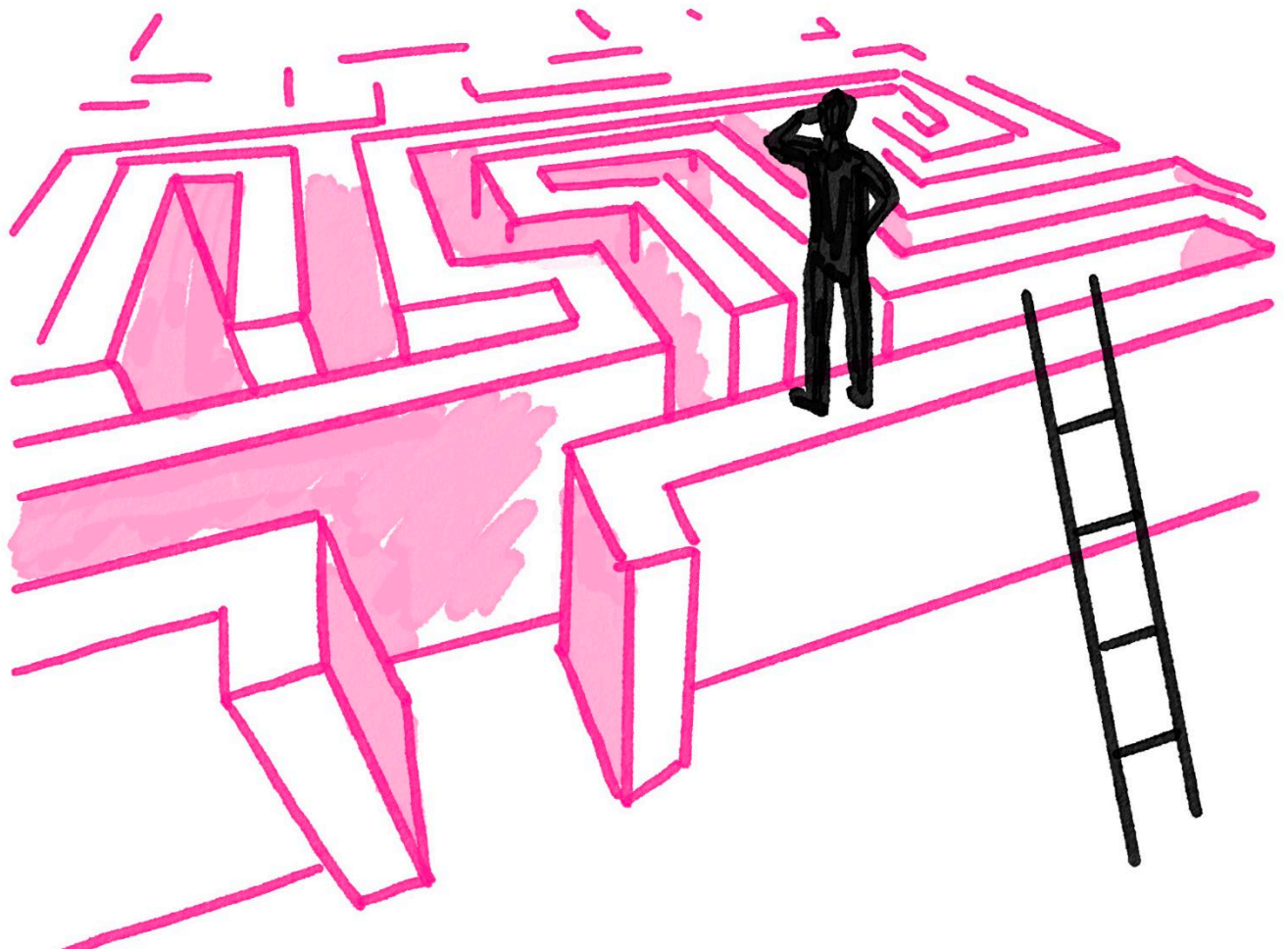


the
Neighborhood
DesignCenter

Small Project Development 101

**An overview of the development, design,
construction, and funding process.**



Leading a community-based real estate development project is exciting, but it can be overwhelming.

Whether you want to renovate an old building in your neighborhood that's been sitting empty, or build a home for your organization from the ground up, it's important to think through the steps from the get-go to make sure development is the right way to make your dreams come true.

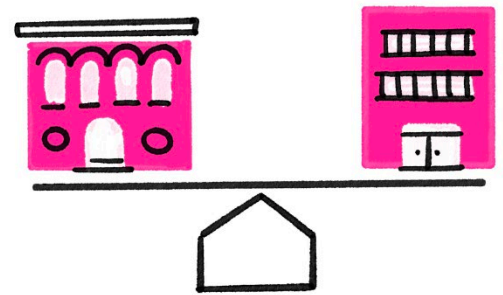
This guide can orient you to many of the key pieces of small-scale real estate. We cover the basics of site selection, feasibility, budgeting, your due diligence, project financing, community engagement, design and engineering, sources, funding, and contracting and construction management.

This guide serves as a starting point, offering foundational insights and strategies. It is not intended to be a comprehensive resource.

For a successful project, we encourage seeking additional expertise and considering the unique needs of your project.

Pre-development

As with any big undertaking, preparation is often the most important part of making a real estate project go well. Identifying the right property match is pivotal to success. Real estate developers will often investigate several properties through budgeting, design, market studies, and community engagement before starting construction.



Before you start looking at properties, identify how much space you need, whether you need street visibility for your space, your budget for purchase and renovation, how long you can afford to pay for building during the renovation, how much you have for ongoing building expenses after the project is done, and what is the ideal location for carrying out your work.

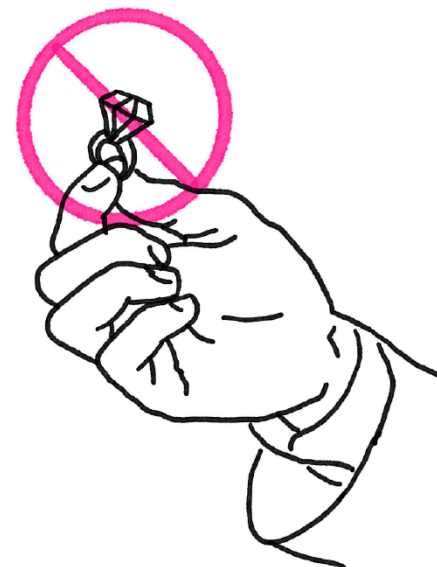
ASK YOURSELF

- What location is ideal to reach your goals?
- How much do you really have to spend?
- Whether you should build something new or rehab something?
- What's that timeline it's going to take to occupy?
- Is this opportunity and your type of funding a good fit?
- Is this really a great deal – what else is on the market?

BE MINDFUL

Throughout this process, don't get caught up in the sunk-cost fallacy. This is when you think that you should continue on a course of action because you have invested heavily in it, even when it is clear that abandonment would be more beneficial.

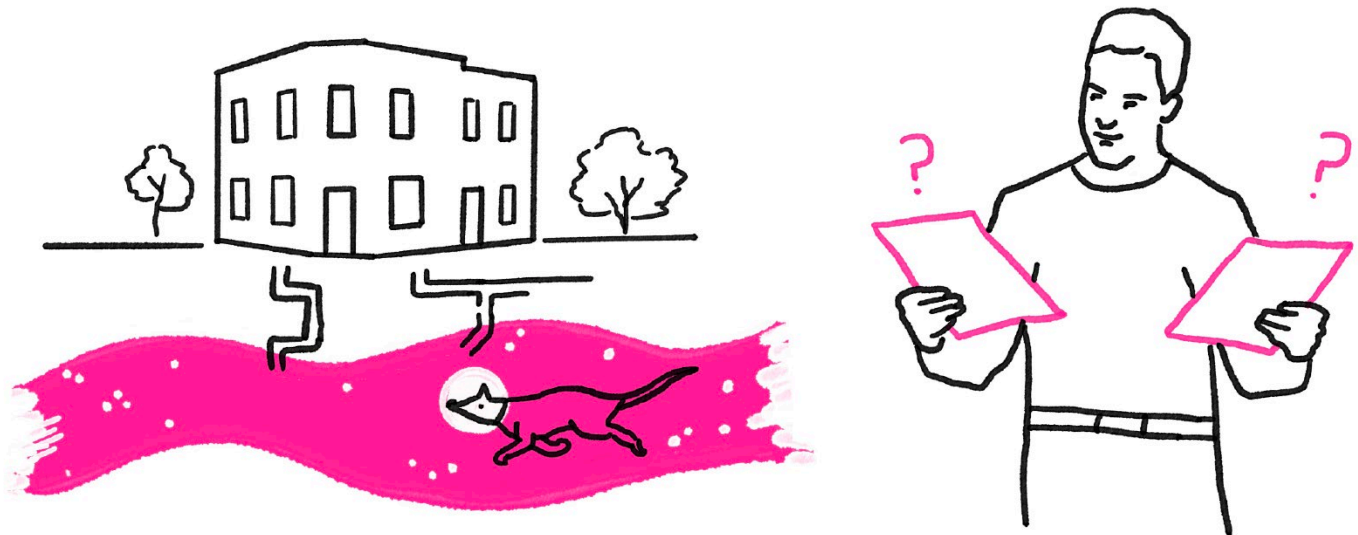
In the development world, walking away from a project that isn't going to be profitable in the long run is a good decision at any step of the way.



Analysis and Feasibility

ONCE YOU LIKE A PROPERTY, DO YOUR DUE DILIGENCE

- Complete environmental studies look at the health and safety of soil and building materials..
- You may need geotech if you are building from the ground up or adding an addition. Geotech can identify things under the surface such as a city conduit, old stream beds, or other foundations.
- A survey is necessary to assure the legal boundaries of the property and building and confirm whether historical deed information is accurate.
- Identify how the property is zoned. Can you use it the way you imagined or would you need special permission from the city?
- Does the building have a valid Use & Occupancy permit?
- Does the building have fines from the City, or a vacant building notice?
- How much are property taxes? Are these likely to go up after you renovate? What are the tax credits you could use?



Create a Pro Forma

Do research and make a pretend budget based on typical costs for this type of project. See if it seems reasonable to accomplish.

ACQUISITION COST

How much is it to buy the place you're looking at? Or if it's been given to you, how much for a property transfer and recordation costs?

HARD COSTS

Find out the cost per square foot needed to accomplish a project of this nature under today's conditions, and multiply by the property's square feet to figure the cost of getting that building occupied. Consider the hiring of a contractor and all the materials that'll go into the site. Be conservative at this stage.

SOFT COSTS

What you pay an architect, the engineers, some lawyers to do your legal work, potentially a project manager to run it, an accountant to keep track of all the funds.

CARRYING COSTS

You're not going to be able to occupy your building on day one, but you still have to pay the taxes, utilities, and insurance for the whole lifetime of that construction. Build in contingencies because things never go to plan. For example during Covid-19, it was impossible to get a building permit for months on end and construction costs and timelines went up 40%.

OPERATING COSTS

How much is it going to cost for you to be doing your job while you are planning all of this, or for the person that you might hire to do it?



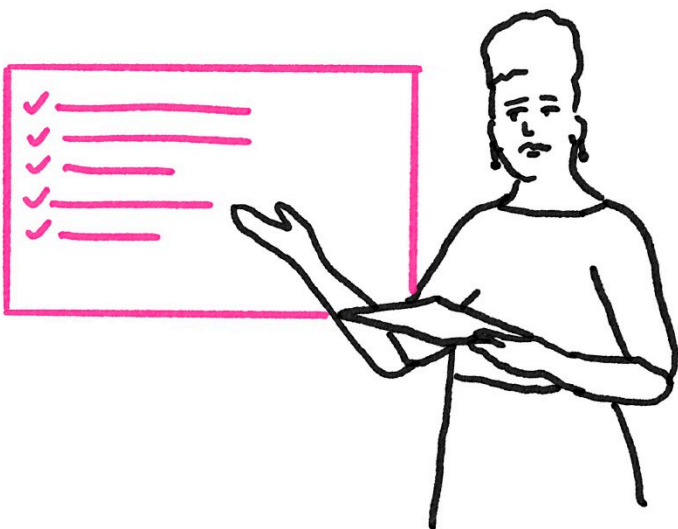
Talk to Potential Funders and Test Your Idea

Now is a good time to stop and talk to potential funders, and anyone you know that could connect you to funders.

Don't be afraid to approach Councilman So & So or Madam Neighborhood Association President and say, "I've got this project that would be so amazing for my community, what do you think of this idea?"

They may say: "That's amazing, I've been talking to five other people that are trying to get something like this off the ground. Let me connect you to them. They already have one bond bill – maybe you guys could work together."

Or they could say, "Oh my gosh, I know three people have already tried to buy that building and they found out these things about it. I wouldn't touch that building with a 10-foot pole."



Get Info From the City

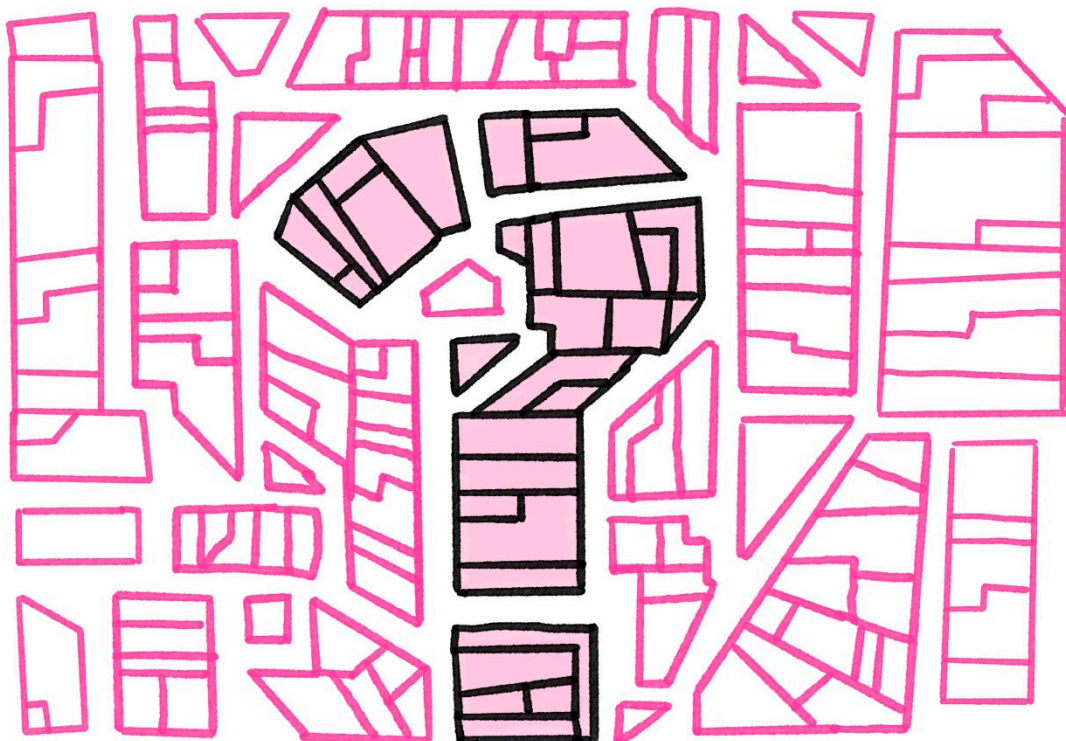
This is also a great time to talk to the folks at city government.

Every building in the city has zoning. It's got allowed uses and not allowed uses. You can look up those uses through public data online. It's important not to assume that you can do whatever you want in that building in the future.

Call the Planning Department to find out what's allowed. They can tell you what permits you may need, or whether the water is turned on, or what stormwater requirements you need to meet.

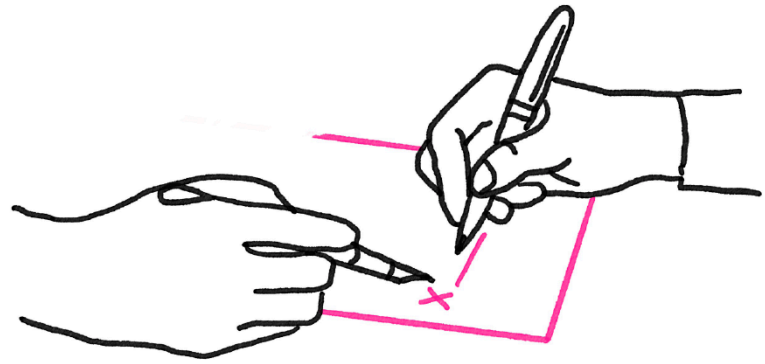
You may find out that the building has one level of electrical service running to it, but you're going to need a much higher level. Is parking at your site already allowed by right or would you need to get additional permission or make curb cuts?

Is your property historically designated or in a historic district where they would have a lot of control over your ideas and plans? The City can tell you all this.



Make the Deal

Like they say, no take backs. Once it's yours, it's yours. But property is an asset – you can always sell it.



Form Relationships With Your Neighbors

Once you have site control, go to people early and often. Neighbors will have opinions and they may even have some power in the situation.

Reach out and say, “Hey, I know this place has been vacant for a long time. Here’s what my ideas are. I hope you really want to be part of making this a success.”

People that get invited in early will feel part of your success and be your biggest supporters. If the decisions have been all made ahead of time, often people end up with hurt feelings and you have to go backwards.

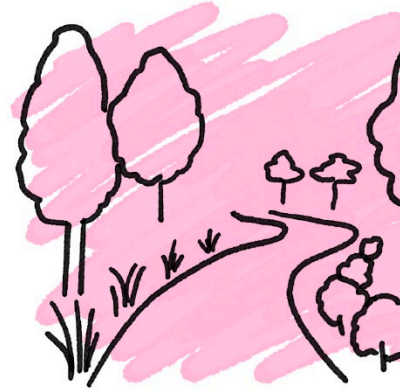


Development and Occupancy

Choose the right team. The architect team is made up of a number of people. These folks are going to have to go to the city and get permission to build this structure. Choose a team that has good relationships in town who get along with each other who get along with you.

ARCHITECT

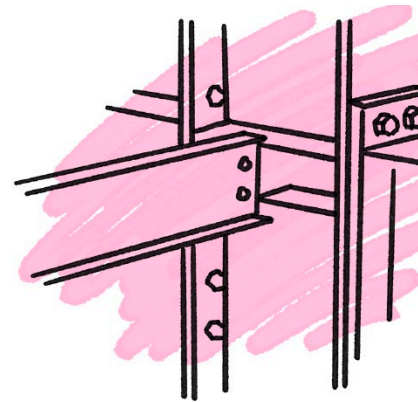
The architect works with you to think through the uses of the building and design the layout of the exterior and interior. You may need or want a landscape architect unless the building takes up the whole property. Think through the hardscape, which are your parking, sidewalks, patios, and plantings on the site, And if you have stormwater requirements.



ENGINEERS

In addition to the architect, there's a number of engineers that handle mechanical, electrical, and plumbing, which you'll hear referred to as the MEP team.

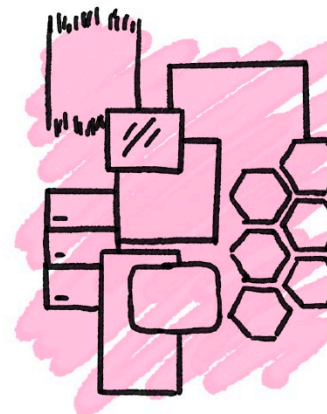
Your structural engineer thinks through how the steel and wood that makes the building truly structurally sound come together as well as some of those outside forces that can impact buildings like winds or fires or earthquakes.



Your civil engineer takes care of the underground systems like the foundations and bringing power and water into the site.

INTERIOR DESIGNER

And then you may need an interior design team to think through your furnishings and finishings.



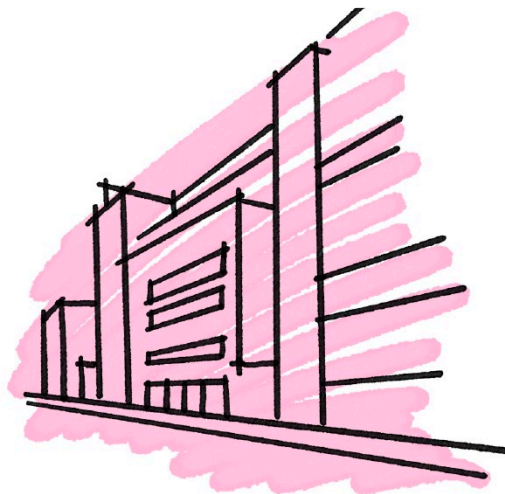
Potential Hiring Constraints

Hiring your contractors may depend on your funding. Some types of funding have specific requirements about whether you need to bid out for these folks, whether you're allowed to choose whoever you think will provide you the best service, or whether you have to work with the least expensive person.

The Pros and Cons of Going Design-Build

There's another contracting format that you can consider, which is called Design-Build, where the architect and contractor are one business. The upside of that is they're integrated – so design, budget, and constructability are a unified process. Design-Build is rare to find and they often only do fairly simple project types. You may have less power to influence the design, but it can be a good way to reduce cost.

If you're considering going Design-Build, visit some of the things that they've built and decide if that's the look and feel you want, because you're probably going to get something along those lines. Talk to their former clients. Because with this approach there are less off ramps throughout the process – if you get to the middle and you don't like how things are going, you'll have to start all over on design and construction.



Keep Working That Budget

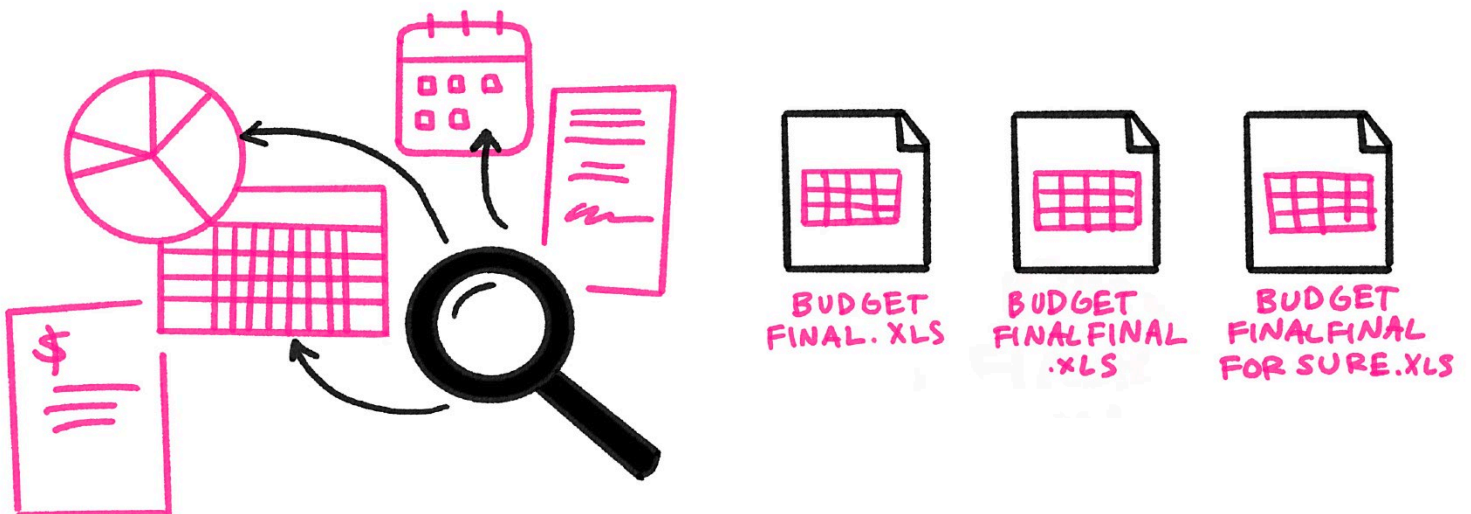
Throughout the process, keep replacing your budget estimates with the real costs of things and more exact timelines as you get proposals, contracts, and invoices.

In community-based real estate development, one of the biggest challenges you'll likely face is getting many different types of funding from small individual sources. You'll likely be working with grants, donations, bridge loans, and government funding. Each source will have their own processes and regulations to access and use the money. Often with long timelines and lots of hoops to jump through and red tape.

In addition to government grants and philanthropic donations, you'll probably need to do some private fundraising, like asking your board of directors to pitch in or doing crowdsourcing.

You may also need to get some bank funding and bridge loans to enable your cash flow. If the government is giving you \$200,000 in reimbursable funds, you basically need \$200,000 sitting in the bank to use it.

Keep in mind any strings attached to money when applying for it. For example, if you are applying for a funding source that will create a lot of restrictions on the building afterwards and requirements to choose expensive materials or do significant legal agreements, the benefits may not outweigh the cost for a small project.



Bidding for Construction

Once you've got most of the money in hand and the building is designed, it's finally time to identify your builder. Create a Request for Proposals (RFP) and think comprehensively about who offers the best option based on your design documents, budget, and timeline.

Then rate those proposals. Some might be local or a minority business, others will offer to deliver on time and under budget, others might have the best insurance capability.

Hire a Licensed Contractor

Although your best friend might know a guy, it's important to hire a licensed contractor. The license protects you in a number of ways. One of the most important things that a licensed contractor has is liability insurance.

The liability insurance makes sure that if somebody gets hurt on your property while the work's happening, that their insurance is going to cover that and that it's not going to be put on you. You don't want to end up sued out of this project.

The other thing that licensed contractors have is something called a surety bond, which means that they have hired somebody that is insuring the project itself and not just them. They're saying that they're guaranteeing to get the work done and they're putting money behind that guarantee.

And then there's lots of little things that go along with the license to keep contractors on their best behavior, like their registration with the state. That registration can be taken away if they cheat people, so you can feel more comfortable that they will complete the project in alignment with the contract.

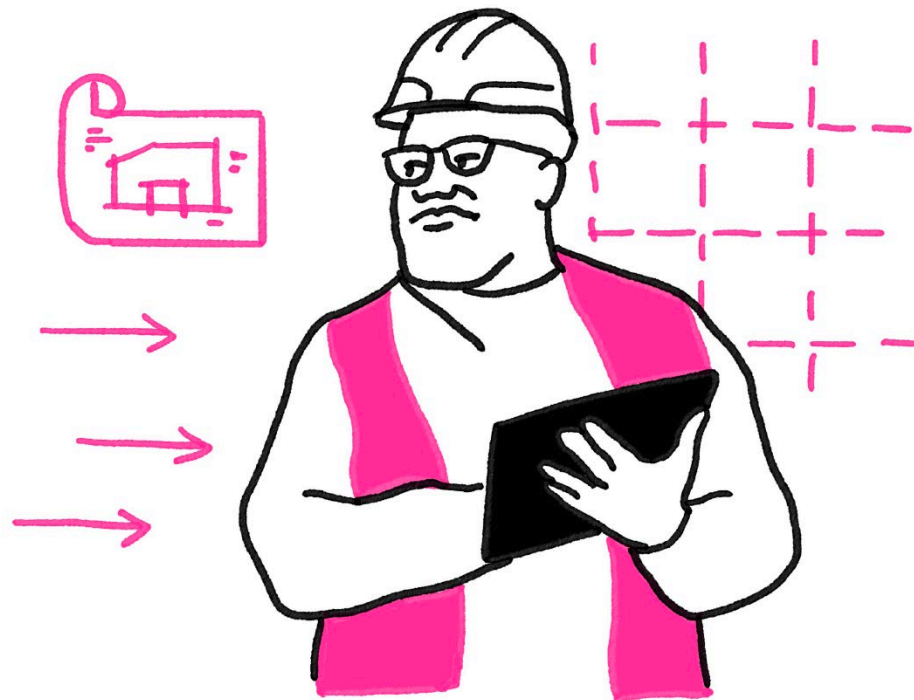


You Don't Have to Manage It Yourself

If you are building a community-based project, you likely have a full-time mission and work apart from developing a building. If leading the development process yourself is too much to take on, there are options.

You can hire a construction manager who optimizes each stage and stay budget. That's their full focus. They lead on hiring the contractor and make sure the contractor is out there every day at 7 in the morning with their hard hats and leaving at 6 with a clean job site, and that each part is completed per their contract.

Additionally, if you have a big project you could consider an owner's representative. They go beyond a construction manager to double check that you are getting the best deal with each of the contractors and that you're not taking the construction manager's word for it – that you're truly finding the most effective price and timeline for every piece of that project.



Conclusion

At the Neighborhood Design Center, there's nothing that brings us more joy than having a partner come through the door with a gleam in their eye about their amazing idea, helping them think through that vision, and then walking into that completed project to see people's lives actually being changed – families growing and learning, going to work and school in safety and comfort, people having that first date or interview.



Doing development can be really incredible, you just have to know ahead of time what you're in for.

Ready to get started? The Neighborhood Design Center works on both a pro bono basis and fee for service basis. We handle community engagement, make connections, and come up with conceptual plans for green spaces, community buildings, streetscaping, and more.

If you want to talk through your challenges or are curious to know more, go to the Neighborhood Design Center website ndc-md.org and contact our Executive Director Jen Goold.

[WATCH THE ORIGINAL PRESENTATION VIDEO](http://tiny.cc/small-project-dev-101)

tiny.cc/small-project-dev-101

[WANT MORE CONTENT LIKE THIS? SUBSCRIBE!](http://ndc-md.org/newsletter)

ndc-md.org/newsletter

**the
Neighborhood
DesignCenter**