

Essentials of Commercial Building Development

When seeking to build, or acquire and renovate a commercial building many move first to the most fun and interesting aspects — floor plans, cabinets, skylights, floor finishes, and the “look and feel”. A dessert before dinner approach. But these necessary and important features can only be achieved within the context of the entire development effort.

Two aspects of the development process tower in importance, but are sometimes difficult for the uninitiated to understand: 1) land use restrictions, mandates, and fees, and 2) mechanical-electrical engineering requirements and costs. These aspects can only be managed well if managed early — in the initial building concept development. But once managed, the focus can return to the fun and interesting.

Do

Realistically define and prioritize what you doing and why are you doing it

Define the reason and purpose for the building, including the grade of materials, time, and cost. Is this primarily an investment, a place of business, or primarily a place of business with some long-term investment potential? What is the development cost that makes investment sense and can be financed? What is the investment time horizon: 5 years, 10 years, or 20 or more years? And what are the desired or needed features?

You probably can't get everything you want, but you probably can get everything you need. Defining the priorities for grade, cost, and time at the very start of the project makes decisions easier, faster, focused, and effective.

Establish a master capital budget

Identification and costing of every task needed to complete the entire development are essential to ensure that every step of the development is consistent with the needed execution of these tasks. This identification and costing must be done during building concept development to ensure the project is feasible and is executed as planned.

Perform a comprehensive zoning, land use regulation, and building code analysis

Regulatory documents usually run 500-700 pages and vary by city, township, and county. These regulations are written in a bureaucratic legalese and contain unfamiliar terms that can have great cost and time impacts — which is a large problem for those new to the process. The impact of these regulations can range from insignificant and low or no cost, to deal killers. Fortunately these multiple government agencies borrow heavily from each other so there is much repetition, and the experienced can rapidly navigate the documents and identify the crucial issues.

Perform a site-specific analysis

Soil and water conditions, environmental concerns, traffic flows, and difficulty of utility infrastructure connections are concerns for a new site. Building clear heights, location and elevation of sanitary

sewers, capacity of electrical and water services, and adequacy of size and configuration of HVAC services are considerations for existing buildings. Some things are normal and customary, others can be overcome with effort and cost, and still others may render a site economically unsuitable. Know the difference before making costly commitments.

Do Not

Acquire property and say: now what?

Acquiring property with good curb appeal or a price “too good to pass up” commits to everything that comes with it — which may not be that what you need or want. Full recovery from a mistake is usually not possible.

Rely on the verbal assurances of others

Having a cup of coffee with the mayor or the alderman is desirable later in the development process, but not as a first step. Politicians want to appear agreeable in an initial meeting, but the devil is in the details. They may not fully understand what you are planning, or they may think astronomical impact fees and burdensome development requirements are normal and customary. And on rare occasions they may tip off a local developer to your disadvantage.

Assume that if it exists it must be ok

It seems reasonable to assume that a building presently in use must have passed the scrutiny of governing authorities. Although previous use may carry some weight, past use does not ensure future conformance. A town may previously have had lax oversight, or regulations have now changed. New owners or uses require that some or all of both the existing structure and new renovations conform to current regulations.

Complete the building plans, then seek costs

Last century it was feasible to complete the building plans and then solicit prices for construction—but this no longer effective. The three essential development elements—scope, cost and time—all must be planned together from the start of the project to achieve needed results. Achievable costs and times must be built into the design—full recovery from mistakes is usually not possible. Only early construction management involvement can avoid these problems.

Assume that residential construction is the same as commercial construction

Commercial construction structural and HVAC requirements, spacing and load calculation for electrical outlets are all radically different in theory and practice than residential construction. Attempting to have someone who built, remodeled, or did work around your house perform commercial work will frequently produce disastrous results.

Government Imposed Requirements

Government mandates and fees can be one of the largest cost variables. The stated requirements and fees vary hugely by municipality, and are generally unevenly enforced within each municipality — so the knowledgeable can find significant improvement possibilities both in site selection and the approach to project development.

Impact fees — for the burden of the new building on the surrounding community

Payment of one-time fees for the driveway curb cuts, water service connection, or general project development are required for the additional wear and tear and infrastructure requirements the new building will cause. Fees vary hugely by municipality — similar projects constructed in two cities had impact fees of \$350 and \$186,000.

Storm water retention can be costly and burdensome, or avoided

Storm water management requirements, usually countywide, can mandate temporary on-site storm water storage to minimize demand on the county storm water removal system. This requirement begins to apply on sites of about 1 acre, with some modifying considerations. If storm water retention cannot be achieved, a \$75,000 per acre “fee in lieu of” penalty typically must be paid.

Locally mandated improvements

Cities adopt national codes but then add amendments, which can produce burdensome requirements. A few examples are described below.

Fire protection sprinklers

National codes specify the size and type of building requiring fire protection sprinklers, but some municipalities choose to apply these larger building requirements to structures as small as 1,200 square feet. And this applies retroactively for any change of owner or use. The cost of the fire protection sprinklers, larger water service to serve to sprinklers, and a new fire alarm system to supervise the sprinklers can render a building economically worthless.

Appearance and material specifications

Municipalities may require certain materials, such as face brick on all buildings, specify an architectural appearance, and mandate construction of sidewalks or street lighting on city property. And can also mandate additional setbacks and extensive landscaping screening that can reduce developable area.

Special use zoning

If the zoning ordinance allows a use, a building may be designed and constructed for that use with no further zoning review. Increasingly, uses are “special use” only, which requires a zoning department and city council review. This review can be short and cursory to ensure that the project conforms to minimal parking, loading, and trash disposal standards, or can be extensive and time-consuming including reduction of allowed building size or height or addition of costly city desired features.

How to successfully manage the development process

These considerations are real. Some municipalities have requirements that are easy and inexpensive, and few of the concerns above will apply. Other cities have severe costly requirements. However, no significant requirement or cost can be missed. Even one significant omission can doom the development.

With experience, these problems can be minimized or avoided and the desired and needed goal reached — but only with early comprehensive planning by experienced professionals.