

# Real Estate Development 101

For the non real estate professional



# An introductory case study of the building of a Transit Oriented Development

## Views from For Profit vs. Non-Profit Developers



# For Profit vs Non-Profit Developers




For Profit Developer




Non-Profit Developer

# Development Terms

- ▶ FAR– Floor area ratio, the ratio of square footage of building to square footage of land
  - ▶ Entitlements– All federal, state and local approvals and permits required to develop project.
  - ▶ Building Coverage– the ration of the building footprint to the square footage of the development parcel
  - ▶ Parking Ratio– Parking spaces required per residential unit or square feet of commercial space.
  - ▶ Capital Stack– Equity, finance and grants required to fund project
  - ▶ Net Operating Income– The net of rental revenue after operating expense, before debt service
  - ▶ Operating Expense– Ongoing costs for the property including management, maintenance, insurance, taxes, marketing, etc.
  - ▶ Debt Service Coverage– The ratio of net operating income allowed to service the debt of the project.
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# Development Terms

- ▶ Hard Costs– Site work and vertical construction cost of development
  - ▶ Soft Costs– Architectural\engineering\legal\marketing\permitting\finance\ and project management costs of development.
  - ▶ Reserves– Escrow accounts established for interest, operating deficits, and capital improvements.
  - ▶ Tax Credits– (LIHTC) Income tax credits created through the development of qualified low income housing developments. Tax credits are sold to investors and used for equity for development.
  - ▶ Soft Loans– Loans or grants available to non profit developers used for the pursuit of low income housing developments.
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# Subject Development



# Site Description

## **Newburyport MBTA Commuter Rail Station, Newburyport , MA**

The property consists of five parcels of land that total approximately 11.11 acres of land adjacent to the MBTA Newburyport Commuter Rail Station.

The property is bounded by business/industrial uses on the west and north, a private garage and MBTA commuter parking on the south, and the rail right-of-way and Station on the east with retail use on the other side of the tracks.

The property is located approximately 1.5 miles from the center of Newburyport, MA. Newburyport is coastal town located 35 miles north of Boston with a population of over 17,000.

# Developable Parcels

## 1 Boston Way

- 2.01 Acres
- 200 parking spaces
- Requires access to the MBTA right of way

## Boston Way

- 1.25 acres
- Roadway owned by MBTA





# Partially Developable Parcels



4 Boston Way

-2.33 Acres

6 Boston Way

-2.08 Acres

8 Boston Way

-3.44 Acres

Estimated that 35% of parcels are developable.

# Developable Land Area (DLA)

<u>Lot</u>	<u>Land Area</u>	<u>DLA %</u>	<u>Total DLA</u>
1 Boston Way	2.01 acres	100	2.01 acres
4 Boston Way	2.33 acres	35	0.82 acres
6 Boston Way	2.08 acres	35	0.73 acres
8 Boston Way	3.44 acres	35	1.21 acres
Boston Way	<u>1.25 acres</u>	100	<u>1.25 acres</u>
Total	11.11 acres		6.02 acres

# Zoning


## ▶ Current Zoning

- Industrial Zone
- Residential\Retail\  
Office not allowed
- 40% to 50% building coverage
- 35 foot height limit

## ▶ Proposed Zoning

- Smart Growth District
- 25 units per developable acre of land (dua)
- 50% building coverage
- 4 story height limit
- One parking space per unit
- Mixed use encouraged

# Land Evaluation

- ▶ 150 Units – based on DUA of 25 units and 6 acres
  - ▶ Lease Land vs. Own → impacts financing, but often policy decisions are deciding factor
  - ▶ Appraisal | Back into \$\$/Door
  - ▶ Capital Stack – challenges for a Non Profit vs For Profit (6–8 sources vs 2–3)
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# Market Feasibility

Assumptions: Market Rate Rents

\$2.25 /SF/Month | Vacancy Rate 7% | OpEx @  
\$5,500 /unit/year

## Market Rate Developer

- ▶ 80% Market | 20% Affordable
- ▶ Unit Mix → driven by “market”
- ▶ Mixed-Use space *may* be more speculative

## Non-Profit Developer

- ▶ 80% Affordable\* | 20% Market (\*target 40% below Market Rate)
- ▶ Unit Mix → may be driven by financing sources, but also market
- ▶ Master Lease for Mixed-Use space



# Market Feasibility

Non-Profit Developer		**80% Affordable Units		
		Affordable Rents		LIHTC @ 50% AMI
Unit Mix	# of Units	Size (SF)	Rent/Mo	
S	6	550	\$1,237.50	Market Units
1	6	700	\$1,575.00	
2	9	850	\$1,912.50	
3	9	1000	\$2,250.00	
S	24	550	\$856.00	Affordable Units
1	24	700	\$917.00	
2	36	850	\$1,101.00	
3	36	1000	\$1,271.00	
		150		
		Gross Revenue		2,187,378
		Vacancy Loss		(153,116)
		Net Revenue		2,034,262
		Operating Expenses		825,000
		Net Operating Income		1,209,262
		Debt Service		930,201
		DSC Ratio		1.30
		Cash Flow		279,060
Value - Cap Rate		18,604,024		

# Market Feasibility

	For Profit Developer	**20% Affordable Units		
	Affordable Rents - target as a percentage			
	Unit Mix	# of Units	Size (SF)	Rent/Mo
Market Units	S	12	550	\$1,237.50
	1	36	700	\$1,575.00
	2	48	850	\$1,912.50
	3	24	1000	\$2,250.00
Affordable Units	S	3	550	\$879.00
	1	9	700	\$932.00
	2	12	850	\$1,095.00
	3	6	1000	\$1,433.00
		150		
		Gross Revenue		3,001,356
		Vacancy Loss		(210,095)
		Net Revenue		2,791,261
		Operating Expenses		825,000
		Net Operating Income		1,966,261
		Debt Service		1,709,792
		DSC Ratio		1.15
		Cash Flow		256,469
		Value - Cap Rate		30,250,170

# Development Budget

- Soft Costs vs. Hard Costs
- Finance Costs (typically higher for affordable developments)
- Reserves (typically higher for affordable developments)

# Sources & Uses

## Market Rate Developer

### Uses

Land –	\$ 3.00M
Hard Costs –	\$18.75M
Soft Costs –	<u>\$ 3.75M</u>

Total – \$25.50M

### Sources

Developer \	
Equity –	\$ 3.20M
Perm Loan –	<u>\$22.30M</u>

Total – \$25.50 M

## Non-Profit Developer

Land –	\$ 3.00M
Hard Costs –	\$18.75M
Soft Costs –	\$ 3.75M
Reserves/Financing –	<u>\$ 1.50M</u>
Total –	\$27.00M

Tax Credit Equity –	\$12.40M
Perm Loan –	\$12.10M
Soft Loans –	\$ 1.80M
Deferred Fee –	<u>\$ 0.70M</u>
Total –	\$27.00M

# The Ultimate Goal.....



Lindbergh Center, MARTA



# Exit Strategy

- ▶ For Profit Developer
- ▶ Sales value of project = \$30.25MM
- ▶ \$4.75MM Profit
- ▶ Non Profit Developer
- ▶ Sales value of project is less than cost.
- ▶ Due to the tax credit investment, project is structured for long term play.
- ▶ Developer realizes fees over time.