

LeadDeveloper

Commercial Development 101: Become an Expert



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Commercial Development - Your Guide To Commercial Real Estate



The modern office is a complicated and unexpected environment. With the ongoing arrival of new technologies, office planning is constantly changing, expanding in one area while streamlining in another, and replacing and redefining duties and procedures.

To developers who want to develop a good office building – but can't get started. This article will boost your confidence by letting you know everything about Commercial Development. Property developers of commercial spaces must create extensive lists of user requirements, then analyse and implement solutions that meet those demands. The use of research approaches should ensure that the final development solutions result from fully informed decisions backed up by



objective and systematically acquired facts rather than guessing.

Commercial developments are categorised as commercial or other official structures, and while they are functionally distinct from retail or industrial constructions, they share several key characteristics. Also, the **investment in commercial real estate** development is different from residential and retail.

They're usually occupied by government agencies, businesses, partnerships, and professionals, and they're found in or near central business areas. This, however, may change with the advancement of modern technologies. As the internet and intranet have grown in popularity, more people are now working from home. The need for ample commercial space will decline if this trend continues. Still, there are many lucrative benefits that commercial development has.



Commercial Development Examples

Commercial developments can range from tiny to enormous, accommodating a one-person small business to a multi-disciplinary corporation, and are classified as follows.

Renovated House

You might have seen a lot of residences in older areas and along critical arterial highways remodelled and converted to professional offices as a result of zoning changes.

Owner-occupiers, such as real estate agents, doctors, dentists, or smaller investors, typically develop these conversions.

Strata-Title Offices

Smaller spaces within an office tower maintained by a body corporate are called strata-title offices. Strata office buildings are typically built on the outskirts of the CBD. Investors rent the units, while smaller firms who may have been part of the initial development syndicate use and own them.

Office Parks

Office parks have grown in popularity over the last decade and are typically built in decentralised suburban regions where the property is less expensive. Smaller two- to three-story office



structures are flanked by well-landscaped gardens and open areas in this development.

Office Buildings With Multiple Stories

The size and scale of a city's office towers might reveal its population density and economic health. Real estate developers and huge organisations have attempted to build more extensive and intriguing office blocks, popularly known as **skyscrapers**, fuelled by commercial vanity and identity over the years.

Furthermore, such developments are assessed in the following manner:

- A grade - high-end finishes appropriate for a business tenant.
- B grade finishes range from medium to high in quality and is determined by their location.
- C grade finishes are typical and placed in less visible areas.

*Recommended Reading - **Ways to overcome Your Property Development Fear***



Advantages Of Commercial Development

The following are some of the primary advantages of commercial development (office buildings) over other real estate developments.

Potentially Higher Returns

Compared to residential expansions, commercial developments might yield higher profits if they are built in the proper area. Renting or selling is computed based on a rate per square metre for existing or proposed leases. As a result, the construction or replacement cost has little value when contrasted to the location and rental agreements.

Economy Of Scale

Not much space is wasted in office developments or commercial developments if they are constructed appropriately, and you can also maximise the leasable area. External finishes and structural elements are all the same, allowing for economies of scale.



Efficient Land Use

To maximise their returns on inner-city office complexes, real estate developers build to the utmost permissible plot ratios. The planning of office parks and restored home offices, which are typically located on the city's outskirts, is more permissive.

Cash Flow Stability Through Anchor Tenants

Securing a long-term tenant such as a 'blue chip' corporation (a large, well-established business with constant and generally predictable profitability) or a government agency can give the investor developer a steady income. Because the leases for residential renters are much shorter, the profits are decreased by temporary vacancies and the cost of advertising.

A Multi-Tenant Building Can Help You Diversify Your Cash Flow

More significant commercial developments can provide you with more options for lease negotiations. The developer may have to lower the asking rental to acquire a significant blue-chip tenant; but, you can make up the return from smaller tenants that want to be adjacent to the blue-chip corporation.



Additional Inflation Protection Is Provided Through Rental Escalation

There is a built-in annual rental increase in all contracts in commercial real estate developments. This escalation can be based on the consumer price index or an agreed-upon percentage. This means that the rental return does not lag or fall behind usual inflationary figures.

Recommended Reading - Ways to select the right finance option for your profit.

Possibilities For Leaseback-Sale

Some custom-built office buildings can be sold to a group of investors and then leased back for a set period. This frees up the company's financial reserves, which you can use for other aspects of the company's growth or development. In other circumstances, speculative developers recruit high-profile tenants and then sell the property to cash-strapped investors.



What Are The Risks Involved In Commercial Development?

The following hazards apply to commercial developments with larger yields and are more sophisticated than residential buildings.

A Higher Level Of Financial Capital Is Necessary

Compared to residential developments, the building and land costs necessitate a higher capital expenditure. Unless a well-located piece of land is purchased as residential and later rezoned to commercial, the land cost for office construction is often higher. Building expenses might rise, especially if the number of floors and lifts are added.

Tenants Are Savvier When It Comes To Negotiating

Most renters looking for office space are business people who approach lease negotiations with a business mindset. The developer and his agent or real estate broker should have strong bargaining skills.



Adaptations To Meet The Needs Of The Tenants

There may be a requirement to make various changes to acquire a tenant, which may not be suitable for future tenants. If you have to make these changes, make sure the tenant signs a long-term lease to recoup your investment.

Increased Management Costs

More significant office buildings will necessitate better administration and accounting systems. A full-time property manager may be necessary, depending on the size of the development, to ensure that the building runs smoothly.

What Should Be The Development Strategy For Commercial Development?

The target market will determine the speculative commercial development strategy and whether the developer is interested in making a quick profit or long-term investment.

If the developer wants to make a quick profit, he will have to build, lease, and sell to an institutional investor. Some institutional investors prefer commercial developments compared to retail or other **real estate types**. This is because



management and investment security has improved and become more secure.

Compared to retail developments, where tenants have a wide range of needs, the design of such developments is more straightforward and less variable.

Regardless of the developer's technique or strategy, he may create the following.

Custom-Built Offices

These offices are developed for government or huge institutional organisations with multiple departments ranging from two to several hundred personnel. These departments may need to be linked together via central cores or service links. When building a custom-built project, the developer should look for at least ten years for a long-term lease. It's also essential to avoid constructing deep, air-conditioned space, as this will limit the possibilities of subletting if the tenant fails or the lease is cancelled.

Offices With Many Tenants

The demand for deep offices and single access is less apparent when developers create and lease office space in tiny blocks. The proper structure is separated into various regions, each with its entrance. While this strategy has a lower risk, it will necessitate more effective management.



Is There Any Demand For Commercial Development?

The demand for additional commercial space is primarily influenced by whether new businesses are starting up or existing tenants are expanding their operations. However, this demand is very cyclical and susceptible to supply and demand factors. Compared to residential space, commercial space is more responsive to these variations.

In a market with a shortage of commercial space, vacancy rates are lower. In contrast, vacancy rates are more significant in an oversupplied market, and the chances of sustained rental growth are very few.

Demand can be generated by the transfer of enterprises from other locations or the expansion of a multinational corporation seeking a presence in new places, in addition to the economic cycle.

In this post-covid world, the demand for commercial space is likely to be transformed. Space requirements will very certainly change in the new environment. For example - Shared workspace, hot desks, 2 days office, 3 days home get adopted on a broader scale. Despite the shift in how we use the space, there is always a demand for new space; it remains an excellent cash-flow investment.



How To Select The Location For The Development?

Research findings will heavily influence the location of the new commercial space. The study could show a shift away from high-rise CBD office buildings and toward office parks in suburban areas. When purchasing a development site, you must consider the following aspects:

- Public transportation is available.
- Exposure to major thoroughfares and public transportation facilities
- Near complementary businesses
- Easy access to eateries and convention facilities
- Advertising exposure



Site Analysis For Development

The purpose of **site analysis** is to elicit all relevant information about the site, illustrating the benefits and limitations so that the development team may make informed decisions based on the current situation. The team should consider the following items:

Land Value

Is the asking price based on current market conditions, or has a residual value been determined?

Town Planning Regulations

Is there a town planning report? How long must rezoning take place before construction can begin?

Bulk Services

Are essential utilities such as water, electricity, and sewerage available in bulk? If not, how much would it cost to get them?



Analysis Of Traffic Impact

Has a traffic impact analysis been conducted, and how much did it cost the developer?

Transportation Levy

Is a transportation levy required by the various states' primary road departments, and if so, how much does it cost?

Access

Is there convenient and well-located vehicular and pedestrian access?

Neighbours

What effect do the neighbouring structures have on the development? Are these two things compatible?



Market Profile

The market for new commercial space can be divided into several groups, including:

- Tiny enterprises run by one person
- Medium-sized companies
- Major firms
- Small government agencies
- Larger government offices

While one may assume an office tenant to be price-sensitive while looking for a place to rent, there are a few other things that a typical renter looks for in an office complex, including:

- Unique amenities
- Special services
- Prime location



Market Analysis

Market analysis, including the following criteria, should be studied before a design brief or any significant financial commitment is made to commercial real estate development. The developer must forecast employment figures in industries that use commercial space and the required amount when analysing the demand for new space. The following are some crucial things to look for when measuring these variables.

Employment Growth

This entails looking into and keeping track of:

- Economic factors at a national level, such as the gross national product
- The economic variables at the local level, such as the entrance of new industries and the expansion of existing industries

Changes In Employment Structure

This entails keeping a close eye on:

- Changes in service-oriented industries
- The increase and decrease in government civil servant employment.



The Utilisation Of Commercial Space Is Evolving

- Thanks to modern office gear such as computers and photocopying machines, a reduction in spatial requirements and more efficient use of commercial space
- The impact of modern communication technologies, such as cell phones and the internet, decreases the need for travel.



Property Development Team

An interdisciplinary team of consultants is vital to completing a successful property development since they will guarantee that the planning does not neglect or ignore any element of the office user and that the solutions provided for the project are integrated.

The development team's composition is determined by the project's size, duration, and scope. There is no established formula for forming a team. The membership should be adaptable and customised to the current situation. Members of the group could include:

- Development/project manager
- Architect
- Quantity surveyor
- Structural engineer
- Civil engineer
- Electrical engineer
- Mechanical engineer
- Traffic engineer
- Landscape architect
- Land surveyor
- Leasing agent
- Fire consultant
- Lawyer
- Accountant



This is not mandatory to hire all these people in your development team. As per the size and requirement of your project, you can decide who should be a part of your team.

In my article of [Property Development Team – Your Army Of 23 Professionals](#), I explained the role and need of all 23 professionals in a project. You must check that out before planning a team.



Major Design Considerations

As previously said, office users range from a single business owner to a multinational corporation. As a result, unless a client has unique needs, there is no set planning formula to meet the varied users.

Furthermore, certain site constraints may compel the architect to create a structure that maximises the site's potential. A prominent example would be the design of a city office building, where the form and aesthetics take precedence above the needs of the tenants. However, two essential elements in office design are critical: adaptability and environmental considerations.

Flexibility

The development team can choose between an open plan or closed office layout, or a combination of the two. All workstations should be easily reconfigurable to allow for the development of new groups and the inclusion or relocation of additional users. The ultimate layout type will be entirely determined by the user's needs and the organisation.

Environmental Considerations

Determining environmental requirements is an important planning step since it addresses what needs to be accomplished for the internal space to be a design success. These are the needs, which are not design guidelines but design necessities:



- Technical **acoustic systems** must be adaptable to accommodate new layouts and densities
- Lighting levels must meet accepted criteria in all settings to handle traditional reading and writing duties
- To enable the rearrangement and addition of users, lighting throughout the interior must be adjustable.
- The fire and safety regulations must accommodate different users and planning patterns.
- Flexible power, telephone, computer networking, and electronic wiring should support various users.
- Users in various locations can easily use air conditioning and ventilation.

What Are The Factors That Affect The Cost Of Commercial Development?

Aside from the land and usual development costs, the following design elements might impact a project's overall cost and **feasibility**.



Economics Of Floor Space

Developers who specialise in office buildings are well-versed in plot ratio calculations. The developer will hire an architect to design the structure using the maximum permissible construction size and extract the most leasable space possible. Developers do not base the land cost for an office complex on the ground-floor area; instead, they analyse its genuine value relative to the permissible plot ratio.

Net Leasable Area To Gross Floor Space

The connection between the gross and net leasable area in an office plan is crucial. The development will be more profitable if the two figures are as close as possible. The net-to-gross ratio varies from building to building and is determined not only by the architect's competence but also by the site and planning authorities' physical criteria.

The External Wall To Floor Area Ratio

The external perimeter wall is one of the most expensive components of any structure. The greater the distance between the external walls and the floor area, the more money saved on construction costs. A square or rectangular building plan, for example, has less perimeter walling than an H-shaped plan with the same floor area. However, when attempting to improve the



ratio, the designer must not raise the expense of artificial lighting.

The Environment And Service Required

Artificial lighting and mechanical ventilation may have a high initial capital cost, not just in the short term but also over the structure's life. Aside from the constant maintenance, there is also the issue of energy waste, as artificial services are designed for multi-use rather than individual use. Including as much natural light and ventilation as possible in the new building will help the developer and the environment.

The Structure's Kind

The structure of an office building can significantly impact the project's overall economics and planning. When subterranean parking is required, this can be seen. When land is expensive with limited space, structural features are typically constructed around cost-effective parking and traffic circulation.

The Amount Of Parking Available

The location of parking facilities is an essential aspect of office design and development economics. Its main effect is to limit the amount of floor space available and the structural grid arrangement. Developers charge a fee based on a rate per bay



because parking contributes considerably to the overall building cost.

How Should You Do The Marketing?

The location, type of offices, and users targeted will determine the marketing of offices. Extensive finance, legal, and accounting businesses and significant corporations concentrate near the CBD to interact. This includes government agencies, the stock exchange, the legal system, and the taxes office. Smaller businesses and professional practices tend to congregate towards the outskirts of the CBD. These smaller enterprises don't necessarily need to daily interact with other businesses in the CBD.



Other essential characteristics that should be addressed in the marketing brochure and other marketing material, aside from the development's location, are:

- Its reachability
- The building's overall appearance from the outside
- The quality of the lobbies at the entrances
- The quality of carpets and partitions, as well as the allowance for them
- Availability of parking and nearby amenities

These considerations will all influence the tenant's decision based on their individual business needs and, more crucially, customer attraction.

How To Check The Viability Of A Commercial Development Project?

The developer will **conduct a feasibility analysis** using cash-flow and residual value methodologies once he has developed an estimate of future revenues based on a research of demand for office building space.

The developer will have to account for expenses unique to office buildings while doing this analysis. These can include things like:

- Services for cleaning
- Parking attendants and security



- A team of on-site engineers to look after the facilities and equipment.

Who Will Be The Tenants For Your Project?

Securing blue-chip tenants is one of the most important aspects of a successful office building and investment: government agencies, banking institutions, and substantial international enterprises such as insurance companies. Furthermore, securing a long-term lease would be a plus since it would ensure a consistent income, which would appeal to any investor.

If you're looking for smaller business renters, you'll need to look into their background, especially how long they've been in business. It is worthwhile to run credit checks on new firms through a credit bureau and, if necessary, run credit checks on the company's directors or owners. However, you can do this with the tenant's consent.



Leases

Office leases are usually written in a standard style. Many well-known landlords and commercial real estate agents have their pre-printed documents with specific terms added as needed. With larger corporate tenants, it's not uncommon for the developer to make concessions and create a new contract.

The following are the most important terms and conditions negotiated between the developer and the tenant:

Rental

Try to get a rental that is both commercially viable and market-acceptable, as well as a payment deadline. Any late payments will be penalised.

Rental Escalation

Could be a fixed percentage or a value based on the Consumer Price Index (CPI).



Use Of Premises

The sorts of businesses allowed in the building should be established.

Expenses

In most business leases, the tenant is responsible for the expenses. Rates, water, and power are all expenses.

Term

The lease should be for at least three years, but preferable for as long as possible.

Tenant's Work

Any improvements made by the tenant during the lease should be approved by the landlord, and one should return the building to its original state at the end of the lease.

Option

This refers to adding in the lease a clause that allows you to extend the lease period or request additional space.



Reconstruction

The contract should include a condition allowing the landlord to rebuild and renovate the property.

Bottom Line

Not everyone is a fan of residential development. An impatient developer will not enjoy dealing with unreasonable expectations and emotional outbursts from clients when the home is not built on time. Now, you've clear idea on question "what is commercial development". Small commercial development is a great place to start if you want to start developing and investing in a commercial area but don't want to commit to a large-scale project. If you discover a larger office building, though, you don't have to go it alone; form a syndicate with a few friends or business acquaintances.

Enrol for the [Quick-start property development course](#) to quickly start the development.



FAQs

What do commercial developers do?

Commercial property developers locate properties and bring value to them. They might be shopping malls, office buildings, residential buildings, or even subdivisions. For example, they may rebuild them or add new facilities. These developers deal on a big scale, having a high degree of practical and technical knowledge in commercial development.

What does commercial real estate include?

Commercial property refers to properties used primarily for business or generating income. Office spaces, industries, multi-family rentals, and retails are the four basic commercial property types. For developers, commercial real estate provides rental income and the possibility of capital appreciation.