

# **New Partners for Smart Growth Conference**

**Leveraging the Approval Process  
to Get the Development You Want**

**Development Risk and Process Efficiency**

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**Brian W. Blaesser, Esq.  
Robinson & Cole LLP**

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# **Development Risk and Process Efficiency**

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## **Problems and Objectives**

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# Overview

- **What we mean by:**
  - “risk“ in the real estate development process
  - “risk” from the perspective of government review staff/officials
  - “efficiency”
  - “streamlining” permit approval process
- **Causes of “inefficiency” in the development review process**
- **Results of inefficiency in the development review process**
- **Reasons for correcting inefficiencies**

# Real Estate Developer

## Types of Risk

- **Change(s) in Land Value** : Value of land changes due to changes in real estate market, impacts acquisition costs and ultimately the rate of return required for financing (equity investors)
- **Environmental Issues**: Due diligence at beginning may or may not identify all problems which can later add to development cost
- **Changes in Product Demand**: Changes in real estate market for product during approval process make project riskier to build
- **Financing**: Sources (e.g., credit facilities, bank term loans, mortgages, joint venture equity) can be constrained by changes in market conditions and/or interest rates
- **Political**: Changes in elected officials and/or regulations that create conditions adverse to development project
- **Development Approval Process**: Delays and/or complexity of process can impact viability of financing, can be affected by changes in regulations (if approvals not at stage that developer has vested right to proceed), create uncertainty as to outcome and increase overall costs

# Local Government Staff/Officials

## Types of Risk

- **Planning/Development Review Staff**
  - **Internal Risk**: Reprimand by senior staff and/or officials if make incorrect decision, or difficult but correct decision; potential loss of job.
  - **External**: Criticism by public/press for taking positions or making decisions that are unpopular.
- **Administrative Decision Making Bodies (PC/ZBA/ConCom etc)**
  - **Internal Risk**: Pressure from executive officials and/or elected officials if development issue controversial; potential of members not to be reappointed.
  - **External**: Criticism by public/press for making unpopular decisions; opposition to reappointment
- **Elected Officials**
  - **Internal Risk**: Pressure from other members of city council or executive officials on controversial development issues.
  - **External**: Pressure from public; potential defeat in next election

# **Development Risk and Process Efficiency**

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**Terms Defined**

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# Efficiency

- **Basic Concept:** Doing something or producing something without wasting materials, time, or energy. (Webster's Dictionary)
- **Real Estate Development Review Context:** Review and decision on development proposal so that:
  - **For Government:** Proposal is reviewed and decision rendered without wasting or duplicating staff time or wasting budgeted resources.
  - **For Developer:** Proposal is reviewed and a decision rendered in as short a time as possible so that feasibility of project is less likely to be affected by changes in market and developer does not run up against lender deadlines.

# Streamlining

- **Basic Concept**: Designing or shaping something so that it moves through air or water as easily as possible .  
(Cambridge Dictionaries)
- **Real Estate Development Review Context**: Eliminating bottlenecks and redundancy in review process
  - **For Government (Examples)**: Clear submittal requirements; also, may seek increased public participation early in the development review process (problematic for developer).
  - **For Developer (Examples)**: Clear submittal requirements; concurrent hearings; uniformity of timelines, notifications and appeals



# **Development Risk and Process Efficiency**

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## **Causes of Inefficiency in the Development Review Process**

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# Development Risk and Process Efficiency

## **Causes of Inefficiency in Development Review Process**

- **Complexity of process**
- **Length of process (delay)**
- **Distinct approval processes that do not relate to one another because of different standards and/or conflicting standards**

# **Development Risk and Process Efficiency**

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**Results of Inefficiency in the  
Development Review Process**

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## Results of Inefficiency in Development Review Process

PROBLEM	EFFECT	OUTCOME
<input type="checkbox"/> <b>Complexity</b>	(1) Requires more frequent interaction between developer and government staff and officials (2) Greater likelihood of inconsistent communications (3) Greater opportunity for politics to intrude in process	<b>UNCERTAINTY</b>
<input type="checkbox"/> <b>Delays in Process</b>	(1) Impacts lender timing requirements (2) Market may change, affecting project feasibility	<b>FINANCIAL RISK</b>
<input type="checkbox"/> <b>Distinct Approval Processes with often conflicting standards and approval procedures</b>	(1) Prolonged review process (2) Regulations that exceed desired goals	<b>INCREASED DEVELOPMENT COST</b>

# Development Risk and Process Efficiency

## Key Reasons for Correcting Inefficiencies in Development Review Process

- Correlation of time (delay) with rising land and housing prices [Glaeser and Gyourko (2003) ]
- Rising land and housing prices affect ability of market to produce affordable housing
- Efficient process helps to induce developers to change to development design that is consistent with Smart Growth objectives (e.g., compact development)