



Commercial classroom, back to basics: Site development - by Ed Smith

May 10, 2022 - Long Island

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

Your client wants \$1 million for their land. How much is that land really worth? To answer this question requires an analysis of what is the “highest and best” use of the property—what use will produce the most revenue? Then the question becomes will this use be permitted by the local municipality, and if so, is this project economically feasible?

Marketing land requires definition—“Two acres of land for sale” is not enough information to make a buying decision. The type of building the zoning will permit must be determined. “Two acres of commercial land that a 25,000 s/f office building may be constructed on” shows potential and can now start to be evaluated economically. Given the asking price for the land, current construction costs and income potential, the project feasibility can be evaluated.

Figuring out “how big” a building may be constructed on a site requires a detailed examination of the local zoning code. What is the “FAR”—Floor Area Ratio (a/k/a Land Coverage Ratio)? This is the size (bulk area) of a building that may be built, in proportion to the overall land mass. For example, if the property size was 40,000 s/f and the FAR was 25%, the total building size could not exceed 10,000 s/f. ($40,000 \times .25 = 10,000$). This could be a one-story building or a four-story building with 2,500 s/f per floor, assuming there were no height restrictions. The principal here is to have sufficient land to provide all the required parking spaces on the site.

In some city areas the FAR may be expressed as a multiple, i.e. a lot of 10,000 s/f is located in an area with a FAR of 6.0, indicating a 6-story, 60,000 s/f building may be erected. ($10,000 \times 6.0 = 60,000$). Such areas are usually serviced by mass transit with no need for on site parking.

Other factors that may affect “how big” are permitted height, setbacks, and parking requirements.

Often the most difficult problem is satisfying the parking requirements, which vary with different municipalities. Parking may be based upon a ratio 3:1 would mean three spaces are required for every 1,000 s/f of gross building area or 5:1 meaning five spaces required for every 1,000 s/f of gross building area. Parking may also be expressed as “per 200 s/f” or “per 250 s/f” meaning one

car for every 200 or 250 s/f of building area. Next the local zoning code will define the size of a parking space and how much “back up” area is needed per space. After the number of required spaces is determined, the road access, curb cuts and traffic safety must be considered. Finally, a layout of the proposed site needs to be drawn to be sure everything “fits” given the topography of the site.

Once a potential building type, size and parking layout are determined that complies with all the zoning requirements, the financial feasibility of the project must be evaluated. What will all the expenses be: Site purchase, land clearing, grading, construction of the building, site work, parking lot, utility connections, sanitation issues, cost of the construction loan, permanent loan, cost of time, cost to rent (brokers commissions) etc. What will the market bear in rent—how much can be charged? What is competitive? What is the potential rental income, the Net Operating Income and how long will it take to achieve? After making loan payments what will be the return on the investment?

It may turn out that if \$1 million were paid for the land, the deal would not make economic sense. Some negotiations with the landowner would now be necessary. But you would now have the facts regarding feasibility, the zoning, the costs and what can be paid for the land for a project to work. Another alternative may be for the property owner to consider leasing their land.

Site development requires considerable knowledge of local zoning, construction costs and market conditions.

Edward Smith, Jr., CREI, ITI, CIC, GREEN, MICP, CNE, e-PRO and CIREC program developer, is a commercial and investment real estate instructor, author, broker, speaker and a consultant to the trade.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540