

# THE GUIDE FOR DEVELOPING **FEASIBILITY STUDIES FOR REAL ESTATE PROJECTS**

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## WHITEPAPER

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# Why you need an Feasibility Study ?

## Introduction

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A feasibility study for a Real Estate project examines the practicability and bankability as well as considers how a such building can function in a long term or bear cashflow dangers that may arise in the course of its useful life.

A feasibility study could also be done in form of a Development Appraisal

What is a development appraisal?

The RICS define a development appraisal as “an objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering the project”.

# Why you need an Feasibility Study for your Large Project

## Introduction

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A feasibility study should arrive at definitive conclusions on all the basic aspects of a project after consideration of various alternatives. The document provides a basic guide to feasibility information Real Estate Investors need in order to evaluate the economic viability of a development.

- These conclusions and any recommendations made with regard to decisions or actions required from parties involved in the project would have to be explained and supported by compelling evidence in the feasibility study.
- From a planning point of view it feasibility involves research into the constraints and opportunities evolving from the location, legal and planning aspects of potential sites as well as their physical characteristics.



# Outlining the Feasibility Study for Real Estate Projects

## Order of Presentation

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1. Project Background and History
2. Project Definition
3. Understand the Market
4. Position the Project
5. Demand Analysis
6. Project Value Proposition
7. Project Location & Marketability Analysis
8. Development Appraisal
9. Financial Forecast
10. Management Team & Advisors
11. Project Implementation Schedule

# 1. The Introduction

## The project background and history

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- Name and address of project promoter and experience of developer in doing similar projects
- Project background and Understanding
- Land Owner and Nature of Development Rights
- Approval Secured or Not?
- Is it a Greenfield Development or a Conversion of Existing Property?
- Sponsors Project (corporate) objective and outline of the proposed basic project strategy

## 2. Project Definition

### Project Understanding and Visioning

Project Vision



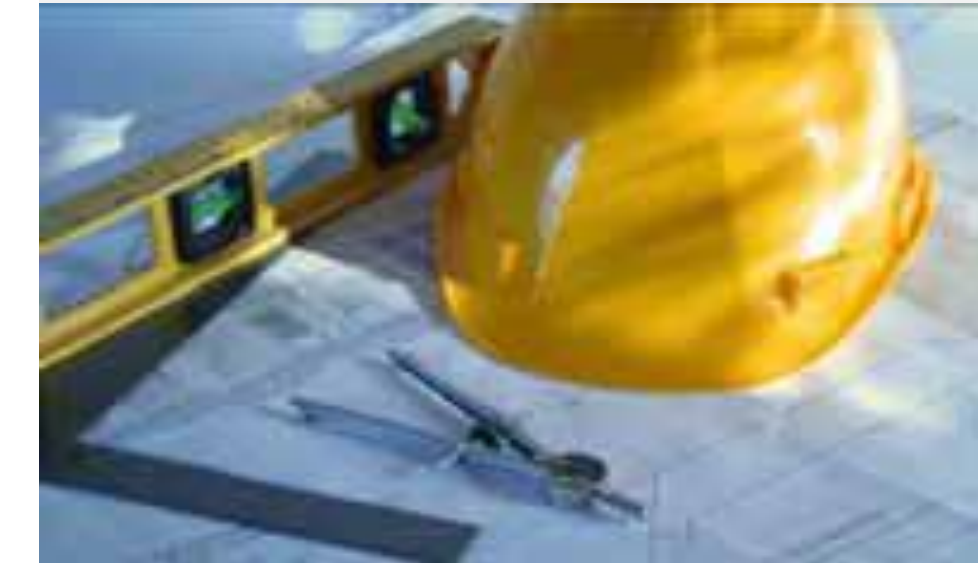
Location



Competition



New Competitors



What is the vision for the real estate development project?

- Location, Location, Location – what uses are compatible?
- Who are the existing competitors?
- Which new competitors are proposing similar development?



### 3. Understand The Market

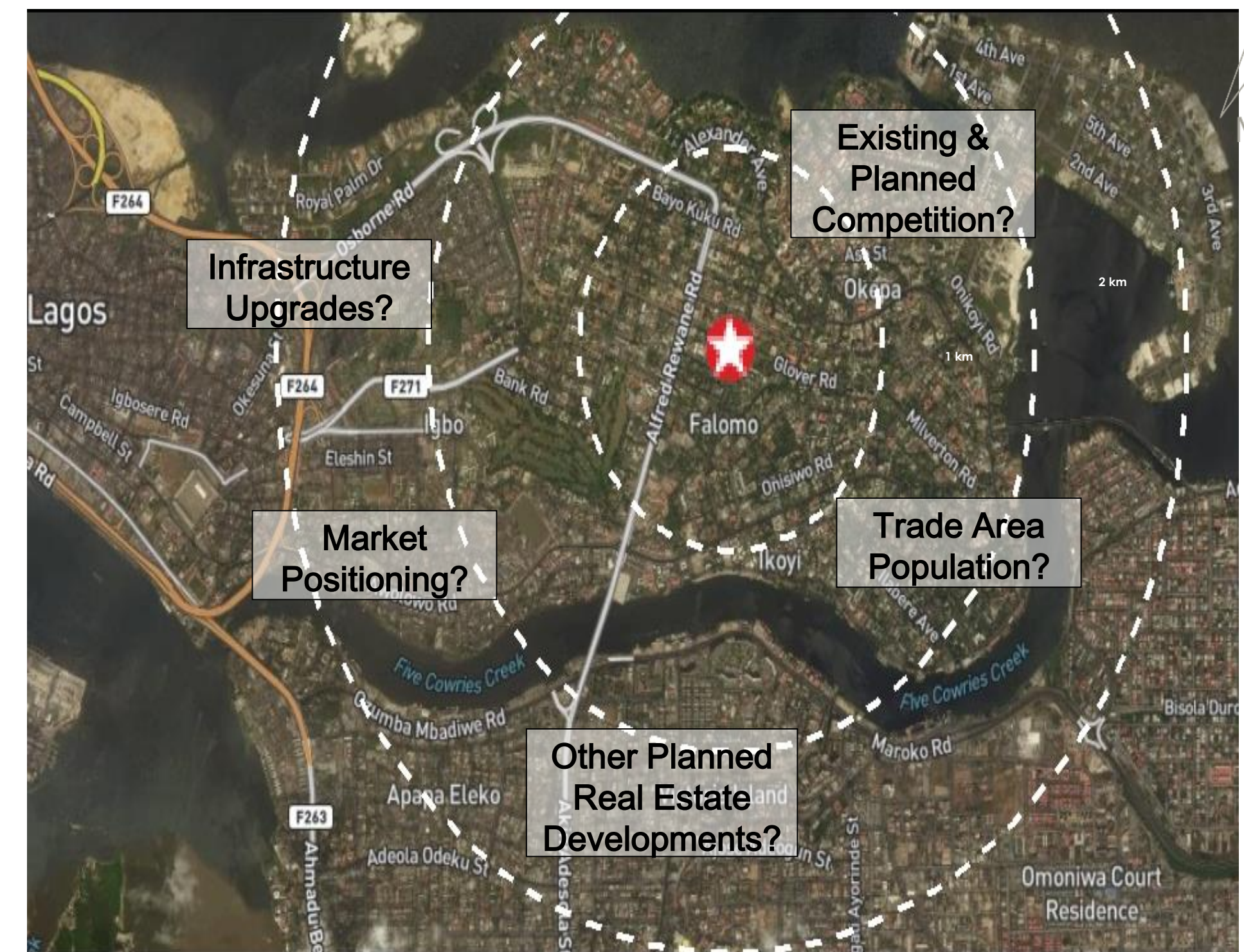
Find out what opportunities may exist to uniquely position this project given the current and future real estate market?

**Office** - will the current offices provide an over supply of office space?

**Hotel** - considering the development of Existing Hotels, is there potential for a new hotel development?

**Residential** – What residential products are currently in the market? Is there an over or under supply of a specific type of housing unit?

**Retail** – how much potential for retail development might exist given the planned development of such location,(e.g a mixed-use tower with a retail base) Can the project's on-site population sustain a retail component?





## 4. Position the Project

Location Scoping and Context Assessment needs to be properly done to position the real estate project





## 5. Project Value Proposition

The Opportunity needs to be very clear and properly described to allow investors to understand your Project Value Proposition

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- Define the problem or need in the real estate market or the location the proposed real estate project intends to solve
- Describe how significant or prevalent the problem may be currently, in terms of demand and supply of either Residential or Commercial Properties within the Location
- If it's a Private Public Partnership (PPP) show how this Private Sector would help to provide the solution to solve the problem the public sector is having with regards housing delivery or urban renewal.
- If appropriate, describe why now is the right time for a solution such as the real estate project
- Provide a "Gap Analysis" scenario that provides a basis for your project to be implemented at this point in time

## 6. Analyze the Demand

This Section shows the Demand & Viability within the Target Location

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- Clearly Engage in a Demand Assessment Study for Proposed Real Estate Development.
- The factors affecting demand for a potential development are those which describe the scale and purchase patterns of market participants.(i.e Its Tenants and Home Buyers). Demand can be described by the following:
  - Population of Business and Individuals requiring Residential Developments
  - Income of Business and Individuals (i.e Targeted Homebuyers ) the project is Targeting
  - Market trends and Relative prices of Competing Developments in the Target Location
  - Taxes and Interest rates..



## 7. Project Location & Marketability Analysis

This Section helps to refine the design of the proposed real estate project, its competitive position, and evaluate its revenue-generating ability.

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- The underlying premise of **Project Location Analysis** is that location is a major determinant of an Real Estate project's desirability and income-generating ability and, therefore, of its success. Matching the location and space needs of potential buyers to site and project characteristics always enhances an project's competitive strength.
- **Marketability Analysis** is necessary in order to assess the project's expected revenue stream and sales absorption schedule. This Sensitivity analysis will help assess the prospects for further enhancing the project's competitive strength and derive the bottom-line figures required for assessing its economic feasibility. These figures include:
  - Cost of Construction vs. Selling Price
  - Absorption schedule, and
  - Revenue schedule

## 8. Development Appraisal

### This Section shows the Development Appraisal of the Project

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The most common way to conduct an appraisal is to undertake a 'residual valuation', where the costs of the development are subtracted from the estimated value of the development, including the value of the site, to leave a residual profit for the developer.

$$\text{PROFIT} = \text{GROSS DEVELOPMENT VALUE} - \text{ALL DEVELOPMENT COSTS (INCLUDING SITE VALUE)}$$

For both residential and commercial developments, a developer can expect to receive a reasonable financial return from the project in order for the development to be generally accepted as viable. This return will vary depending on the nature of the scheme and factors such as market conditions, location and demand.



## 9. Financial Forecasting

### This Section shows the to Commercial Viability of Development using Financial Modelling

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This provides a Modelling provides detail on Development Costs, revenues, services and operating costs and related Appraisal elements.

They are driven by key inputs from a Preliminary Bill of Quantities (BOQ) (from your Quantity Surveyor) and Conceptual Design of the Project (from your Architect).

The Financial Forecast should done to

- Ensure the **Construction Draw Loan** is created and matches the development spending items and is correct after Tax (Amortizing the Construction Interest over the depreciable life of the item it was loaned for once the project sales commences).
- Analyze other standard Real Estate measures such as **IRR, NPV**, Adjusted Cash on Cash, Adjusted Cap Rate, and **Debt Coverage Ratio** are calculated.
- Provide Output Analysis, including **Income Statements, Cashflow Statements** and What-if Sensitivity Analysis

## 10. Management Team, Advisors

The Management Team and Group of Advisers are the key to show investors your level of seriousness

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Build investor confidence with team

- Credentials, proven track record, domain experience (do not include weak credentials )
- Describe skill and experience gaps to be filled

List the company's leadership team

- Include name, position, experience (abbrev.)
- These are credentialed experts

List of company Directors and Advisors

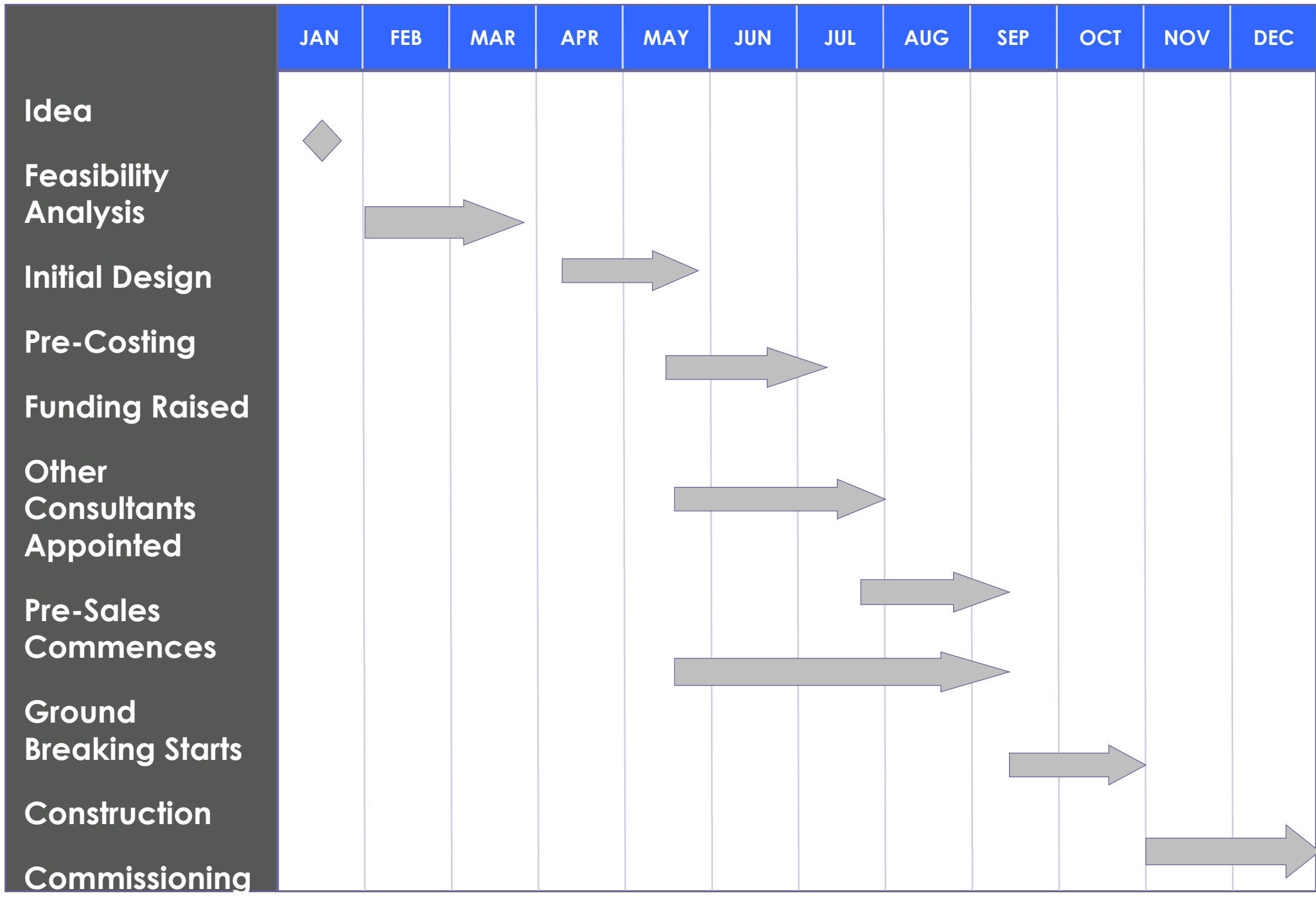
- Include name, summary of experience



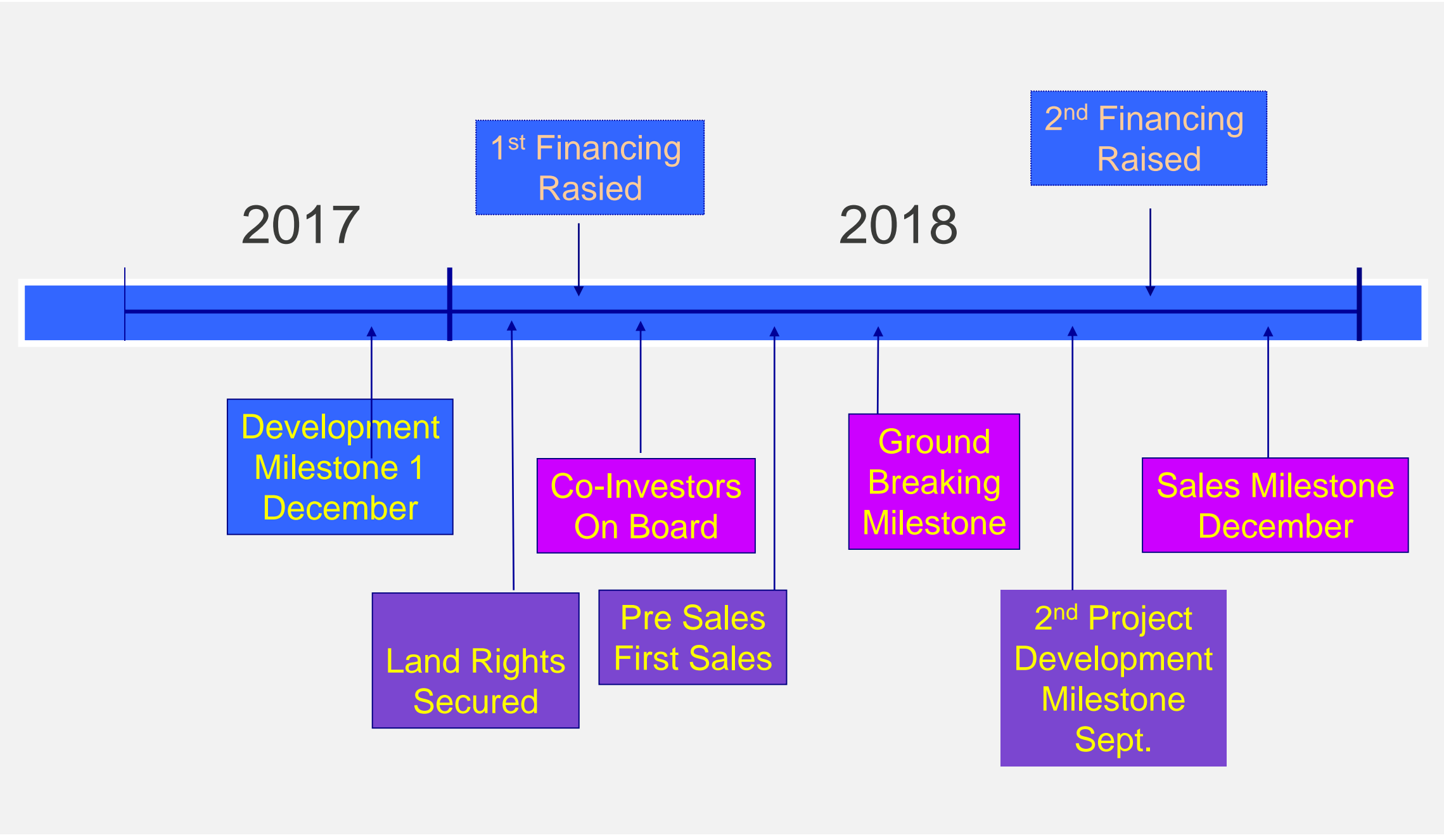
# 11. Project implementation schedule

Provide information on construction and sales/leasing period as well as  
Identify actions critical for timely implementation

Timeline Milestones (Sample)



Value-Added Milestones Timeline (Sample)



# Who can help?

## Contact us @ Brickstone



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