

Real Estate Development for Non-profit Organizations

Developing real estate is complicated and time consuming. Even those who have developed real estate in the past can be intimidated by the process. This is particularly true for non-profit organizations who are typically focused on addressing community needs as opposed to developing real estate.

The purpose of this article is to provide an overview of the real estate development process for non-profit organizations. The goal is to help non-profit organizations begin to understand:

- the central role a real estate developer plays as leader of the real estate development team, and
- what to expect during the real estate development process.

The real estate development team centres on a real estate developer. The role of the developer is to initiate the project and manage/coordinate/guide/lead the real estate development team through the development process. The developer is typically supported by contracted professionals such as lawyers, architects, engineers, contractors, financiers, etc. Recognizing that contracted professionals support, as opposed to lead, the real estate development process is something non-profit



organizations may find difficult to understand as many contracted professionals come to the development team with significantly more real estate development experience than a typical non-profit developer. Understanding that the experience of contracted professionals, while normally significant, is limited to only one aspect of real estate development helps organizations begin to appreciate the central role developers must play as manager of the team.

In addition to managing the team, real estate developers must be prepared to take on tasks not already covered by the contracted professionals. Some of these tasks include: property acquisition, conceptual planning, budgeting, securing and advancing financing, market analysis/marketing, and promotion/public relations.

Real estate developers don't need the technical knowledge provided by contracted professionals but they must have enough

experience and knowledge to ask the right questions and manage the process. A knowledgeable and experienced developer is vital to ensuring a project's future success. In fact, the lack of a qualified and capable developer is one of the main reasons why many projects led by non-profit organizations fail or experience significant difficulties.

For non-profit organizations, not normally engaged full time in the real estate development business, having the necessary developer knowledge and experience can be difficult to obtain. Hiring a qualified development consultant/manager to guide the process can be an effective and cost-efficient way to enhance a non-profit organization's developer capabilities.

While the real estate development process may vary slightly from project to project, all projects typically go through six stages. Dividing the process into stages can help non-profit organizations

Six Stage Real Estate Development Process



appreciate the sequential nature of the real estate development process and anticipate necessary decision-making points.

Stage 1 – Start-up



The first stage in the real estate development process involves bringing people together to initiate a project. In some cases, start-up may require forming a new organization, and in others it may be an existing organization looking to expand by adding a new project. A common goal is normally shared by the first people involved in a project. Achieving the common goal through the development of a real estate project becomes the focus of the work ahead. Unlike for-profit organizations where a single person can make decisions, non-profit organizations always require a group of people to make decisions. In fact, the group decision-making process itself is one of the factors that distinguishes non-profit real estate development from for-profit development. Typical tasks during the start-up stage include: corporate organization, establishing project goals and objectives, and identifying a suitable property/site.

Stage 2 - Concept



The second stage in the development process involves sketching out a concept. This can be difficult for non-profit organizations as it requires an understanding of what lies ahead in the process, detailed knowledge of the market to be served, some practical limits on what can and should be developed, and knowledge of current real estate development costs. For a for-

profit developer who develops real estate as a business, this information is normally found in-house and is inherent as part of the business. However, this type of information and knowledge is more difficult to gather for a non-profit organization. If your organization doesn't have this practical knowledge, it's best to acquire it before proceeding any further as most aspects of a project's viability are determined at this early stage. Typical tasks during the concept stage include: self-assessment of your organization's developer capabilities, beginning to organize the development team, securing a suitable site/property for the project, overview analysis of the market, preliminary zoning analysis, outlining a design program, concept sketch, and a concept level capital and operating budget.



Stage 3 - Feasibility

Once you have decided the project concept appears to be what you want it's time to get down to work to determine if the project you have in mind is feasible. Completing this step should result in a Feasibility Report which can be used for financing applications, government applications, etc. Typical feasibility stage tasks include: preparing a needs assessment/market analysis, feasibility stage marketing, preparing preliminary drawings, submitting zoning and development approval applications, preliminary construction cost estimate, preliminary capital and operating cost budgeting, preparing and submitting financing application(s).



Stage 4 – Pre-construction

Deciding to go to pre-construction is a major step for any organization, non-profit or for-profit, as it necessitates the expenditure of significant amounts of money. While the tendency is to try to get to this point in the process as quickly as possible, experienced developers understand that the success of any real estate project is largely determined during the Concept and Feasibility stages, and time spent at these early stages will pay-off in the end. Typical pre-construction tasks include: construction drawings and specifications, building permit application, tender for construction cost, pre-construction stage marketing, preparing and signing a construction contract, and signing financing contract(s).



Stage 5 - Construction

Finally, it's time to begin seeing what you've been working on. Once you get to this stage you've likely already been working on the project for years. For many this is the most exciting part of the project and may call for some form of ground-breaking ceremony. Depending on the complexity of the project, the construction stage can take anywhere from six months to two years or more. While it may seem like a time to relax and let the contracted professionals take-over, it is important for a developer to stay directly involved. While you may think you have developed a thorough set of construction documents for the contractor to follow, many decisions are still required. Typical tasks during this stage include: securing a building permit,

regular construction meetings, monitoring changes during construction, financing draws, monitoring the capital budget, construction stage marketing, set-up for property management, and occupancy permit(s).



Stage 6 – Post Construction

The Post Construction stage begins with permission from local authorities to occupy your project. Receiving an occupancy permit from local authorities doesn't necessary mean all the construction has finished. What it does mean is that all safety systems in the building have been installed, tested, and are working. There can be significant amounts of finishing work left to be completed. Typical tasks at this stage include: deficiency work, warranty work, start-up of operations management, post construction stage marketing, building maintenance repairs and replacements, accounting, Board organization and oversight.

Non-profit organizations interested in undertaking a real estate development project should keep in mind and be guided by the following three observations:

1. **The real estate development process requires a knowledgeable, experienced, active, and engaged developer.** All real estate projects need an experienced developer. If your organization doesn't have the qualifications to be a developer go get them before you begin. The involvement of an experienced developer to guide the process and make decisions is frequently the difference between a successful and an unsuccessful project.
2. **The real estate development process is cumulative.** Each stage in the real estate development process forms a foundation for the next. Questions are posed and answered at each stage before moving on. Unanswered questions will cause problems later in the process. It takes patience and commitment to make sure issues are investigated to the extent possible before moving between stages.
3. **The viability of any real estate development is determined very early in the process.** The success of any real estate development project is largely determined before construction drawings are prepared and long before anyone sees construction starting. Successfully completing all the tasks during the initial stages of the development process will lead to a more successful project.

When done correctly developing and ultimately owning real estate can offer non-profit organizations significant benefits. Many non-profit organizations have successfully used owning and managing real estate as a foundation for pursuing social objectives. The six-step process identified here should help your organization begin to understand the role of a real estate developer and what to expect when taking on a real estate project.