



D-TAP

Small Developer Training

Course Instructors



Andy Babula

University of St. Thomas

Varro Real Estate



Sara Joy Proppe

Proximity Project



Joe Bowman

Conscious Living Institute



SECTION 1

Purpose of Course

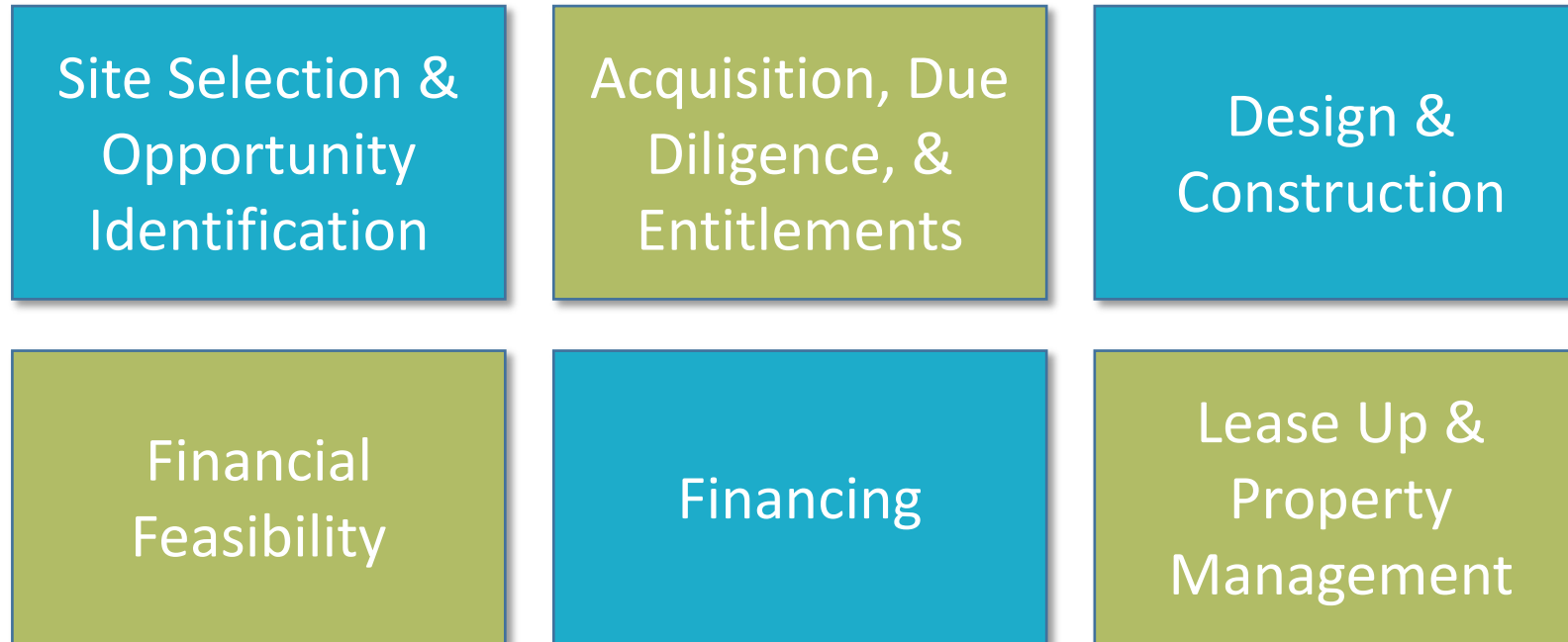
Purpose of Course



SECTION 2

Introduction

Development Process



Skills Needed at Each Stage of Development



Partnerships

- Real estate broker
- Attorney
- Architect
- Engineers
- General Contractor
- Market Analyst
- Financial Partners
- Financial Analyst
- Property Manager



Introductions

Name

Real Estate Skill

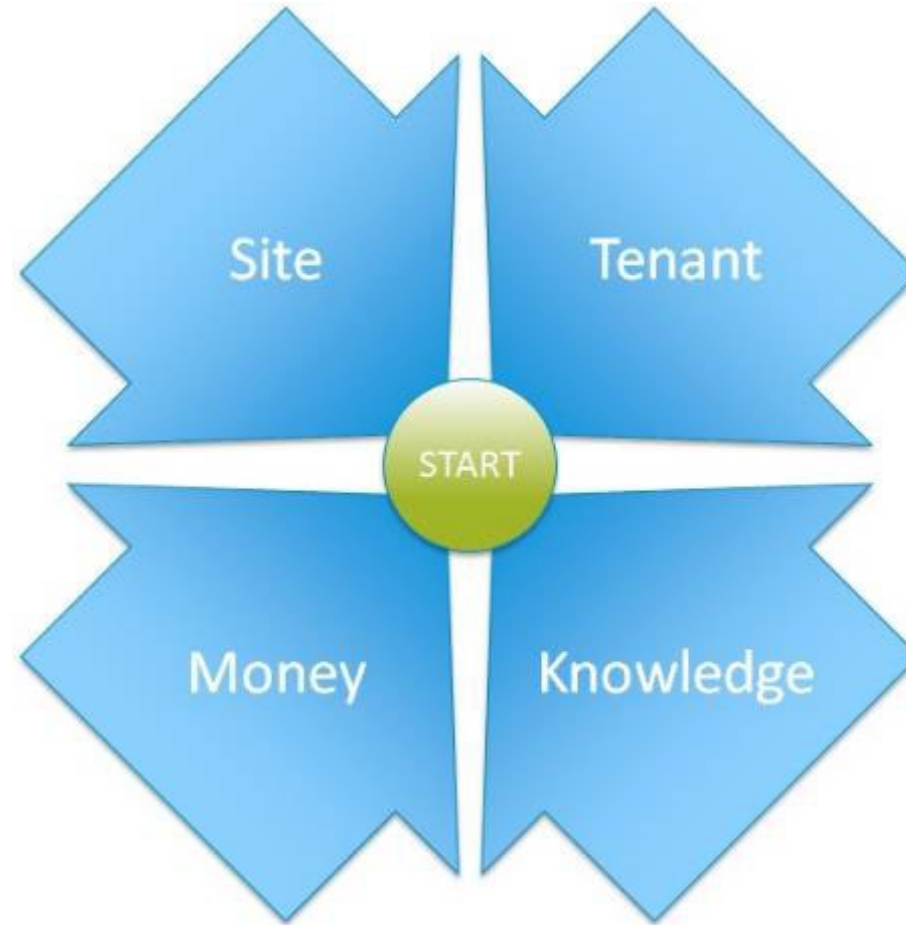


Your Business Model

Buy	Acquisition	Build
Hold	Term	Flip
Build-to-Suit	Tenant	Speculation
Internal	Financing	External
Residential	Asset	Commercial
Geography		



Where Do You Start?



SECTION 3

Site Selection & Opportunity Identification



Build Your Inventory Comparison

Building Name	Option 1	Option 2	Option 3	Option 4
BASIC BUILDING INFORMATION				
Address	123 Main St.	2300 Chicago	900 N 2nd St	1400 Lake St
City	Minneapolis	Minneapolis	Minneapolis	Minneapolis
Zip	55408	55423	55454	55450
Previous Sale Date	9/14/2006	5/17/2015	6/21/2005	6/23/2009
Previous Sale Price	\$624,850	\$985,000	\$453,000	\$789,000
Estimated Market Value	\$850,000	\$1,015,000	\$759,500	\$1,256,000
Number of Units	2	2	2	2
Parcel ID (PID)	0474824120007	0474824120004	0474824120006	0474824120005
Legal/Abstract or Torrens	Torrens	Torrens	Torrens	Torrens
Lot Size	9,000	6,000	5,500	5,000
Lot Dimensions	100x90	120x50	110x50	125x40
Gross Bldg SF	6,000	7,200	5,000	8,300
Net Bldg SF	5,000	6,200	4,500	7,500
Building Efficiency	83%	86%	90%	90%
Number of Levels	2	2	2	3
Basement (Y/N)	N	N	Y	Y
Elevator	N	N	N	Y
Dock	N	N	N	N
Year Built	1975	1958	1923	2001
Historic (Y/N)	N	N	Y	N
Clear Heights (Interior)	12	9	10	12
Vehicle Counts (X cars/day or VPD)	10,500	4,300	19,450	23,950
Parking	10	8	0	12



What to Consider When Selecting a Site



- Basic Specifications (Size, Age, Parking, etc.)
- Zoning
- Plans
- Price
- Market Potential
- Existing Tenants
- Property Conditions
- Availability
- **Relationships!**



Basic Specifications

What is buildable land?



Gross, Rentable, & Usable – RU Factor




$$\text{RU Factor} = \frac{\text{Rentable SF}}{\text{Usable SF}}$$

$$\text{RU Factor} = \frac{7,700}{7,000} = 1.10$$

	GSF	RSF	USF		RSF
	<u>Gross</u>	<u>Rentable</u>	<u>Usable</u>	<u>Usable x RU</u>	<u>Rentable</u>
Tenant 1	4,000	4,000	4,000	4,000 x 1.10 =	4,400
Tenant 2	3,000	3,000	3,000	3,000 x 1.10 =	3,300
Lobby (common)	700	700			
Elevator	200				
Total	7,900	7,700	7,000		7,700

Finding Basic Site Specifications

Hennepin County

**Interactive Maps**

900 3rd Street North, Minneapolis

Type an address or a property ID (PID) [Search help](#)

ToolsLegendPrintShareHelp

Property

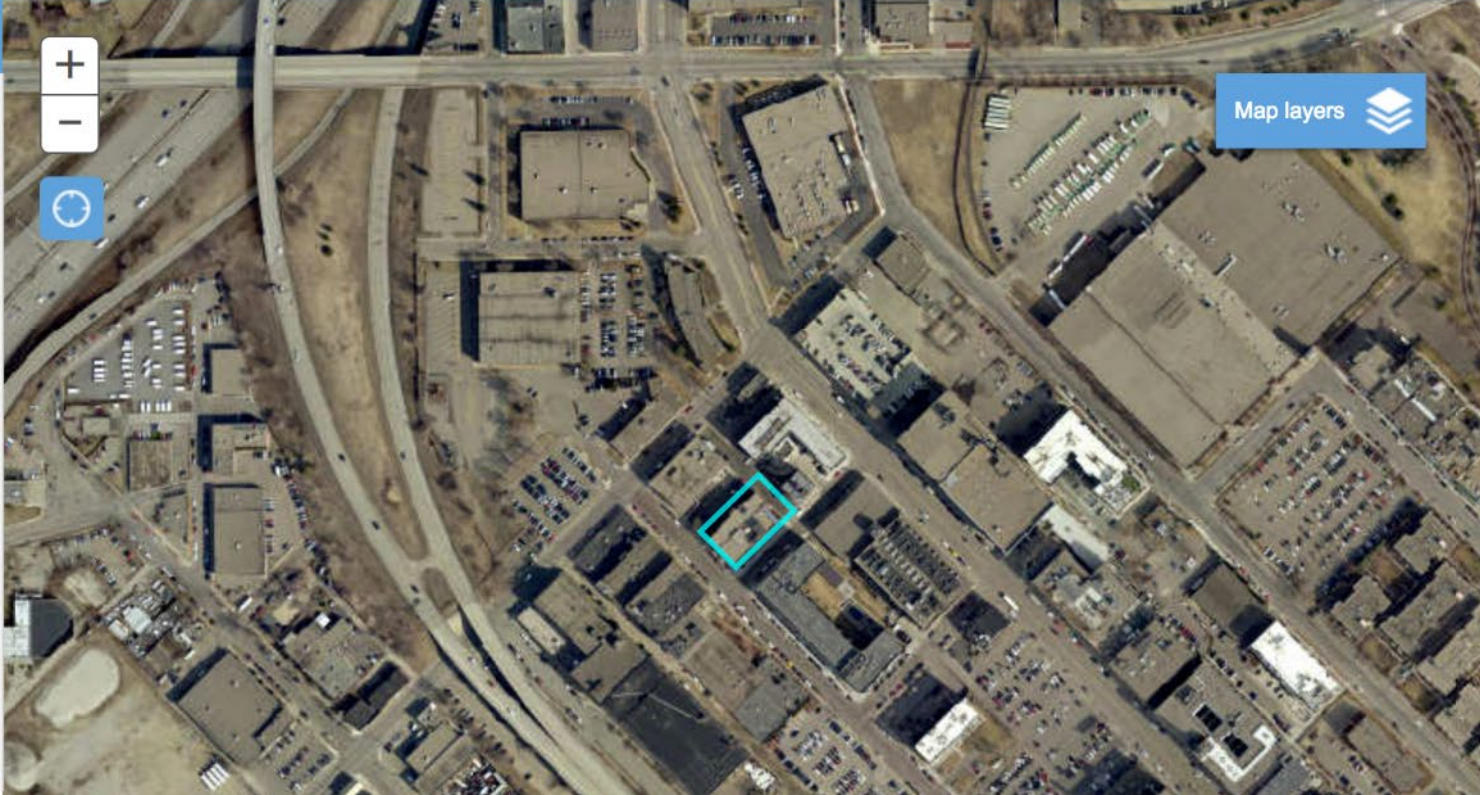
[Go to Property links](#)

[Clear results](#)

PID: 2202924210054
900 3rd St N
Minneapolis, MN 55401

Owner/Taxpayer	
Owner:	Gurley Lofts Llc
Taxpayer:	GURLEY LOFTS LLC C/O SCHAFER RICHARDSON INC 900 NORTH 3RD ST MINNEAPOLIS MN 55401

Tax Parcel	
Parcel Area:	0.46 acres 19,880 sq ft
Torrens/Abstract:	Abstract



Finding Basic Site Specifications

City of Minneapolis

Property summary

Address: 900 3RD ST N 55401

Property ID: 2202924210054

Owner

Gurley Lofts LLC
Minneapolis MN 55401

Taxpayer (Source: Hennepin County)

GURLEY LOFTS LLC
C/O SCHAFER RICHARDSON INC
900 NORTH 3RD ST
MINNEAPOLIS MN 55401

This address is in

[North Loop neighborhood](#)
[Police precinct 1](#)
[Ward 3](#)

Related links

[Garbage & recycling schedule](#)
[Hennepin County property information](#)

[Valuation history](#) [Lot info](#) [Classifications](#) [Rental info](#) [Lead paint status*](#) [Energy star](#) [Parcel flags](#)

Lot size	19,690
Tract/block	126200 / 2010
Zone	B4N / Downtown Neighborhood District BFT10 / Transit 10 Built Form Overlay District DP / Downtown Parking Overlay District

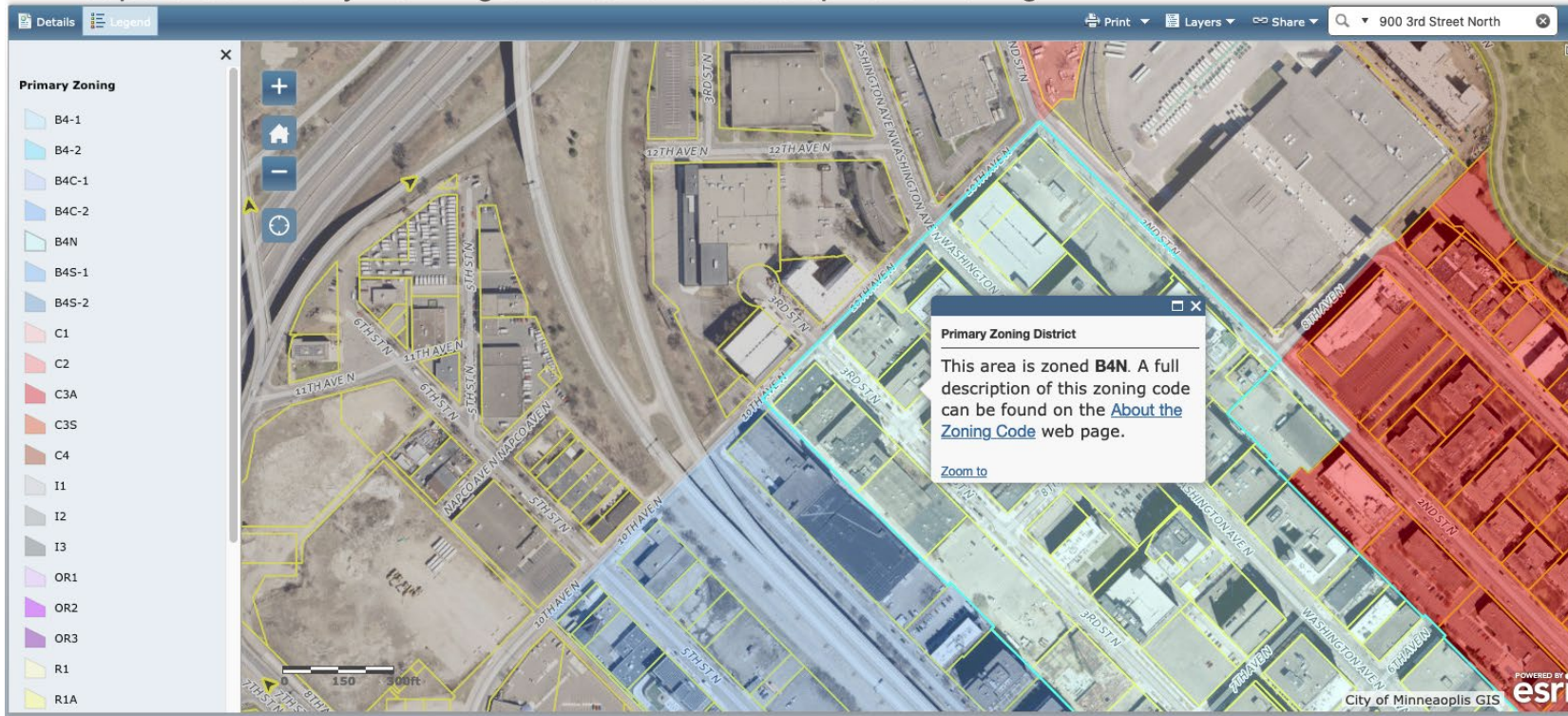


DEVELOPERS TECHNICAL
ASSISTANCE PROGRAM

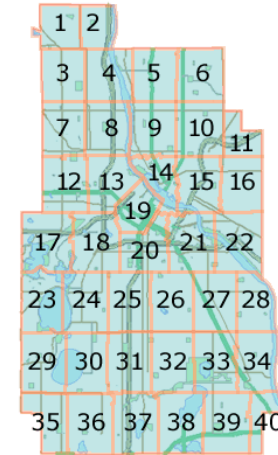
Understanding Zoning Maps

Primary Zoning Districts

Minneapolis Community Planning and Economic Development - Zoning



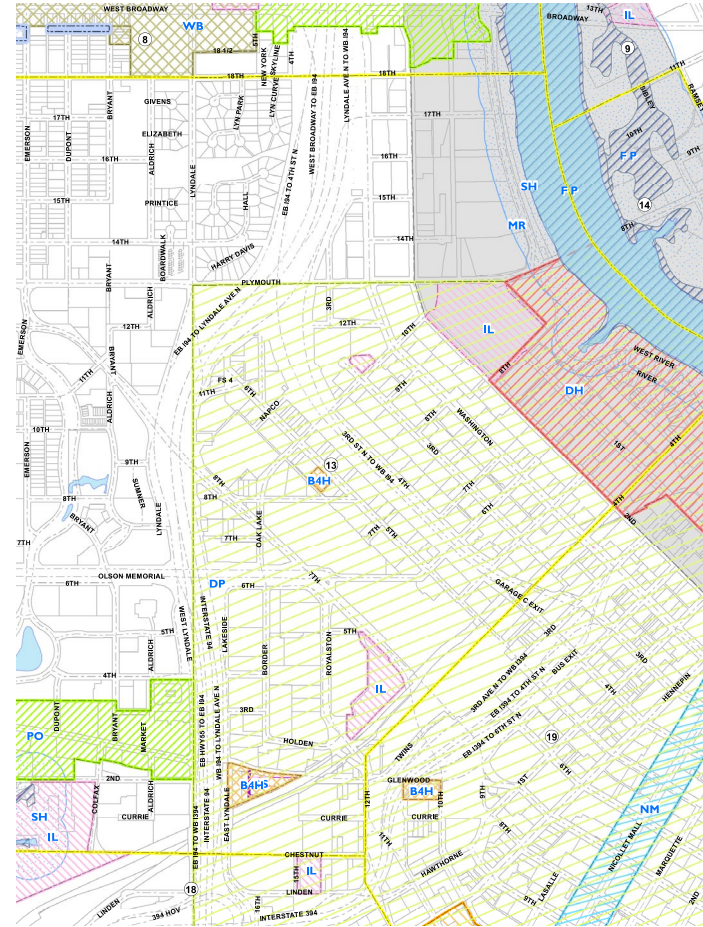
Find zoning classification



How to find a zoning classification

- Select a zoning plate.
- Determine your primary and overlay district classifications.
- Use the [zoning map](#).

Overlay Zoning Districts

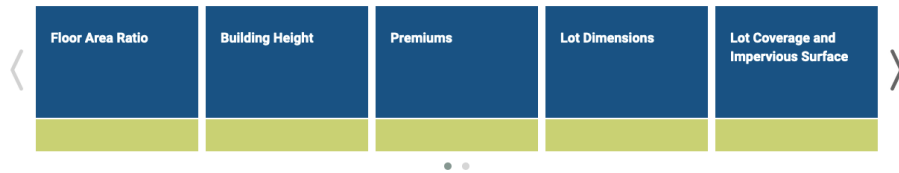


Overlay Zoning Districts

-  Airport
-  Downtown Housing
-  Downtown Height
-  Downtown Parking
-  Downtown Shelter
-  Harmon Area
-  Industrial Living
-  Linden Hills
-  Nicollet Mall
-  North Phillips
-  Pedestrian Oriented
-  Transitional Parking
-  University Area
-  West Broadway
-  Shoreland
-  Floodplain
-  Mississippi River Critical Area

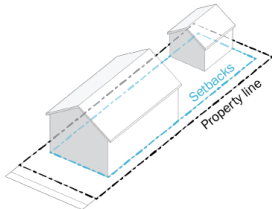


Built Form Overlay Zoning

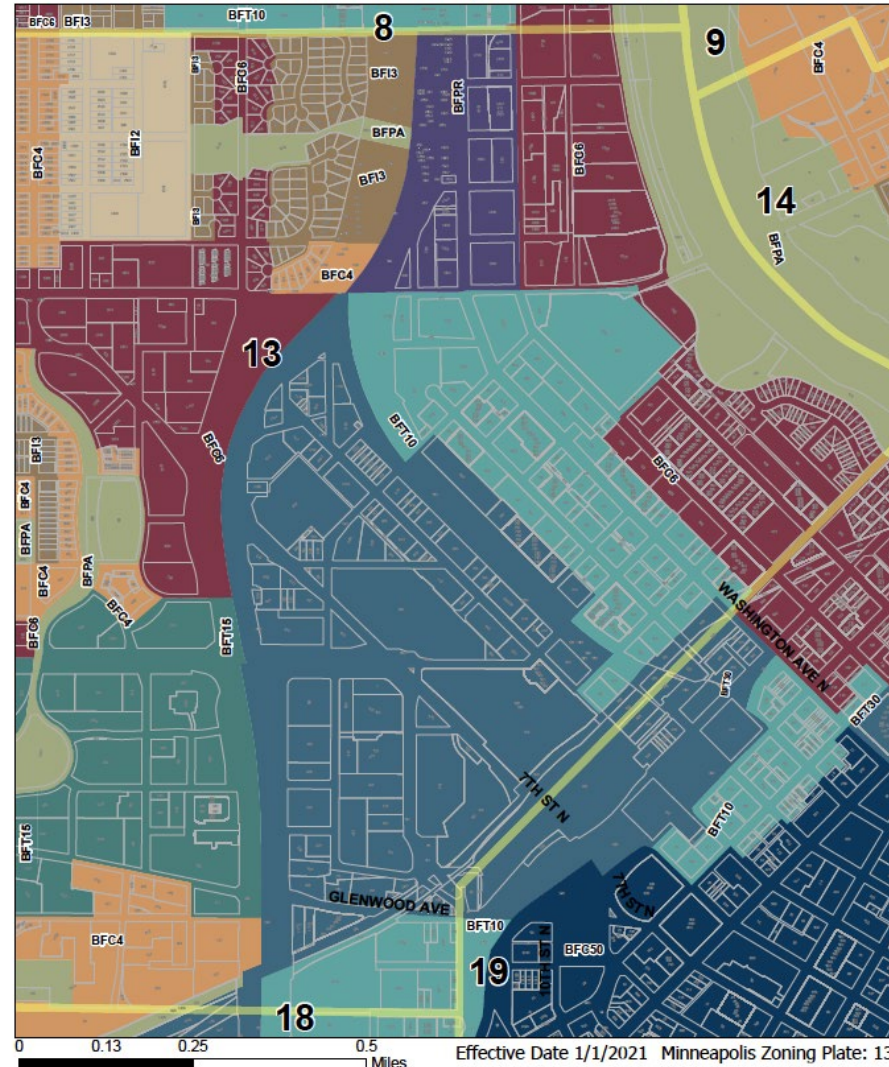


Setbacks

Setback regulations indicate how far from a property line a building or other improvement is allowed to be built. Setbacks are utilized to separate uses and structures, and regulate urban form. All built form overlay districts will contain setback regulations. Larger setback requirements apply in the residential areas versus nonresidential or mixed-use areas which at times do not have a setback requirement.



Built Form Overlay Zoning Plates



Legend

- Interior 1
- Interior 2
- Interior 3
- Corridor 3
- Corridor 4
- Corridor 6
- Transit 10
- Transit 15
- Transit 20
- Transit 30
- Core 50
- Production
- Parks
- Transportation

Plans, Plans, & More Plans

Comprehensive Plans

Small Area Plans

Neighborhood Plans



Executive Summary

The Minneapolis Plan for Sustainable Growth is the City of Minneapolis' comprehensive plan and provides the vision and framework for the City's urban renaissance and growth as a great city of the future.

Why Plan?

This is a 2007 snapshot of the type of recognition Minneapolis receives:

- Recognized as the most affordable city in the nation
- Celebrated on the top ten lists of "smart", "cool" and "green" cities
- Ranked as a top business district in the country
- Noted as a design boomtown for its distinct and visionary architecture
- Lauded as a steward of its water resources
- Recognized nationally for its interconnected park systems, including lakes, trails and tree-lined streets
- Cited as the most athletic city in the country



DEVELOPERS TECHNICAL
ASSISTANCE PROGRAM

Midtown Greenway Land Use and Development Plan Executive Summary

Introduction

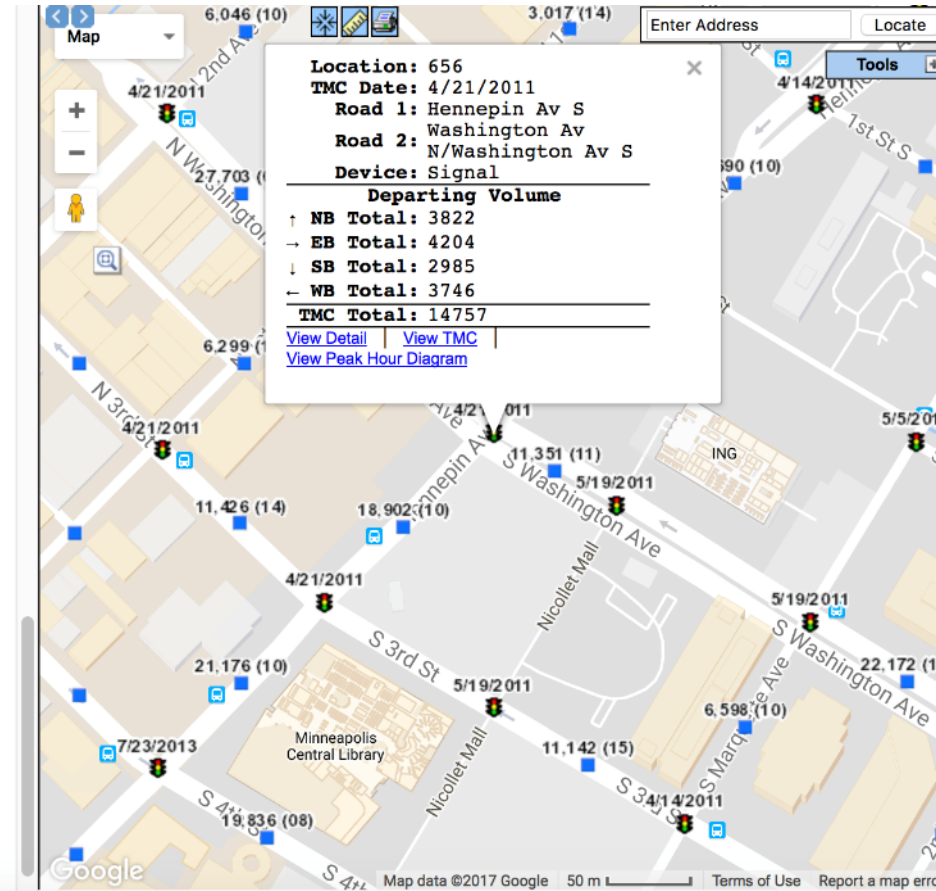
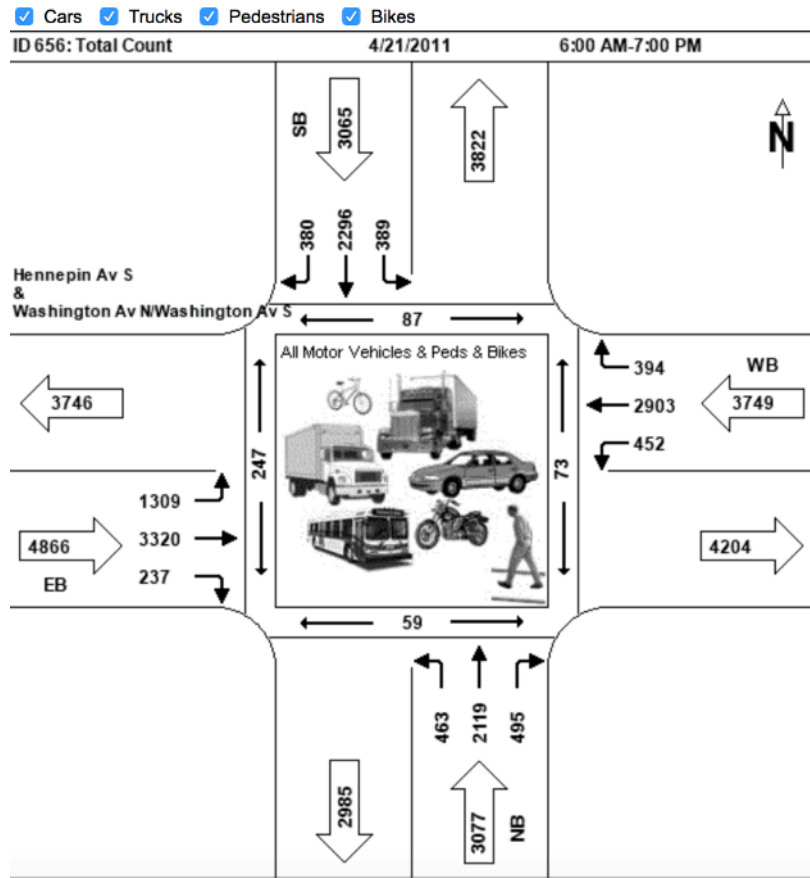
The Midtown Greenway Land Use and Development Plan sets policy direction for land use and development in the Midtown Greenway corridor for the next 10-20 years, with implications for private development and investment in the public realm. The study boundary generally includes properties within one block of the greenway from the western border of the city east to Hiawatha Avenue.

The Plan evaluates the long-term viability of existing land uses along the corridor. It provides guidance for future land uses along the Midtown Greenway, and proposes development guidelines for development intensity and form. The recommendations take into consideration the development of Lake Street, current land use patterns, existing transit service and the anticipated rail transit under consideration for the area. Possible approaches to key implementation issues, such as open space ownership and management strategies, are explored and outlined in this report. All of the plan recommendations evolved through a process of stakeholder and public engagement that included extensive input from the community.



Market Potential

Traffic Volume – Visibility – Accessibility



Resources for Site Selection

Broker Sites

<http://www.mncar.org/public-commercial-listing/>

<http://www.loopnet.com/>

<http://www.themlsonline.com/minnesota-real-estate>



Resources for Site Selection

Minneapolis Resources

Minneapolis Property Information

apps.ci.minneapolis.mn.us/AddressPortalApp/

Minneapolis Communities and Neighborhoods

www2.minneapolismn.gov/resident-services/neighborhoods/

www.mncompass.org/profiles/neighborhoods/minneapolis-saint-paul#!community-areas

Minneapolis Planning and Zoning

www2.minneapolismn.gov/business-services/planning-zoning/

Minneapolis Zoning Map

www2.minneapolismn.gov/business-services/planning-zoning/zoning-maps/

Minneapolis CPED Organization

www.minneapolismn.gov/cped/cped_about

Minneapolis Interactive Maps

cityoflakes.maps.arcgis.com/home/index.html



Resources for Site Selection

Hennepin County Property Information

www.hennepin.us/residents/property/property-information-search

MetCouncil Census Data

metrotransitmn.shinyapps.io/census-2020/



Resources for Site Selection

Traffic Counts

minneapolis.ms2soft.com/tcds/tsearch.asp?loc=Minneapolis&mod

dot.state.mn.us/traffic/data/tma.html



Activity C:

Site Selection Questionnaire



SECTION 4

Acquisition, Due Diligence, & Entitlements

Acquisition Process



Letter of Intent

Dear Seller:

The purpose of this letter is to set forth some of the basic terms and conditions of the proposed purchase by the undersigned (the "Buyer") of certain real estate owned by you (the "Seller"). The terms set forth in this Letter will not become binding until a more detailed "Purchase Agreement" is negotiated and signed by the parties, as contemplated below by the section of this Letter entitled "Non-Binding."

1. DESCRIPTION OF PROPERTY. The property proposed to be sold is located at 1000 5th Street, Minneapolis, Minnesota and is legally described in the attached Exhibit "A".

The Real Estate is subject to public highways, covenants, restrictions and zoning, if any.

2. PRICE. The proposed purchase price is \$450,000.00, of which \$10,000.00 would be deposited with Seller, or Seller's agent, upon acceptance of a binding Purchase Agreement. Buyer would pay the balance to Seller at closing.

3. POSSESSION. Possession would be given on September 30, 2017, or sooner by mutual agreement. Settlement would be made at the closing, immediately prior to possession.

4. INSPECTION. After the final acceptance of a binding Purchase Agreement, Buyer may have the Real Estate inspected by a person of Buyer's choice to determine if there are any structural, mechanical, plumbing or electrical deficiencies, structural pest damage or infestation, any unsafe conditions or other damage, including the presence of radon gas, any lead-based paint hazards, and inspections for other conditions that are customary to the locality and/or that are required by law.

5. SELLER'S WARRANTIES. Seller warrants that the title of the proposed property to be sold is and shall be good. Good title consists of Seller's actual possession of the property, Seller's right of possession of the property, and Seller's right of property. Buyer is responsible for performing any title search or other due diligence investigation of title as may be appropriate, and may withdraw from a binding Purchase Agreement if it is discovered that Seller does not have good title. Seller shall deliver title to the property to Buyer in the form of a Special Warranty Deed.

6. STANDARD PROVISIONS. The Purchase Agreement will include the standard provisions that are customary to the locality and/or that are required by law.

7. STAND STILL. Seller shall not initiate or carry on negotiations for the sale of the Real Estate with any party other than Buyer unless either (1) Buyer and Seller fail to enter into a binding Purchase Agreement by October 06, 2017, or (2) Buyer and Seller agree in writing to abandon this Letter of Intent.

8. NON-BINDING. This Letter of Intent does not, and is not intended to, contractually bind the parties, and is only an expression of the basic conditions to be incorporated into a binding Purchase Agreement. This Letter of Intent does not address all of the essential terms of any potential Purchase Agreement. This Letter does not require either party to negotiate in good faith or to proceed to the completion of a binding Purchase Agreement. The parties shall not be contractually bound unless and until they enter into a formal, written Purchase Agreement, which must be in form and content satisfactory to each party and to each party's legal counsel, in their sole discretion. Neither party may rely on this Letter as creating any legal obligation of any kind; neither party has taken or will take any action in reliance on this non-binding Letter of Intent, whether a contract claim, a claim for reliance or estoppel (such as a claim for out-of-pocket expenses incurred by a party), or a claim for breach of any obligation to negotiate in good faith. Notwithstanding the provisions of this paragraph to the contrary, Seller and Buyer agree that the above paragraph entitled "Stand Still" shall be binding, regardless of whether a binding Purchase Agreement is entered into by the parties.

9. CONFIDENTIALITY. Buyer and Seller agree to make good faith efforts to hold any pricing terms, negotiations, and any other confidential information in confidence and will not disclose this information to any person or entity without prior written consent from either party.

If you would like to discuss a sale of the Real Estate with the undersigned on these general terms, please sign and return a copy of this Letter of Intent to the undersigned at your earliest convenience.

How Long “Under Contract”

All Cash/
Quick Close

“Free look” period

Paid extension(s)

No money goes
“hard” until all
Due Diligence is
complete and
tenants lined up

Due Diligence Checklist

Buying

- ☒ Financing
- ☒ Appraisal
- ☒ Taxes & Assessments
- ☒ Financial Review

Using

- ☒ Zoning/Use
- ☒ Licenses & Permits

Owning

- ☒ Title
- ☒ Survey
- ☒ Environmental
- ☒ Inspections

Managing

- ☒ Tenant Review
- ☒ Property Management Review



Phase I & Phase II Environmental

Phase I

- Property Records
- History of Uses
- Photographs
- Surveys
- Maps
- Records of nearby properties

Phase II

- Soil samples
- Water samples
- Vapor samples
- Surveys for underground storage tanks
- Sampling of drums on site
- Testing of underground tanks

R3 – Multiple Family District

552.110. - Maximum floor area ratio.



(a) *In general.* The maximum floor area ratio requirements of principal structures, except cluster developments, shall be as set forth within Table 552-2 Maximum Floor Area Ratio.

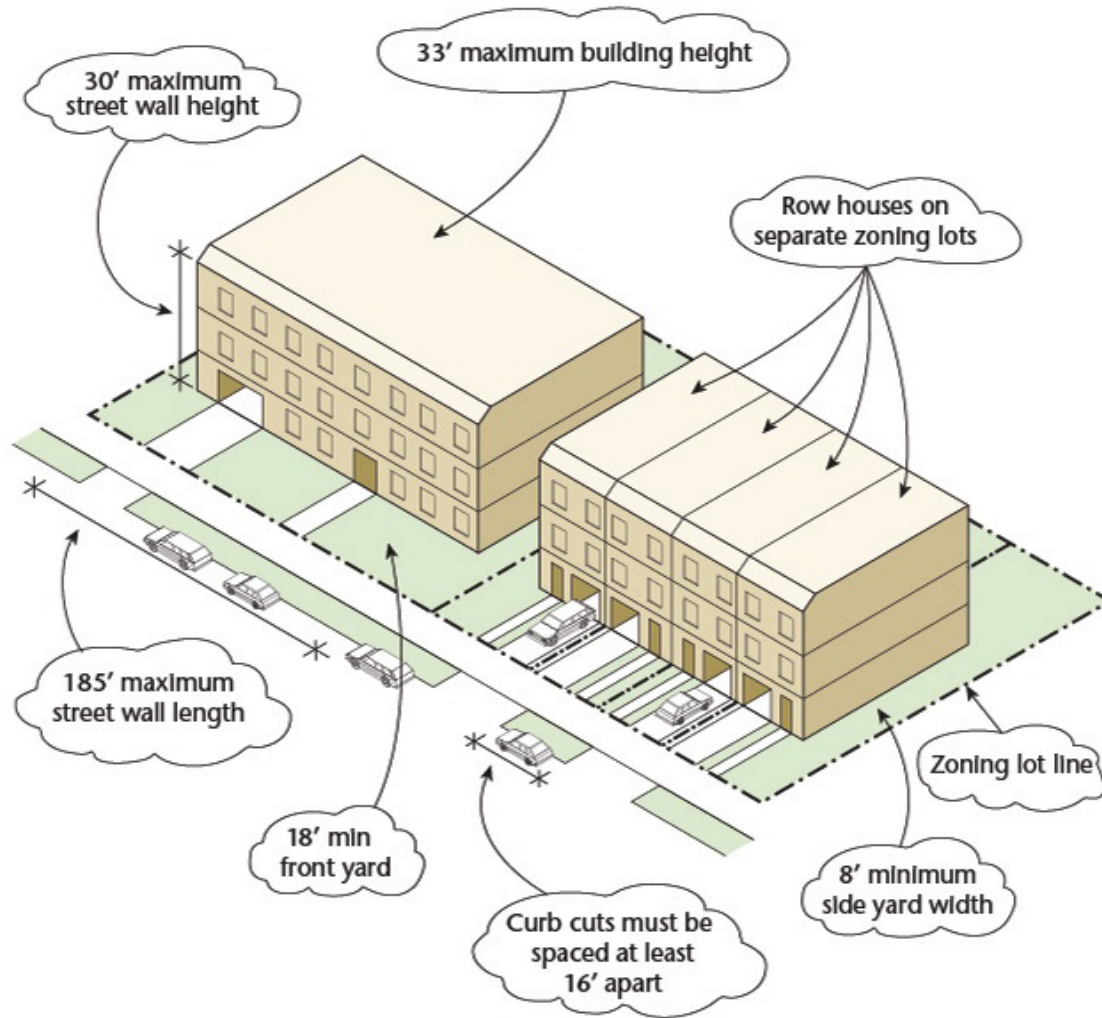
(b) *Cluster developments.* The maximum floor area ratio requirements of cluster developments shall be as set forth within Table 552-3 Maximum Floor Area Ratio for Cluster Developments.

Table 552-2 Maximum Floor Area Ratio



<i>Built Form Overlay District</i>	<i>Primary Zoning District Category</i>	<i>Maximum Floor Area Ratio (Multiplier)</i>
Interior 1	R, OR	All uses except Institutional and Public Uses: 0.5 Institutional and Public Uses: 0.8
	All other districts	Residential buildings with 1—3 units: 0.5 All other buildings: 1.4
Interior 2	R, OR	Residential buildings with 1—3 units: 0.5 All other buildings: 0.8

Zoning & Buildable Potential



Minimum Dimensions

Setbacks (Yard Requirements)

Lot Coverage

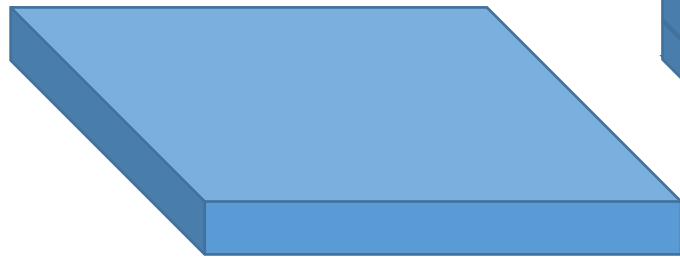
Floor Area Ratio

Height Limits

Parking

Zoning & Buildable Potential - FAR

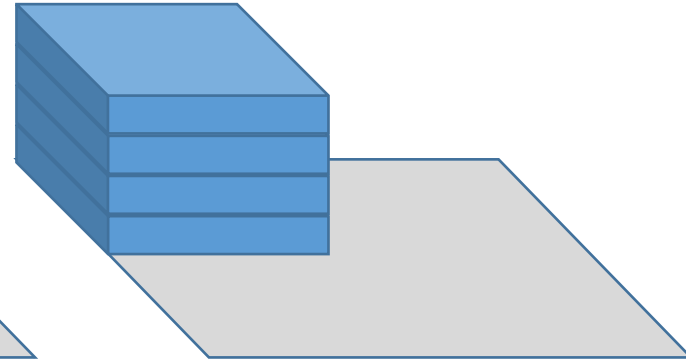
Floor Area Ratio (FAR) 1:1 Ratio



1 story
(100% lot coverage)



2 stories
(50% lot coverage)



4 stories
(25% lot coverage)



Entitlements



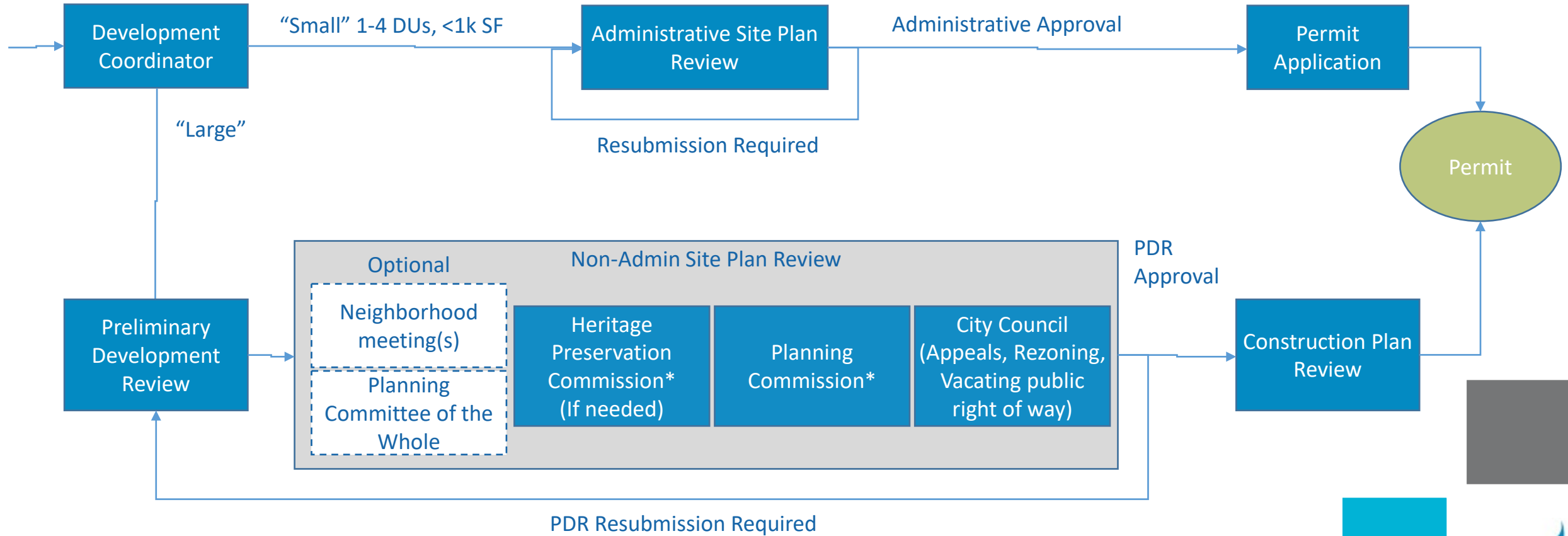
"We were gonna build a tree house, but with the cost, noise issues and zoning concerns, can you just take us to the mall?"



Entitlements



Entitlements – City of Minneapolis



* Requires public hearing

NOTE: Variance requests not requiring planning review go to the Zoning Board of Adjustment

Activity D:

Zoning Research

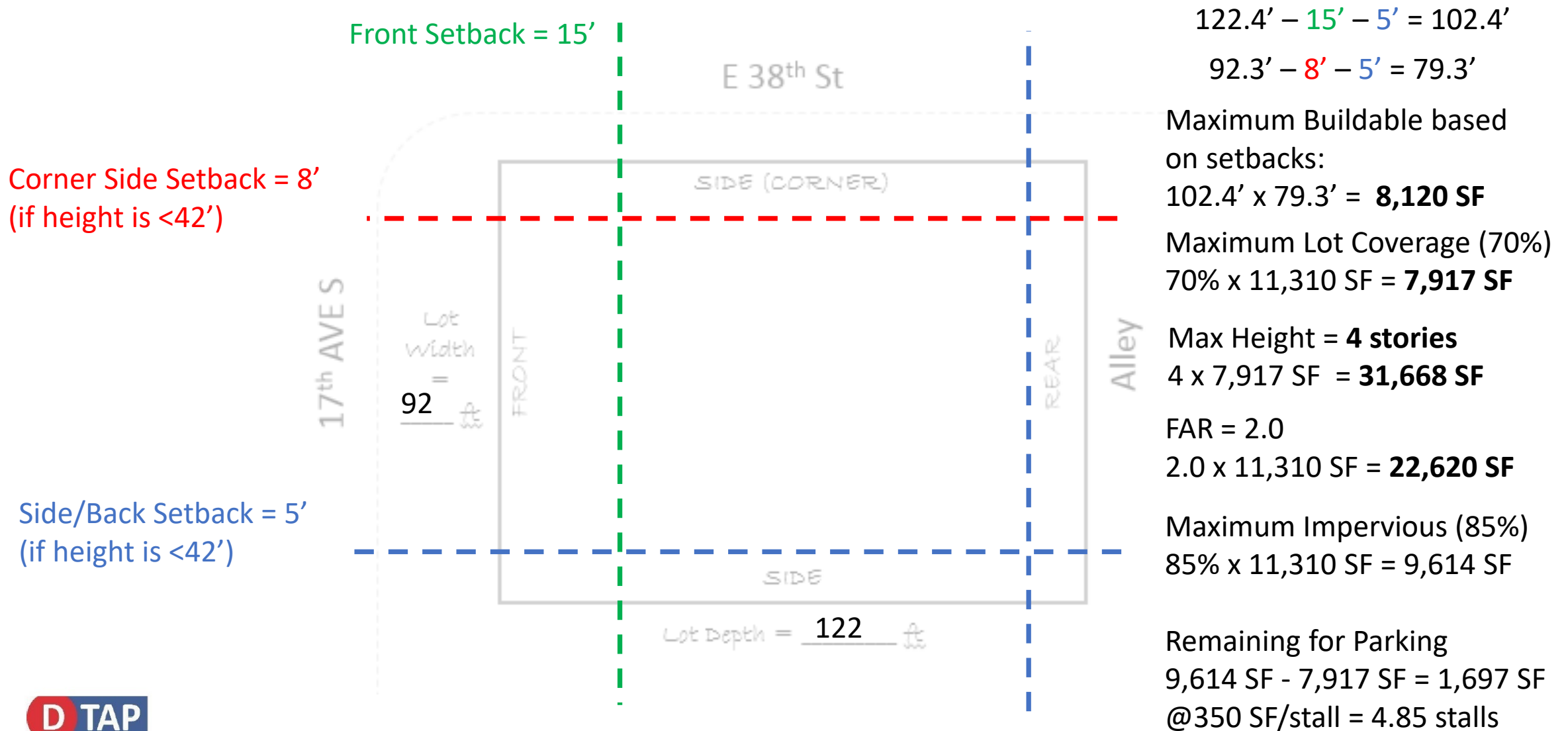


Activity D Review

Property	3801 17th Ave S , Minneapolis SE corner of East 38th St and 17th Ave S	
Planned Use	Multi-Family Apartment building (4+ dwelling units)	
	Requirement & Calculated Value	Source
Zoning Classification	R4, BFC4	City of Mpls Property Info (Lot Info)
Lot size	11,310 SF	City of Mpls Property Info (Lot Info)
Lot dimensions	122.4 x 92.3 SF	Hennepin County Property Info Search
Height Limits	Min of 4 stories or 56'	
FAR	Max = 2.0, no min	
Yard (Setback) - Front	15 ft	
Yard (Setback) - Corner	8ft if <42 ft (height) 10 ft if <53 ft 12 ft if <64 ft, etc.	
Yard (Setback) - Rear/Side	5ft if <42 ft (height) 7 ft if <53 ft 9 ft if <64 ft, etc.	
Maximum Lot Coverage	70% (7,917 SF)	
Impervious Surface Coverage	85% (9,614 SF)	
Parking (Min, Max)	Min = None; Max = 2 per Dwelling Unit	

2.0 x 11,310 SF = 22,620 SF

Example



SECTION 5

Design & Construction

Do It Yourself v. Hiring Expertise

- Key Partners
 - Architect
 - Civil Engineer
 - General Contractor



Principles of Good Design

- Repeatable
- Flexible
- Cost-Effective



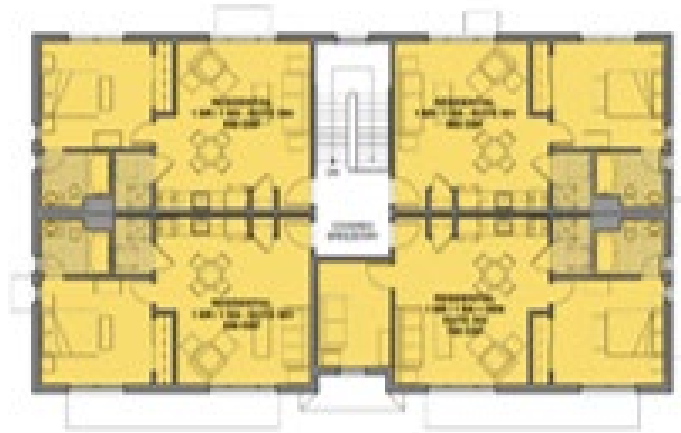
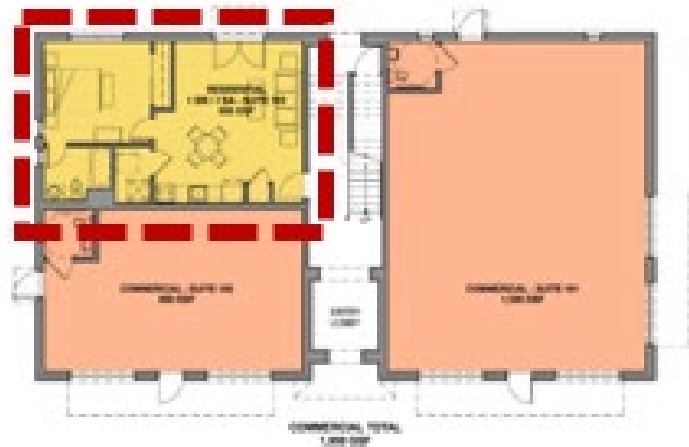
The Missing Middle



MissingMiddleHousing.com is powered by Opticos Design.
Illustration © 2015 Opticos Design, Inc.



Accessible Design



Design Process



Evaluating a Building

- Roof
- Insulation
- Foundation and structure
- Mechanical systems
- Electrical systems
- Plumbing
- Doors and windows



Contracts

- Scope
- Schedule
- Budget
- Terms of Payment
- Insurance and Bonding
- Liens

Scope of Work

- Work performed
- Major fixed equipment
- Fixtures and finishes
- Permits



Budgeting

- Lump Sum Contract
- Unit Price Contract
- Cost Plus
- Guaranteed Maximum
- Incentives/Fees at risk

Activity E:

Buildable Area Analysis



Wrap Up and Final Questions

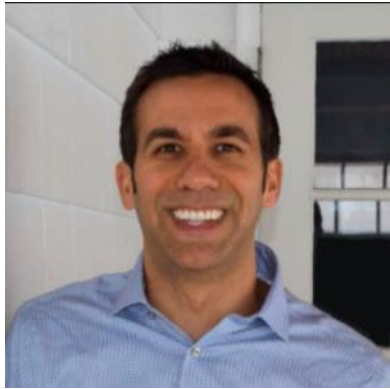


D-TAP

Small Developer Training



Course Instructors



Andy Babula

University of St. Thomas

Varro Real Estate



Sara Joy Proppe

Proximity Project



Joe Bowman

Conscious Living Institute

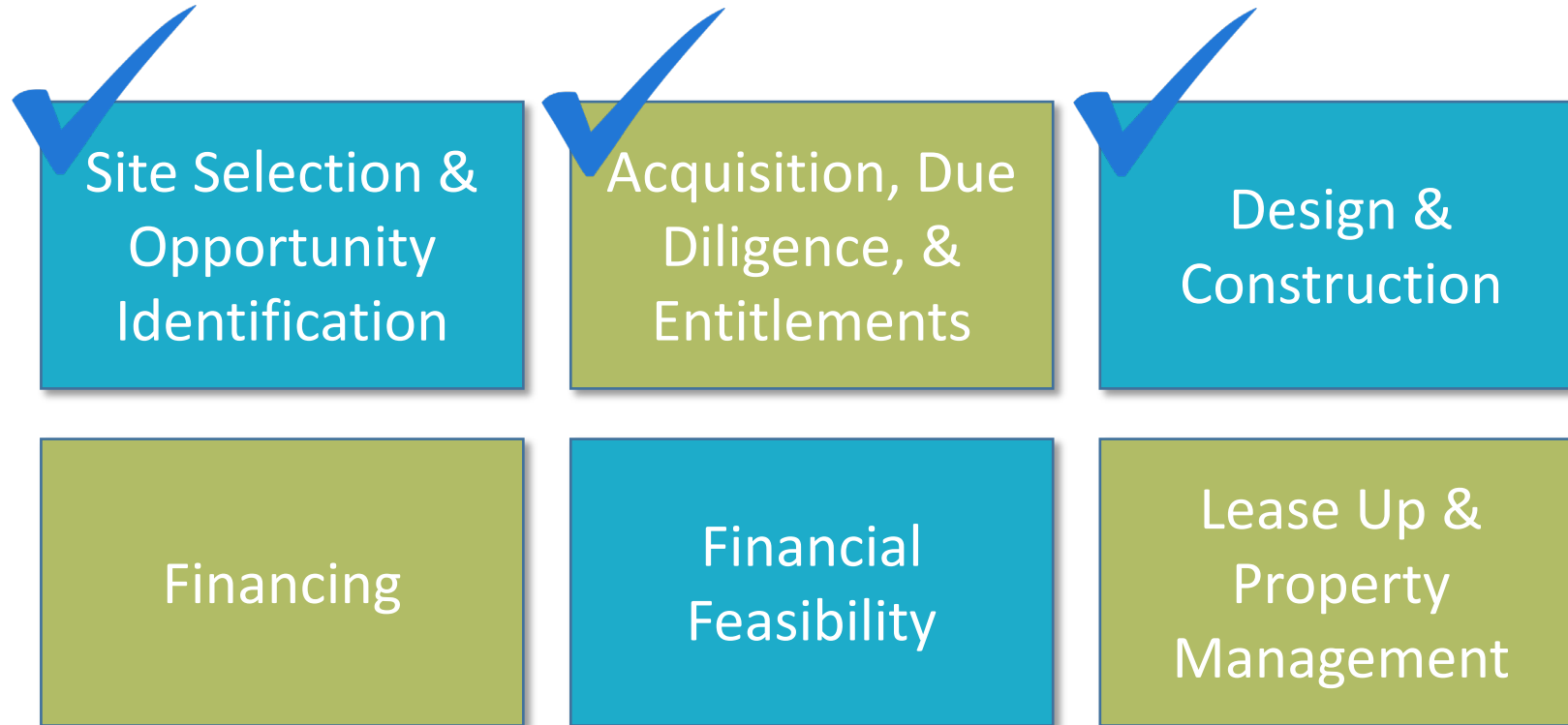


Judy Jandro

Community Reinvestment Fund



D-TAP Day 1 Recap



Activity E:

Buildable Area Analysis



SECTION 6

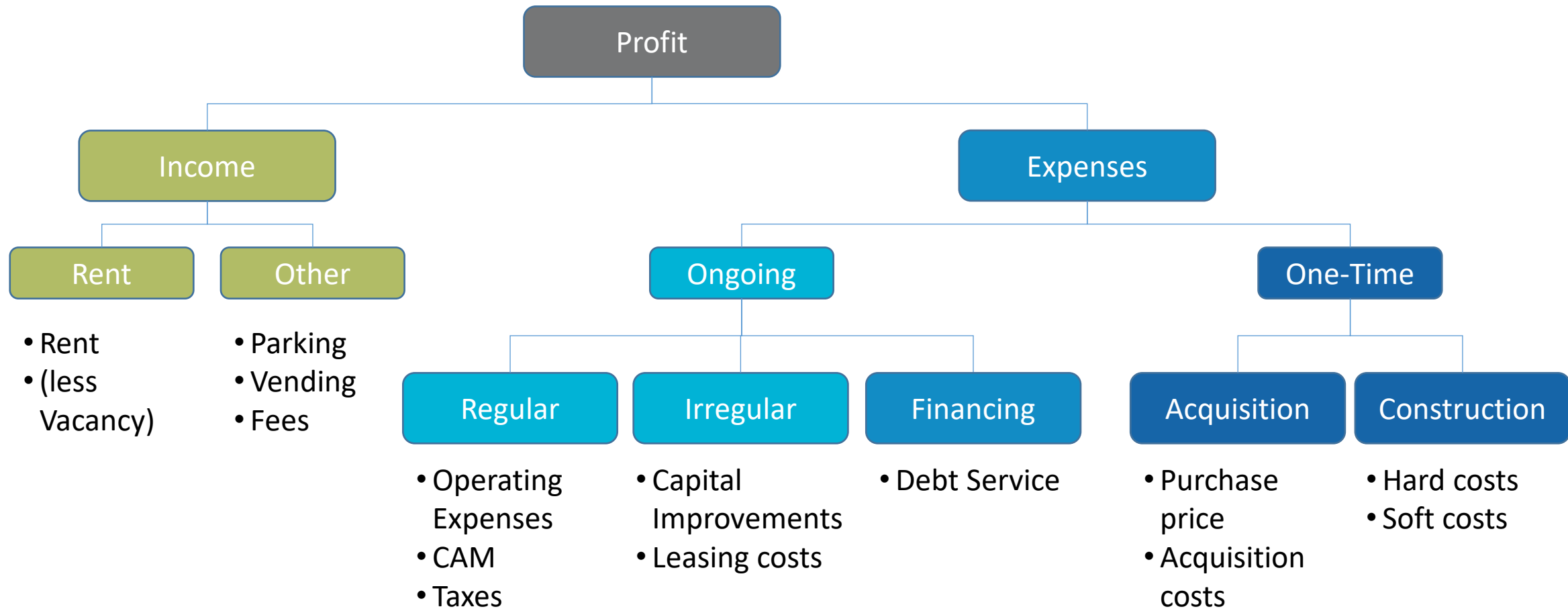
Introduction to Financial Feasibility

Real Estate is a Business

$$\text{Profit} = \text{Revenue} - \text{Cost}$$



Real Estate is a Business



Single Year Financial Analysis

Income

Gross Potential Income
- Vacancy

Effective Gross Income

Expenses

Regular

- Operating Expenses (RE Tax, Insurance, Maintenance, Utilities, Reserves)
+ Reimbursed Expenses (Commercial only, not residential)

Net Operating Income (NOI)

Irregular

- Capital and Leasing Costs

Cash Flow (before Financing)

Financing

- Debt Service

Cash Flow (after Financing)

Operating Expenses



- Property taxes
- Property insurance
- Water and sewer
- Utilities
- Garbage collection
- Landscaping
- Snow removal
- Property management
- Maintenance and repairs
- Administrative and accounting
- Janitorial service
- Pest control
- Advertising

Return on Investment

$$\text{ROI} = \frac{\text{Total Return}}{\text{Investment}} = \frac{\$400,000 - \$320,000}{\$320,000} = 25\%$$

$$\text{Annual ROI} = \frac{\text{Cash Flow before Financing}}{\text{Investment}} = \frac{\$30,000}{\$320,000} = 9.4\%$$

Return on Equity

$$\text{ROE} = \frac{\text{Total Return}}{\text{Equity Investment}} = \frac{\$272,000 - \$200,000}{\$200,000} = 36\%$$

$$\text{Cash-on-Cash} = \frac{\text{Cash Flow after Financing}}{\text{Equity Investment}} = \frac{\$22,000}{\$200,000} = 11\%$$

(Annual)

Example – EGI and NOI

92 units
660 SF per unit

RESIDENTIAL CASH FLOW		
Rent (\$, Monthly per SF)	2.10	Financial Input
Rent (\$, Monthly per unit)	1,386	Monthly Rent per SF x Building Size RSF
Rent (\$, Annual)	1,530,144	Annual Rent per SF x Building Size RSF
Other Income	16,560	\$15.00
Gross Potential Income	1,546,704	
Vacancy Factor	(76,507)	5.0%
Effective Gross Income (EGI)	1,453,637	Rent Less Vacancy Factor
Operating Expense	(479,700)	33.0%
Net Operating Income (NOI)	973,937	EGI less Operating Expenses

3,200 SF

COMMERCIAL CASH FLOW		
Rent (\$, Annual per SF)	\$18.00	Financial Input
Rent (\$, Monthly for Commercial)	4,800	(PSF Rent x SF)/12
Rent (\$, Annual)	57,600	Annual Rent per SF
Other Income	-	
Gross Potential Income	57,600	
Vacancy Factor	(4,032)	7.0%
Effective Gross Income (EGI)	53,568	Rent Less Vacancy Factor
Operating Expense	(32,000)	\$10.00
CAM Reimbursement	31,200	\$9.75
Net Operating Income (NOI)	52,768	EGI less Operating Expenses + CAM Reimbursement

Example – Cash Flow before Financing, ROI

TOTAL CASH FLOW

TOTAL Net Operating Income (NOI)	1,026,705	Residential NOI + Commercial NOI
Leasing & Capital Costs	(10,400)	\$3.25
Cash Flow before Financing (CFBF)	1,016,305	

$$\text{ROI} = \frac{\$1.02 \text{ mil}}{\$13.42 \text{ mil}} = 7.6\%$$

INVESTMENT COST

Acquisition Cost (\$)	920,000	\$10,000 Per unit
Hard Costs (\$) Building	10,355,040	\$135.00 Per GSF
Hard Costs (\$) Parking	1,012,000	\$22,000 Per stall
Soft Costs (\$)	1,136,704	10% Of Hard Costs
Total Cost (\$)	13,423,744	
Cost per Unit (\$)	140,510	Total Cost (less cost of commercial) / # of Units

Example – Cash Flow after Financing, Cash-on-Cash

TOTAL CASH FLOW		
TOTAL Net Operating Income (NOI)	1,026,705	Residential NOI + Commercial NOI
Leasing & Capital Costs	(10,400)	\$3.25
Cash Flow before Financing (CFBF)	1,016,305	
Debt Service	(706,265)	See below
Cash Flow after Financing (CFAF)	310,040	
DEBT INPUTS		
Loan to Cost	75%	Financial input
Debt (\$)	10,067,808	Loan to Cost x Total Project Cost
Equity (\$)	3,355,936	Total Project Cost - Debt
Interest Rate	5.00%	Financial input
Amortization (yrs)	25	Financial input. HUD Financing has longer amortization, Will be 20 -25 years for Conventional
Debt Service	(706,265)	Use "PMT" formula in Excel or financial calculator
DSCR	1.44	CFBF / Debt Service . Needs to exceed 1.2x

$$\text{COC} = \frac{\$310,000}{\$3.36 \text{ mil}} = 9.2\%$$

Capitalization (Cap) Rate

3 Properties...Same NOI...Same Price?



NOI = \$100,000

High Risk

Cap Rate = 10%

Value = \$1.00 million



NOI = \$100,000

Medium Risk

Cap Rate = 8%

Value = \$1.25 million



NOI = \$100,000

Low Risk

Cap Rate = 6%

Value = \$1.67 million

$$\text{Value} = \text{NOI} / \text{Capitalization Rate}$$



Cap Rate

$$\text{Property Value} = \frac{\text{NOI}}{\text{Cap Rate}}$$

$$\text{Cap Rate} = \frac{\text{NOI}}{\text{Property Value}}$$

Activity:

Single-Year Financial Analysis

(Assume 20 units, 750 RSF/unit)



Solution – Single-Year Financial Analysis

CASH FLOW

Rent (\$, Annual)	414,000
Vacancy Factor	(20,700)
Effective Gross Income (EGI)	393,300

Operating Expense	(126,000)
CAM Reimbursement	-
Net Operating Income (NOI)	267,300

Leasing & Capital Costs	-
Cash Flow before Financing (CFBF)	267,300

Debt Service	(174,510)
Cash Flow after Financing (CFAF)	92,790

RETURN CALCULATIONS

Return on Investment (ROI)	6.9%
Cash on Cash Return (CoC)	8.0%

INVESTMENT COST

Acquisition Cost (\$)	180,000	
Hard Costs (\$)	3,075,000	\$205/RSF
Soft Costs (\$)	615,000	20% of Hard
Total Cost (\$)	3,870,000	
Cost per Unit (\$)	193,500	

DEBT INPUTS

Loan to Cost	70%
Debt (\$)	2,709,000
Equity (\$)	1,161,000

Interest	5.00%
Amortization (yrs)	30
Debt Service	(174,510)
Debt Service Coverage Ratio	1.53



Additional Considerations for Multi-year Analysis

- Rental rates
- Tenant turnover
- Operating expenses
- Tenant improvements and leasing commissions
- Capital improvements
- Construction
- Lease up period
- Debt service
- Disposition

SECTION 7

Financing

Financing Options

Debt

- Banks
- Credit Union
- Mortgage Brokers
- Private Lenders
- Real Estate Funds

Equity

- You
- Family & Friends
- Private Investors
- Real Estate Funds
- Pension Funds



Debt Financing



Advantages

- Easier to obtain
- Range of options
- Control

Disadvantages

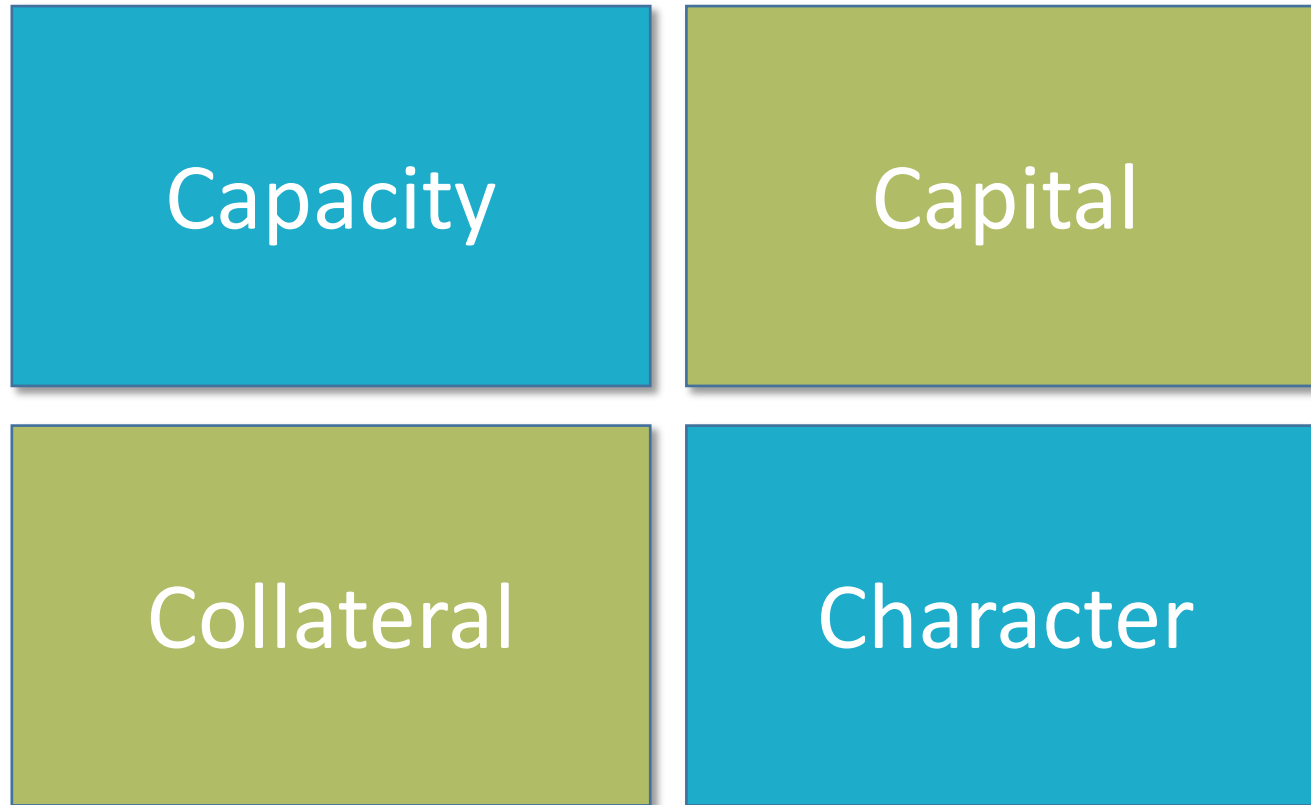
- Collateral
- Guaranty
- Limited Amount
- Payback Requirement

Commercial Lending Terms



- Interest Rates
- Term
- Amortization Period
- Debt Coverage Ratio (DCR)

Lender Considerations



How to Start



1. Get in contact with several banks
2. Meet with the lender in person
3. Be prepared to ask questions
4. Keep your description simple

Commercial Lending Process



Lending for Small Scale Development



- Financing Tools
- Lending before Value Exists
- Starting with a “house”
- Options for Residential
 - Fannie Mae/Freddie Mac
 - Loan to Value
 - # of properties
 - Term/Amortization (Same)

SECTION 8

Detailed Financial Feasibility

Pro Forma – Multi-Year Financial Analysis

Gross Potential Income										
- Vacancy										
Effective Gross Income										
- Operating Expenses										
+ Reimbursed Expenses										
Net Operating Income (NOI)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
- Capital and Leasing Costs										
Cash Flow (before Financing)										
- Debt Service										
Cash Flow (after Financing)										

Additional Considerations for Multi-year Analysis

- Rental rates
- Tenant turnover
- Operating expenses
- Tenant improvements and leasing commissions
- Capital improvements
- Construction
- Lease up period
- Debt service



Other Pro Forma Considerations

- Property Stabilization
- Time-value of Money
- Reversionary value



Key Metrics

- Return on Equity (ROE)
- Return on Investment (ROI)
- Cash on Cash Return
- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Cash Flow

Residential Pro Forma

Financial Pro Forma		Assumptions										
		Acq./Rehab	Occupied	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized
		YR 0	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
1 Bedroom Units (2, 725 SF each)	1,450	-	28,710	29,571	30,458	31,372	32,313	33,283	34,281	35,310	36,369	37,460
2 Bedroom Units (6, 925 SF each)	5,550	-	96,570	99,467	102,451	105,525	108,690	111,951	115,310	118,769	122,332	126,002
Other Income - Parking			3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600
Total RSF	7,000											
Gross potential income		-	128,880	132,638	136,510	140,497	144,604	148,834	153,191	157,679	162,301	167,062
Less: Vacancy Factor	5.0%	-	(6,444)	(6,632)	(6,825)	(7,025)	(7,230)	(7,442)	(7,660)	(7,884)	(8,115)	(8,353)
Effective Gross Income		-	122,436	126,006	129,684	133,472	137,374	141,392	145,531	149,795	154,186	158,709
Operating Expenses	3.0%	(28,088)	(37,450)	(38,574)	(39,731)	(40,923)	(42,150)	(43,415)	(44,717)	(46,059)	(47,441)	(48,864)
Replacement Reserves			(1,750)	(1,750)	(1,750)	(1,750)	(1,750)	(1,750)	(1,750)	(1,750)	(1,750)	(1,750)
Total Expenses		(28,088)	(39,200)	(40,324)	(41,481)	(42,673)	(43,900)	(45,165)	(46,467)	(47,809)	(49,191)	(50,614)
CAM Reimbursement												
Net Operating Income		(28,088)	83,236	85,683	88,203	90,799	93,473	96,227	99,064	101,986	104,995	108,095
Acquisition		(550,000)	-	-	-	-	-	-	-	-	-	-
Tenant Improvements		(175,000)	-	-	-	-	-	-	(35,000)	-	-	-
Leasing & Capital Costs		(123,500)	-	-	-	-	-	-	(15,750)	-	-	-
Cash Flow Before Financing		(876,588)	83,236	85,683	88,203	90,799	93,473	96,227	48,314	101,986	104,995	108,095
Debt Service Coverage Ratio			1.55	1.59	1.64	1.69	1.74	1.79	1.84	1.90	1.95	2.01
Loan Funds		678,800										
Debt Service		(53,757)	(53,757)	(53,757)	(53,757)	(53,757)	(53,757)	(53,757)	(53,757)	(53,757)	(53,757)	(53,757)
Asset Management Fee	2.0%		(2,449)	(2,520)	(2,594)	(2,669)	(2,747)	(2,828)	(2,911)	(2,996)	(3,084)	(3,174)
Cash Flow After Financing		(251,545)	27,030	29,405	31,852	34,373	36,968	39,642	(8,354)	45,233	48,154	51,164
Average Annual Cash Return - Before Financing	10.4%		9.5%	9.8%	10.1%	10.4%	10.7%	11.0%	5.5%	11.6%	12.0%	12.3%
Average Annual Cash Return - After Financing	13.6%		10.7%	11.7%	12.7%	13.7%	14.7%	15.8%	-3.3%	18.0%	19.1%	20.3%
Internal Rate of Return - 10 YEAR	23%	(251,545)	27,030	29,405	31,852	34,373	36,968	39,642	(8,354)	45,233	48,154	51,164
Net Present Value (NPV), 7%	465,429											
SALE - YR 10												

SALE	Exit Cap Rate	7.5%						Monthly
		YEAR 10	Unit Type	# of Units	SF per Unit	SF	\$/SF/Month	Rent per Unit
Estimated Value	1,441,268		1 Bed	2	725	1,450	1.65	1,196
Outstanding Loan Balance	(388,962)		2 Bed	6	925	5,550	1.45	1,341
Less Sales Cost	2% (28,825)					7,000		
Sale Proceeds	1,023,481							

Commercial Pro Forma

[illegible]

SECTION 9

Lease Up and Property Management

Lease Up

- Finding a Tenant
 - Digital
 - Physical
 - Word of Mouth
- Tenant Improvements



Typical Lease Structure

- Basic Terms
- Obligations & Rights
 - Landlord
 - Tenant
- Defaults and Remedies

Property Management

- Tenants = customers
- DIY v. Hiring It Out
- Residential v. Commercial



Wrap Up and Final Questions