

Responsibilities of a Developer

The list below summarizes the major responsibilities of a developer of a market-driven project. For build-to-suit, “turn-key,” and projects undertaken for a non-developer owner, some of the activities noted may not be required, and different parties (owner, developer) may share various takes and risks in ways that suit the specific situation.

1. Identify Site/Development Opportunity. The developer looks for sites that are ready for development in terms of location, access, visibility, site constraints, environmental conditions, willingness of the community to provide zoning and other entitlements, availability of utilities, and attractiveness to the market and suitability for the particular use. In the case of a redevelopment project, the developer may respond to an RFQ/P or assemble part of a site and seek public help in assembling the rest. In the case of new development on greenfield sites and market-rate private development on many infill sites, the developer will often tie up the land by contract or option in anticipation of seeking entitlements and other approvals for the development.

2. Assemble a Complete Development Team. This may include engaging architects, engineers, planners, financial consultants, and others with whatever skills are not internal to the development company or team. There is a wide range of approaches to internal capacity, but usually the core development team includes finance, construction management, marketing and general development expertise.

3. Direct and Coordinate the Process of Design. This will begin with schematic design and planning steps that form the basis for governmental approvals and the development program to be incorporated in agreements. It is during the early design process that many of the issues of greatest concern to the public sector will be addressed, including site planning, building mass, orientation to the street, parking, loading, circulation, height, design concept, park land and school sites.

4. Establish a Viable Business Arrangement with the Locality. Included here are all the steps to negotiate a redevelopment agreement and/or obtain relevant entitlements. This may include rezoning, creation of a Planned Development (PD), agreements on infrastructure, agreements on site remediation, establishing a price for land if public land is involved, confirmation of responsibilities for public improvements, establishing development management agreements if the developer is to build any public improvements (streets, parking structures, etc.), coordination of site assembly issues, negotiation of incentives, and agreements on fees or fee waivers. In addition, the developer may be required to obtain other approvals from state and federal agencies, typically dealing with traffic management, environmental and wetland issues. The developer is at significant risk for the loss of time and even for the ability to undertake the project at all during this stage of the process.

5. Supervise Detailed Design. The later steps of the design process require special expertise to ensure that all issues are addressed related to local code, marketing concerns, engineering issues and cost containment. This is a responsibility of the developer who will be “at risk” (regarding time, cost of professional fees, and lost opportunity) working with design and construction professionals. The developer must also have equity available to pay for detailed design, which will often reach 4 to 7 percent of total development costs prior to groundbreaking. Even with site control and prior banking relationships, the developer often cannot obtain pre-development loans for these costs. If public land is involved and transfer is not to occur until the project is fully financed (so as to protect the public sector), the developer is generally going to be “out-of-pocket” for pre-development costs. If the developer owns the land, he will likely be out-of-pocket for the land cost during this time. Often, the developer has internal construction expertise or will have established a relationship with a general contractor who reviews the drawing for construction issues and prepares repeated cost estimates.

6. Financing. The developer must arrange financing for the project. Financing details will depend on the type of project. If the development is “for sale” units such as condominiums, a construction/development loan will be arranged for up to 80 percent of the maximum project outflow. If there is a long-term investment hold, typical for apartment or office development, (or a portion of the project is to be held such as ground floor retail), then the developer must also arrange long-term financing. The developer will usually be “at risk” (personally liable) for construction-period financing. If the developer has substantial other collateral, this may be pledged instead. The developer will be responsible for providing or raising the equity capital to balance the construction financing and/or permanent financing. This is typically 20 percent or more of the total project cost. In addition, the developer may be prevented from starting construction until various thresholds of unit pre-sales and/or square footage leased to high-credit worthy tenants have been met.

7. Oversee Construction. The developer must oversee the execution of construction. While the architect will also oversee the execution of their plans by the contractor, the developer will review the work of both (lenders may also have their own inspecting architect). This means there needs to be some level of construction expertise at the developer level. A joint venture contractor who is at risk at both the construction and development levels may perform this role.

8. Marketing. A key role of the developer is to market the project. Most residential condominium developers in Chicago self-market, i.e. have their own sales staff and marketing program, although they may cooperate with outside brokers. Commercial space may be marketed by brokers or self-marketed. For commercial space, relationships with tenants are very helpful. Even if brokers are used, developers need other third-party marketing expertise in order to set an effective sales strategy. The developer will be responsible for sale contact or lease negotiation and documentation. In the case of commercial space, the developer may also have to finance the tenant build-out following substantial completion of the project.

9. Management. For a condominium, management may be limited to coordinating move-ins and short-term interim start-up issues. For commercial space (office, retail, and rental apartments), the developer must either manage on an ongoing basis or hire a property management company. Both third-party property managers and self-management are common.

In commercial space, the developer must make provisions for all the services to be provided in the building on a permanent basis. The developer will also be responsible for tenant improvements and build-out as leases turn over.