

Chapter 3: Feasibility Study in Development Process Introduction

- o Developers have a strong intuitive feel for a project's viability based on early stages.
- Balancing Feasibility Analysis
 - o Overdoing the feasibility analysis can extend the development process and waste time and money.
- Elements of Cost Estimates
 - o Land cost
 - o Site and infrastructure costs (on-site and off-site)
 - o Design fees (architecture and engineering)
 - o Hard costs (labor and materials)
 - o Entitlement costs (consultants, public agency fees)
- o Financing costs (loan commitment fees, interest, loan fees)
- o Marketing costs (promotion, advertising, leasing commissions)
- o Preopening operating costs
- o Legal fees
- o Accounting and audit costs
- o Field supervision (inspection) costs
- o Overhead
- o Property taxes
- o Contingencies
- o Development fees

Feasibility Analysis & GAIZdGEwGYslsGEAYE&sYAYDsAuWdZuGDlsZYE Features and Amenities

????????????????????????????????????Key Points of Graaskamp's Definition

- o Feasibility never demonstrates certainty
- o Satisfying explicit objectives
- o Execution and timing matter
- o Tested with specific constraints
- o Broad definition beyond value exceeding cost

Initiating the Feasibility Study

- o A typical feasibility study includes an executive summary, market study, revenue projections, preliminary drawings, maps, cost estimates, financing information, government considerations, and value estimates.

Maps, Drawings, and Other Visuals

- o Maps, drawings, and other visuals show the location and site of the development to interviewers.
- o Architectural renderings and photographs of the subject property, as well as complementary and competitive projects, help complete the visual summary.

Complex Project Example

o Example: A 5,000-acre master-planned community (MPC). Involves extensive infrastructure, long-term trends, and numerous professions such as architects, planners, and engineers.

Steps in a Market Study

- o Examine national economic conditions
- o Segmentation of the population for the target job growth forecast is usually an extremely important part of the analysis.
- o Investigate comparable properties
- o Determine the features, functions, and benefits of those properties that are important to the market.
- o Project absorption schedules
- o How many units at what price over what time period will the target market be likely to absorb?

Communication with Contractors

- o Discussing cost estimates with the contractor and subcontractors helps refine project details, making it more attractive to tenants, less expensive to construct, and more cost-effective to operate.

Critical Analytic Elements

- o Sensitivity analysis
- o Review of risks, with appropriate risk management techniques; and

Confirmation of feasibility for each participant

The Market Study

- o The market study is the basis of the feasibility analysis.
- o Consistency and Teamwork
- o Using the same architect and engineer throughout the entire process helps maintain consistency, minimizes learning curves, and promotes understanding of the developer's objectives.

Responsibility for Management

- o Determining responsibility is crucial: Is it the developer, the tenant, or has the risk been passed on through an unconditional pre-sale to a long-term investor?

Definition of Feasibility

- o A real estate project is 'feasible' when it satisfies explicit objectives with specific constraints and limited resources.

Preliminary Drawings