

# **THE DEVELOPMENT PROCESS** **FROM SITE SELECTION THRU TENANT MOVE-IN**

## **Requite Tasks For the Development of a Shopping Center**

This paper presents a detailed breakout of the many tasks along with a relative time frame and cost. Each are further categorized within the six development phases one must undertake to successfully develop a shopping center of any type and size that consists of multiple tenant uses.

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Shopping centers have been around for almost a hundred years. The first shopping center was developed in the Overland Park, KS area by J.C. Nichols Company. It consisted of the collection of several city blocks of area and contained multiple uses that were conceptualized as a collection of a mix of uses. Initially, during the past 100 years the shopping center industry has revolved around the enclosed malls. Today, we have approximately 116,000 shopping centers located across the United States. They consist of all sizes, some enclosed by buildings structures (malls) and many others that may be combination of the enclosed malls along with open-air components. Today's open-air centers are creative in that they provide goods and services to the downtown (urban) areas as well as suburban areas that function around the neighborhoods.

Based upon the research collected by the International Council of Shopping Centers "ICSC", which is a 70,000 member, world-wide shopping center organization, the 116,000 shopping centers, are categorized by type of center and numbers of centers within the U.S, as follows:

<u>TYPE OF CENTER</u>	<u>SIZE OF CENER (S.F.)</u>	<u>NUMBER. IN THE U.S.</u>
• STRIP	30,000 S.F.	68,966
• NEIGHBORHOOD	30,000 – 125,000 S.F.	32,602
• COMMUNITY	125,000 -400,000 S.F.	9,781
• POWER	250,000 – 600,000 S,F.	2,263
• REGIONAL MALL	400,000 – 800,000 S.F.	595
• SUPER-REGIONAL	800,000+ S.F.	607
• LIFE STYLE	150,000 – 500,000 S.F.	500
• OUTLET	80,000 – 300,000 S.F.	882

In my previous article entitled, "Overview of Preliminary Due Diligence Tasks for Open Air Shopping Centers, I presented an overview of the preliminary go-no-go decision points one must think about when one considers developing a shopping center of any type. The focus of that article was to emphasize the need for quick and focused decision making during the first 3 to 6 months of pre-due diligence. Those tasks are meant to just determine both the prospective development costs as well as a determination if the community and City are in support of the concept suggested by the Developer.

The importance and focus of that article lays in the quickness and go-no-go decisions of the Developer and to quickly determine if the prospective tenant(s) are in line with the needs and desires of the surrounding community. I suggested this process would take about 3 to 6 months because it is focused towards the key decision-making steps and issues and, of course, costs.

This paper takes the pre-development process further into the analytical mode in that it looks in more depth and details at tasks within the 6 major “Project Development” phases. The author has presented these tasks in a linear fashion in that they represent the key tasks and go-no-go decision points one encounters during the project’s development time line. The following represents the steps and processes that drive a developer’s focus. They begin with the start (site selection) and continue through project completion and tenant move-in. Several issues need to be qualified before the reader continues through the shopping center development process.

First of all, all steps and tasks are relative in that nothing proceeds forward in an exact straight line. Though, I am presenting the several hundred tasks in a sequential fashion, it is understood that each step leads towards the next and / or in reality, iterates up and / or down along the list in a back and forth fashion until the task is completed. The only way to teach or present the development process is to present it from top-to-bottom. In summary, each step within each phase is, reality, a simultaneous equation that require multiple inputs before the Developer can solve or resolve the current tasks and move onto the next.

So, let’s get started with a simple overview of the entire Development process. NOTE: this paper covers the ground-up development and does not necessarily reflect all of the nuances and tasks needed to Redevelop or Rehabilitate or Refinance an existing center. Many of the tasks presented below are important and therefore presents a basis for analysis. This is also not the paper in which to discuss the pros and cons of the shopping center industry or best type of center to develop within today’s economic and market condition.

This is the paper to explore the iterative steps along with the relative time frame and cost a Developer must go through to complete his or her prospective shopping center development. Yes, this is a process and not an exact science.

In summary, a shopping center of any type or size or tenant mix, on average, will take 4 to 5 years to complete (to have tenant occupancy) from the date a Developer or Tenant begins the initial exploration of a prospect site. for your information, the overall cost for a typical 10-acre site, whose site plan accommodates about 100,000 s.f. of Gross Leasable Area, with no extra ordinary site or contamination issues, will cost, on average, between \$30 million to \$40 million dollars to complete, from Site Selection through Tenant move-in.

NOTE: all phases and each task within each phase, in reality iterate up and down and across all phases until completion. The best way to understand the process is to start at the top and proceed down the list. So, remember, be flexible and be prepared to stop at any point until more information is needed to obtain your best set of costs. These steps, are in fact, your continuous go-no-go decision points.

**I. Predevelopment Phase – (6 to 12 months – Costs about \$750,000 to \$1,500,000)**

- A. Economic Analysis of Economy for U.S., State, City, Community
- B. Designate potential property within selected trade area
- C. Market research & competitor center analysis
- D. Site evaluation/land use – existing zoning and needed zoning
- E. Option land
- E. Due diligence as to title
- G. Preliminary governmental meetings - Mayor, City Manager, appropriate Council
- H. Major tenant meetings – architectural selection and contract
- I. Preliminary engineering
- K. Consultation with local grading contractor
- L. Preliminary construction cost estimate
- M. Preliminary site plan analysis
- N. Soils testing
- O. Environmental analysis (Phase I & II)
- P. Preliminary meeting with construction lender
- Q. Preliminary financial feasibility reviews
- R. Determine government fee schedule
- S. Preliminary proformas
- T. Possible option contract / land payment schedule
- U. Begin home owner / special interest group meetings
- V. Go / No-Go decision

**II. Development Phase - (18 to 36 months - Costs about \$1,500,000 to \$3,000,000)**

- A. Site plan review
- B. Site plan re-design
- C. Major tenant commitments
- D. Site Plan redefinition / finalization
- E. Update proforma and re-establish target rents
- F. Utilize either “inhouse” or list with outside leasing team
- G. Commence tenant marketing program-tenant mix / PR activities
- H. Lease negotiations – major tenant pad users
- I. Status meetings with construction lender
- J. Legal reviews
- K. Final engineering
- L. Consultation with local general contractors
- M. Commence EIR
- N. Governmental reviews / public meetings / zoning applications / EIR / Architecture
- O. Homeowner and other special interest group meetings
- P. Governmental approvals to the extent that building permits are probable
- Q. Commence final project design
- R. Update proformas
- S. Determine type of financing. i.e., mortgage, joint venture, for sale, etc.
- T. Construction financing arranged
- U. Purchase land (Land option)
- V. Monitor tenant leasing program
- W. Prepare permanent financing package

**III. Construction and Design Phase – (12 to 18 months - \$25,000,000 to \$35,000,000)**

- A. Working drawings review / approval
- B. Selection of general contractor(s) for bid purposes
- C. Bidding procedures and selection of contractor
- D. Contract negotiations
- E. Determine final proforma
- F. Construction scheduling
- G. Cash flow schedule
- H. Construction loan in place
- I. Legal / accounting reporting procedures / contract administration
- J. Governmental releases / approvals
- K. Project changes / change order system / reporting
- L. Construction management / job site meetings with lender / reporting
- M. Complete shop tenant leasing
- N. Tenant improvements
- O. Permits and notices
- P. Tenant / construction requests
- Q. Take-out financing arranged
- R. Finalize check list and approval of retention payments
- S. Finalize tenant leasing program
- T. Tenant walk-thru

**IV. Tenant Move-In Phase – (3 to 6 months - \$2,000,000 to \$3,000,000)**

- A. Tenant Changes / approvals
- B. Legal notices
- C. Tenant coordination
- D. Governmental releases

**V. Loan Closing – (Included in Loan)**

- A. Meet all lender requirements (construction, lease-up, etc)
- B. Estoppel certificates, etc.

**VI. Operational Phase – (Included in Loan)**

- A. Conversion from construction phase to property management phase.
- B. Set up accounting procedures.
- C. Plan/coordinate Grand Openings, merchant associations, promotional funds