



Development vs. Stabilized Investments

How risk, timing, and market conditions shape return profiles

Real estate investments are often broadly categorized into two groups: development and stabilized assets.

While both can play a role in a portfolio, they represent fundamentally different risk profiles, timelines, and sources of return.

Understanding these differences is an important part of evaluating opportunities — particularly as market conditions evolve.

What Is Development?

Development typically involves acquiring land or an existing property and constructing or significantly redeveloping it.

Returns are generally driven by:

- Completing construction on time and within budget
- Leasing the property to stabilize operations
- Achieving a value that exceeds total project cost

Because the asset is not yet producing income, development relies heavily on execution and future market conditions.

This introduces several layers of risk, including:

- Construction cost variability
 - Delays in delivery or leasing
 - Changes in demand by the time the asset is completed
 - Financing and interest rate exposure
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What Is a Stabilized Investment?

Stabilized assets, by contrast, are already constructed and generating income.

Returns are primarily driven by:

- In-place cash flow
- Operational improvements
- Moderate growth over time

Because the asset is already operating, stabilized investments typically provide:

- Immediate income
- Greater visibility into performance
- Lower execution risk

While they may offer less “headline” upside than development, they are often more predictable.

How Development Was Historically Underwritten

In prior market environments — particularly when construction costs were lower and debt was more accessible — development projects were often underwritten to produce yields meaningfully above those of stabilized assets.

It was not uncommon to see:

- Development yields exceeding acquisition yields by 75–100 basis points

This spread compensated for:

- Construction risk
- Lease-up risk
- Timing and execution uncertainty



Under those conditions, development could offer an attractive risk-adjusted return.

How the Current Environment Has Shifted

In the current environment, several factors have changed:

- Construction costs have increased
- Financing costs have risen
- Capital availability has become more selective

These shifts have compressed development yields in many cases.

At the same time, opportunities to acquire stabilized assets have adjusted differently.

In certain markets, it is now possible to acquire stabilized, cash-flowing assets at yields that are comparable to — or even exceed — development yields.

In some cases:

- Stabilized yields are 75–100 basis points higher than development yields
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Why This Matters

This reversal has important implications.

If a stabilized asset is producing:

- Immediate income
- Lower execution risk
- Greater visibility into performance

...and is available at a yield equal to or higher than a development project, the relative value proposition changes.

In that scenario, investors are effectively being compensated more for taking less risk.



From a risk-adjusted perspective, this can be a more compelling opportunity.

Comparing Risk Profiles

The difference between the two approaches becomes clearer when viewed side by side:

Development:

- No initial cash flow
- High reliance on execution
- Greater exposure to cost and timing risk
- Returns dependent on successful stabilization

Stabilized:

- Immediate cash flow
- Lower execution risk
- Performance driven by existing operations
- More predictable outcomes

Both approaches can be valid, but they serve different roles and carry different risk profiles.

How We Think About It

We evaluate development and stabilized investments through the lens of risk-adjusted return.

When development yields provide a meaningful premium, they can justify the additional complexity and risk.

However, in environments where stabilized assets offer comparable or higher yields, the equation shifts.

In those cases, we tend to prioritize:



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- Existing cash flow
- Strong underlying fundamentals
- Reduced reliance on execution

This aligns with a broader focus on durable growth — where performance is supported by what is already in place rather than what must be created.

Final Considerations

Both development and stabilized investments can have a place within a portfolio.

The key is understanding how market conditions influence the relationship between risk and return.

In many cases, the most attractive opportunities are not defined by a single strategy, but by how well that strategy aligns with the current environment.