are referenced when appropriate. This worksheet is useful once you have assessed your organization's project readiness (refer to the worksheet series listed under "Before You Begin Your Real Estate Project").

While every real estate project is different, there are elements that most successful projects have in common. The process outlined below defines a general sequence of how to approach a real estate development project, but keep in mind that many of the components can be worked on simultaneously: these projects are not linear—there is no single correct step-by-step guide to real estate development. Another helpful tip is to use the expertise of professionals. A project manager, for example, will see the bigger picture and be aware of how the individual project team members and components work together. Finally, as your project moves further along, pay close attention as more specific information becomes available: it is critical to continuously refine your numbers.

Determine Project Parameters

It is important to define your space needs before you begin searching for property. Assuming your organization has already defined its program goals, assessed its need for a new facility and its financial means, your next steps should be:

Determine the location of the project—every organization has a target area within which to provide its services. Your organization should establish, through a formal decision-making process, the search boundaries for your new facility's location;

Determine the size of the project (range of square feet)—facilitate a process to determine how much space you will need in your new facility. Many organizations use consultants or architects to help determine appropriate space requirements;

Determine your price range—if you have projected new operating revenues for your new site, you should be able to determine how much debt you can take on (see *Worksheet #5: "Determining How Much Your Organization Can Borrow"*);

Make a lease vs. purchase decision—your organization may decide that you want to look for both leasable space and space you can purchase. Refer to *Worksheet #6: "Making a Facility Decision"* to think through the pros and cons of both options.

Determine other requirements of your facility that will have an impact on your search criteria. For example, you may decide your facility must be close to public transportation or that it must be on the first floor. Knowing these criteria will help make your search more efficient.

Once your organization has defined these project parameters, you can begin looking for new space, whether it's vacant land, an existing building or leasable space.

Designate Project Leaders

Designate an internal point person or committee who will provide leadership and make decisions throughout the course of the project.

Determine whether you need to hire a project manager. Many organizations use a project manager so that key program staff are not pulled away from their regular responsibilities. If you choose to use a project manager, that individual is responsible for keeping the project moving and should coordinate the remaining steps. However, your organization still must designate an internal person or committee to make decisions or give feedback to the project manager in a timely manner. See *Worksheet #9: "Selecting a Project Manager"* for assistance on hiring this kind of consultant.



It is important to bring in a competent team that will be responsible for all components of your real estate project. The development team will include a project manager (if you choose to use one), an architect and a general contractor. Typically an architect and a contractor are hired later in the real estate development process (*see below*).

Plan for Project Funding

As your organization moves forward with a real estate project, be sure to identify sources of predevelopment and project funding. Begin discussions with foundations and/or capital campaign consultants to raise money, and with financial institutions for debt financing.

Cash from your budget or special grant funds are needed for inspections, fees and other predevelopment items. Be sure to keep careful track of the costs: it should be clearly stated that these expenses will later be repaid from capital campaign or debt.

Develop a Space Plan

Management, staff, Board and your project manager (if you hire one) should review the space requirements of your programs and determine the building specifications that will best meet the needs of the organization. This “program” will serve as a guide for the architect.

Conduct Site Search and Selection Process

Hire a broker or independently look for space that meets the project parameters. Base the broker decision on the amount of time staff has to dedicate to a property search; a good broker can save time by narrowing the field to your preset criteria. Broker fees are typically paid by the seller or landlord, not the buyer or tenant.

Visit buildings that meet your criteria and determine appropriateness of the space. Can you move into the space as-is?

or:

Do renovations or cosmetic improvements need to be done? If so, how extensively? Don't let raw space discourage you.

If the building meets your criteria and you need to have work done, you should hire an architect or contractor to walk through it and provide you with a rough estimate of renovation costs.

If you're renting, the landlord may be able to do the renovation work needed. Check with him or her and negotiate this as part of your lease.

Choose two or three spaces to look at with the same architect or contractor (*see below: Select an Architect*).

Retain a contractor or architect that has experience with your type of project and program and make him or her aware of your proposed program and budget (*see below: Select a Contractor*).

Create an Initial Development Budget

For each property that you are seriously considering, develop an initial budget of applicable development costs including purchase price, construction costs and other soft costs (legal, accounting, appraisal, etc.). This will be a preliminary budget and will not necessarily represent final project costs. See *Worksheet #8: “Creating a Project Development Budget”* for a step-by-step guide on this process.

Determine Preliminary Sources of Funding

Determine how you will finance the purchase of your new facility: How much cash do you have on hand? How much can you borrow? See *Worksheet #3: “Paying for a Real Estate Project”* for more information on sources of project funding.



Make an Offer

Determine which building, space and/or land meets your needs for the best value, (see *Worksheet #12: "Fundamentals of Purchasing Real Estate"*).

If you have not hired a broker, do research to determine comparable sales prices or lease rates for similar property and/or land before making the offer.

Enter Into a Lease or Purchase Agreement

Hire an attorney to review and/or negotiate the lease contract or purchase agreement.

If purchasing, be sure to include in the contract a "due diligence" period during which you can conduct thorough building inspections and secure financing (see *Worksheet #12: "Fundamentals of Purchasing Real Estate"*). A due diligence period should be at least 30 days, but preferably 60-90 days.

Select an Architect

Refer to the "*Selecting an Architect*" worksheet for guidance on how to choose the right architect for your project.

Some organizations hire an architect to help them select the right building or land for their real estate project. The architect you use to design your new facility may or may not be the same one who helped you determine your space plan.

Your architect can help with your decision to select a contractor and should play an active role in the construction phase of the project.

Finalize Program Space Plan

Even if you have already developed a space plan, when you have selected a facility to purchase, you, your staff and/or Board should review the space requirements of the building with your architect and determine the final program. This program will guide the architect in his or her design development. The program plan includes the number of clients you propose to serve, number and type of staffing required, and revenue sources.

Select a General Contractor

Refer to the "*Selecting a General Contractor*" worksheet for guidance on how to secure bids from general contractors and choose the right contractor for your project.

Some organizations (during the "due diligence" period) hire a contractor to help them estimate the costs of building or renovating a facility before they purchase a property. The contractor you use to build your new facility may or may not be the same one who helped you estimate the costs of the facility.

Your architect and project manager should assist you in the process of selecting a general contractor.

Enter Into a Contract with Your General Contractor

Finalize your contract price and pay special attention to exclusions within the contract. Be clear as to what is or is not included in the price.

Apply for a Permit

Construction cannot begin without a permit. In some cases, the permitting process can take several months. Permit expeditors are available for a fee to handle the permit process.



Finalize Development Budget Based on Contractor Pricing

Once you have a final construction price from your general contractor, revise your development budget. Your total project costs should be very close to final at this point.

Confirm Sources of Funding and Financing

Once you have a final development budget, reconfirm where your sources of project financing are coming from. How much agency cash are you using? How much will come from foundation and corporate grants? How much from government? How much from debt?

Be sure that you have sufficient funding to cover your total project costs before you start construction on your project.

Schedule Closing on Construction Financing

If debt is a source of your project financing, you will need to “close” on the construction financing. Your attorney and project manager should help you coordinate the closing.

Begin Construction

Once you have closed, you should be able to start construction.

Your architect and project manager should manage the construction process on your behalf.

Close-out Project

When construction is coming to an end, your architect should determine the date of substantial completion. This is when you may secure your occupancy permit and business license.

Your architect and project manager will develop a “punchlist” of items that must be completed by the general contractor before the project is closed-out. You should not pay your contractor the final five to ten percent of his or her contract price until the architect has told you that all punchlist items have been completed.