Small Developer Strategies

Why? + How?

INCREMENTALDEVELOPMENT.ORG
Why aren’t we getting the kind of real estate development we want?
Scale

Increment
So, Why aren’t you a developer yet?
Touched by an angel....
Generalist Tools and Mindset
63% of US housing stock is single-family detached homes as of 2005 (HUD, 2007)
83% of households in the US will have no children by 2030

According to Arthur C. Nelson, *Reshaping Metropolitan America*
75% of new housing delivered between now and 2030 should be rental to meet demand.

According to Arthur C. Nelson, *Reshaping Metropolitan America*
What Are We Talking About?

Small and Incremental

Large and Master Planned

Graphic © UrbanGreen 2015
What Are We Talking About?

Corporate
And
Institutional

Small
and
Incremental

Large
and
Master
Planned

Entrepreneurial
and
Bootstrapped

Graphic © UrbanGreen 2015
What Are We Talking About?

Small and Incremental

Corporate And Institutional

Entrepreneurial and Bootstrapped

Where the industry has focused for years

Large and Master Planned
What Are We Talking About?

- Corporate and Institutional
- Mismatched objectives
- Small and Incremental
- Entrepreneurial and Bootstrapped
- Large and Master Planned
- Mismatch of operating requirements

Graphic © UrbanGreen 2015
What Are We Talking About?

Small and Incremental

Corporate and Institutional

Large and Master Planned

Entrepreneurial and Bootstrapped

The Opportunity to be realized

Graphic © UrbanGreen 2015
Cultivating 1000 small developers with cities that support them.
Teach and Nurture Implementers

- **Train** small business owners, neighborhood advocates, design/real estate professionals, builders and others to become small developers.

- **Coach** civic groups and government agencies on how to create a workable ecosystem for small developers.

- **Connect** a growing cohort of small developers and local champions.
What are we dealing with?

• Scale.
• Complexity.
• Capacity.
• Authenticity.
• Grim Reality.

(No one is coming to Fix your Town).
Current State of the Development Industry (the big outfits)

- Economy of Scale
- Specialization.
- Patchwork Quilt of Arcane Regulation.
- Neighbourhood Opposition and NIMBY’s
- Construction Labor Shortage
How are we gonna get something done?

- Forget about teaching Developers of Large Scale Projects.
- Find someone local who cares about the town and is willing to learn.
- Patch the local systems and networks to support them.
So, Why aren’t you a developer yet?
Spectrum of Possible Developers
Orchestra Conductor or Band Leader?
Hustle, Know How, & Relationships
What Should a Small Developer Build?
How many ways can you wear a…

Little Black Dress
Dress it up or dress it down

Simplicity is the keynote of all true elegance.

-Coco Chanel
Black Dress, Blue Blazer Buildings
Building Types

Opticos Design coined the phrase “Missing Middle Housing”

www.missingmiddlehousing.org
Follow the Finances (to Form)
How to Avoid Elevators
Extraction vs. Generative Models
One Story – Commercial Front, Residential Back
One Story – Commercial
Rent Thresholds to Construct Building Types

<table>
<thead>
<tr>
<th>Building Type</th>
<th>Rent Threshold per SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 stair walk-up</td>
<td>$1.25</td>
</tr>
<tr>
<td>2 stair walk-up</td>
<td>$1.50</td>
</tr>
<tr>
<td>Wood Frame w/ elevator</td>
<td>$1.75</td>
</tr>
<tr>
<td>Concrete Podium w/elevator</td>
<td>$2.00</td>
</tr>
</tbody>
</table>
The Rule of 100.

$1 per SF per month can support $100 in total project costs.
Cultivating 1000 small developers with cities that support them.
Pro forma Assumptions:

- Land Cost: $45,000  (Vacant, includes all site utilities)
- Rents:
  - 1 Bedroom Unit: $650
  - 2 Bedroom Unit: $1050
  - Commercial Rents: $1.50 SF
- Hard Costs: $115 SF
- Soft Costs: $28 SF

Off Street Parking Assumptions for Commercial Uses:
- Tearoom/Café - 3 Parking Spaces per 1000 SF
- Retail - 5 Parking Spaces per 1000 SF
- Office - 4 Parking Spaces per 1000 SF
- Restaurant - 10 Parking Spaces per 1000 SF
A - Single Lot
142' deep, 50' frontage
10' alley
Scale: 1" = 20ft

Turn to Pages 33-40
Make a Basic Project Work on Paper
## Small Scale Development Workshop - Static Pro Forma Worksheet

### WHAT REVENUE CAN YOUR BUILDING PRODUCE?

<table>
<thead>
<tr>
<th>#1. MONEY IN</th>
<th>Quantity</th>
<th>Rent per Unit</th>
<th>SF per Unit</th>
<th>Rent/SF</th>
<th>Total SF</th>
<th>Total Monthly Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio Apartments</td>
<td>$900</td>
<td>430 SF</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>One Bedrooms</td>
<td>4</td>
<td>$900</td>
<td>1,400 SF</td>
<td>$</td>
<td>$1,470</td>
<td>$</td>
</tr>
<tr>
<td>Two Bedrooms</td>
<td>2</td>
<td>$1200</td>
<td>750 SF</td>
<td>$</td>
<td>$1,350</td>
<td>$</td>
</tr>
<tr>
<td>Commercial Space</td>
<td>$</td>
<td>SF</td>
<td>$</td>
<td>$</td>
<td>SF</td>
<td>$</td>
</tr>
<tr>
<td>Common Area/Storage/Garages</td>
<td>$</td>
<td>208 SF</td>
<td>$</td>
<td>$</td>
<td>208 SF</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$5,568</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Gross Potential Annual Income - GPI (Monthly Rent x 12) $67,200

### WHAT WILL IT COST TO OPERATE THE BUILDING?

<table>
<thead>
<tr>
<th>#2. VACANCY AND OPERATING</th>
<th>% of Gross Rentable Space</th>
<th>GPI - From #1 $67,200</th>
<th>Take your Potential Gross Income (PGI) from #1 $67,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Factor (% of GPI)</td>
<td>5%</td>
<td>$2,760</td>
<td>Subtract the Vacancy Factor $3,360</td>
</tr>
<tr>
<td>Annual Operating Expenses (OpEx), Insurance, tax, property management, repairs, expenses, etc. (% of GPI-Vacancy)</td>
<td>25%</td>
<td>$15,960</td>
<td>Subtract the Operating Expenses GDI X 25% OpEx from #1 $15,960</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$25,000</td>
<td>$15,960</td>
<td>Remainder is the annual Net Operating Income (NOI) $47,240</td>
</tr>
</tbody>
</table>

### WHAT WILL IT COST TO BUILD? - WHAT IS YOUR RETURN ON PROJECT COST?

<table>
<thead>
<tr>
<th>#4. COST OF BUILDING THE PROJECT</th>
<th>Quantity</th>
<th>Cost per SF</th>
<th>Total Cost</th>
<th>#5. CALCULATE ESTIMATED RETURN ON PROJECT COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Cost</td>
<td>1</td>
<td>N/A</td>
<td>$45,000</td>
<td>Take your Annual NOI from #3 $41,880</td>
</tr>
<tr>
<td>Hard Costs (Total SF from #1 x Cost per SF)</td>
<td>556 SF</td>
<td>$110</td>
<td>$12,740</td>
<td>Divide that by your Total Project Cost from #4 $15,416</td>
</tr>
<tr>
<td>Soft Costs (Total SF from #1 x Cost per SF)</td>
<td>556 SF</td>
<td>$25</td>
<td>$7,644</td>
<td>The product is your Estimated Return on Project Cost $9,271</td>
</tr>
<tr>
<td>Other (Off-site Improvement Costs)</td>
<td>1</td>
<td>N/A</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td>$75,976</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### HOW DO YOU FINANCE THE BUILDING? - HOW MUCH MONEY IS LEFT AFTER YOU PAY EXPENSES AND DEBT SERVICE?

<table>
<thead>
<tr>
<th>#6. DEBT SERVICE</th>
<th>$15,976</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost from #4</td>
<td>$75,976</td>
</tr>
<tr>
<td>Assume 25% Equity (down payment) is required in cash and other equity (land, deferred fees, etc.)</td>
<td>$12,894</td>
</tr>
<tr>
<td>Assumed Loan Amount is 75% of the Total Project Cost. This is the Total Project Cost less the Equity provided.</td>
<td>$586,984</td>
</tr>
<tr>
<td>How much do you have to pay each month to service that debt? (Assume 4.5% interest and 25 year amortization with no PMI)</td>
<td>$2,168</td>
</tr>
<tr>
<td>Multiply Monthly Payment by 12 to produce your Annual Debt Service.</td>
<td>$26,222</td>
</tr>
</tbody>
</table>

### 7. CALCULATE CASH-ON-CASH RETURN

- Divide the Annual NOI by the Annual Debt Service to produce your Debt Service Coverage Ratio: 1.48
- Multiply the Total Project Cost by .75 as a rough estimate of the value of improvements to the land. Divide the result by 27.5 years to determine the Annual Depreciation Expense: $14,072

\[
\$15,976 \times .75 = 386,981 / 27.5 \text{ years} = $14,072
\]
When Is Money Like Plywood?
Small Developers (IncDev Alumni)
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Janderson@AndersonKim.com

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