

REAL ESTATE DEVELOPMENT 101

For the non real estate professional

October 2013

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

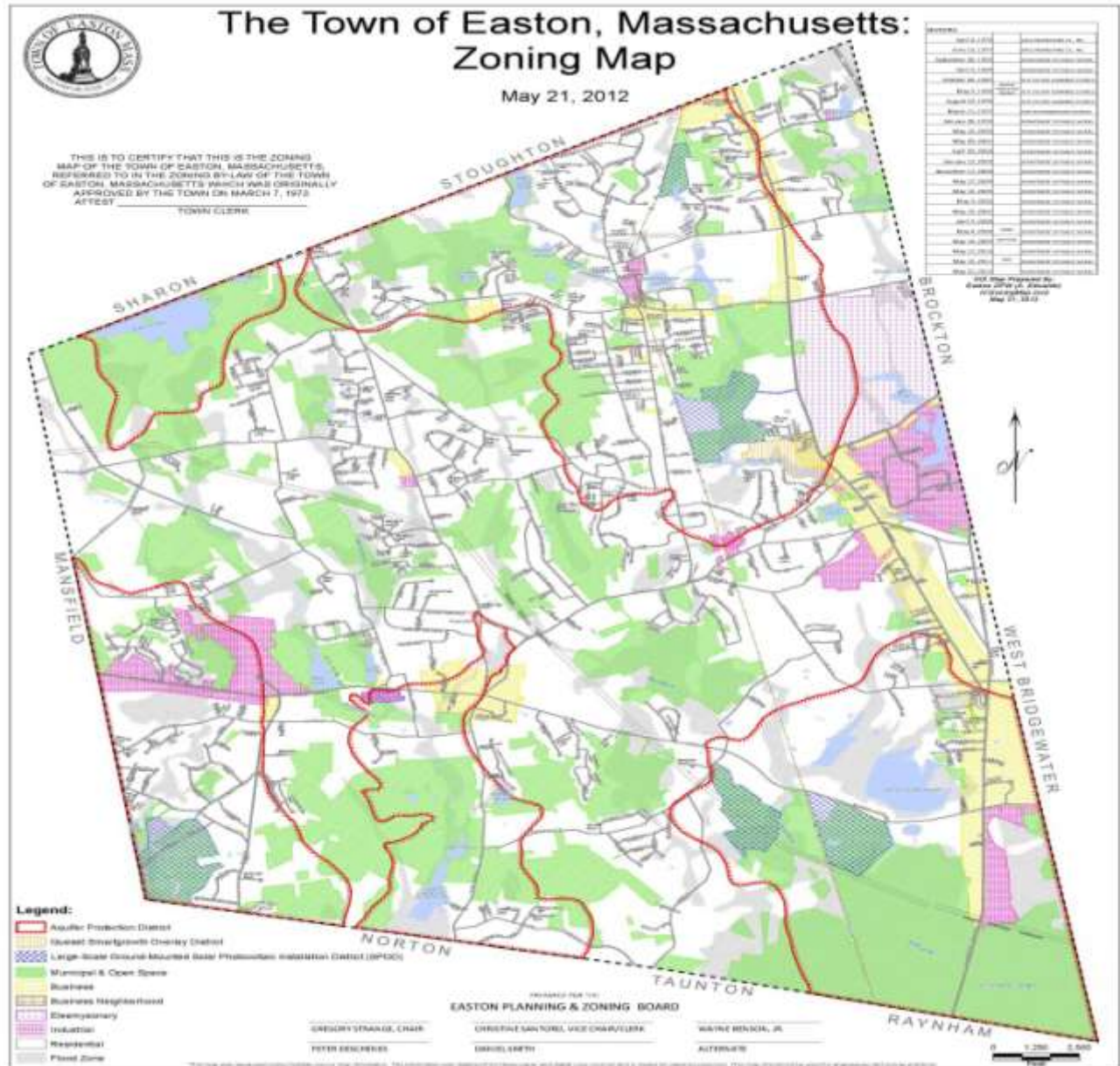
- For Profit Developer



- Non-Profit Developer



Zoning



Development Terms- Zoning

- **Dimension regulations-** Front , side, and back setbacks. Height restrictions.
 - **FAR-** Floor area ratio, the ratio of square footage of building to square footage of land
EXAMPLE: 12,000 SF Parcel with a 2.0 FAR allowance results in 24,000 SF development potential
 - **Building Coverage-** the ration of the building footprint to the square footage of the development parcel.
EXAMPLE: 60% Building Coverage on 12,000 SF Parcel allows a 7,200 SF.
- Green Space and Lot Coverage ratios also apply**
- **Parking Ratio-** Parking spaces required per residential unit or square feet of commercial space.
EXAMPLE: Residential building with 100 units and parking ratio requirement of .75 per unit would require 75 parking spaces.

CapEx

Hard Costs

- Demolition
- Site Work
- “Brick and Sticks”
- General Conditions

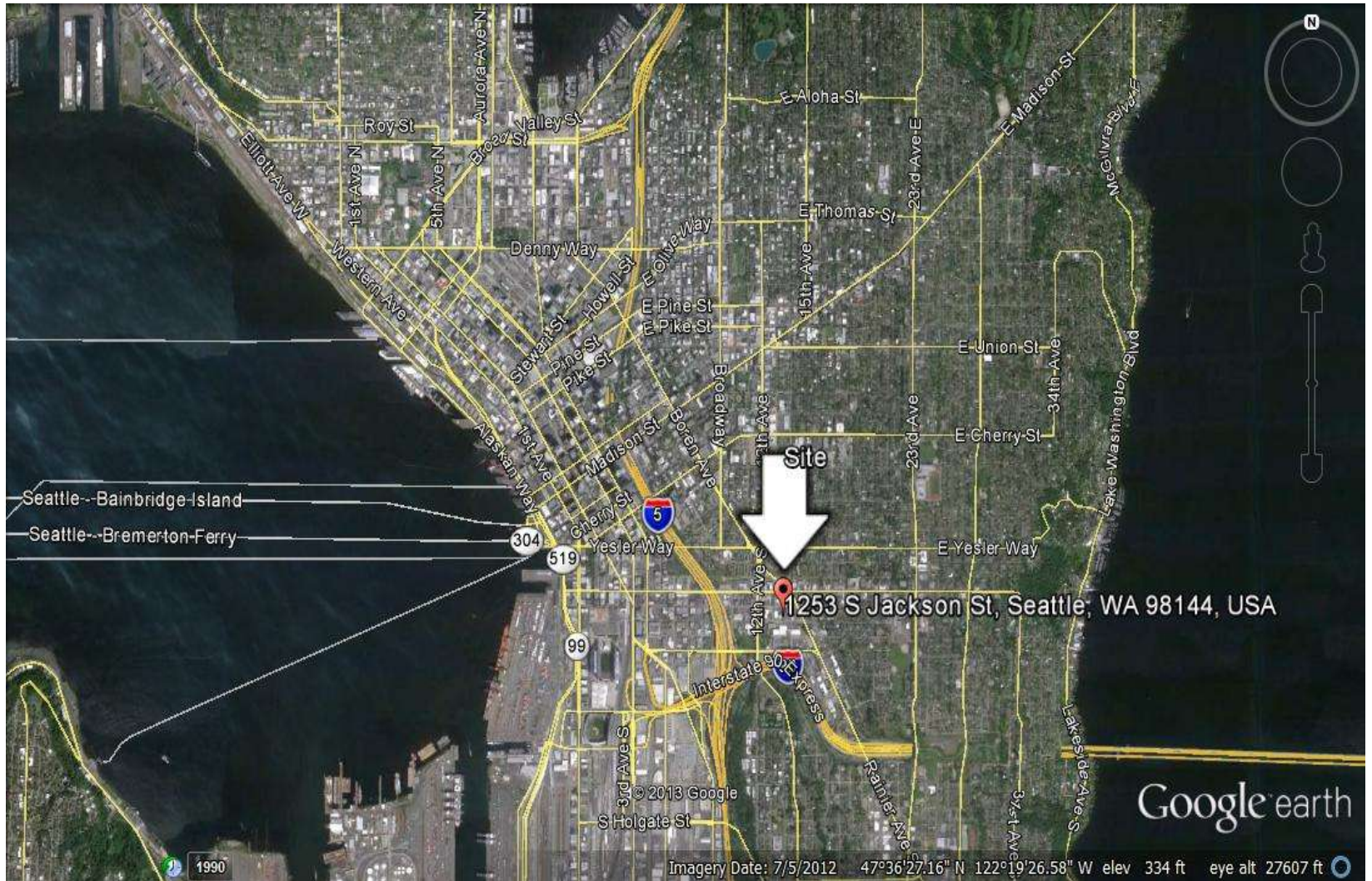
Soft Costs

- A & E
- Permits
- Legal
- Insurance\Taxes
- Financing Costs
- Interest
- Project Management
- Fees

Development Terms- Finance

- Operating Expense (Op-Ex)- Ongoing costs for the property including management, maintenance, insurance, taxes, marketing, etc.
- Net Operating Income- The net of rental revenue after operating expense, before debt service
- Debt Service Coverage- The ratio of net operating income allowed to service the debt of the project.
- 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.
- Developer Fees- Fees earned by project sponsor generally based on percentage of costs.
- Capital Stack- Equity, finance and grants required to fund project.
- Cap Rate- Factor applied to Net Operating Income to determine value

Subject property- 1253 S Jackson, Seattle



Subject Development

1253 South Jackson Street, Seattle, WA



Site Description

- The property consists 12,704 SF of land adjacent to the Metro bus line stop S Jackson St & Boren Ave Station, the new First Hill street car line, and the Metro Sound transit station.
-
- Downtown Mixed Retail/Commercial
 - 85' foot height limit
 - 4.0 FAR limit

1.0 PROJECT DATA

1.1 Location:

1253 S. Jackson Street

1.2 Site Area:

12,768 sf

1.3 Zone:

DMR/C 65/65'-85'

Overlays:

Street Classifications:

1.4 Building Code:

Seattle Amendments to the 2009 International Bldg. Code (IBC)

1.5 Proposed Use:

Residential Mixed Use

1.6 Occupancy Classification / Separations

Commercial

M

Residential

R-2

Parking

S-2

	M	R-2	S-2
M	1	1	1
R-2	1	2	2
S-2	1	2	1

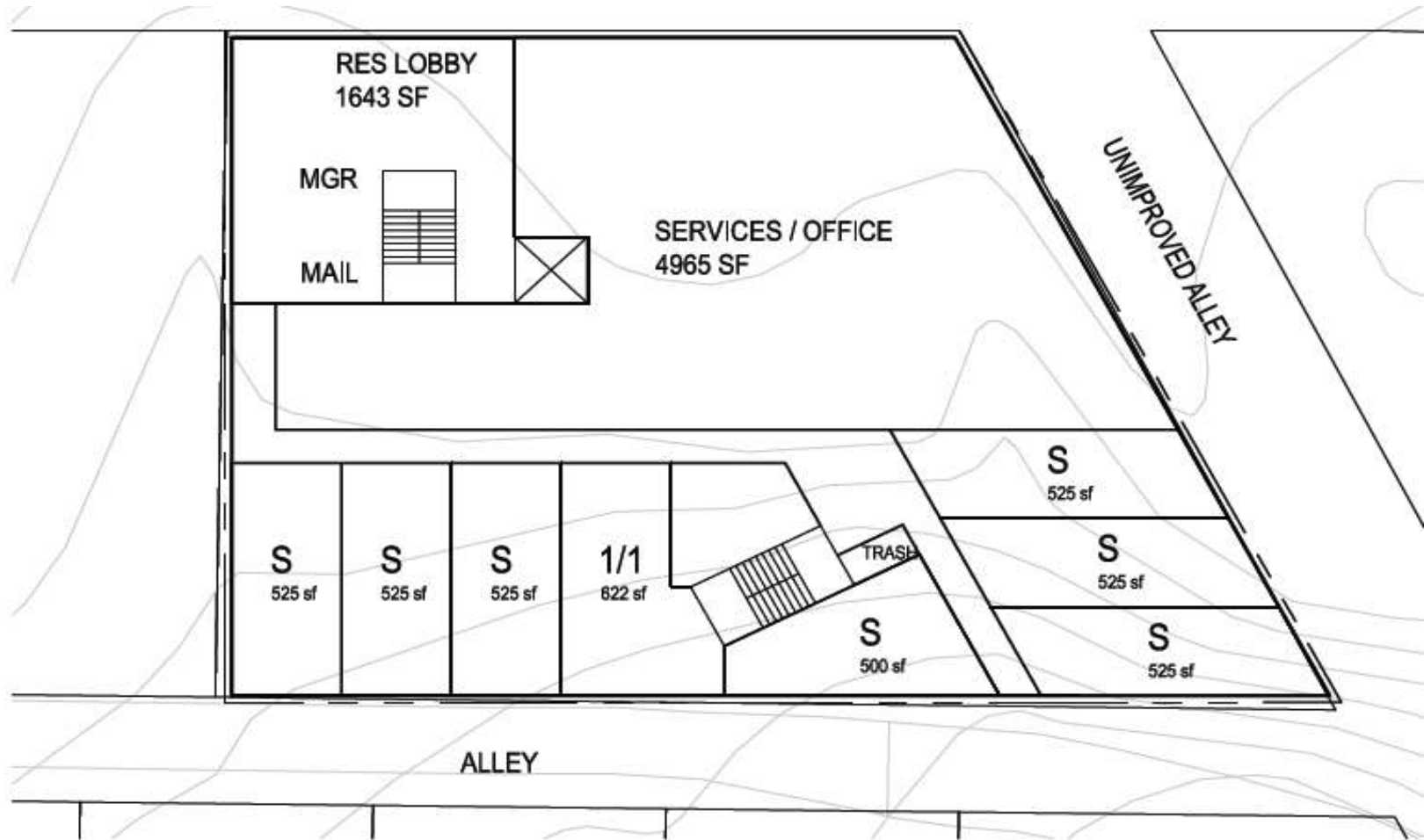
1.8 Gross Floor Area:

construction type	FLOOR	PKG	VERT CIRC	LOBBY/ CIRC/MECH	COMM.	AMENITY/ STORAGE	RESID.	TOTAL (gsf)	exterior balconies	terraces/ roof deck	compliant amenity	
Type I-A	Level P1	2,333	300	1,375				4,008				
	Level 1		500	2,567	4,965		4,272	12,304				
Type V-A	Level 2		500	964		1,250	6,522	9,236	60	3,068	3,128	
	Level 3						7,668	9,236	60		60	
	Level 4						7,668	9,236	60		60	
	Level 5						7,668	9,236	60		60	
	Level 6						7,668	9,236	60		60	
												0
	Subtotal		2,333	1,300	4,906	4,965	1,250	41,466	62,492	300	3,068	3,368

1.9 Unit Distribution

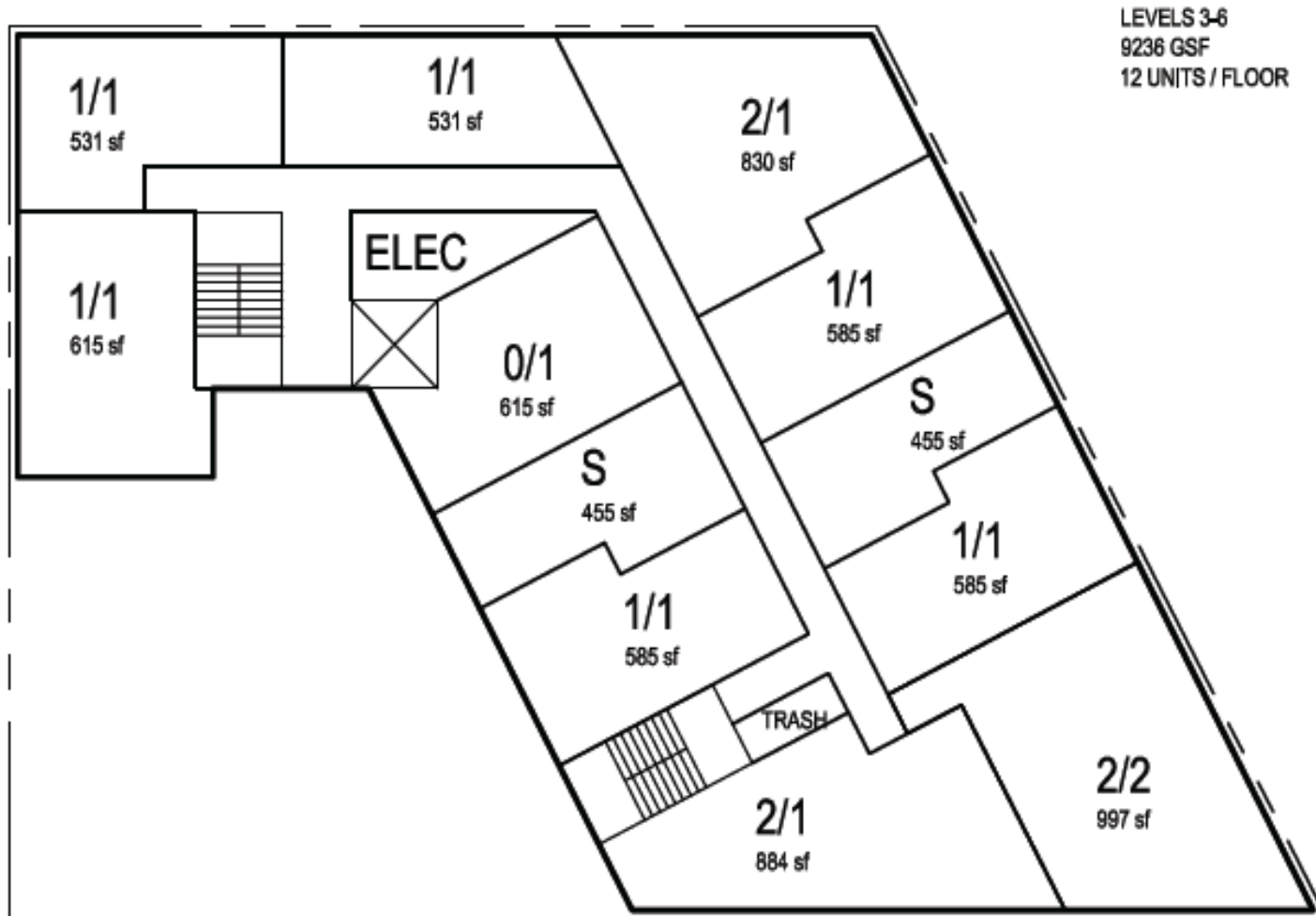
	Studio	Open 1	1 Bed	1 Bed+	2 Bed	total
L1	7		1			8
L2	2	1	4		3	10
L3	2	3	4		3	12
L4	2	3	4		3	12
L5	2	3	4		3	12
L6	2	3	4		3	12
	17	13	21	0	15	66

Conceptual Plans



LEVEL 1 (STREET LEVEL)

Unit Mix



Market Feasibility

Assumptions:

Market Rate Rents \$2.25/SF/Month

| Vacancy Rate 5% | OpEx @ \$353,000 annually

Market Rate Developer

- 95% Market | 5% Affordable
- Unit Mix → driven by “market”

Non-Profit Developer

- 80% Affordable @ 50% AMI | 20% Market
- Unit Mix → may be driven by financing sources, but also market

Development Budget

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

Development Budget

Profit Developer

Uses

Land -	\$ 1.32M
Hard Costs -	\$ 8.25M
Soft Costs -	\$ 1.65M
Developer Fees	<u>\$.60M</u>
Total -	\$11.82M

Non Profit Developer

Uses

Land -	\$ 1.32M
Hard Costs -	\$ 8.25M
Soft Costs -	\$ 1.65M
Developer Fees	\$ 1.00M
Reserves/Financing	<u>\$ 0.66M</u>
Total -	\$12.88M

Project Pro forma- Non- profit developer

Non-Profit Developer		**80% Affordable Units				
		Affordable Rents		LIHTC @ 50% AMI		
Unit Mix	# of Units	Size (SF)	\$ Rent/Mo			
Studio	4	525	1,181	Market	Units	
Open 1	3	585	1,316			
1 bed	5	615	1,384			
2 bed	3	884	1,989			
Studio	13	525	770	Affordable	Units	
Open 1	10	585	825			
1 bed	16	615	825			
2 bed	12	884	990			
66						
Gross Revenue				778,794		
Vacancy Loss				(38,940)		
Net Revenue				739,854		
Operating Expenses				353,000		
Net Operating Income				386,854		
Debt Service				336,395		
DSC Ratio				1.15		
Cash Flow				50,459		
Value - Cap Rate				3,973,412		

Project Pro forma- For Profit Developer

		For Profit Developer		**5% Affordable Units	
		Affordable Rents - target as a percentage			
		Unit Mix	# of Units	Size (SF)	\$ Rent/Mo
Market	Units	Studio	16	525	1,181
		Open 1	12	585	1,316
		1 bed	20	615	1,384
		2 bed	14	884	1,989
Affordable	Units	Studio	1	525	879
		Open 1	1	585	932
		1 bed	1	615	1,095
		2 bed	1	884	1,433
		66			
		Gross Revenue		1,134,660	
		Vacancy Loss		(56,733)	
		Net Revenue		1,077,927	
		Operating Expenses		353,000	
		Net Operating Income		724,927	
		Debt Service		630,371	
		DSC Ratio		1.15	
		Cash Flow		94,556	
		Value - Cap Rate		13,180,491	

Financial Comparison

Profit

Gross Revenue	1,134,660
Vacancy Loss	(56,733)
Net Revenue	1,077,927
Operating Expenses	353,000
Net Operating Income	724,927
Debt Service	630,371
DSC Ratio	1.15
Cash Flow	94,556
Value - Cap Rate	13,180,491

Non Profit

Gross Revenue	778,794
Vacancy Loss	(38,940)
Net Revenue	739,854
Operating Expenses	353,000
Net Operating Income	386,854
Debt Service	336,395
DSC Ratio	1.15
Cash Flow	50,459
Value - Cap Rate	3,973,412

Sources & Uses

Market Rate

Developer

Uses

Land -	\$ 1.32M
Hard Costs -	\$ 8.25M
Soft Costs -	\$ 1.65M
Developer Fees	<u>\$.60M</u>

Total - \$11.82M

Sources

Developer \	
Equity -	\$ 3.26M
Perm Loan -	<u>\$ 8.56M</u>

Total - \$11.82M

Non-Profit Developer

Uses

Land -	\$ 1.32M
Hard Costs -	\$ 8.25M
Soft Costs -	\$ 1.65M
Developer Fees	\$ 1.00M
Reserves/Financing	<u>\$ 0.66M</u>
Total -	\$12.88M

Tax Credit Equity -	\$ 5.94M
Perm Loan -	\$ 4.76M
Soft Loans -	<u>\$ 2.18M</u>

Total - \$12.88M

Exit Strategy

- For Profit Developer
- Sales value of project = \$13,180,000
- \$1.36MM Profit plus a \$600,000 developer fee.
- Alternative is to hold for a stream of income.
- 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 \$1M in fees.

The Ultimate Goal.....

