Planning, Design & Construction

‘Developing for Profit’
Russell Banham, Savills
(Investment, Development & Asset Management)
Introduction
Who I Am

Russell Banham

- Over 30 years of experience
- UK, Europe & Middle East
- Major Developers/Entrepreneurs
Basic Proposition 1

• Development is a risky business.......
Basic Proposition 2

• Development is a process......
Agenda for Today

1. Types of Shopping Centres
2. The Development Process
3. Key Design Issues
4. Overview of the Financials
5. Post Development Phase
1. Types of Shopping Centres
Types of Shopping Centres

• City/Town Centre Schemes
  – Regional Malls
  – Smaller Malls
  – Speciality Centres
  – Entertainment Centres
  – District Centres
  – New Urban Quarters
  – Transport Centres
Types of Shopping Centres

• Out of Town Centres
  – Regional Mall
  – Suburban Mall
  – Entertainment Centre
  – Retail Park
  – Foodstore based Centre
  – Outlet Centre
  – Retail ‘Resort’
City/Town Centres

• **Regional Mall** - Key Characteristics
  – Department Store anchored
  – Critical Mass
  – Wide Offer/Strong on fashion
  – Strong F & B Offer
  – Leisure component
  – Accessible/public transport & car
City/Town Centres

• Key Characteristics
  – Smaller Mall
  – Speciality Centres
  – Entertainment Centres
  – District Centres
  – New Urban Quarter
  – Transport Centres
Out of Town Centres

- **Regional Mall** – Key Characteristics
  - Department Store anchored
  - Critical Mass
  - Wide Offer/Strong fashion
  - Strong F&B Offer
  - Leisure component
  - Accessible/Abundant Car Parking
Out of Town Centres
Out of Town

• Key Characteristics
  – Suburban Mall
  – Entertainment Centre
  – Retail Park
  – Foodstore based Centre
  – Retail Resort
2. The Development Process
Where to Start?

• Market Research
  – Country
  – Region
  – City/Town
  – Site
The Country

• Macro Trends (Political, Economic & Social)
• Stage of Market Evolution
• Market Structure
• Brand Penetration
• Local Knowledge/Contacts
• Approval/Planning Process/Pipeline
• Macro Trends (Political, Economic & Social)
• Market Structure
• Spending Patterns/Wealth
• Competition/Pipeline
• Retailer Performance/Expansion Plans
City/Town

- Who/ What/ Where/ Why?
- What is the pipeline?
- Who are the key retailers?
- Catchment Area?
- How good is the Opportunity?
Site

- Who/ What/ Where/ Why?
- Right Size/Right Shape?
- Flat/Sloping?
- Accessibility/Communications?
- Surrounding Area?
- Clean or Polluted?
I TELL YOU I’VE STUDIED THE ENTIRE SITE PERSONALLY AND THERE IS NO TOXIC WASTE

WHISPERING ASHES LAND RENTAL
Site

• Who/ What/ Where/ Why?
• Right Size/Right Shape?
• Flat/ Sloping?
• Accessibility/Communications?
• Surrounding Area?
• Clean or Polluted?
• Site Constraints?
Acquisition

• Current Ownership?
• Buy/Option/Long Lease/Partnership?
• Private/Public Competition?
• Purchase/Development Agreement?
• Conditions Precedent?
• Obligations?
• Price/ Finance?
The Opportunity

- What kind of Scheme?
- Who will shop it?
- Who will take space?
- Can I make money?
- What do I need to do?
- What are the risks?
The Decision

• A lot of Analysis
• Experience
• Judgement
• Controlled Risk
• BELIEF!
Site Evaluation (Exercise 1)

• See Pack
Key Development Stages

1. Concept Design
2. Detailed Design
3. Construction
4. Launch/Opening
Concept Design

• Development Team
• Site Evaluation
• Acquisition/Due Diligence
• Client Brief/Initial Scheme
• Major Tenant Evaluation
• Planning/Permit Process
Detailed Design

• ‘Flesh on the bones’
• Design Development
• Pre-Leasing discussions
• Development of Marketing Concept
• Planning/Permit Process
• Financing Strategy
• Construction Strategy
Construction
Construction

- Pre-Construction Preparation
- Tendering/Negotiation
- Team Structure
- Hierarchy of Meetings/Progress checking
- Hard work and attention to detail
Construction

Basic Procurement Routes

- Traditional (Design-Bid-Build)
- Design & Build
- Management Contracting
Procurement

• Traditional
  – Design – Tender – Build
  – Developer and Contractor (direct)
  – Contractor engages sub-contractors
  – Full plans/specifications - pre-tender
  – Not ‘fast track’ but ‘right’ product
  – Higher Risk but more Control
Procurement

• Design & Build
  – Client Requirements/Basic Design
  – Contractor completes design work during construction phase
  – Contractor pursues ‘buildability’ approach
  – Good for simple projects
  – Not so good for complicated projects
  – Lower Risk but less Control
• Management Contracting
  – Construction Manager manages process
  – Client in direct relationship with contractor and sub-contractors
  – Good for complicated projects
  – Requires strong management
  – Higher risk but more Control
Procurement Issues

• Fixed Price (GMP) v Uncertain Price
• Change Orders/Claims/Sharing savings
• “Time is Money”
• Extent of design work completed
• Tender v Partnership
• Teamwork is essential
• Good Relationships are crucial
Preparation for Opening

- Sectional completions/handovers
- Tenant fitting out process
- Operational readiness
- Commissioning of systems
- Recruitment of staff
Opening
3. Key Design Issues
Initial Design Issues

• The Client Brief
  – Size of Scheme
  – Nature of Scheme
  – Target Market
  – Access/ Car Parking
  – Site Constraints
  – Mix of Uses
Initial Design Issues

• Layout/Retail Circuit
  – ‘Dumbell’
  – Triangle
  – Square
  – ‘Gullwing’
Initial Design Issues

• Layout/Retail Circuit
• Number of Levels
• Open or Closed
• Access/Entry Points
• Car Parking Strategy
• Servicing Strategy
Other Basic Design Issues

- Basic Architectural ‘Feel’
- Mall Profile
- Grid Size/Shop Size/Configuration
- Vertical Circulation Strategy
- Car Parking Configuration
- Point of Differentiation/‘Sizzle’
Mall Profiles

Section through - Vertical arcade
Other Key Design Issues

- Mall/Gallery width/Bridges/Walkways
- Roof Strategy
- Retailer Requirements
- F&B – clustered/dispersed
Other Key Design Issues

- Mall/Gallery width/Bridges/Walkways
- Roof Strategy
- Retailer Requirements
- F&B – clustered/dispersed
- Operational Issues
- ‘Green’ issues
Operational Issues

• Servicing Strategy
• Hours of Operation
• Number of Customers
• Walking/Trucking Distances
• F&B Strategy – waste management
Green Issues

• Sensible Design Solutions
  – Use of Natural light/ventilation
  – Water reclamation systems
  – Sustainable materials
  – Low energy M&E
  – Low water use fixtures
  – Alternative energy sources
Detailed Design Issues

- Materials & Finishes
- Balustrades/handrails/pilasters
- F&B concepts
- Mall features/furniture/lighting
- Mall Kiosks/barrows
- Value Engineering
Efficiency Issues

• Floorspace ratios
• Car parking ratios
• Service bays per floorspace
• Operational cost issues
• ‘Buildability’ v Design Flair
Tenant Fitting Out Issues
Occupying the Space

- Legal Documentation
  - Agreement for Lease (Obligations/Commercial Terms/Contract)
  - Lease (On-going contract)
- Developer Store Design Rules
- Retailer Store Design Concept
- Retailer Detailed Fit-Out Proposals
Tenant Fit Out

• Retailer Store Design Concept
Tenant Fit-out

• Retailer Store Design Concept
• Tenants Fitting-out Guide
  – Shell Specification
  – Approval Process
  – Managing the Fit-out Process
• Partnership Approach
Tenants Fitting-Out Guide

- Overview of Scheme
- Process & General Obligations
- Developer’s Specification
- Tenant’s Obligations
- Approval Process
- Cost Responsibilities
Basic Division of Works

• Developer’s Works
  – ’Cold’ Shell/’Warm’ Shell
  – Service Connections

• Tenant’s Works
  – Unit Finishes & Services
  – Fixtures & Fittings
  – Shopfront
4. Overview of the Financials
Financial Objectives

• Making Money!
• Quoted Company or ‘Entrepreneur’
• Trader Developer or Investor Developer
• ROI or ROE
Raising the Money

• Need lots of it!
• Equity or Debt
• Corporate or Project
• Financing Structure
Equity

• Cash in hand
• Rights Issue cash
• Sale of other assets
• External equity funding
  – Single Investor
  – Syndicate of Investors
Debt

- Corporate Facility – Bond/Debenture
- Project Facility
  - Single lender/Syndicate
  - Mezzanine finance
  - Loan to Value
  - Period of the Loan
Income x Capitalisation Rate = VALUE

Minus (Development Costs) COSTS

= PROFIT
Projected Rental Income
Less Non-Recoverable Outgoings
= NET RENTAL INCOME (€pa)
X Cap Rate
= CAPITAL VALUE(€)
plus any Capital Receipts
= TOTAL CAPITAL VALUE(€)
Cap Rate

- Yield (Pricing)
- Based on Transactions (Judgement)
- Reflects perception of risk/value
- Consider ‘long term yield’
Costs

• Land Costs
• Planning/Survey/Preparation Costs
• Construction Related Costs
  – Construction Contract
  – Fees & Expenses
• Leasing/Marketing Costs
• Financing Costs
• Measures of Profit
  – Capital Profit
  – Percentage Profit
  – IRR
  – Development Yield
‘Bottom Line’

• Combination of facts/estimates/‘best guess’ and judgement
• Does the answer look right!
• SENSITIVITY ANALYSIS to assess risk
• Know what is critical to the ‘bottom line’
Appraisal (Exercise 2)

• See Pack
5. Post Development Phase
Post Opening

- Operational Asset – settling it down
- Strong Marketing & Promotion
- Final Lettings
- Final Tenant Fit-outs
- Development Team disengaging
- Deal with the ‘snaggings’
- Ensure operational issues are clear
The Working Asset

• Maximising Net Income
• Maximising the Customer Experience
• Maximising footfall for the retailers
• Ensuring Smooth Operations
Change Opportunities

• Tenant Changes
• Additions of Mall Kiosks/Barrows
• Reconfiguration of Floorspace/Areas
• Refurbishment
• Extensions – large & small
• All are ‘Development’ Projects
Key Points

• Know the Development Process
• Know how the numbers work
• Have a Vision and Plan
• Know the Restrictions
• Understand the role of each player
• Ensure it adds value!