

PART 2

Developers and The Property Development Process

2.1 The Different Categories of Property Development Activity.

Many recent learned authors have provided admirable definitions to describe the profession of property development (e.g. Byrne 1996, Cadman & Topping, 1995, Darlow 1990, Millington 1993 & 1994, Ratcliffe & Stubbs 1996). The following definition constitutes an amalgam of previous authors' work.

The word 'development' infers a state of change. In the context of the economy in which our society operates, property development can be defined as being any process which involves changing the state of land - together with any retained existing improvements thereon - in a way which improves its economic performance and, in a wider sense, the economic benefits to the community. Thus, a property developer may be involved in a wide array of activities, all of which are intended to consequently change, for the better, the nature and characteristics of a given property and its immediate surrounding environment.

The overwhelming majority of the population lacks any significant degree of detailed knowledge, understanding, or expertise as to the intimate workings of the property development process. In the minds of many within Australian society the term 'property development' is invariably simplistically associated with the **demolition** of old, outdated buildings and uses, and their replacement with new, bigger, better, buildings and uses which are commensurate with contemporary market needs.

This demolish / replace / rebuild mindset is a very narrow and incomplete one however, and is not at all representative of the true nature of property development activity in its fuller, wider scope. The fuller, wider range of potential property development activity can be readily categorised as follows :

- the construction of **new buildings** on virgin or 'greenfield' lands.
- the **complete demolition** of existing buildings and their **replacement** with entirely new buildings. This is sometimes termed

'brownfield' redevelopment activity and usually involves a completely new subject property use, compared to that which previously prevailed.

- the adaptation of **existing buildings** by way of **re-design** to make them more suitable for their existing use.
- the adaptation of **existing buildings** by way of **re-design** to make them more suitable for an alternate use, or, in the case of specific heritage applications, an adaptive re-use.
- the adaptation of **existing buildings** to increase the amount of useable floor space - commonly referred to as '**additions**'.
- the adaptation of **existing buildings** by way of **refurbishment** - making them more suitable for their existing use or an alternate / adaptive re-use in a heritage context, by improving the quality of building materials, finishes and fitout.
- the adaptation of **existing buildings** to make them comply with contemporary statutory requirements, Building Codes, fire-prevention regulations, and so on.
- Rural applications - pasture improvement, land clearing for new pastures, installation of drainage systems, and so on.

Re-development of existing buildings, particularly in respect to those projects dominated by heritage considerations, usually involves a *combination* of the factors of re-design, adaptive re-use, refurbishment and, sometimes, additions to the existing magnitude of floor space. The exact presence, mix and magnitude of these variables will depend on individual case requirements.

It is clear from observation of the property development industry in Australia that the greatest *volume* of property development activity - in terms of sheer project numbers - comprises the alteration of existing buildings in some manner, as opposed to the development of greenfield sites or the complete demolition / replacement of old buildings.

2.2 Property Development - Heritage Applications.

Reference to the above schedule shows that, of the 8 categories of development activity listed, 5 involve the alteration of existing improvements in some way. This is a significant statistic which is highly relevant in the consideration of development activity involving heritage-listed properties.

The underlying rationale of statutory heritage preservation is centrally concerned with the essential retention of existing buildings deemed to possess heritage significance. Heritage preservation is all to do with the *prevention of demolition* of such structures, and an examination of how best to conserve the essential heritage significance of the asset while simultaneously encouraging its rejuvenation via effective contemporary sympathetic adaptive re-uses.

Hence, while at first glance it might appear to the casual observer in society that property development and heritage preservation are at odds with one another, this is not the case at all in reality.

Heritage preservation of the built environment can be readily married with the pre-existing predominant form of development activity where the *alteration, not demolition*, of existing buildings takes place. All that is required is the merging of re-design, adaptive re-use, addition and refurbishment functions with desirable heritage preservation goals - using practical mechanisms where both developers and built-environment conservationists can 'own' a beneficial outcome.

In a conceptual and theoretical property development sense, there is *no* inherent conflict of interest between property development activity involving existing improvements, and the statutory heritage system which seeks to preserve the essential heritage significance of nominated parts of the built environment.

In a practical sense however, synergies between the interests of property development and heritage preservation are unlikely to be achieved without the presence of

- (i) appropriate statutory heritage policies.
- (ii) appropriate implementation mechanisms for those policies.
- (iii) an understanding by heritage authorities of developers' priorities.
- (iv) an understanding by developers of heritage authorities' priorities.
- (v) an understanding by developers of the statutory heritage system.
- (vi) an appropriate sense of social responsibility from developers.

Statutory heritage preservation in Australia was first developed during the mid 1970's in direct response to a very turbulent period of socio-cultural and political unrest which had itself emerged in respect to built-environment issues during the late 1960's and early 1970's.

The pre-statutory heritage conservation environment of the late 1960's early 1970's was very much an adversarial one, where the interests of developers and built-environment conservationists - expressed particularly through the protest actions of local resident action groups and the NSW Branch of the Builders Labourers Federation - were seen to be diametrically opposed to another during much of that era. The history of that era is nowadays well documented and requires little additional commentary in the context of this report.

Since the advent of statutory heritage conservation provisions throughout Australia, great strides have been made by all participants and stakeholders in both the development and heritage communities to successfully achieve a more mutually-beneficial and co-operative approach, where the differing goals and objectives of each vested-interest group have been more readily captured and met in the consideration of heritage-listed development schemes.

In both the heritage and the property development communities over the last several decades, the ultimate 'macro' goal of improving the economic, social and cultural benefits of the built environment for the whole of Australian society has been more readily achieved. Success in these directions has occurred because parties with differing goals have mustered the capacity for 'win-win' compromise.

This has involved an understanding of one another's motivations and vital interests, and a capacity for embracing the other party's interests in the negotiation process. In accordance with contemporary 'Win - Win' conflict resolution principles (for example, see Cornelius & Faire 1989, Mackay 1994, Miller, Miller, Nunnally & Wackman 1991) each party to a negotiated outcome has to be prepared to accept a degree of compromise and sacrifice in order for both sides to emerge with an acceptable degree of beneficial outcome.

It is no overstatement to say that in more recent times the interests of heritage conservationists and commercial property developers have been more successfully negotiated through the operation of conflict resolution principles. Not only have both interest groups emerged with better outcomes, but also the built-environment benefits for Australian society as a whole have been substantive.

2.3 The Role of Property Developers in Society.

Much of the following commentary is based on the work and published material produced by Millington (1993 and 1994). Other learned authors (Byrne, Cadman & Topping, Darlow, Ratcliffe & Stubbs, op cit) have also made valuable contributions in the this domain.

Property developers are entrepreneurs. Just as other entrepreneurs supply goods and services to consumers, so do property developers supply completed development projects to various sectors of the real estate market. Developers take undeveloped, or more commonly under-developed land, or existing buildings which have reached a stage of obsolescence (be it functional, physical and or economic), and using their entrepreneurial skills they develop or redevelop properties in a way which **satisfies market demand**.

Like all other entrepreneurs, developers expect, rightfully, to receive an appropriate rate of remuneration - in other words, **profit** - which adequately reflects the skill and risk involved in the particular development undertaking.

Property developers however possess a public image, which, in a similar sense to that of real estate agents, it must be said is not altogether positive. Property developers tend to be much maligned people. The historical image conjured by the press and other media have focussed more on the deficiencies and shortcomings of those developers in the minority who have exhibited, in some notable past cases, an exceedingly poor sense of social responsibility.

Developers thus operate in contemporary society under the burden of a stereotyped negative image - one which is quite unrepresentative of the real-world situation. It is indeed unfortunate that the majority of property developers, who possess genuine skill, expertise, a sound sense of social responsibility, and most of all, pride in their work, do not receive the publicity which they deserve.

In reality, the developer provides a specialist service in the provision of newly-completed building projects which seek to satisfy the **fundamental needs of people**. Peoples' real estate needs are met through the operation of various kinds of differing **property markets** in Australian society. These different types of markets can be categorised principally by way of locational, size (magnitude of both sub-markets and individual properties) and usage criteria.

In this respect of satisfying a given market and its needs, the developer is essentially no different from the producer and provider of any other type of consumer goods and services in our capitalist, free-enterprise-based economy. The developer commences the development process in much the same manner as would any other producer in examining a proposal to launch a new product. An attempt is made by the developer to analyse market needs, and to provide suitable products to satisfy those needs; to seek to provide them at the right place; at the right time; to an appropriate design in line with market needs; to an appropriate quality; and at the right price.

In undertaking development projects for the use of other members of society, the developer automatically accepts **inherent risks** which most members of society would be unable and unwilling to take on their own account.

In all forms of property development activity, the developer thus frees up the rest of society to allow individuals and organisations to pursue other activities at which they in turn are specialists. The property developer takes the risk in property development, and leaves other business people to deal only with the risks related to their own businesses with which they are familiar.

The property developer effectively removes the problem of property provision from society in general. The property investor (either the purchaser of the completed end-product or the developer who retains ownership and on-management) in turn removes the problem of expensive ownership from many small-business tenants in society, who could not otherwise afford the financial burdens involved. The property manager likewise removes the problem of managing the ongoing investment and physical performance of the property asset from those owners and users who might lack the necessary skills. Together, then, the property developer, the property investor and the property manager tend to work in synergy with one another to provide a pool of appropriate properties to allow other members of society to pursue their own activities with greater efficiency.

In this sense, developers make a most valuable contribution to society which enables the capitalist economy to function more efficiently. Indeed, along with participants such as architects, heritage consultants, planners, and politicians, the property developer can be legitimately viewed as a key **custodian** of the built environment, charged with a responsibility for ensuring its quality and well-being.

The property development industry provides employment for a wide range of people, ranging from labourers to the professional consultancy team, and of course further down the line to the producers, processors and distributors of

raw materials. The underlying influence of the volume of property construction activity at any given point in time on business and property market cycles is very considerable and is well-documented.

Additionally, the construction process and all those activities associated with it, provide large pools of tax revenues to governments at all three levels in the Australian society.

2.4 The Property Development Process - An Outline Summary.

Property development is much like any other economic activity, in that society's wants and needs are satisfied through the application of scarce resources. In the case of property development, society's needs are expressed through **market demand**. The market will express a demand for suitable space to work in, to conduct business from, to live in and to enjoy recreational and cultural pursuits.

In short, the built environment is an essential pre-requisite for human existence. It therefore follows that the inherent quality of that environment, and the quality of life which it generates for society, should be of paramount concern to all those who serve the built environment in a custodian or stewardship role.

It is essential for all property development activity to be driven by the underlying requirement to accurately identify, and then to astutely satisfy, market demand. To ignore this governing factor can spell doom for the developer, in financial viability terms.

Similarly, any statutory or other external influence on the development process which, *to undue excess*, compulsorily requires the developer to *depart* from a market-oriented product design, will only contribute to additional project risk and the possibility of financial loss.

In a free-enterprise economy, the satisfaction of market demand can only be viably undertaken if it produces an acceptable profit for the entrepreneur. This economic rule of practice is no different in the world of professional property development.

Property development entails the effective employment of a series of factors of production. The key factors of production comprise :

- land, or in heritage applications, an existing property comprising land - plus - buildings, where the buildings enjoy heritage significance of various possible kinds.
- capital, which is required for an initial purchase of the property, plus design, construction, holding, marketing and selling costs.
- labour, expertise and professional consultancy services, which are provided by a wide range of participants, all of whom play key roles in the development process.
- building materials, comprising all of the wide-ranging products which are integral to the construction, finishes and fitout of a completed commercial building.
- the entrepreneurial talent of the property developer to identify opportunities, to exercise vision, to initiate the property development process, and to ensure the entire process is conducted efficiently.

Property development constitutes a highly complex undertaking which is invariably dynamic and exciting, but also at times significantly frustrating. It is a **high risk** activity which invariably involves large sums of money to be tied up in the production process for lengthy periods of time. Since the development process is often lengthy, the initial feasibility assumptions made as to project costs, value and profit can and often do change dramatically as the development project proceeds from inception to completion.

Success in property development invariably depends upon a keen attention to detail, an accurate pre-emptive analysis of both specific market conditions and market demand, and an accurate initial assessment of likely development timelines, production costs and end-values. It is essential that original feasibility projections are closely monitored as the development project physically proceeds. The identification of various potential **project risks** and the implementation of risk - management mechanisms are also crucial to the process.

A number of learned authors (op cit) have in the past provided various models and categorisations in an attempt to depict the workings of the property development process. Perhaps one of the best and most accurate descriptions of all has been created by Whiteside (1993), who depicts the logical sequence of phases in the property development process via a series of some fourteen (14) stages, as follows :

- * the initial *idea* for a development scheme in conceptual form.
- * the conduct of detailed preliminary *market research*.
- * the assembly of a comprehensive *feasibility study*.
- * the identification and acquisition of a suitable *site* and, in heritage scenarios, a *pre-existing building*, available for development.
- * the preparation of a detailed *development brief*.
- * the appointment of the development team, the design team and the supporting *consultancy* team.
- * the submission of, and securing *statutory approval* for, the desired design and specifications for the project.
- * the arrangement of a suitable *financing package*.
- * the execution of *building contracts*.
- * the physical *construction* of the project.
- * the implementation of a *leasing and marketing* strategy.
- * the commissioning and *occupation* of the completed scheme.
- * the arrangements for *property asset management* of the completed product, in cases where the developer retains ownership.
- * the *sale* of the completed product, in cases where a develop-and-sell strategy is pursued, and the receipt of entrepreneurial *profit*.