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## **Get ready for the conversation. Get set. Go to it. - by David Kirk**

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### Feasibility

Fundamental economic strength persists broadly, providing traction broadly in geographic sub markets. Accordingly, property opportunities exist even with extraordinary volatility in the capital markets. Deeper in the risk spectrum, late in the cycle, in a rising rate environment, with upward cost pressure, these property opportunities are select. Solid market and property diligence is requisite for credibility and sustainable success. Pro formas are effective methods of establishing and communicating feasibility. Shorthand and summary in format, these schedules and documents have currency.

Commercial real estate development results from vision, arbitrage, and balance in supply and demand, among other matters. Sometimes the assessment of these factors results in sustainable investments and sometimes not. Both efforts are similar in methodology and execution. Determination of feasibility is an ongoing iterative process, improving with each iteration with refinement and confidence in risks as well as rewards. Never really a no brainer, building is always an enterprise. Being quick and dirty and nimble are attributes of a successful enterprise. Combined with devilish details in diligence, planning and execution, the developer's short strokes and shortcuts and intuition drive and inspire the enterprise. This market, just like any single property, is unique and historic because of the macro global context and the micro technological trends. Both considerations are temporal; however, the dynamics the current market appear historically complicated and unprecedented.

Pro formas are idiosyncratic for each opportunity. However, feasibility is a well-established exercise, and the components of the analysis and the conclusions form a familiar pattern and are recognizable. The pro formas contain information and assumptions that are utilized variously by commercial real estate professionals for planning, pricing, underwriting and other decision making. Diligence on the related markets should be current, thorough and well informed even if all is contained in the backup. These schedules are part of a conversation and an examination. Most of the components will progress to legal arrangements. Accordingly, data points should be informed by preliminary, if not final, arrangements with parties to be involved in the enterprise. Pro formas evolve

with the markets. Today's pro formas are generally determined by the commercial real estate capital markets. Specialized financing and capital sources require certain data points for risk assessment and underwriting. Developers address such measures for internal planning as well as communication for financing.

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Development pro forma - When can you start? Permits? So, what are the hard costs, per unit, per key, per s/f? Offsite? Site costs? Time to complete? Lease-up? Tenant improvements? Absorption? Total all in? Capital stack? Debt to cost ratio?

Operating pro forma - Price point? Pro forma rents? Sales? Ops? Debt yield?

Continue The Dialogue.

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