

HOME WATCH

A SERIES ON TRENDS AND STYLES IN HOUSING

UNDERSTANDING THE DEVELOPMENT PROCESS

Given our active involvement in the launching of several new and loft conversion condominium projects within the City of Toronto, we are frequently asked how a project goes from concept to completion. Interestingly, whether you are converting a small building into a few residences or intensifying the urban core with a mid-density condominium project, the process by which you go from idea to execution tends to follow a similar course of action. This newsletter provides an encapsulated overview of the steps a development team takes in launching a new project.

Locate Appropriate Land at a Development Price – A development team specializing in residential development seek sites where the improvement, intensification or change of land use to residential will be the highest and best use. Under-utilized or obsolete land parcels amidst areas of changing use are key locations to monitor, although a development team is always open to all locations, as housing desirability is a constant moving target based on shifting market demands, social and political frameworks, and the current economic climate. Development teams all have a standard pro-forma programme that determines an appropriate cost allocation for land in the development formula. Although there are varying means to ascertain land value, a simple rule of thumb is to allocate about 25% of your pro-forma to land costs in the City of Toronto.

Review Existing Zoning, Building Codes and As-Of-Right Development Approvals – Once a development site has been located, one quickly reviews the zoning designation to ascertain whether the land value reflects the development possibilities. Density, site set-backs and parking requirements are three of many factors that influence a development programme. All factors are reviewed in detail to determine how to optimize the site to provide the greatest return in the least amount of time. Some sites may already have approvals in place while others may be in a location favoured for intensification or near sites that have been precedent setting in achieving higher-use approvals from the necessary planning authorities. These factors are quickly determined within minutes of a site being presented as a potential development site.

Assemble Expertise to Determine Highest and Best Use Conceptual Programme – Once a site is reviewed and deemed to complement the developer's market, an initial meeting with the development players explores different conceptual programmes that will capitalize on the site with the greatest of ease in the least amount of time. As housing conceptualists experienced in monitoring the supply and demand-side of the marketplace, we direct and liaise with the developer, the architect, the urban planner, the contractor and the legal team to create a fit between market demand and site optimization. It is at this time we dovetail the development within the existing infrastructural context to see how we can create a desirable and attractive product reflective of the surrounding area and integrate innovative products and government programmes that optimize return on investment. On review and completion of this exercise, the decision is made whether to secure the development site or not, and then take the next steps to fine-tune and choose one programme concept.

Tune Pro-forma Programme – If a site is secured conditionally or purchased outright, the development team expands and involves those players who can fine-tune the development pro-forma, to ensure the 25% allocation each to the necessary hard and soft costs results in a minimum 25% profit margin – ideally 30% if possible as a rule of thumb. Hard costs includes material, energy and labour input costs while soft costs include lending, design, planning, environmental, marketing and sales fees. On this basis the developer expands his team to include his financing lender, construction contractors, environmental, mechanical and structural engineers, interior and graphic designers, sales and marketing agency and any other players that will be involved in the development. All costs may be tendered and incorporated into a final document ready for execution, along with a contingency fund to address surprises as they inevitably come up.

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Obtain Social and Political Support – While a development pro-forma is being completed and tendered, an on-going dialogue with the necessary planning authorities is being conducted to ensure the development concept will be supported politically and by area residents. A pro-active developer always consults with all political players and area residents in advance of launching or marketing their housing product, as it is crucial to the success and speed by which a development can be executed. Providing community involvement in advance provides a developer the opportunity to accommodate demands of the market and ensure a positive feedback loop to the community at large.

Obtain Satisfactory Financing and Reasonable Rates – A development team usually has a relationship with one particular lender based on past success, but may elect to shop his development pro-forma to a variety of lenders to obtain the most attractive financing package. Depending on the economic climate, lenders may be involved in the early stages to ensure their criteria is met to ensure their confidence and security as one of the principal risk-takers, but will not provide financing approvals until an accurate pro-forma has been tendered and all costs reviewed in detail. On this basis, the lender then sets their own criteria for releasing funding, frequently on the basis of achieving a certain percentage of pre-sales in advance of construction.

Execute Building and Planning Approvals and Documentation – As all the players come on board, the developer will formally move into capital expenditure, hiring the appropriate consultants to obtain all necessary approvals and documentation. This includes all architectural, landscape and interior design programs, mechanical, structural and plumbing drawings, environmental reports, all planning and government agency approvals, building permits, draft condominium status and all legal contracts including agreements of purchase and sale.

Launching the Site in a Pre-sales Capacity – It would not be unusual for the sales and marketing agency to have executed a market research programme in advance of release to ensure a strong demand exists for the proposed development. The main objective for the developer is to achieve approximately two-thirds of his pre-sales in advance of construction, which is frequently a requirement of the principal lender. As a result, the unit mix, style and configuration are carefully considered in tandem with proposed sale prices so the development sells quickly. In effect, the faster the product sells, the more desirable it is deemed by prospective buyers, the lower the marketing and promotion costs and the more quickly construction can get underway, a key factor to optimize return on investment. In today's marketplace, a developer may be prepared to narrow his profit margin initially to achieve the necessary pre-sales and get the project underway, then follow a series of price escalations through the construction programme so that prices are highest for the last remaining units, when a buyer will effectively pay the most for a new finished product one can physically touch, see and occupy promptly. It is appropriate that prices would be higher for a completed product and initial risk-takers rewarded for purchasing in a pre-sale capacity, where one is required to purchase from floor plan, choose from a selection of finishes, and sign a contract that provides delivery as long as three years in advance. It may be part of the development programme to present this rationale to buyers in order to embody a win-win philosophy with pre-sale consumers, who should experience a tangible reward for their role as risk-takers in the pre-sales stage.

Do you have Questions? As real estate specialists who monitor trends and styles in housing, we offer consumers insight and assistance in making a rational and educated decision about real estate. If you are an active and motivated buyer or seller requiring help in the real estate market, call us for a prompt telephone consultation that will quickly put the realities of today's housing market in perspective. Offering the ultimate expertise on real estate in the City of Toronto, we are your pro-urban housing specialists. Specializing in renovated and restored character dwellings, low-maintenance living, revenue-producing income properties and loft conversions, call us now at 416-322-8000.

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