

BUSINESS



Making the Leap to Real-Estate Development

Going from builder to developer will tax your management skills to the extreme

BY CHARLIE WARDELL

Rob Howard's first development project was Duke Street Cottages, a "pocket neighborhood" of 11 high-performance, affordable homes in Granite Falls, N.C. Howard has been a general contractor since 2001, and his company, Howard Building Science, completed the state's first Zero Energy Ready Home in 2015. He has also served as a local director of construction for Habitat for Humanity. The project seemed a perfect fit.

But while building the homes has been straightforward, Howard's on-the-job training as a developer has included some surprises. Water service, for instance. "I had no concept of how much it would cost," he says. He had budgeted \$50,000 to bring water to each home, but the estimates from county-recommended utility contractors ranged from \$75,000 to \$105,000. It was looking like a deal killer.

Rather than giving up, he started making calls, including to the building inspector. "I asked if I could use a plumber rather than a utility contractor," he recalls. "The inspector said yes, but he had

to inspect it." Howard eventually found a plumber who agreed to do it for \$45,000 per home.

Detours like this are typical of those faced by builders or remodelers taking a first step into development. In fact, this step is more of an entrepreneurial leap. Development can be financially and personally rewarding, but it's also complex and risky with lots of opportunities to go broke.

If you're contemplating this leap, you should start with plenty of research and networking. The basics of land development are too complex for a short magazine article to cover in any depth, but there's no shortage of educational resources available, from Meetup groups to online and in-person courses. Take advantage of them.

What follows is a general picture of what this business is like from the perspective of newcomers to the development game. Coming from a variety of backgrounds, they share their on-the-ground stories of challenges they faced when starting out and how they

Photo: Rob Howard



To get permits for the close spacing of homes, Duke Street Cottages in Granite Falls, N.C., was required to have a certain amount of common area. Builder/developer Rob Howard accomplished this with a courtyard in the middle of the property.

overcame them. All started with small projects, but some hope to grow their development businesses.

From these conversations, three broad-based conclusions emerge. The first is to start small: You will make the most mistakes on the first project, and those mistakes will be easier to absorb with 10 rather than 100 units.

The second is that while it's natural to fall in love with a project vision, it's unwise to fully commit before completing due diligence. You also need a willingness to walk away if perceived risks start to outweigh potential rewards.

The third is that even as the local market, the land, and the estimated project cost will be factors, so will local politics and personalities. To succeed, you will need highly developed technical and interpersonal skills.

IT'S A TEAM SPORT

All successful builders know how to manage people, but development can tax those skills to the extreme. You will have more subcontractors to manage, more government officials and neighbors to appease, and more red tape to navigate.

Since you can't do it all yourself, you'll need to build a team of people who are able to perform each part of the due diligence. Obvious needs include a real estate professional to gauge marketability, an attorney with development experience, a surveyor to lay out plot lines, an architect to design homes and landscapes, and a civil engineer to scope out land-related issues. Most developers, even small ones, will also need to sell the project to investors, who (if they're smart) will want to see confirmation of that due diligence.

One of the first steps is to consult with a real estate pro to

Photos, opposite: Rob Howard



Rob Howard focused on offering high-performance (zero-energy ready) homes at an affordable price. The homes at Duke Street Cottages included a rainscreen on top of SIPs (1, 2) with Hardie fiber-cement trim and siding (3).

estimate rents or sales prices. For instance, Howard looked at several properties with a real estate agent before choosing one that seemed to offer the needed returns.

First-time developer Joel Florek of LaPorte, Ind., had enough experience to do this himself. Florek had built a rental portfolio of 150 units by remodeling and rehabbing multifamily properties. Then in 2023, he decided to purchase land and build eight town houses.

The problem was that no project like this had been built for decades. “If you’re building something that hasn’t been done in a long time, you can have terrible comps,” he says. So, he looked at towns of similar size and demographics to develop his own comps, a process that was more art than science. It worked. “We got better results on some units than others, but overall, we have had strong returns,” he says.

You also want to know if the land will support the vision. Former real estate broker Brice LeConte had worked on a couple of small apartment buildings and other projects but recently embarked on a land development project called Derby Ridge in Stratsburg, Va. Like Howard, he wants to offer small, Zero Energy Ready Homes to people with average incomes, in part because local communities want them. LeConte sought advice from his architect when vetting potential locations. “I needed to see high-level concepts,” he says. The homes he had in mind needed to look good on the plot he ended up purchasing.

The site plan itself needs to be done by a civil engineer, who will consider constraints like setbacks, easements, buffers, and road widths. It’s a good idea to have the engineer sketch out a preliminary site plan and run it past the appropriate people in the zoning department before going further.



To streamline permitting, Joel Florek chose lots at the edges of an existing apartment complex (4). Town homes (5) were new for the town, which made it challenging to forecast return on investment, but Florek found good comps in other towns with similar demographics.

“You need to see if you can fit what you want on the property,” says Dan Shabeldeen, of Shabeldeen Engineering in Hickory, N.C., who works with Howard. If the profit goals require 10 homes but the topography or zoning will support only eight, that parcel won’t work. It’s best to know before you buy.

When Howard is serious about a piece of land, he and Shabeldeen walk it together. “We talk about the topography. Is there anything I’m not seeing? How will roads connect to the adjacent community? Are sidewalks needed? Where is the water and sewer access?”

Water is a common obstacle. When we spoke with Casey Malm, a builder in Polson, Mont., in May 2024, he was getting ready to start his first development on land that’s part of the Flathead Indian Reserva-

tion. “The tribe has decided to limit the number of new wells,” says Malm. “We’ve had to be creative. We looked at tying into the city, at cisterns, at tapping into adjacent properties, and other options.” These alternative approaches won’t stop the project, but they will increase the cost of water. Malm wants to build attainably priced homes, and the increased water costs will make that goal tougher to reach.

ENTITLEMENTS AREN’T EASY

Identifying and vetting the land is one thing; getting the project through zoning is another. According to the people I spoke with, this is the most frustrating part of the process.

“Fees can be expensive and zoning restrictions can add a lot of time,” says Howard. “There’s a great deal of back-and-forth with the municipality and fine-tuning of the plan. If the property needs to be rezoned, you will need planning board approval, and the city council will have to bring it up at a public hearing. This can take several months and there’s no guarantee it will be approved.”

The developer also needs to think through the flow of people and traffic. “Expect to have lots of conversations about this,” says Florek. “You might have to pay to extend sidewalks to an adjacent neighborhood. You may need traffic studies. You may need a traffic light.”

These requirements can necessitate a change in plans. For instance, parking was an issue when Howard was seeking approval for an upcoming development in Hickory, his second one. He was targeting the aging-in-place market, but to meet the city’s parking requirements while also fitting enough units on the property to make it financially viable, he will have to build town homes with parking underneath. That means stairs. “The target demographic has had to switch to a younger crowd.”

Landscaping plans can also add time. For his eight town homes, Florek bought three small lots on the edges of an existing multifamily development, but his project didn’t conform to the original site plan. “We had to go through the entire plan review process from the beginning,” he says. “We needed a new landscape plan, with details that included a count of the trees and shrubs.”

These are just a few of the many requirements that municipalities can demand. You can’t always predict which ones they’ll emphasize, but you will be better able to handle whatever comes up if you put time into understanding the official requirements.

“In my area, every community has a 300-ish-page zoning document detailing specs on parking, setbacks, height restrictions, and numerous other issues,” Florek says. “It also includes things like the limits on the numbers of homes per acre, depending on design. It can get crazy.”

Florek advises anyone considering a new development to get a handle on local requirements as early as possible.

Photos: Joel Florek

From Concept to Completion

The steps outlined here show the basic process needed to find, permit, and develop a piece of land. This is a high-level overview and should be viewed only as a starting point for more research.

1

Find good mentors.

Work with seasoned people who will have your back and answer any questions you may have.



Define business model.

Do you want to build for-sale condos or rental cottages? Where? What is the market for the type of housing you want to build? Different project types vary greatly when it comes to raising money, permitting, and construction.

2

3

Assemble your team.

You will need a real estate agent, architect, general contractor, civil engineer, lender, and investors.

Find a site that will accommodate the project.

Perform the needed due diligence.

4



5

Line up funding.

Work with lenders and investors to secure capital.

6

Approval process has multiple steps.*

☐ Confirm that no federal permits will be required.

☐ Determine whether the property will need rezoning, variances, and/or a subdivision plan.

☐ Sketch a preliminary plan and seek feedback from staff in the zoning department.

☐ If the project seems like one that's likely to get permitted, create a final site plan that incorporates staff feedback.

☐ Schedule an appearance before the planning commission or zoning board for approval. (This may include a public hearing.)

☐ Post required construction bonds and pay any impact fees.

☐ Obtain grading and other permits for site work.

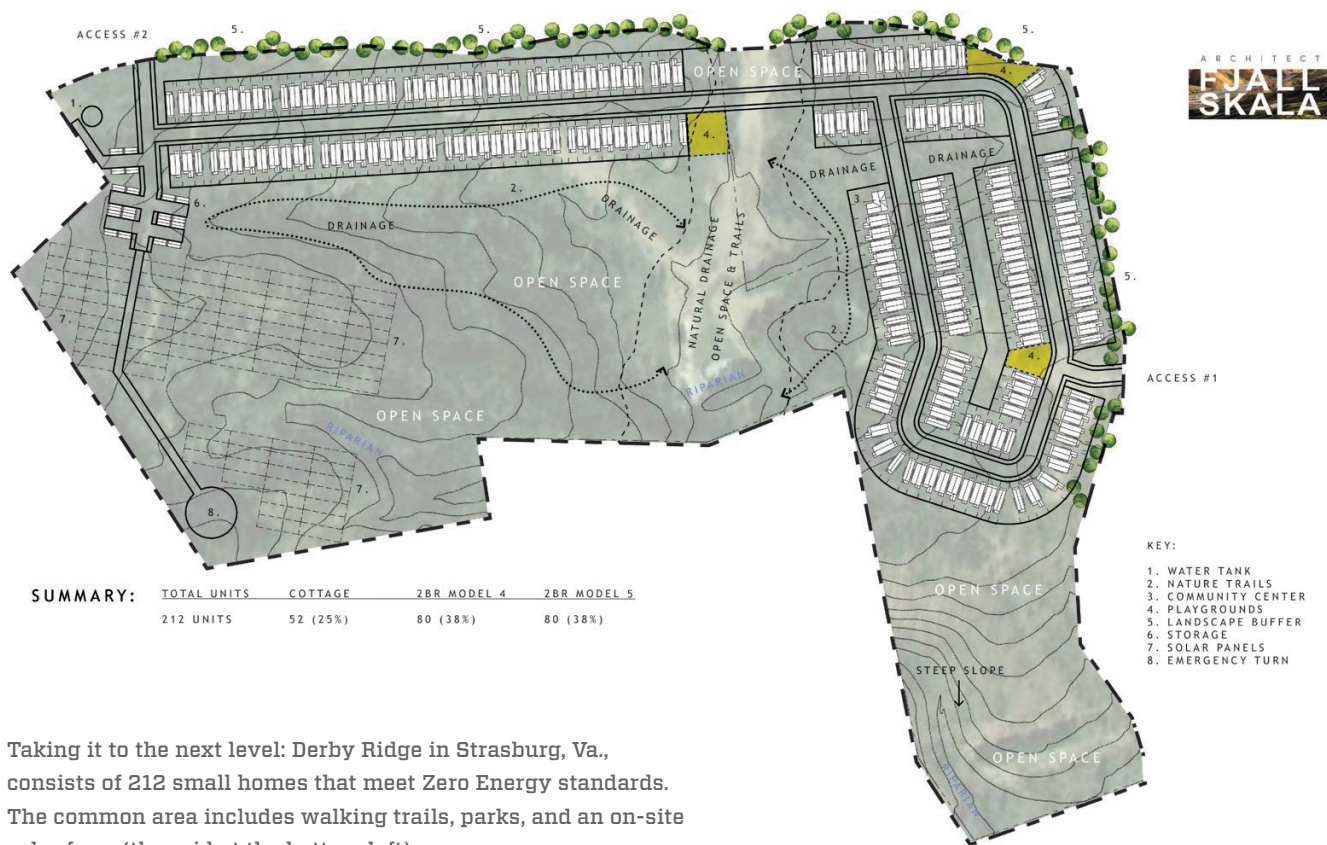
☐ Secure building permits.

**These steps adapted from the NAHB's "Land Development Checklist."*

Begin construction.

With permits in hand, start the development.





Taking it to the next level: Derby Ridge in Strasburg, Va., consists of 212 small homes that meet Zero Energy standards. The common area includes walking trails, parks, and an on-site solar farm (the grid at the bottom left).

YOU NEED ALLIES

The permitting process—as well as everything else—will be harder if there's resistance from the community. That's why you need to work at getting as much of the community as possible on your side. This point can't be over-emphasized: You need to know how to win people over.

Before deciding to buy a property, you should gauge the risk of NIMBYism. "Opposition from neighboring property owners can sway the planning board," Howard says. "You want to find out who they are. Is anyone in the neighborhood on the town council? Will anyone make problems?" Many of the answers will be anecdotal but still useful. "My engineer is on the planning board and is pretty good at predicting whether there's someone in the neighborhood who will complain," he says. In some cases, it might be easier to look elsewhere.

Howard also points out that approval is much harder in the more expensive parts of town, so he looks for land in areas already under development. That was the case for the Hickory project. "DR Horton had already bought an old municipal golf course across the street and

intends to build 250 to 300 homes. Compared to them, we're just a blip."

Sometimes, local attitudes are a challenge. For instance, when Malm first moved to Montana three years ago from California, he found that many locals strongly resent newcomers driving up home prices. "Developers are treated as the enemy in a lot of places, but the fact I was from California made it worse here."

His secret to getting approvals has been making an effort to learn what the community wants and being willing to work with them to provide that. Like most of the U.S., Polson needs affordable housing, which is why Malm—as well as everyone else interviewed here—is targeting this niche.

"A lot of communities have town hall meetings on the need for affordable housing," says Malm. "You can win people over by showing up and showing them that you want to provide it."

Even with noble intentions, you can still run into opposition. Malm's advice is to treat everyone respectfully, to try to understand their point of view, and to be patient. "Especially in small communities, if you piss off one person, it can snowball and you can have a lot

of problems,” he says. “That’s why I approach every conversation as if I’m being interviewed for a job.”

This served him well when he first arrived in town as a new single-family builder. “In the beginning, some subs charged us 25% over market pricing.” That’s no longer the case, and Malm credits getting to know people and showing them that he is committed to helping the community. “If you don’t rub people the wrong way, it makes a big difference.”

LEARN TO RAISE CAPITAL

Another group of people that most developers have to win over is investors. This can take time; in fact, you need to start this work before you even think about getting into the development game. “The time to look for investors is not when you need money,” Florek says. “You need to build those relationships in advance.”

If you’re successful and want to grow, your investors will grow with you. LeConte raises money by courting family offices (privately held companies that handle investment management for a wealthy family) and high-net-worth individuals. For his first project, he collected amounts ranging from \$20,000 to \$50,000 but has since found people with deeper pockets. “First they write small checks. If you succeed, they give you more.”

LeConte also puts his own money into his deals. “If you want people to believe in you, then you have to believe in yourself, and show it,” he says. “The deal has to make sense, but people ultimately invest in the person. Some of my investors I knew from my days as a broker. They thought ‘if Brice takes the same energy to this as he did to his brokerage, he’ll be successful.’”

Florek also started by raising \$20,000 apiece from small investors and now has people offering him as much as a half-million for future projects. “From a financial perspective, you need to be able to present yourself as a financially astute, investor-minded business person,” he says. That can be a challenge for even the best builder. “There are many who I would trust to build a home but would not be confident in to manage a development operation.”

EXPECT THE UNEXPECTED

Let’s say you’ve drawn up a great plan, gotten approvals, raised money, and won the community over to your side. While chances are high you’ll be successful, there will likely be additional bumps. Our sources say that the likelihood of unhappy surprises after work starts is higher with land development than with home building.

Excavation issues seem to be the most expensive. “Where we are, there can be a lot of rock,” Malm says. “[If there’s more than you expect], it can put excavation well over budget.”

LeConte has also run into surprises. “We have hit water lines

and sink holes we didn’t know about. A geotech study is important, but it doesn’t get everything.”

Shabeldeen has seen parcels near town that looked like they were never developed but were former homesites. “Once digging started, we found a buried oil tank or an old septic system,” he says. Removing them, of course, added to the expenses.

Florek knows a developer who found an underground oil tank. He found a buried electrical service cable that wasn’t on the survey and would have ended up under the corner of one building. This particular town let him move the building 8 feet to clear the cable, but others might have made him start the permitting process from scratch.

Everyone I spoke with recommended a contingency budget for such issues. Most advised adding around 10% to the estimate for each trade. Possible subs will vary by project but might include those for tree removal, demolition of existing structures, excavation, road building, water and sewer, electrical service. A more turnkey approach is to use one sub to coordinate all this work. “I use a site development company who holds all the contracts for site work,” LeConte says. “This simplifies the process for me.” In this case, the contingency will be based on the site development company’s fee.

WHO SUCCEEDS?

As mentioned earlier, personality is as important to a developer’s success as technical knowledge and management skills. An entrepreneurial personality will be an asset. “A developer is a creative person who takes risks,” LeConte says. “Both [creativity and risk taking] are part of who I am.”

Another asset is patience. The sheer amount of uncertainty makes it even more of one in development work. “This business is way more stressful than building,” Malm says. “The schedule is beholden to county approvals and there’s never a time allotment given to you. You may end up sitting on large amounts of money that’s doing nothing, so keeping a calm head is really beneficial.”

Diplomacy and the ability to work with different parties’ agendas are also crucial. Hotheads and those with a thin skin can easily sabotage themselves by making enemies. “You need to figure things out and calmly deal with the punches,” Florek says.

What can carry a new developer through the inevitable ups and downs? The promise of financial rewards are crucial, but so is vision. While the project vision shouldn’t be inflexible, it needs to be strong enough to carry you through.

As Florek says, “Your vision and your ability to communicate are the keys to success in this business.”

Charlie Wardell has been writing about the residential building and remodeling business since 1990.