

PROPERTY DEVELOPMENT PRINCIPLES AND PROCESS - AN INDUSTRY ANALYSIS

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ABSTRACT

Property development is widely regarded as an integrated process revolving around numerous components that link distinct phases in the development cycle. This paper explores industry participants' perceptions of important components of the property development process. We focus upon the development of commercial property in Queensland Australia. Utilising a sample of major Queensland-based developer, we use a questionnaire to survey industry perceptions of the important concepts in the property development industry. The main emphasis of the survey is to identify common principles and characteristics of the property development process as they occur prior to the commencement of construction activities. Our results confirm that in general, developers apply many pre-construction development principles within a structured framework. We conclude by identifying and discussing several key performance areas identified in our survey responses: (i) location and site selection, (ii) market research/analysis, and (iii) feasibility principles incorporating design development and financial analysis.

Keywords: Property development, Queensland, pre-construction, feasibility studies

INTRODUCTION

Property development comprises a significant component of total Australian economic output. The property development process involves the continual combination of significant factors of production (land, labour, capital and enterprise). In addition, property development in Australia has been characterised by some significant cyclical influences, as the process involves significant risk. It is in the interests of capital markets, market participants and the public sector that property development processes are better understood, so as to ensure efficient allocation of physical resources, human resources and capital. Surprisingly, with the exception of Newell and Steglick (2006), there has been little formal investigation of the Australian property development process within the academic literature. This paper makes a contribution through an empirical analysis of important practices and processes observed by property developers in Queensland, Australia.

An important theme through much of the literature suggests that property development is an integrated process revolving around numerous concepts that link distinct phases in the development cycle. This study attempts to identify and evaluate the key performance areas that make up the integrated property development process. We focus upon the application of pre-construction property development principles and processes within the context of commercial property development in broadly capitalist terms (i.e. commercial entities seeking profit as opposed to public-sector development).

Our empirical study examines data from respondents in Queensland, Australia. Our sample comprises a significant sample of both listed and unlisted property development companies. The economy of Queensland, the third largest in Australia with an established property development industry, provides the ideal backdrop to conduct the study. This study aims to contribute to the body of knowledge concerning property development, as an interdependent and complex process that involves multiple drivers, stakeholders and contributions from many disciplines. The rest of the paper proceeds as follows: in section 2, we provide more detail for the motivation to this study and review significant related literature. Section 3 provides an overview of the structure and findings from the empirical study. Finally, in section 4 we provide conclusions and recommendations.

MOTIVATION AND RELATED LITERATURE

Our prime motivation for undertaking this study is a desire to understand the property development process from a practical perspective. In order to achieve this, we need to understand the perspectives of participants within the industry. By definition, property developers are in constant contact with the practical implementation of the property development process. This defines our study as an empirical analysis of market practices, perceptions and viewpoints, as distinct from a formal theoretical or economic analysis. In this section, we provide a general overview of the real estate development process as discussed within the important literature. As the main focus of our study is on preconstruction processes, we then develop our discussion according to three main themes identified in the literature:

- 1) Location studies and site selection
- 2) Market research and property markets
- 3) Feasibility principles, design development and financial analysis.

There exists a voluminous literature related to the process of property development. What then is the property development process? One of the most celebrated and widely quoted authors concerning real estate development is James

Graaskamp¹ who discusses real estate as "space delineated by man, relative to fixed geography, intended to contain an activity for a specific period of time". Real estate has, in addition to the three dimensions of space (length, width and height), a fourth dimension of time. The creation and management of space-time-units is defined as real estate development, a complex and collective process involving various stakeholders (Graaskamp, cited in Squirrel, 1997).

Graaskamp developed a widely quoted general development framework of stakeholders and participants: "success in converting real estate space into money over time depends on how well the investor operates within the real estate environment. This environment can be depicted as the dynamic relationship between the real estate itself (site plus improvement) and three participant groups: (1) investors-developers, who provide real estate space over time; (2) consumers, who use or consume the space provided; and (3) government, which provides the public infrastructure within which all real estate transactions take place" (Graaskamp, cited in Pyhrr et al., 1989, p. 5). One of the strengths of this general framework for the analysis of property development is the recognition of each group as an individual cash enterprise entity. An important limiting constraint shared by all three groups is the fact that each is a cash enterprise that must remain solvent and which must create a surplus (economic profit) over time.

Whereas Graaskamp is widely regarded for development of a holistic framework in order to analyse the development process, other authors have tended to focus upon individual roles from a management perspective. A widely held view is of the developer as "conductor of an orchestra". Schmitz and Brett (2001, p. 11) argue that: "the developer's role is to orchestrate the development process to bring the project to completion. Developers are the central actors in the development process." Important predevelopment stages, include conducting preliminary studies, negotiating sale or other ownership agreements, securing financing, undertaking the approval process, initiating planning and design and starting site work - followed by construction, sales and governance of the completed project. Particular emphasis is placed in this study on the important role of consultants in the development process. The team might include attorneys, planners, market researchers, engineers, geologists, environmental specialists, architects, landscape architects, financiers, contractors and sales managers.

¹ *James A. Graaskamp (1933-1988) professor and department chairman of real estate at the University of Wisconsin Madison is credited with creating a multi-faceted ethics based approach to real estate development. He advocated for an environmental ethic in real estate analysis, arguing that development has considerable and nearly irreversible impacts on land and communities. He emphasised consistently the need for a social component to real estate development, arguing that the rights of private and public property owners are inextricably linked.*

A similar argument is proposed by Miles et al. (2000) in which it is submitted that developers must "balance an extraordinary number of requirements for completing a project" (Miles et al., 2000 p. 8). The developer's role as "creator, promoter, negotiator, manager, leader, risk manager and investor" is not only dynamic, but continuously shifting. The property development process requires the ability to apply multi-dimensional decision making - something that can often only be described, but not taught. Similar comparative viewpoints depicting and describing the process and principles involved in property development have also been found in publications such as those by Beeny (2004); Beyard & O'Mara (1999); Bruce-Radcliffe (1996); Brueggeman and Fisher (2005); Cadman and Topping (1995); Cloete (2004); Collier, Collier and Halperin (2002); Forlee (2004); Forlee (2005); Thomsett (2000); Waterhouse (1991); Weis (2005); Woodson (2005); Wilkinson and Reed (2008); and Zuckerman and Blevins (2003). A common theme emerges from all these studies: the development process is an integrated process linking distinct phases or components that sequentially provide a blueprint for action and for unlocking real estate value.

Location studies and site selection

The age-old adage of location, location, location, is frequently cited in studies of real estate development with respect to site selection. West (1994) argues that for many years developers have believed that if the location was good, development success would be a given. However more recently, the cyclical oversupply of commercial office, industrial and retail space at certain stages of the economic cycle requires "analysis of several factors, only one of which is location". These other factors must include: (i) Location of competitive properties, (ii) Current and future market expansion patterns, (iii) Economic growth within the market, (iv) Regulatory and legal issues, (v) Site characteristics, (vi) Special local conditions, (vii) Cultural views, (viii) Trends (West, 1994, p. 5). Cadman and Topping (1995) argue a similar view in that the first step in finding a development site is to establish a strategy defining the aims, nature and area of research generally aligned to the business plan of the company. This is a necessary prerequisite prior to selection of appropriate development sites. The importance of local market knowledge and of the way development projects are financed is important in this process. A similar view is expressed by Fisher (2007, p. 51): "Finding good locations is a process of elimination".

Whipple emphasises the importance of the "space relationships which exist between a site and the whole assemblage of uses and people making up an urban area" (Whipple, 1995, p. 25). This is a common view in studies examining location analysis for property development. Fenker (1996, p. 8) defines site evaluation as a process, not a result: "the measurement of the relative quality of a parcel of real estate, compared to other pieces of real estate, using all of the objective and subjective information available" . Further, this study suggests four perspectives on site evaluation: (i) National/international perspective: the decision to be in a specific city or market comes before any specific site decision, (ii) Market perspective: this refers to the plan for developing the market in a specific town, city or metropolitan statistical area, (iii)

Trade area perspective: the geographic area that contains 70 to 80 per cent of the customers, (iv) Site perspective: the decision about a specific site for the development.

Market research and property markets

It is widely argued that both market research and marketing research are integral to the success of real estate development projects. What is the distinction between these two terms? The American Marketing Association, cited in Ghyoot (1996, p. 2), defines market research as “the measurement of the extent of the market and the determination of its characteristics”, and marketing research as “the systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services”. The two definitions show the distinction between market research being a concept limited to the property developers market, and marketing research – a broader term that could include matters such as product design, performance of salespeople and even pricing practices (Ghyoot, 1996, p. 2).

Zuckerman and Blevins (2003, p. 20) submit that without market research, projects will be developed intuitively, resulting in a risky venture. Only when the market and its demands are known, will we be able to have the basis for an effective property development plan. Miller and Geltner (2005, p. 515) argue that through market research, the analyst (or developer) is “looking for sources of success; that is, sources of demand for the concept” (Miller & Geltner, 2005, p. 515).

Efficient market research produces, for property developers, the information required to make effective marketing decisions. This distinction is emphasised in numerous studies. Kahr and Thomsett (2005 p. 2) argue: “Analysis of local economies: studies the fundamental determinants of the demand for all real estate in the market. Market analysis: studies the demand for and supply of a particular property type in the market. Marketability analysis: examines a specific development of property to assess its competitive position in the market”. Gause (1998, p. 33) emphasises that while people use “the term ‘feasibility analysis’ to refer to both market analysis and financial feasibility, the two analyses are separate and distinct. Together, these analyses are referred to as ‘project feasibility analysis’.” The market analysis is cited as not only a report that is generated at some critical juncture in the development process – it needs to be continually re-examined and integrated with all other components of the property development process. A similar view is expressed by Beyard and O’Mara (1999, p. 39–40), in a study on shopping centre development. It is submitted that a specialist in the retail field should conduct the market analysis.

Miles et al. (2000, p. 209-211) argue that, in property development, good ideas flow from specific sources with specific knowledge of the industry and its markets. Property developers need to understand the regulatory and socio-economical environment, and, most importantly, potential clients. The importance of this connection between market research and development ideas is emphasised. It is

suggested that, to limit risk, developers must pay special attention to “assessing their position in the marketplace as well as to the realism of their goals and objectives” (Miles et al., 2000, p. 209). It is also argued that structured research “provides the discipline, finds the logic, helps set the criteria and to some extent even prompts the intuition by which people respond creatively to events occurring around them. Most successful real estate developers have at one time or another engaged in careful, systematic study of specific markets and property types” (Miles et al., 2000, p. 211).

An additional local dimension for market analysis is developed in a study by Guy and Henneberry (2000, p. 2399). They argue that, although researchers in the property sector tend to adopt positivist methodologies, which emphasise the application of rational decision-making techniques by utility-maximisers within a mainstream economics paradigm, the argument is made that research offers a partial view of its subject from a particular perspective and that it is necessary to develop an “understanding of property development processes which combines a sensitivity to the economic and social framing of development strategies with a fine-grain treatment of the locally social responses of property actors” (Guy & Henneberry, 2000, p. 2399).

Feasibility principles, design development and financial analysis

In 1970, Graaskamp wrote *Guide to Feasibility Analysis* in which he states that “a real estate project is feasible when the real estate analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited resources” (Graaskamp, cited in; Miles et al., 2000, p. 338). It is widely argued that each phrase of Graaskamp’s long definition is important in that:

- i) Feasibility never demonstrates certainty – a project is feasible when it is likely to meet its goals.
- ii) Feasibility is determined by satisfying objectives that must be identified prior to commencement by all participants to the process.
- iii) The selected course of action and testing it for fit included in the definition, imply that logistics and in particular timing are important.
- iv) The selected course of action is tested for fit in the context of legal and physical constraints.

Further, Miles et al. (2000) emphasised that the Graaskamp definition of feasibility, “goes far beyond the simple idea of value exceeding cost. When the word ‘constraints’ is pushed into the ethical dimension (as suggested by Graaskamp), then both personal and social ethics as well as formal, legal and physical constraints must also be satisfied” (Miles et al., 2000, p. 338). A similar argument is found in a study by Guy and Henneberry (2002a). The feasibility study is thus the formal process to determine whether a project is or is not viable, based on more determinants than just financial viability. The word “likelihood” in the Graaskamp definition “makes explicit the

importance of risk” (Graaskamp, cited in Wurtzebach et al., 1994, p. 678). The feasibility study must, from the beginning, address these risks.

A number of authors suggest that it is important to note the distinction between overall feasibility and financial feasibility. Cloete (1996) submits that the last phase of the feasibility study is to determine whether a project will satisfy the financial requirements of the developer. Frej (2001) describes the financial feasibility analysis as “a systematic approach to determining the profitability of a proposed real estate investment. It allows the team to ascertain whether the development will generate enough cash flow to pay the debt service and provide an adequate return to its investors” (Frej, 2001, p. 39).

The recurring theme through numerous authors is that all feasibility components are part of a continuous and iterative process of exploration and research. Ling and Archer (2005), argue that a financial feasibility analysis needs to be supported by further market research; “even if a development appears financially feasible, it still depends on the land being free of soil problems, environmental concerns, ecological complications, seismic concerns, hydrological concerns, and anthropological or historical sensitivities” (Ling & Archer, 2005, p. 648).

What then can be assumed as the “necessary ingredients” that have to be present in the financial feasibility analysis? Cloete (1996, p. 7) submits that the financial feasibility study consists of five steps: (i) estimate total capital outlay for the project (ii) estimate total net project income (iii) develop a cash flow projection for the development period (iv) estimate profitability of the project and evaluate against investment objectives (v) complete a risk analysis on the proposed project. Graaskamp, frequently cited by numerous authors (see Miller and Geltner (2005, p. 517)), refers to the front door and back door techniques of evaluating financial feasibility. The front door technique is applied once cost estimates are known, the developer calculates the net income which a property must generate to satisfy the equity and debt requirement of the developer. The back door technique is applied when revenue estimates are known. The developer then calculates the maximum amount of acquisition and construction costs that can be put into the project and remain viable.

In analysing feasibility principles and financial analysis, the concept of risk and more specifically property development risk must be examined. The risk management process is defined as “... a series of events conducted with one purpose in mind – to reduce the likelihood that a particular event will happen” (Patton & Ryan, 2007, p. 26). Risk is one of the key factors influencing property investment decisions. In financial analysis, it is the likely variability of future returns from a given asset. The more variable the assumptions made on expected returns, the riskier the property investment. In a study by Viruly (1999), a summary of important risk factors for property development is provided. These include:

- Business risk: risk due to fluctuations in economic activity and factors affecting the variability of income produced by a property.
- Financial risk: the use of debt financing and risks attached to excessive gearing.
- Liquidity risk: the risk when there is a lack of consistent and continuous buoyancy in the market place.
- Inflation risk: income from the property must increase sufficiently to counter upward trends in inflation.
- Management risk: all properties need to be managed properly.
- Legislative risk: amendments to numerous regulations, taxes, zonings and other restrictions imposed by government can adversely jeopardise property developments.
- Environmental risk: the value of real estate can be affected by changes in the environment or sudden awareness that the existing environment is potentially hazardous (Viruly, 1999, p. 30-32).

Fisher and Robson (2006) evaluate concepts of risk for UK office property development firms. They report that developers are most concerned with market-based risk factors at both the pre-planning (feasibility) and construction phases. A variety of mechanisms are used in averting the influence of identified risk factors, the most common being fixed-price contracts and proactive construction management techniques. Within the Australian context, Newell and Steglick (2006, p. 30) surveyed leading property developers in Australia, and identified the pre-construction phase of the property development process as having the highest overall risk. The pre-construction risk factors, rated from highest to lowest, were:

- Environmental: heritage, ecology, contamination.
- Approvals: zoning, compliance, conditions, developer contributions.
- Political: lack of support from local community, council, government.
- Experience with type of development, ability to manage development.
- Market: research, location, portfolio diversification.
- Title: land title problems and encumbrances.
- Consultants: design quality, reliability of consultant's report.
- Physical: difficult land form and existing improvements.
- Feasibility: assumptions, financial performance benchmarks, risk analysis.
- Infrastructure: availability of services, water, traffic, social infrastructure (Newell & Steglick, 2006, p. 30).

THE EMPIRICAL STUDY

In this section, we provide an overall general summary of the method and important results from the empirical study. To conduct the empirical research and determine the sample group, a consultation was held with the Queensland division of the Property Council of Australia (PCA). A representative sample group of twenty Queensland based property developers was compiled from members registered with the Queensland division of the PCA. The property developers were selected according to the following criteria; (i) all property developers had to be located in Queensland, (ii) all property developers were subscribed members of the Queensland division of the PCA. Contact was made with all the participants of whom twelve indicated their initial willingness to participate.

After identifying the important themes from our literature review, a preliminary questionnaire was designed to obtain as much information as possible on the application of common principles and characteristics of the property development process as identified through our literature review. The clarity, layout and coding of the questionnaire was discussed with a statistician in order to ensure that results obtained could be efficiently processed and analysed to meet study objectives. The preliminary questionnaire was completed by two independent Queensland based property developers outside the sample group to ensure that completion of the questionnaire was both time efficient and user friendly. The final questionnaire² was administered over 2008-2009 and consisted of a set of twenty five questions, with five sections focusing on:

- A. General Introductory Information
- B. Property Development Principles and Process
- C. Location Studies and Site Selection
- D. Market Research, Property Markets and Feasibility Principles
- E. Design Development and Financial Analysis.

We provide a summary of the questions and review the important results from each of these sections below.

GENERAL INTRODUCTORY INFORMATION

The general objectives of this section were:

² *Copies of the full questionnaire can be obtained from the contact author.*

- Q1. To determine the nature of the respondent's company and whether the participant is listed on the Australian Stock Exchange or operates as a private incorporated entity.
- Q2. Identify the States and territories of Australia in which the participant conducts property development activities.
- Q3. To determine if the participant conducts property development activities outside of Australia.
- Q4. To determine the seniority and position of the participant within the hierarchy of the company.
- Q5. Ascertain the number of years of experience of the participant in the property development industry.

The results in this section can be summarised as follows:

- The majority of the respondents (55%) were private incorporated entities, while 45% were listed on the Australian Stock Exchange.
- All respondents in the sample group conduct property development activities in Queensland, with 55% also being active in the states of New South Wales and Victoria.
- Property development activities are conducted in all other states of Australia by at least two of the sample group participants.
- The majority of the respondents (64%) indicated that they also operate in countries outside of Australia, while the activities of the remaining 36% are limited to Australia.
- The majority of respondents who completed the questionnaire were in top management (64%), with the remaining 36% in middle management.
- The time which respondents who completed the questionnaire were actively involved in the business of property development ranged between 4 and 40 years, with an average of 18.5 years.
- No significant differences between respondents working in listed and unlisted companies were established.

PROPERTY DEVELOPMENT PRINCIPLES AND PROCESS

The general objectives of this section were:

- Q6. To identify and determine the extent of the roles a property developer needs to fulfil during the property development process.
- Q7. To identify consultants utilised during the pre-construction property development process.
- Q8. To determine the application of a structured framework and phased approach to pre-construction property development activities and go/no-go decision making activities when evaluating opportunities.
- Q9. To determine why a structured and phased approach to pre-construction property development activities is not applied.
- Q10. To determine and define the application of specific pre-construction property development framework principles and key performance areas in property development activities.

The results in this section can be summarized as follows:

- All roles identified in the study as "conductor of an orchestra" were substantially applied by all respondents whether a listed or unlisted company. The most applicable roles were deemed to be those of negotiator and risk manager, followed by promoter and leader. Listed companies tend to see the property developer as less of an entrepreneur and more a manager.
- Property developers use all the consultants identified in the study, some to a lesser extent. All respondents made use of architects, quantity surveyors, town planners and geo-technical engineers, with all but one using land surveyors and civil engineers. The results were broadly comparable for listed and unlisted companies.
- All companies apply a structured framework and phased approach to pre-construction and go/no-go decision making activities when evaluating development opportunities.
- All pre-construction property development principles and key performance areas identified in the study were applied. The three principles used most were: (i) analysing appropriate zonings; (ii) testing financial feasibility of the idea; and (iii) the preliminary scheme. The least used principles identified were: (i) political and legal analysis; and (ii) verifying objectives and testing alternatives.
- The results were broadly comparable for listed and unlisted companies, with the only meaningful differences pertaining to determining goals and philosophies and implementation plans. Listed companies determined goals and philosophies to a lesser extent than unlisted companies while implementation plans are used to a greater extent by listed companies.

LOCATION STUDIES AND SITE SELECTION

The general objectives of this section were:

- Q11. To identify and determine the extent to which specific identification factors are applied and analysed when identifying the preferred location for a property development.
- Q12. To determine the application of land use evaluation models in location determination.
- Q13. To determine support for the view that location and site selection cannot be done in isolation.
- Q14. To identify and determine the extent of the application and analysis of site specific evaluation factors that influence site suitability.
- Q15. To identify the three most important site evaluation factors that influence site suitability.

The important concepts and key performance areas that were identified in this section of the survey can be summarized as follows:

- All companies apply and analyse factors determined in the study, when identifying the preferred location for a property development. The factors used most by all companies were (i) regulatory and legal issues, (ii) site characteristics, (iii) current and future market expansion patterns and (iv) trends in property development. The principle used least was cultural views on the location. Listed companies were found to value the national/international perspective higher than unlisted companies. Unlisted companies take greater cognisance of the location of the competitive properties.
- Only one respondent used three of the eight land use models identified in the study, when deciding upon a preferred location for a property development. None of the other participants used any of the eight land use evaluation models identified. The vast majority of companies support the view that location and site selection cannot be viewed in isolation, but form part of a coherent whole.
- Most site specific evaluation factors were analysed and used by participating companies. The factors utilised by all companies are; legal documentation and physical features while the vast majority support real estate market trends and parking.

- Factors considered least important are: amenities and services; social characteristics; and links with other industries. No significant differences were found between listed and unlisted companies.
- Results from the respondents who indicated that they always use specific evaluation factors identified the following three factors, which are deemed to be the most important:
 - (i) Land (cost of land and view or scenic amenity)
 - (ii) Economic characteristics *(the highest individual rating)
 - (iii) Legal documentation.

MARKET RESEARCH AND PROPERTY MARKETS

The general objectives of this section were:

- Q16. To determine whether a structured framework approach is applied to market research.
- Q17. To define the reasons why a structured framework approach is not applied to market research.
- Q18. To identify and determine the extent of the application of specific market and marketability analysis factors when conducting market research.
- Q19. To determine and define the characteristics of the property market as applied by the participants.
- Q20. To define and determine the extent of the application of specific sources of property information when conducting market research and analysing the property market.

The important concepts and key performance areas that were identified in this section of the survey can be summarized as follows:

- The majority (82%) indicated that their companies apply a structured framework approach to market research. The 18% of respondents who responded in the negative cited the following two reasons:
 - (i) Independent research consultants are employed on an ad-hoc basis.
 - (ii) Developments undertaken are pioneering in nature and market researchers are viewed as too conservative to make a positive contribution.

- Property developers usually and adequately apply and analyse all market and marketability analysis factors when conducting market research. The factors applied most are site analysis and the selection of the target market respectively with the least applied factors being determining national and international economic trends and purchasing power analysis. Listed companies tend to make greater use of national and international trends, supply and demand analysis and preliminary marketing and management strategies.
- Among the sample group, there was a widely held belief that the property market is far less organised than other institutions. Research results are difficult to assemble, making the study of trends difficult. Most projects are user specific and therefore cannot be mass marketed.
- The vast majority agreed that the property market is highly differentiated. Constraints on supply are variable between regions. Market activity is determined by economic, social, political and legal activities. The market is determined by supply and demand factors and, as such, is cyclical in nature.
- The majority disagreed that registration of transfer documentation is a complex process or that buyers and sellers are spatially separated.
- The sources of information valued most significantly for market research are demographic data sources, property valuers, newspapers and magazines and market research companies. Property management companies and psychographic research sources are least utilised.

FEASIBILITY PRINCIPLES, DESIGN DEVELOPMENT, FINANCIAL ANALYSIS

The general objectives of this section were:

- Q21. To determine whether an integrated framework approach to feasibility analysis is applied in determining project viability and formulating a strategy for property development.
- Q22. To determine the reasons why an integrated framework approach is not applied in determining project viability.
- Q23. To identify and determine the extent to which specific financial feasibility framework factors are analysed and applied.
- Q24. To determine the application and analysis of specific components when completing a financial feasibility analysis for a property development.

Q25. To determine the extent to which specific discounted cash flow analysis methods and other key financial ratios are applied when conducting financial feasibility studies.

The important concepts and key performance areas that were identified in this section of the survey can be summarized as follows:

- All respondents follow an integrated framework to feasibility analysis in determining viability of projects and in formulating strategies for property development.
- The majority of companies apply and analyse most financial feasibility framework factors identified. Factors utilised most included physical and design factors, financial feasibility analysis, measurement and identification of risk for land-use decisions. The factor utilised less frequently was socio-political feasibility factors.
- Results relating to the application of discounted cash flow analysis (DCF) methods and other financial ratios showed that standard decision rule techniques are widely used. The evaluation criterion most widely used is the Internal Rate of Return (IRR) followed by the Development Yield. The two least used criteria are the Operating Efficiency Ratio (OER) and Gross Rent Multiplier (GRM).

CONCLUSIONS AND RECOMMENDATIONS

This paper seeks to examine and critically assess the application of pre-construction property development principles and processes. The study addresses the fundamental problem as to whether property developers apply sound property development principles and process in order to contribute to increased effectiveness and productivity to their property development activities.

In summary, our results demonstrate that developers apply a structured framework towards the application of pre-construction development principles. There exists a significant variation in principles and processes employed, largely explained by variation in the types of development activities. All respondents appear to adopt a consistent framework when identifying preferred locations for property development. In general, this framework comprises analysis of regulatory and legal issues, site characteristics, market expansion patterns and observed “trends” in property development. Listed companies were found to value national and international perspectives more highly than unlisted companies.

In general, property development companies prefer to conduct their market research "in-house", valuing highly their own organisations expertise in market research. External consultants are used for some specialised tasks. Detailed understanding of "target markets" is highly emphasised by the majority of respondents. There is also a widely held belief that the property market is less structured than other institutions, making some research difficult to implement with an emphasis on understanding the micro-structure of specific markets.

We observe a consistent application of financial feasibility methods across all development firms. Discounted cash flow methodology is widely applied with the most important criteria identified as the internal rate of return (IRR). In addition, there appears to be a strong emphasis on the use of specialised ratios for specific property types, locations and micro-market segments.

Our results also lead to some recommendations, particularly for the education process relating to property development. It is evident that academic institutions and the property development industry should ensure that content covering the science and important principles of entrepreneurship be included in appropriate training courses. The complexity of the property development process requires this. Property development is in many ways another form of entrepreneurship, in that it involves "creating the future", not merely managing construction tasks.

In addition, it is considered desirable that academic institutions and the development industry should ensure that students and practitioners of property development are taught the importance and relevance of social characteristics in target markets. The complexity of societies, as well as the influence of culture and ethnicity on the property development industry, is identified as being of key importance. The era of globalisation with "no boundary states" necessitates this, while a better understanding of the way various societies function will invariably result in more opportunities becoming prevalent.

It is considered desirable that professional and academic institutions as well as the industry involved with the training and continuing professional education of consultants in property analysis and market research caution against excessive conservatism. Consultants in the property development industry will only remain relevant if professionally independent and well balanced contributions are made to an entrepreneurial and pioneering industry. In this regard, it is considered desirable that academic institutions, professional and industry governing bodies ensure that education of property development practitioners incorporate practical real life case study analysis of development projects balanced with appropriate academic theory. The emphasis should fall on case studies and projects designed to identify the opportunities and challenges that arise in the interface between theory and practice. This will invariably require further extensive research that involves both academics and practitioners.

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