



# Site Selection

## How to Pick Your Best Spot

[by Micah R. Kee]

Site selection for a new multi-family complex begins in the office with a business plan, not a realtor. With 8 percent of the gross national product (\$830 billion) spent every year on new sites and facilities, companies recognize the importance of these decisions and want new sites and acquisitions to be in the right place the first time. However, successful ventures go far beyond the traditional mantra of location, location, location to a myriad of other variables that determine operational value. Balancing the importance of convenience to major roads, shopping and recreational areas with the overall business plan and strategy is the challenge, and it's where most fail to address their efforts.

From a tactical and operational standpoint, companies often lose focus and patience after spending a good deal of time and money narrowing their site selection down to a few choices. After such countless hours and dollars, executives seek a quick site decision so the building process may commence.

However, hasty decision-making can lead to poor tactical site selection, which can end up costing the company more in the long run from problems including insufficient infrastructure, inability to expand or inadequate housing demand. To ensure that proper site selection decisions are made, companies should have a consistent, integrated approach that considers strategic, tactical and operational issues.

### Start with a Business Plan

The first step in any site selection process should always be development of a project business plan. The business plan should be consistent with the company's stated goals and objectives, based on cross-functional management input, and include forecasts for a minimum of five

years, though 10 years would be ideal. Beginning with the business plan forces discussion among company management about key site and building components early in the process. At this time, management is aware—and must agree to the project objectives, assumptions and

space-based projects that are expected to occur during the plan horizon also should be included (i.e., a parking structure).

It's important to consider whether the site will have "extras"—such as clubhouses, conference rooms or fitness rooms. Though these extras may not be added until later, they require large amounts of space and more capital, which makes them an important addition to the business plan.

The uncertainty of the future necessitates the inclusion of a risk assessment plan that specifically deals with the positive and negative aspects related to changes in the number of planned units, addition of other facilities, low occupancy rates and changes of business need (for example, new housing types on-site) to the business plan. The public's growing concern about acts of terrorism also challenges multifamily executives to address security and emergency responses in their business plans and risk assessments.

### Determine Needs Up-Front

After compiling the data assembled for the business plan and securing approval from all team members, a needs assessment should be performed. The needs assessment should focus on infrastructure requirements and space requirements.

Infrastructure requirements include utilities (power, water and sewer), environmental permits, access to major roads and highways, and availability of skilled/unskilled labor. For an existing business that is expanding to a new location, infrastructure requirements can be determined based on the information in the business plan along with data from existing operations. If it involves a new business or operation, document assumed requirements in the business plan and include them in the risk assessment.

Determining space requirements is usually viewed as the fun part of the

### Key Elements for Proper Site Selection

- **Business Plan**
  - Unit forecasts (five to 10 years out).
  - Other business opportunities for the site (requiring space).
  - Key assumptions.
  - Risk assessment.
  - Management objectives (cost and timing).
  - Management approval.
- **Needs Requirements**
  - Infrastructure (power, water, telephone, sewer, transportation and labor).
  - Regulatory (zoning, permits and environmental).
  - Space (under roof, ancillary and total purchase).
- **Selection Criteria**
  - Business considerations (current and future growth).
  - Financial considerations (capital, appreciation, regulatory and tax incentives).
  - Space considerations (size, shape and infrastructure).
  - Environmental considerations (mitigation and permitting).

boundaries (i.e., capital limitations). This step provides the basis for determining the project's needs and requirements.

Many crucial items need to be addressed in the business plan, including a list of all housing types and other facilities expected to be involved on-site. All other



project. Unfortunately, this is often where managers first become involved in the process — after the final site is selected and too late in the process to really make a difference. This can lead to problems based on differing goals and objectives between the two parties — managers and team members. By having management involved from the first step of developing the business plan, many of these problems are alleviated before the site selection.

Although a scale, scissors and glue were the tools used to figure out space requirements and layouts in the past, today these tasks are performed using sophisticated computer-aided design (CAD) programs and spreadsheets. The first step is breaking down all major operations into "free-bodies." A free-body is best described as a logical space unit comprised of related items.

For example, a standard single-story duplex might be 2,500 square feet, but with the additional space for driveways and back patios, the standard duplex free-body is 10,000 square feet. This same exercise should be performed for major utilities, office space and pools. Arranging the free-bodies in various configurations helps determine property length and width considerations as well as general space requirements.

Now that you have a general idea of space requirements, what about total purchase size? Ultimately, the amount of land purchased will be some multiple of the total space requirements figured above, called the site sizing factor (SSF).

The final SSF will depend on two things: the certainty of the business plan and the amount of money you are willing to spend to protect yourself against the risks identified in the business plan.

The SSF shouldn't be a set number for a company or an industry; rather, it should be determined on a case-by-case basis. However, benchmarks provide a good place to start.

Consider your existing operations. Which are positioned well for growth? Would additional space improve flexibility? Would less space reduce flexibility? A survey of local competitors may reveal that the average land to building ratio in the area is two to one. Consider that fact along with their ability to expand existing developments... to add a new subdivision or... duplexes. You should be able to... a good idea of where to start. Modify that starting point based on your long-term plans, risks and other variables. If, after determining a SSE, the cost is too... for the project, consider a smaller... land purchase. However, be sure to... a right of first refusal on additional land that might be needed in the future.

### Final Selection Criteria

Armed with the infrastructure and space requirements developed above, an internal real estate division or an outside real estate broker should have no problem finding several parcels of land that meet the project's needs.

### Before You Take the First Step

Answering these questions may seem simple, but their answers are necessary and should help to justify needs, as well as define a successful project.

- 1) Why am I expanding or building a new facility? (Out of space, new market, etc.)
- 2) What are my objectives for the new site? (Increase market-share, long-term growth, single focus vs. mixed purpose)
- 3) What does success look like? (Affordability, law and regulatory issues and timing)

These requirements, along with traditional criteria such as dollars per square foot, tax incentives and location, form the basis for selection criteria. A cross-functional team should spend time discussing and ranking the criteria, as all sites won't have the same level of attributes.

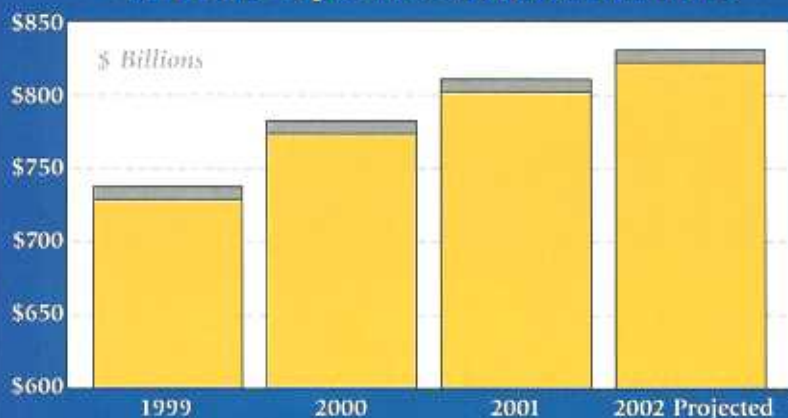
While it may sound simplistic, writing down and agreeing to the relative importance of these criteria forces discussion and alignment. Having this done before the decision deadline will alleviate many headaches and long meetings.

The concept development starts to pay off when candidate parcels of land are visited. All sites should first be evaluated by trying several layout variations (long- and short-term) to ensure the property will meet space and layout needs. Property attributes (infrastructure) should then be listed and sites ranked according to their performance vs. specified criteria.

Combining subjective criteria rankings with management boundaries, such as cost and timing, provides the basis to make a well-informed selection decision. In addition, you gain a better idea of how to implement the project, resulting in lower project costs, reduced time to start-up and a finished product that better suits your needs. ■

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### Total U.S. Expenditures on New Facilities



Source: Facilities Planning, 2nd edition, Tompkins, et. al. U.S. Department of Commerce