ABSTRACT

In Singapore where the supply of land is scarce and the population is projected to increase from the current 2.5 million to the forecasted 4.0 million in 2030, there is a foreseeable consistent demand for land developments.

Land development requires both a high capital outlay and a long investment payback period. The exposure to an ever-changing social, political and economic environments has made land development a highly risky and uncertain business undertaking.

In view of the risk and uncertainty involved, it is imperative to adopt a logical and systematic approach to carefully and thoroughly evaluate the process of land development before any further commitments which are both costly and irreversible are made.

Development appraisal is an objective evaluation process carried out to assess the probable outcome of the development. It should be conducted while the developer retains strategic options and prior to making any further financial commitment.

The concept of development appraisal parallels that of a feasibility analysis. Development appraisal begins with the identification and establishment of the developer's objectives. The site and technical study evaluates the
various physical and regulatory constraints as well as the growth potential and locational advantages of the site. The market study necessitates extensive analysis of historical and prevailing market data to reach a logical projection of future market conditions. The results from the site and technical study, and the market study provide the inputs to the financial feasibility study which analyses the financial feasibility of the development as well as the risk profile of the development. The various studies provide an objective evaluation of the development to arrive at a rational decision instead of sheer reliance on market sentiments and entrepreneurial intuitions.

With the advent of state-of-the-art technologies, innovative financing arrangements and project management expertise, land development is becoming increasingly broad in scope and highly complex. With the massive commitments of resources, decisions cannot afford to be intuitive. Development appraisal ensures that development is objectively evaluated and it provides rational assessment of the financial feasibility as well as the risk profile of the development. Development appraisal therefore provides a more logical and systematic approach to determining the viability of a development as it is supported by facts and figures.

The application of development appraisal is exemplified through a case study of a proposed mixed commercial and residential redevelopment. The use of a case study methodology provides a realistic and effective way to
demonstrate the evaluation process. As the market study and financial feasibility study necessitate substantial data processing, spreadsheet software is used to facilitate the computations.