Nova Southeastern University

H. Wayne Huizenga College of Business and Entrepreneurship

Assignment for Course: REE 5878 – Real Estate Development Process: Part 1

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CERTIFICATION OF AUTHORSHIP: I certify that I am the author of this paper and that any assistance I received in its preparation is fully acknowledge and disclosed in the paper. I have also cited any sources from which I used data, ideas of words, whether quoted directly or paraphrased. I also certify that this paper was prepared by me specifically for this course.

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Instructor’s Grade on Assignment:

Instructor’s Comments:

Question 6. What is the most common form of permanent financing? Which would you use?

One of the most common forms of permanent financing for office buildings are bullet loans. The benefit of a bullet loan is that "interest rates are usually lower for short-term mortgages because of the lower interest rate risk to the lender over time" (Peiser & Hamilton, 2012). Other common forms of permanent financing include "participating mortgages, convertible mortgages, and sale-leasebacks, all of which are forms of joint ventures with lenders" (Peiser & Hamilton, 2012).

In a participating mortgage, the lender receives a share of the property's revenue, which is a motivation to approve the loan (Participating). This option seems adequate when the developer is having difficulties raising equity and making the lender a partner facilitates obtaining the financial means to develop the project.

A convertible mortgage is an adjustable rate mortgage with the option to convert to a fixed rate mortgage (Convertible). The benefit from this type of mortgage is the chance or opportunity to benefit when interest rates are lowered and the mortgage can be converted, thus, locking the lower interest rate.

Finally, in sale-leasebacks the developer will sell the building to the lender and will execute a lease on the property that will give the control and management of the property back to the developer (Sale Leaseback). This option seems very adequate for projects in which the developer would like to hold the property for a long term and when the developer is in full need of financial backup for the project.

The type of mortgage I would use would depend on the type of project in consideration. For instance, if the plan is to keep the project for the long term, such as a period of 20 years, I would choose the option of a sale leaseback. It would allow for the lender to completely finance the development and allow me, as a developer, to manage the property and benefit from revenues during the lease term. A bullet loan seems like a good option for smaller projects in which the loan term will be short and the plan is to sell the development in a couple of years or immediately after completion. I would not risk on a convertible mortgage, because I feel like there is no guarantee of when rates will go down.

Question 19. What are the major design decisions needed to have a successful office building? Explain.

The major design decisions developers must make regarding an office building include “the shape of the building, design modules, bay depths, type of exterior, and lobby design, all of which create an image and identity for the structure” (Peiser & Hamilton, 2012, p251).

For Developers, design decisions are closely related to cost effectiveness and revenue. For instance, a square shaped office building is the least expensive to build, but it also produces the lowest average rent per square foot. On the other hand, rectangular shaped buildings can be priced at higher rents per square foot, but they are more expensive to build. Ultimately, the decision of a building’s shape is based on the “market conditions, environment, land use and zoning” (Peiser & Hamilton, 2012).

Likewise, the market will determine the interior design or layout of an office building’s floors and bay depths desired in that market. For instance, the market study will let the developer know if there is demand for large open spaces or for a group of office rooms. Moreover, “the structural bay determines the spacing of windows, which in turn determine the possible locations of office partitions” and the offices’ width (Peiser & Hamilton, 2012).

On the other hand, the decision of ceiling heights is determined by zoning and building codes. This is also the case for the decision of building a parking garage or surface parking, which is based on how many spaces the code requires.

A building’s exterior design “can be an invaluable marketing tool” and will make it appealing and distinctive (Peiser & Hamilton, 2012). Developers must be mindful of the market they will be serving, the building codes of the area, and what the building is expected to look like. For instance, the exterior design for a building that will be located in a Central Business District won’t be the same for a building that will be located in a suburban area.

Likewise, landscaping and exterior lighting is part of the building’s identity and image. Landscaping can help define spaces, conceal areas, bring attention to specific features and compliment architectural elements, just like lighting can help highlight landscaping and architectural features, while enhancing security.

Finally, it is worth mentioning how a building’s lobby “is critical in attracting perspective tenants even if it comes with a premium for the developer” (Peiser & Hamilton, 2012). Thus, the importance of creating a wowing effect with the finish materials used for the lobby and elevator cabs.

Question 32. What leasehold improvements include and who should make those improvements (landlord vs tenant)?

Developers will usually cover a portion of the buildout of a unit's interior space, and the tenant will be responsible for the remaining renovations. The amount the developer will cover is negotiated and established on the lease, although the typical amount for tenant improvements in the industry ranges between $5 to $6 per square foot per year (Peiser & Hamilton, 2012). However, in some cases the developer or owner could face situations in which they would have to agree to higher amounts than expected for tenant improvements. For instance, a developer might be having difficulty finding a tenant to get the building occupied to the percentage required by the lender, or a tenant is one the developer or owner really wants to have.

After the lease has been negotiated, "work letters serve as the formal agreements between the developer and the tenant concerning the amount and quality of improvements that the landlord will provide" (Peiser & Hamilton, 2012). Items that are part of the leasehold or tenant improvements include partitions, doors, ceiling tiles, floor coverings, baseboards, windows, walls finishes and paint, light fixtures, HVAC, plumbing connections, and electrical outlets among others.

Developers are responsible to provide the tenant with units that meet the building standard and any upgrades the tenant would like are the financial responsibility of that tenant. In other words, the developer must deliver a space that will meet the tenant's needs, based on what was agreed upon on the lease, and any upgrades or additions are solely the tenant's responsibility. Moreover, the developer will be financially responsible for the dollar amount agreed on the lease, and the tenant will be responsible for its share.

References

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