



OAK INVESTMENT MANAGEMENT GROUP

JUNE (1) 2012: Greenfield Development in Real Estate



Greenfield development is the term applied to development that is on what is currently agricultural or completely undeveloped land. There are benefits and drawbacks to this type of investment from the point of view of the investor, occupier as well as public authorities. An investor and occupier are more partial to this type of development and public authorities are (typically) less so.

It is easier to develop from a blank slate than it is to re-develop from something that exists already. That is because architects can draw up plans from a blank sheet and do not need to check such things as pre-existing measurements. Surveyors do not need to check pre-existing fabric and decide what is useable and what is not useable. Investors have less uncertainty about issues that can develop during the build process.

Value is more immediately and obviously created with greenfield development than with any form of re-development in real estate. If the building is built to order it can be built to exact specifications, and therefore with very much less risk to initial returns to investment as well as potential obsolescence of the investment. Should the planning process be well managed capital value is exponential with greenfield, as the mid-process (after planning permissions) value of the real estate is intrinsically worth a great deal more than the original land value that it may have been purchased for.

Greenfield would win every time were it not for two important features of brownfield development (or greyfield development as it is called in North America). The first is that pre-existing built fabric – where brownfield sites are typically located – is close to an urban center so often benefits good natural communication for all real estate and, in particular, footfall in the case of retail real estate. The second major consideration is that, particularly in the Western world (it is very different in the developing world) there is a belief held amongst public authorities that the built fabric has reached a satisfactory level and that no further new development should be permitted. This takes the form of greenbelts or reserved / protected land that cannot be built on as well as a general aversion to or extended mitigation required in order to build on greenfield land. This serves to create scarcity and thus value for brownfield as well as uncertainty and risk associated with a considered greenfield project.

The real challenge for greenfield developments is that it is unsustainable *ad infinitum* from an environmental and investment point of view. As much as we would like to start with a blank slate each time this approach cannot go on forever. As a result, real estate professionals have a responsibility to consider whether it is possible to service outstanding requirements with recycled real estate as opposed to completely new real estate.

Pros	Contras
Exact specifications	Possible design flaws
Rapid value enhancement	Planning risk and uncertainty
Cheaper build costs	Environmentally unsustainable