



# Understanding the Development Process



**MICHIGAN ECONOMIC  
DEVELOPMENT CORPORATION**

## *What you will learn:*

*Resources for new businesses*

*How a brick and mortar business is developed*

*Why it is important for communities to have and follow adopted development standards*

*What is the length of time involved with a typical development*

By the time a development proposal has landed on the Planning Commission docket, countless hours of planning, design, and redesign have gone into the site plan. Medium sized and large developers understand the municipal review process, from knowing to meet with the planning staff BEFORE the idea is put to paper, to reviewing the zoning code and other regulations, and making sure the idea fits with the Master Plan vision.

But a small, local business, an entrepreneur with an idea, or a first time investor, may not be as savvy about municipal protocols. And since smaller scale, infill developments are more likely to be taken on by a local with an idea, or a first time developer, providing assistance to help navigate sometimes complicated local review processes can benefit the community.

It can be difficult for local appointed and elected officials to understand the perspective of the business owner that is across the counter wanting to get something built, or a disappointed entrepreneur being turned away by the planning commission for the third time because their plans do not meet municipal codes and requirements. Government processes and regulations are second nature to an experienced developer; not so much the owner of the local hardware store who wants to add a small addition, but doesn't know where to start.

Local government is responsible for the public health, safety and welfare of the community. There are master plans to implement and ordinances to enforce. Elected and appointed officials consider development proposals regularly, and are experienced with the process. It can be difficult sometimes to understand the perspective

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## ***State laws that may also apply:***

Michigan Planning Enabling Act, Public Act 33 of 2008

Michigan Zoning Enabling Act, Public Act 110 of 2006

Michigan Recodified Tax Increment Financing Act, Public Act 57 of 2018

Michigan's Bureau of Construction Codes administers a number of state laws including: the Stille-DeRossett-Hale Single State Construction Code Act (1972 PA 230), the Construction of School Buildings (1937 PA 306), Article 17 of the Public Health Code (1978 PA 368), the Elevator Licensing Act (1976 PA 333), the Elevator Safety Board Act (1967 PA 227), and the Utilization of Public Facilities by Physically Limited Act (1966 PA 1)

Michigan's construction codes include the following: Building Code, Mechanical Code, Plumbing Code, Rehabilitation Code, Residential Code, and Energy Code

Principal Shopping Districts and Business Improvement Districts, Public Act 120 of 1961

Brownfield Redevelopment Financing Act, Public Act 381 of 1996

## ***TERMS***

**Business Plan:** a document setting out a business's future objectives and strategies for achieving them

**Pro forma:** Pro forma financial statements are financial reports based on hypothetical scenarios that utilize assumptions or financial projections

of the small business owner, or first time applicant, who is before the planning commission or across the counter.

Creating a welcoming and helpful environment for investors, and making your community "development friendly", can spur new investment, attract spin-off businesses, enhance your downtown and commercial areas, fill vacancies, and boost your municipal reputation as a community that is open for business.

### ***Idea for a business***

If someone has an idea for a business, they should contact their local or regional organization that represents small businesses. Typically, it's an SBA (Small Business Association) or Small Business Development Center (SBDC) that supports local businesses and provides low-cost or free resources to citizens. If it's a start up business, many community colleges offer affordable seminars and courses about

going into business. These seminars educate participants on aspects of business that need to be considered like accounting, marketing, management, and planning.

When one considers the financing that will be necessary, a business owner shouldn't walk into a bank without a business plan. Knowing how to create and manage a website or other online presence is also necessary for a business to compete in today's business climate.

### ***What type of data do businesses need***

Large scale developers and franchises will review regional demographics before settling on an area to locate. Demographics are just as important to small businesses or entrepreneurs. Demographics are typically available from small business association, the local metropolitan planning organization, or Gale Business. They can help a business determine where people who might consume certain products or services live. A target market analysis is often conducted to determine if a proposed use will have enough customers nearby.

### ***Location, Location, Location***

Hopefully, a developer or business will contact the local government to ask zoning and other development regulations sooner rather than later. Often there is a planner on staff, but sometimes zoning is handled by the manager or a zoning administrator. The developer or

## **Resources:**

U.S. Census Bureau

Gale Business

Michigan Association of Regions

*Guide to Starting and Operating a Small Business* by the Michigan Small Business Development Center

The Michigan Association of Planning offers mini-workshops on a variety of topics such as, tax increment financing and target market analysis

business owner may not know exactly what to ask. An experienced zoning administrator will sometimes need to ask questions to find out exactly what kind of business is proposed in order to better assist the would be business owner; for instance: Will it have a drive through? Did you want to sell beer and wine? Did you want to locate in the historic district?

There may be other laws that affect the proposed business. For example, restaurants must receive permits and inspections from the county. Massage therapy and tattoo artists are licensed with the state. Recreational marijuana has its own set of rules. Local government can help businesses untangle the red tape of regulations by pointing businesses in the right direction.

Once the business owner has zoning and land use information, they would work with a real estate agent to look at property located in the proper zoning district. Sometimes the business owner already has a location in mind. In these instances, the zoning administrator can advise if the location would work for the proposed business or if the business owner or developer needs to keep looking for a suitable location.

### ***Rent, Buy or Build?***

Whether a business owner chooses to rent, buy or build depends on many factors. There may be branding or franchise agreements that require new construction. If new construction is not required, a business owner may decide to rent in an existing building. Alternatively, a business owner may decide to construct a new building and also include space to lease to someone else (residential or business use). If leasing space post-construction is an intent or option, the rental data (i.e. price per square foot) will be important in the financing phase of the project. If the owner decides to

develop a vacant lot, it's important to determine if the business falls under the permitted use or if it would be determined a special land use, which would initiate a separate land use review within the community review process.

At this step in the process, even if the business owner will be leasing a space in an existing building, they may need to hire an architect to finish out or customize the space.

If a vacant lot is selected and purchased, the owner would hire an architect to develop a site plan.

### ***How to hire an architect/engineering firm and building firm***

Sometimes the community provides a list of names of individuals or companies that have a good track record of projects completed in the area. Otherwise, an internet search of local architects or engineers is necessary. A business owner or developer would then “interview” them to determine availability and to see if the design professional meets the developer/business owner’s needs. Some design firms offer both architectural design and building services, and some just have one of the two offerings. Usually, architects have relationships with certain builders, and builders will have relationships with architects based on past work together.

### ***Financial considerations***

The building or construction company that is selected will help a business owner or developer with this step in the process. The financing institution will want to see a Pro forma. Pro forma is a Latin term that means “for the sake of form” or “as a matter of form,” and is a method of calculating financial results using certain projections

or presumptions. Construction companies can work with the business owner to develop the Pro forma, which analyzes the feasibility of project, all associated costs like the building cost, how much rent will cost per square foot if space will be leased, and the monthly cost for the company if they are going to occupy the building. For tax purposes, typically the business or company owns the building under a separate Limited Liability Company (LLC) and leases it back to the company.

In many instances, the owner will contact the financial institution and discuss construction financing. Typically, the owner can borrow up to a percentage of the building cost (50-60% of building in many cases) and the remainder of the funds will be raised privately. Depending on the circumstances and conditions of the land, and if there are feasibility issues, the owner/developer may be able to work with the municipality to cover costs for potential contamination. For example, the site may be part of a brownfield redevelopment authority. If leasing space to other occupants is an option, the owner will need to meet the current rental market rate and the bank will want to ensure the local market can bear the costs in the case of foreclosure.

### ***Review and Approval***

Now the business owner returns to the local unit of government with plans. The parties who review plans differ depending on the community size and the types of plans being reviewed. If the business owner is simply finishing off space in an existing building, the building official is probably the chief reviewer of the proposal. But if a new building is being proposed, then a site plan is required and it will often (but not always) go before the planning commission. Some communities have the planning commission review and approve site plans. Others stipulate that buildings under a certain square footage require an administrative review.

Once the plan is approved by the approval party,

the owner/developer is able to submit construction drawings designed by a design professional or architect for review by the building department. A construction drawing has detailed illustrations of the building and outlines specifications. Some communities have a building official on staff, others contract with a private company, or use the county building department. Construction plans are reviewed for compliance with Michigan's electric, mechanical, plumbing and building codes.

If everything complies, permits are issued and construction can begin. There will be required inspections along the way to ensure that the plans and codes are being followed.

There may be other governmental entities that will need to approve the plans and make inspections. For instance, restaurants receive permits and inspections from the county health department in addition to any from the local government.

Once the building construction is complete, a final inspection occurs, and a certificate of occupancy is provided by the building department.

### ***How long does the process typically take?***

The entire process typically takes anywhere from 6 to 12 months depending upon the type of business, how long it takes to develop plans and drawings, the community's review process, and the time of year one starts the construction process.

A prospective business owner makes a substantial investment of time and money from the idea stage to the site plan stage. It is mutually beneficial for the local community and the business owner to have the community's expectations, ordinances, standards, and guidelines stipulated up front so they can be incorporated at the outset of any business plan.

This tear sheet was developed by the Michigan Association of Planning (MAP) for the Michigan Economic Development Corporation (MEDC). The Michigan Association of Planning is a 501 c 3 organization, dedicated to promoting sound community planning that benefits the residents of Michigan. MAP was established in 1945 to achieve a desired quality of life through comprehensive community planning that includes opportunities for a variety of lifestyles and housing, employment, commercial activities, and cultural and recreational amenities.

