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# THE MAKING OF A SUCCESSFUL REAL ESTATE PROJECT

## CONTENTS

The 3 Most Important Numbers In Any Deal

The 4 Biggest Real Estate Development  
Mistakes And How To Avoid Them

The Top 3 Areas Where A Development  
Consultant Will Add Value



## The 3 Most Important Numbers in Any Deal

Investors and developers will scour through spreadsheets and formulas to try and make sense of a deal. While a thorough analysis is important, there are only three numbers that will determine whether a development will be profitable and unfortunately you can only control one. **The three metrics are:**

1. What you buy it for
2. What it's worth
3. How long and how much it's going to cost

### WHAT YOU BUY IT FOR

This is the only number that you can control. When looking at land for a project or at a redevelopment opportunity, the price you pay is very important. If you overpay on the property, your profits may be slim or non-existent. Get a good or fair deal, and your project is more likely to succeed.

**At HM Capital we go to great lengths to make sure you don't overspend. We run thorough and realistic comps as well as an in-depth neighborhood analysis to ensure the price you pay for the property makes sense based on the product you are looking to build. If it's not going to work for your existing plan, we'll let you know and discuss an alternate scope.**

### *So how much is too much?*

A lot goes into determining the price you should pay for the property, but our general rule of thumb is that the land should equal 25% or less of the finished value of the project. This allows adequate room for all costs associated with developing a project. In order to determine the finished value of the project, we'll need to look at the two other important numbers.

Land should equal **25%** or less of the finished value

### WHAT IT'S WORTH

There is only one thing that determines what your project is worth. Developers hem and haw about how much their development will rent or sell for and are typically disappointed in the end. The current market climate is the only true factor that determines the price you'll get for your project. People believe their project is worth more than it is for a variety of reasons. It rarely matters how pretty the color is or why your product is better than the other products on the market. What matters in the end is the market determined value of the development and how well the original proforma captured and planned for it.

As a Development Consultant it is our duty to be honest with our clients regarding the value of their project. Our first priority is to make sure you profit from your deal and sometimes that means the cold, hard truth. If we see an issue, we'll tell you about it!

## HOW LONG & HOW MUCH IT'S GOING TO COST

Construction is the factor that ties the length of time of a development with its overall cost. Similar to determining the final value of your product, construction costs are determined solely by the current market conditions. For example, if construction demand is high and the supply of skilled workers is low, the price for labor will increase and it may take longer to build. Similarly, if the demand for building materials is high, or tariffs are imposed on those building materials, costs will also rise. These, and many other factors, will cause construction costs to fluctuate from your proforma.

### Here are some common cause and effects:



**Build too cheap of a product** = Worth less in the end



**Overspend on construction** = Product does not end up being worth the investment



**Underestimate time** = Spend more than planned on financing interest

Our extensive preconstruction and construction services are integral to controlling construction costs. Refer to the following high-level overview of our services below to give you an idea of the expertise that goes into every project.



### Preconstruction

- Budget, pro forma and return estimates
- Architecture consultation, selection and review
- Attendance in architectural design meetings
- Design selections and review
- Bank or Private Financing selection and review
- Contractor selection and review
  - Attempt to obtain and review a minimum of three (3) full contractor bids
- Builders risk and general liability insurance consultation, review and selection

### During Construction

- Budget tracking
- Lien waiver tracking
- Bi-monthly job walkthrough with owner and contractor
- Change order reviews

These 3 numbers are the most important metrics for every project. A real estate Development Consultant will help you determine realistic numbers on which to base your projections and stick with you throughout the process to stay on budget and finish on time.



## The 4 Biggest Real Estate Development Mistakes and How to Avoid Them

At HM Capital we have worked on many projects with a variety of investors and developers. During this time, we've seen the same four mistakes being made over and over again. In this section we'll discuss what we believe are the four biggest real estate development mistakes and how you can avoid them.

**1. Underestimating time and costs** – When you are estimating a project to determine its viability, it is very important to be realistic. So many developers and investors create a projected cash flow and lose track of reality. It's easy to make a project look good on paper but it's hard to make realistic projections with wiggle room for unforeseen issues look good on paper. For example, what if a permit holds up construction and you need to carry the loan longer? What if the environmental assessment requires more cleanup than you originally estimated? It's challenging to think of all these scenarios, especially if this is one of your first developments. Planning for these scenarios is just some of the value an experienced real estate Development Consultant brings to a project.

**2. Overestimating value** – The only thing that can determine the value of the project is the market. In our experience, investors and developers can easily lose track of this fact and end up believing their project is worth more than market does. A Development Consultant tempers expectations and will help you determine what your final selling price will realistically be.

**3. Spending too much or too little** – Nicer finishes and higher quality construction can increase the value of a property but it's not linear. You can't keep spending X and getting 2X return forever. In fact, there is an inflection point where the more you spend, the more money you'll lose! We recommend determining a realistic price point for the location of your property and building to meet that price point. Do not be fooled into thinking the project will be profitable solely by upgrading the finishes if the market doesn't allow for it.

**4. Building for the wrong location** – We've all heard the old adage 'location, location, location,' however where you build is only half the battle. What you build in that location is just as important. Know your target market and what is important to them. For example, building a three-story townhome in the suburbs probably isn't a good idea. The majority of people who live in the suburbs are either empty nesters or families with kids. Neither group of people wants to climb three to four flights of stairs.

There are a lot of mistakes that are easy to make. These four are the ones we see most often. At HM Capital, we have helped numerous clients avoid these extremely expensive mistakes. You don't know what you don't know. And that is the value of bringing in an expert with a different perspective.

## The Top 3 Areas Where a Development Consultant Will Add Value

As your experienced real estate advocate, a Development Consultant will add considerable value to your project. Here are the top three ways that you will benefit from our experience.

**1. Initial Review of the Project** – A Development Consultant such as HM Capital will add significant value right from the start. By reviewing the scope of the project, the budget, floor plans, financing and sell-side analysis, HM Capital will save time and money before the project even breaks ground. From providing realistic comps and a neighborhood analysis to price matching budget line items, we are on your side from the very beginning saving you from costly mistakes down the road.

Typically, we can find additional opportunities for increasing profitability that an investor might not have thought of.

**2. Planning & Budgeting** – Overbuilding a project will reduce your profits while underbuilding leaves money on the table. We will attend architectural design meetings and provide recommendations based on our experience. We will help you select the architectural design and finishes that will achieve reliable profitability for the project. We will help create a realistic budget and outline overall deal points for the investment.

**3. Cost Management** – There are opportunities for cost overruns throughout the entire project. As your Development Consultant, HM Capital will select and review a contractor, facilitate financing, review and dispute change orders, track lien waivers, and track the budget to achieve as minimal a variance as possible from your projections.

As your advocate, we will protect your investment from start to finish. If you are interested in learning more about HM Capital's development consulting services, we encourage you to reach out and start a conversation.



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