

**City of Kelowna  
Committee-of-the-Whole Meeting  
AGENDA**



June 14, 2016

3:00 pm

Knox Mountain Meeting Room (#4A)

City Hall, 1435 Water Street

**Pages**

1. Call to Order

2. Presentations

    2.1 Development 101

120 m

2 - 60

        Presentation by UDI, including Q & A session.

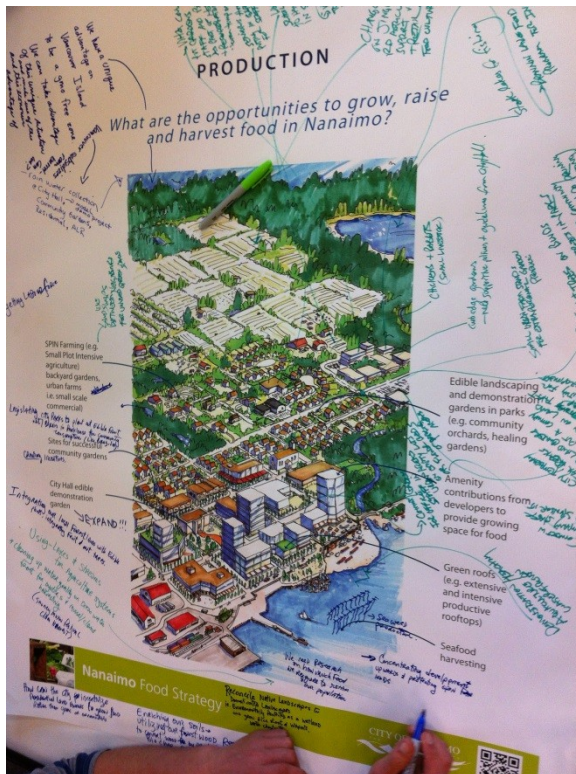
3. Termination



# THE REAL ESTATE DEVELOPMENT PROCESS

URBAN DEVELOPMENT INSTITUTE – OKANAGAN CHAPTER

# OVERVIEW



- Introduction
- Initial perspectives
- Generic concepts
- The development process
- Set the stage for approvals review

# WHAT IS DEVELOPMENT?



- A multi-faceted business
- Change underutilized real estate resource (land, bldg., other) to higher value – through many steps
- Construction = only one step

# WHO IS A DEVELOPER?



- Land and dirt guys
  - Full service developers
  - Reno experts
  - Deal makers
  - Etc...
- 
- Individuals or companies
  - Generalists or specialists

# THE DEVELOPMENT PROCESS



1. Pre-development concept
2. Financing and development strategy
3. Securing land
4. Refinement of concept feasibility
5. Financing
6. Planning and approvals
7. Marketing and sales
8. Construction
9. Post construction

Many variations on this process outline

# STAGE #1 - THE PRE-DEVELOPMENT CONCEPT



- Get the initial concept for the project created – to start the process.
- Goal of development?
  - Keep the lights on?
  - Personal legacy?
- Company expertise?
- Expected type and market viability?
- Scale?

# GENERIC CONCEPTS



- **Residential**

- Single family
- Ground oriented multi-family
- Med rise apartment
- High rise

- **Commercial / retail**

- Street retail
- Retail strip / large format
- Mall
- Lifestyle center
- Office / business park
- Industrial

- **Mixed use**

- Mixed use village / masterplan
- Live/work
- Combos of the above



# COMMERCIAL



■ Street retail



■ Strip retail

# COMMERCIAL



- Large format retail



- Mall

# COMMERCIAL



- Lifestyle center



- Office / business park

# COMMERCIAL



- CBD (large scale) office



- Industrial (light, heavy)

# RESIDENTIAL



■ Single family



■ Ground oriented multi

# RESIDENTIAL



- Medium scale multi



- High rise

# MIXED USE



- Mixed use urban village



- Live work

# HIGH DENSITY URBAN MIXED USE





# MIXED USE



- Various combos

# CUSTOM COMBINATION CONCEPTS



- Various
- Urban magnets

# THE FINANCIAL MODEL



- **Proforma**
  - **Costs**
    - Land, servicing, municipal, finishing, approvals, marketing, financing, etc...
  - **Revenue**
    - Premium or inexpensive
  - **Margin**

# STRATEGIC CONSIDERATIONS

- **What type of land will we need – is it likely available / affordable?**
  - Basic land scoping
- **Who is our market going to be?**
  - Basic market explorations
- **How much competition will we face? What is our competitive approach?**
  - Basic competitive scan
- **Basic static proforma financial model**
  - Quality / cost, absorption, etc
- **What refinements do we expect to make to our generic concept?**
  - Concept review / critique with various people
- **What do we envision the plan / design including?**
  - Initial scoping of options / plan ideas / designers to hire.
- **How hard will this be to get approved?**
  - Quiet conversations with City staff, councillors, community, consultants
- **How does this fit with our team?**
- **How does it fit with our partners?**

# OUTCOME FROM STAGE I



- **Development Analysis (report)**
  - Concept description
  - General context and market description
  - Competitive analysis
  - Market positioning / strategy - references to competition and other examples of what we have in mind
  - Basic investor proforma
  - Financing assumptions / general strategy
  - Relationships / partnerships plan
  - Major risks and responses
  - Next steps

## STAGE # 2 – SECURING LAND



- Understanding context and selecting areas
- Selecting sites
- Determining what you can pay
- Negotiating

# UNDERSTANDING THE REGULATORY CONTEXT

## ■ **Community Plans**

### ■ **Regional**

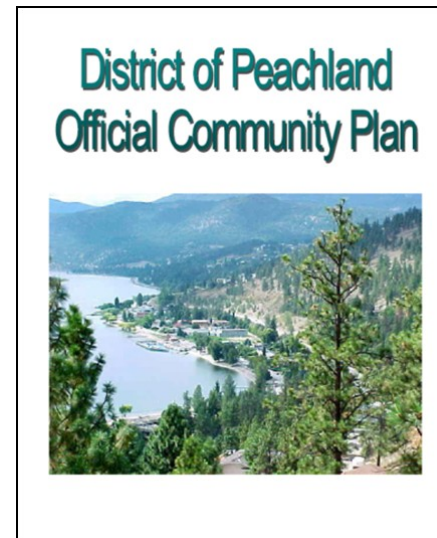
- Growth plans
- Infrastructure
- Transportation

### ■ **Municipal**

- Official Community Plan
- Zoning
- Unique sub areas / issues policies
- Existing zoning

## ■ **Senior Govt Initiatives**

- Highways or other infrastructure
- Major institutions and projects (eg: prison or university)



# SOCIO-ECONOMIC CONTEXT



- Growth rates
- Current demographics – income, age, employment, etc...
- Demographic projections
- Employment and economic predictions
- Supply and demand in the larger / immediate area – competitive scan
- Age of the homes / infrastructure
- Brand / reputation of the area
- Land cost differentials in area
- Who owns neighbouring parcels
- Etc...



# SERVICES CONTEXT



- Access and visibility (and parking)
- Water - supply / quality
- Sanitary
- Stormwater
- Power
- Communications (fibre?)
- Gas
- DCCs
- Schools
- Community centers
- Health services

# PHYSICAL CONTEXT



- Size (land assembly)
- Topography
- Soils
- Hydrogeology
- Geotech
- Contamination
- Sensitive environments
- Noise, lights and smells

# SECURING THE LAND SUMMARY

- **Simple yield study**
  - Quick draft plan of development
- **Basic proforma**
  - Construction/sale costs
  - Municipal costs
  - Probable product / price / sales rate
  - Tax implications
  - Contingencies
  - **=What you can afford to pay.**
- **How do you want to buy?**
  - Option
  - Purchase
  - Joint venture
  - Partnership
  - Investor
  - Financing
- **Negotiation elements**
  - Price
  - Facilitating financing
  - Timing
  - Release clauses
  - Subordination of other agreements
  - Right to examine title
  - Permits / approvals that are prerequisites
  - Warrantees
  - Escape clauses
  - Recompense based on future environmental / other studies
  - Equity of current landowner in future

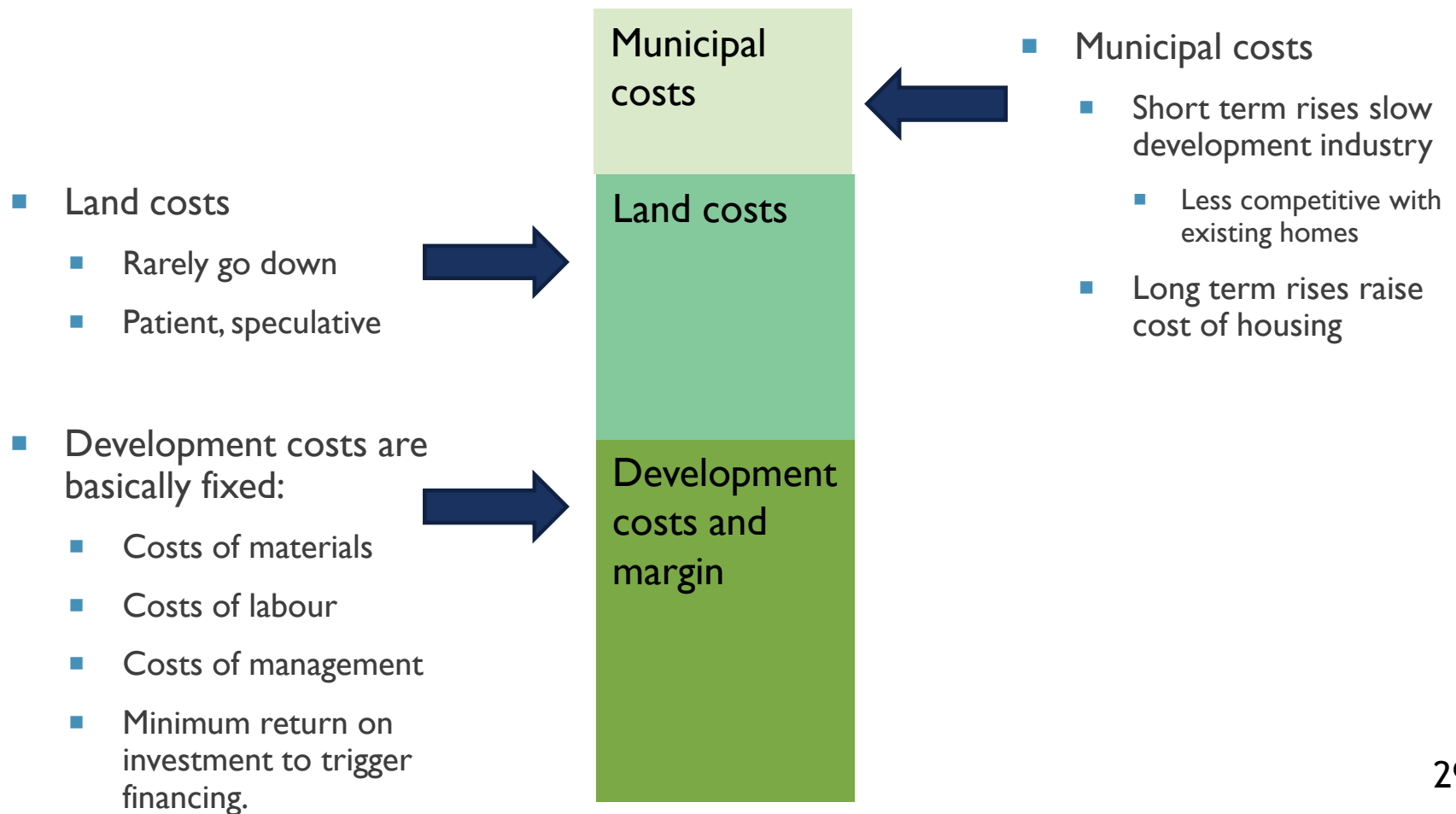


## OUTCOME FROM STAGE 2



- Understanding of land context – all aspects
- Priority areas identified for securing land
- A piece of land tied-up / secured

# PERSPECTIVES ON MUNICIPAL COSTS AND LAND VALUE



# STAGE # 3 -DEVELOPMENT AND FINANCING STRATEGY

## ■ Development Strategy

- How are you actually going to do this project?

## ■ Financing Strategy

- How are you going to manage the costs and revenues at each step of the project?



# DEVELOPMENT STRATEGY



- Team
- Partners
- Timing (political / market)
- Approvals approach
- General market, product and positioning strategy
- How we're going to address the critical issues / constraints





# FINANCING STRATEGY

- **What are you going to build and sell in what sequence?**
- **Whose money are you going to use?**
  - Your money **30%**
  - Equity partners – big or small?
  - Land / development partners
  - Banks / institutional lenders
- **How to structure the risk and reward?**
  - What assurances will you offer?
  - When to give payouts to equity?
- **How to get the money?**
  - Brokers
  - Investment recruiters
  - Friends, family and your best suit



# STAGE # 4 – REFINEMENT OF PROJECT CONCEPT / FEASIBILITY



- **Logic**  
and
- **Magic**

# REFINEMENTS OF GENERIC CONCEPTS



- **More detailed assessment and planning:**
  - Market needs / wants – supply / demand
  - Competitiveness strategy
  - Price
    - Low, mid, premium
  - Size and phasing
    - Go big or go home mega-projects
  - Financing
  - Tenants / sales expectations
  - Politics and community relations
  - Site and engineering design
  - Partnerships

# UNDERSTANDING THE (NEW-BUILD) BUYER / TENANT?



- The numbers
  - General economic statistics
  - General real estate statistics
  - General demographic statistics
  - General buyer statistics
  - Psychographics = Personality / identity details
- Intuition
  - Get into their skin... who are they and what do they aspire to?
  - Who does their business serve?

# WHO IS THE (NEW BUILD) REAL ESTATE BUYER?



- Higher income
- Entry level (non-DIY)
- Investor

# OUTCOME FROM STAGE 4 REFINEMENT



- A defensible project strategy with enough detail to impress investors.

# STAGE # 5 – FINANCING



- **Types**

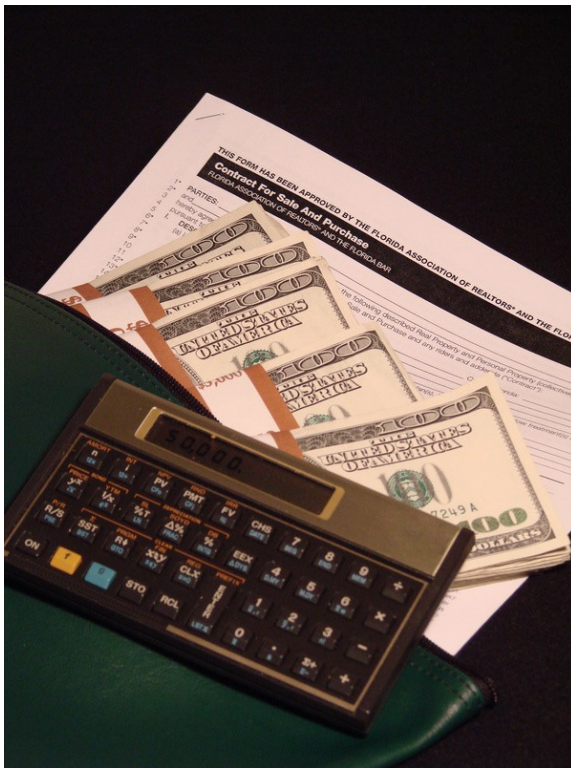
- **Equity**

- High risk/reward + patient
    - First in – last out

- **Debt**

- Lower risk / reward + impatient
    - Last in – first out

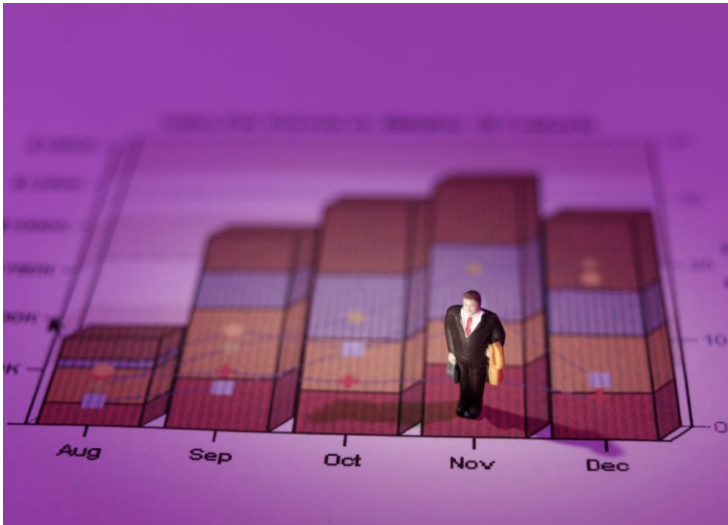
# FINANCING CHAPTERS



- 1) Early equity
  - Land / early approvals
- 2) Later equity
  - As certainty grows / more detailed work
- 3) Primary debt / lender
  - Various % per lender
  - Construction – servicing + vertical
- 4) Secondary/tertiary debt
  - Construction
- 5) Bridging debt (mezzanine)
  - Construction to post construction



# DUE DILIGENCE INVESTOR PACKAGES



- The Business of the Investment
- Organization and management of the project
- Overview of the Structure of the Investment
- Investment / Prospectus Summary
- Financial model summary
- Financing Strategy / Request
- Use of Proceeds
- Distribution of Profits
- Risk Factors (many) and caution statements
- Management team
- Market and industry data
- Accounting principles to use
- Glossary

# FINANCING CONSIDERATIONS



- With money comes strings!
- Cashflow is everything!
- Most critical times (early-mid construction)
- Personal wealth required (of scale of project)
- Financing thresholds = developer can make good money if managed well.
- Guarantees = corporate, personal risk,

# STAGE #6 – PLANNING AND APPROVALS



- **Types of approvals**
  - OCP Amendment
  - Area / District / Neighbourhood Structure Plan
  - Zoning
  - Subdivision
  - Development permits
  - Building permit
  - Occupancy permit
- **Technical AND Political aspects**
- **Significant “soft costs” and risks of delays**

# TECHNICAL APPROVAL ISSUES

## District of Peachland Official Community Plan



- Local government
- Policies and regulations
- Community plans and zoning (land use, infrastructure, design, etc...)
  - Alignment?
  - Requires plan amendments?
- Current legal encumbrances (ROW)
- Referral agencies
- Access and MOTI
- Servicing

# HOW APPROVALS SHAPE YOUR CONCEPT



- What is approvable?
  - Stick to or change policies and plans (timing)
- What local politicians want
- What influential citizens want
- Where can you get supporters?

# A WORD ON LAND-LIFT



# STAGE #7 – MARKETING AND SALES



[www.huffingtonpost.ca](http://www.huffingtonpost.ca)



[www.eatlivegrowpaleo.com](http://www.eatlivegrowpaleo.com)

- Influence project – from beginning (product, price, positioning, etc...)
- Positions project in market place / minds of buyers
- Early notice / positioning / registrations – early in project
- Legal Presales / Pre-leasing (after zoning)

# MARKET TESTING



- Draft vision / promo material created
- Discussions / focus groups



# YOUR PROJECT STORY

(IT'S NOT JUST ANY REAL ESTATE PROJECT)



- 1,000 years ago, on this very piece of land, a young girl...
- In 20 years, in a February snowstorm, a day after your golden anniversary celebration, your spouse has a minor heart attack and....
- We want your children to be healthy...
- Welcome to 21<sup>st</sup> century Okanagan...
- ... *you need a story but don't believe it too much yourself.*

# OUTCOME = THE MARKETING PLAN



- **A document ~ full strategy**
  - Market segmentation and supporting research
  - Political and societal context analysis
  - Competition and positioning strategy
  - Price point
  - Sequence of tactics to be used
  - Recommended branding / graphics
  - Budgets

# SALES



- Turning attention / interest into sales ~ visitors into buyers.

# THE SALES PROCESS

- Discovery Center
- Website



- Sales Team
  - Sales manager
  - Salespeople
- Manage visible inventory
- Manage price
- Manage Dialogue
- Carefully manage customer experience

# OUTCOME OF MARKETING AND SALES



# STAGE #8 – CONSTRUCTION



- Secure final approvals
  - Subdivision, Development Permits, Building Permits, etc...
- Create tender documents
- Tender for construction
- Select contractors (general or sub)
  
- May be done by the “builder” not the “developer”

# CONSTRUCTION PROCESS



- **Construction sequence**
  - Services and access – onsite and offsite
    - Bonded / time constrained
    - Need to have fire flows ready before bldgs
  - Vertical construction
    - On hard timelines to meet customer promises
- **Contract and Quality Management**
  - Legal and hands-on
  - Change orders
  - Architects / engineers etc... versus contractor and trades

# STAGE #9 – POST CONSTRUCTION



- Occupancies underway / complete
- Final stretch of marketing and sales (all the profit is in final %)
- Warranties
- Success of early commercial
- Relationship with buyers and company / project reputation (word of mouth)
- Meeting commitments in Phased Development Agreements over time – in larger project.



# SUMMARY



# FIVE THINGS TO DO TO HARNESS DEVELOPMENT TO BUILD A GREAT COMMUNITY



1. Commit to work with developers in a common sense, build-it-together way
2. Have a compelling but realistic vision for your town or neighbourhood
3. Embrace diversity and flexibility in uses
4. Be financially realistic and responsible
5. Have a clear approvals process and internal leadership

# CONCLUSION – WORKING TOGETHER



THANK YOU