

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

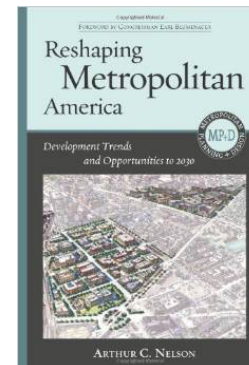
According to Arthur C. Nelson, *Reshaping Metropolitan America*



75%

of new housing delivered between now and 2030 should be rental to meet demand.

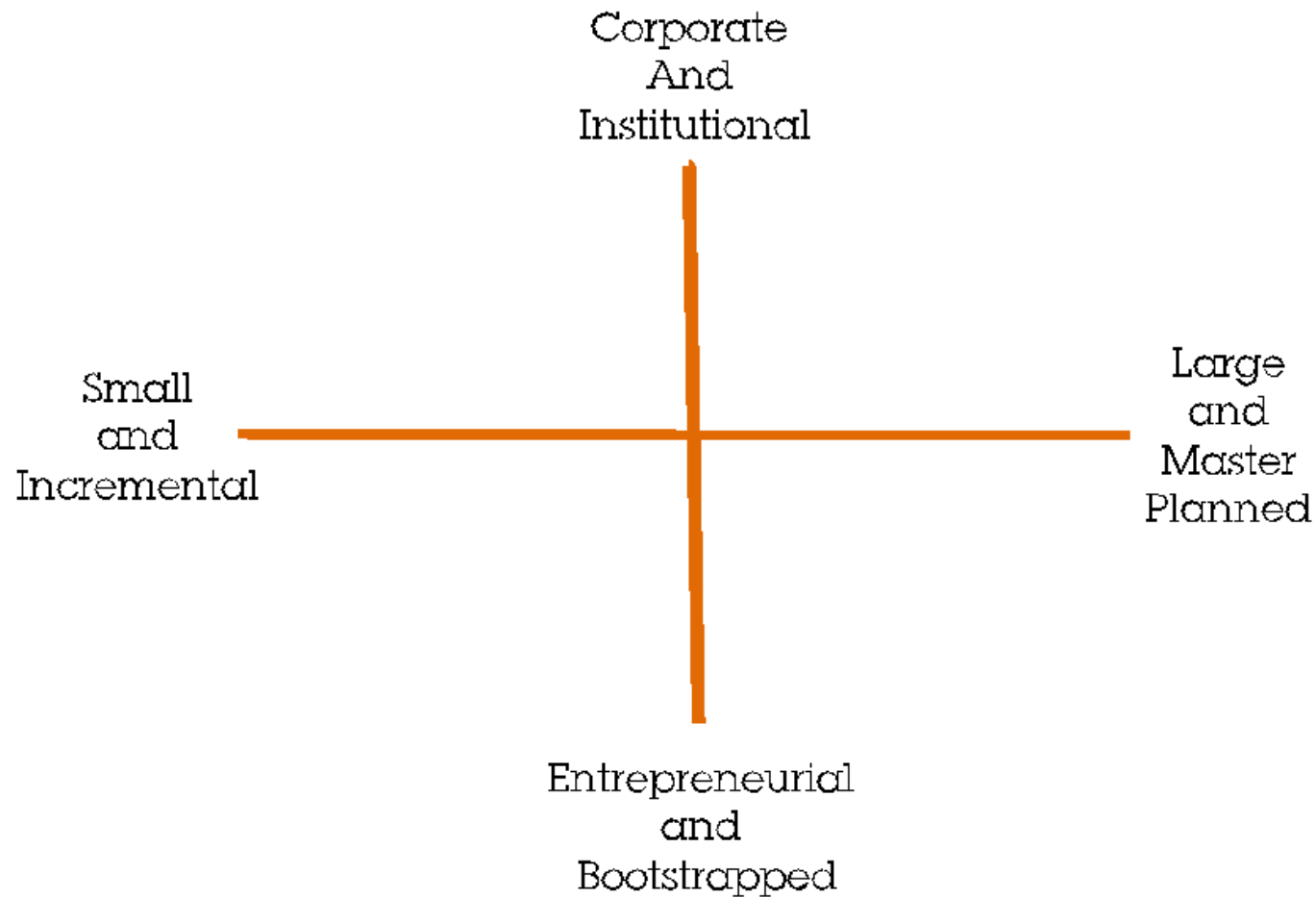
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What Are We Talking About?

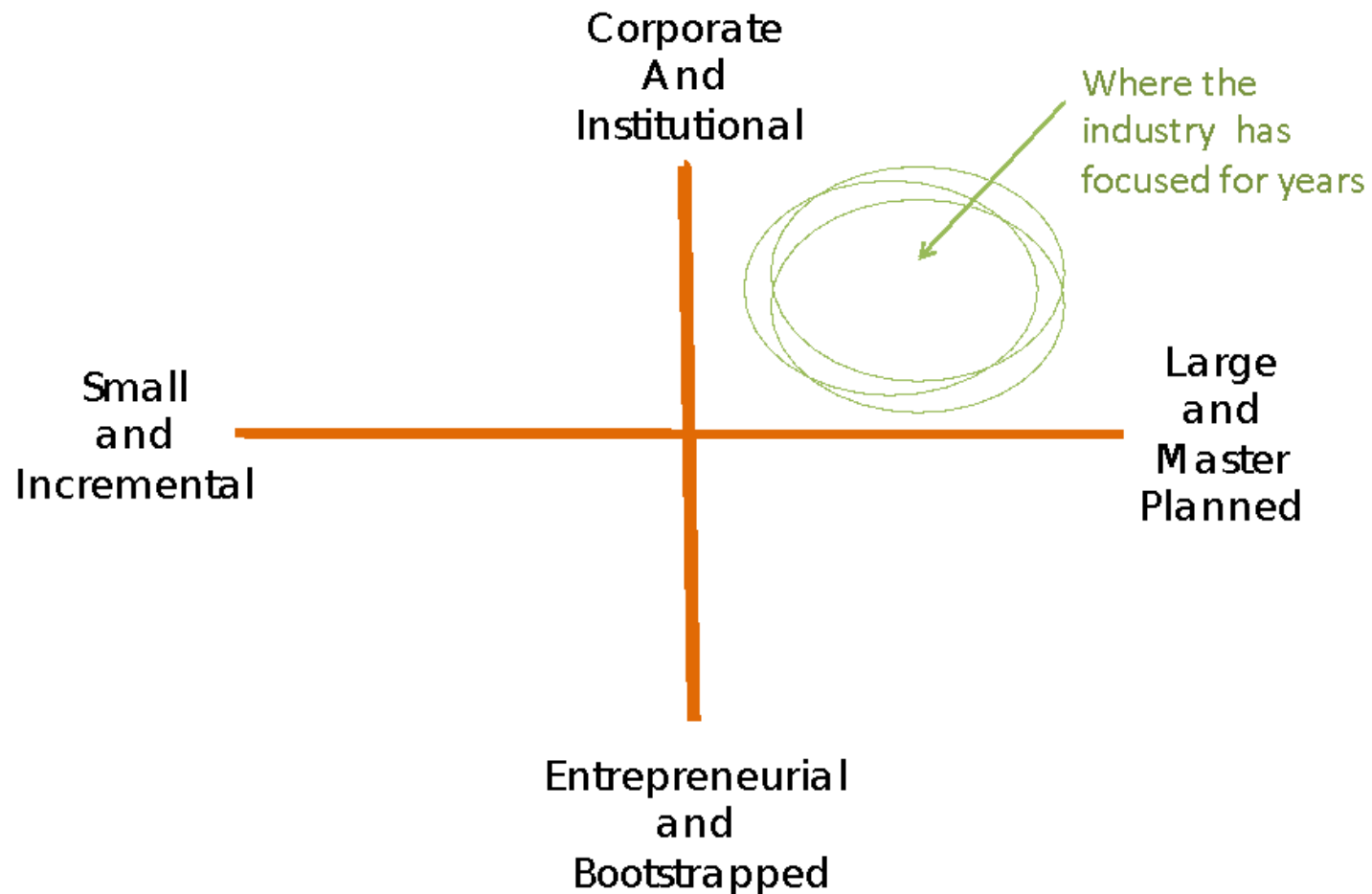


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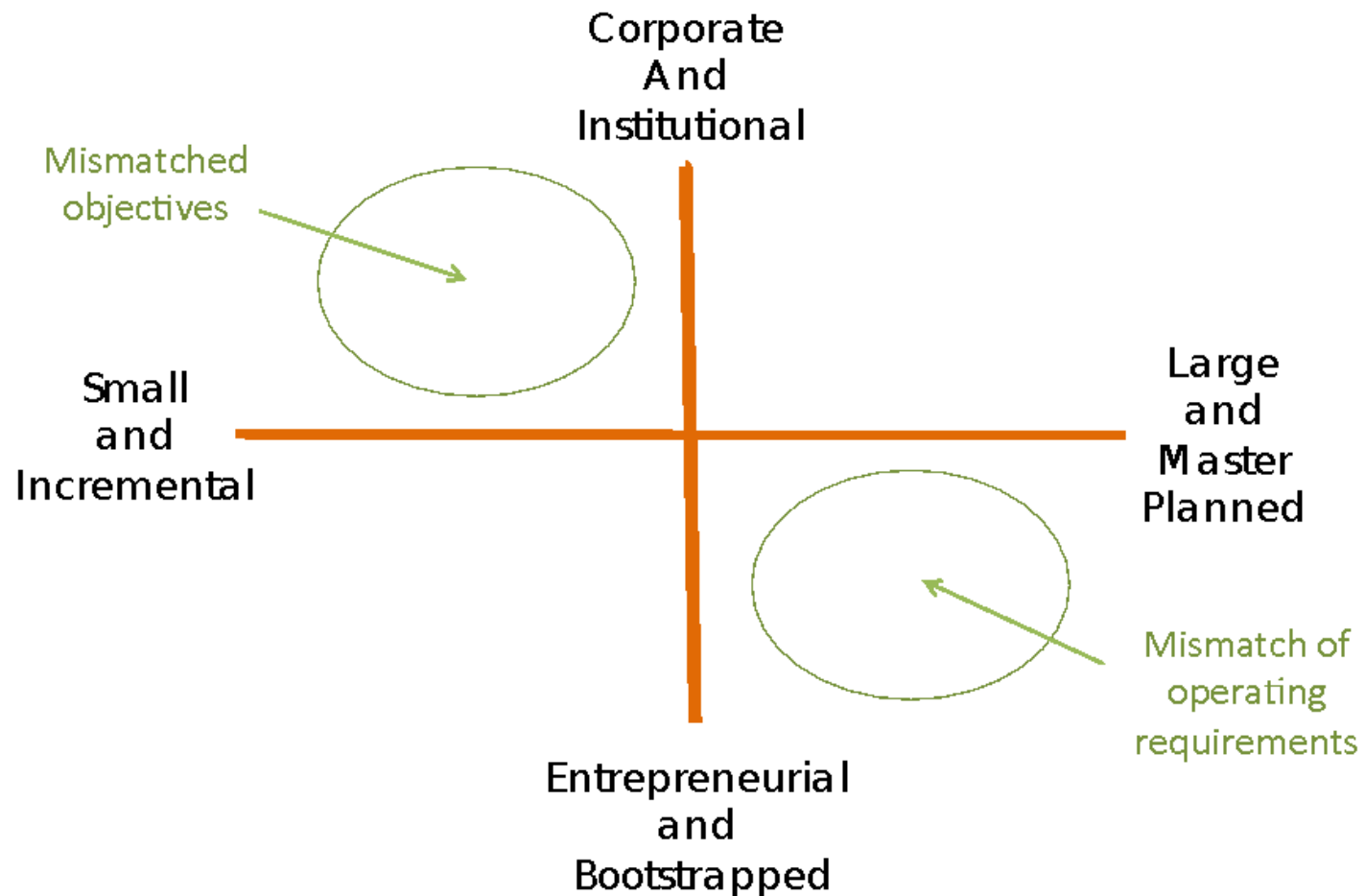


Graphic © UrbanGreen 2015

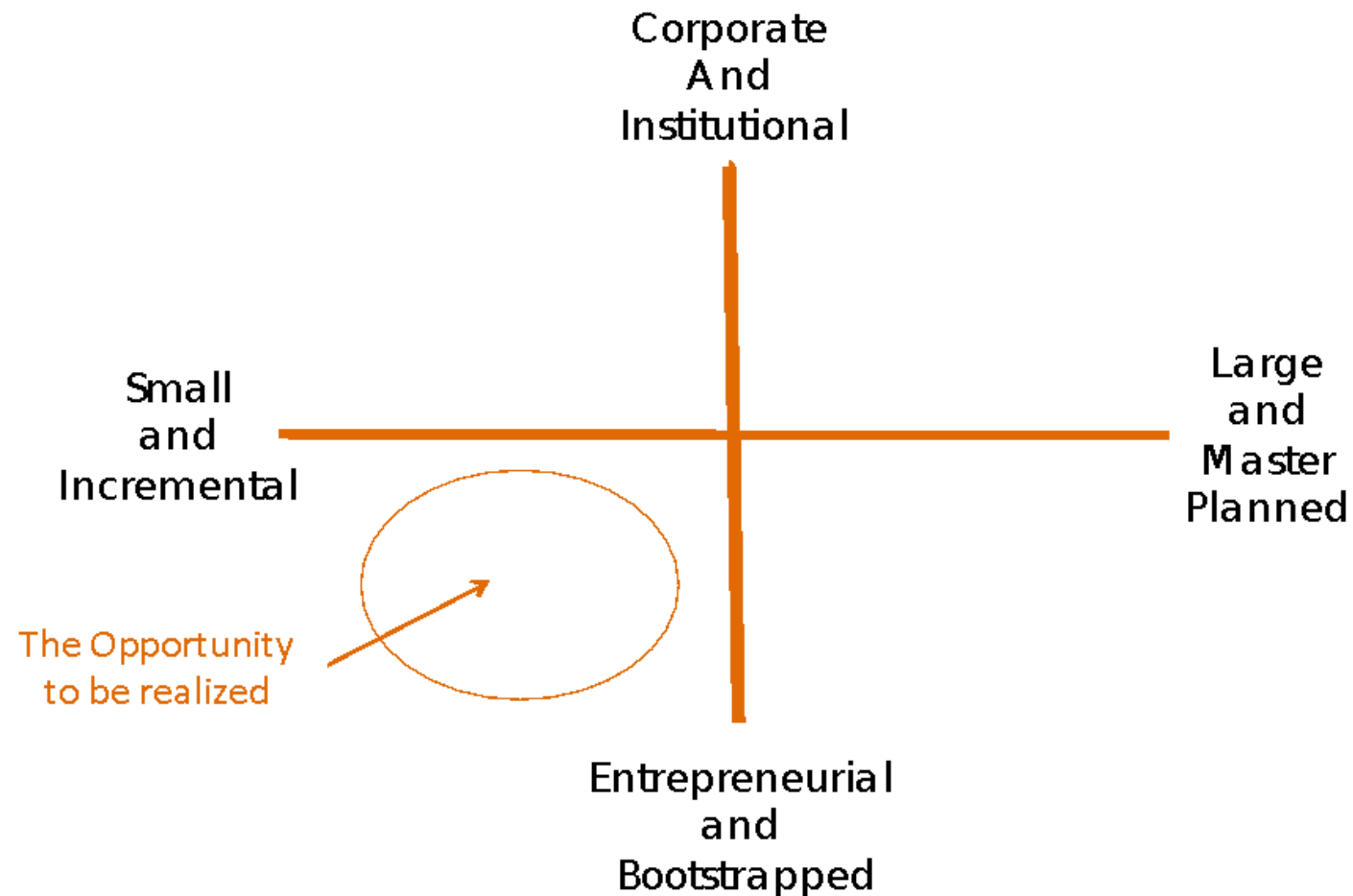
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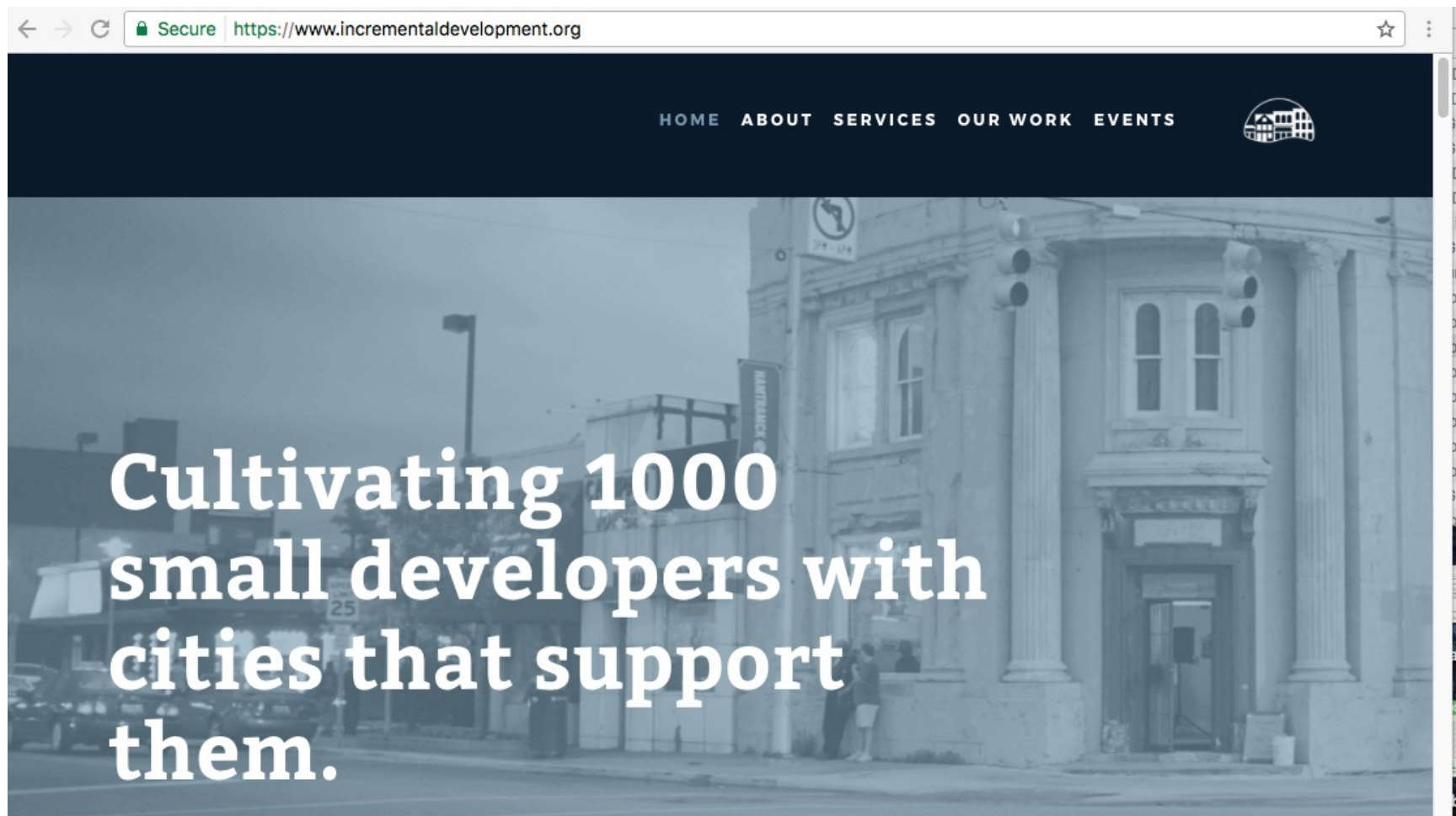
What Are We Talking About?



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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?



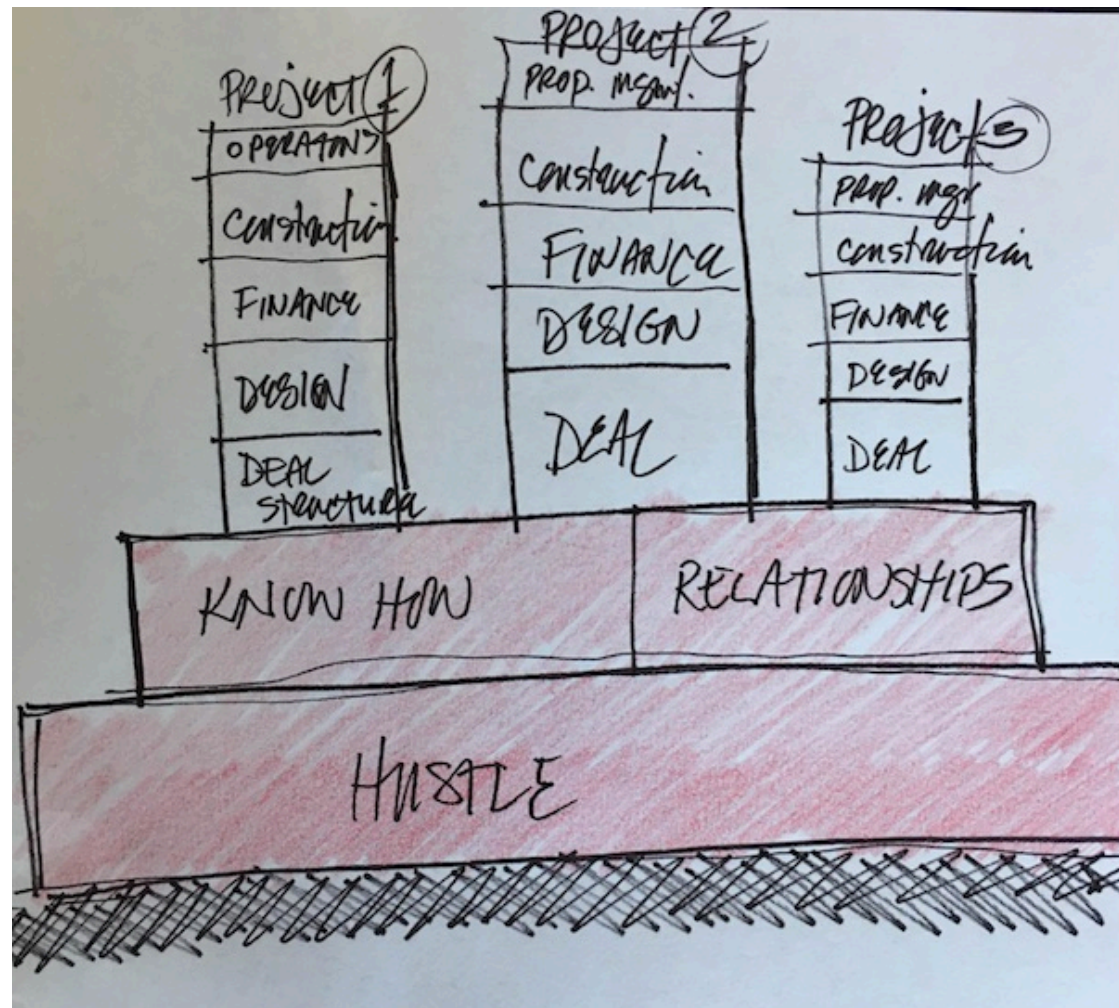
Spectrum of Possible Developers



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

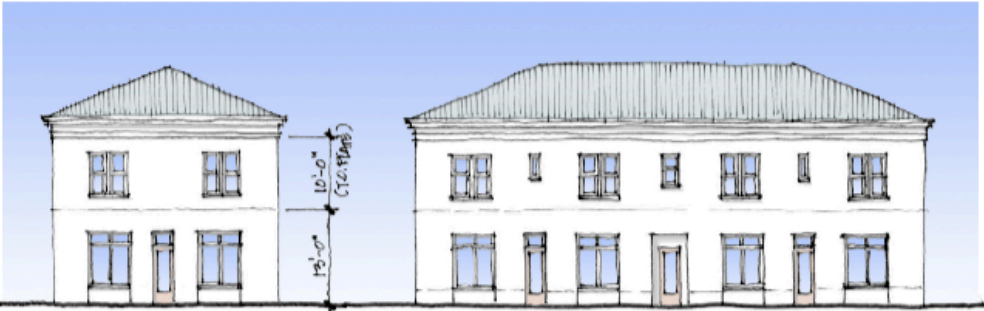


Opticos Design coined the phrase "Missing Middle Housing"

www.missingmiddlehousing.org

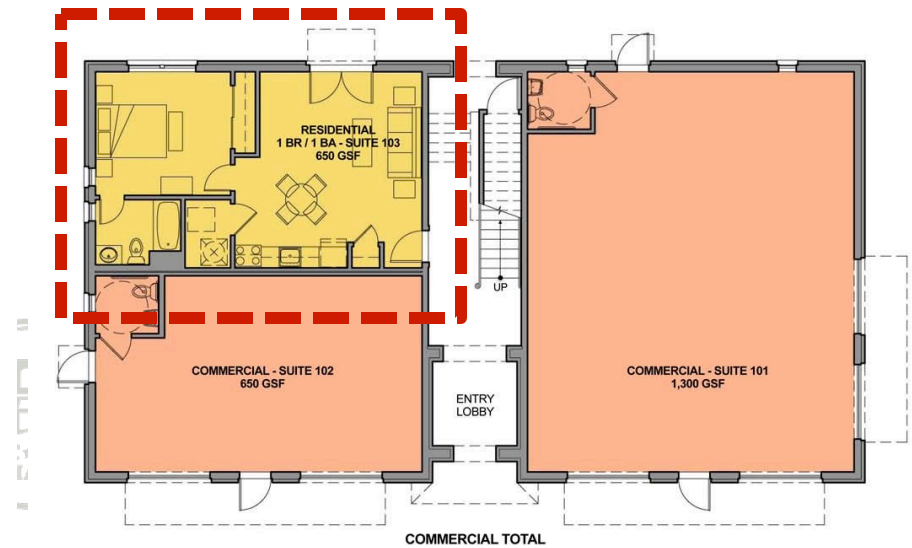
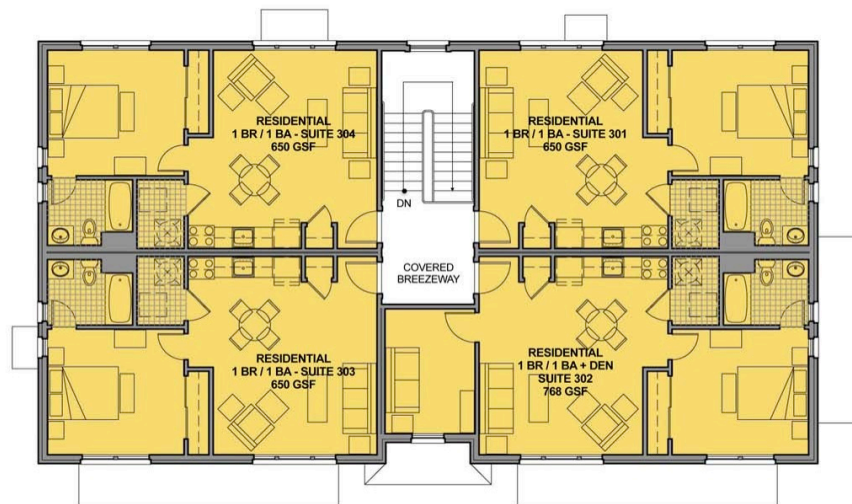


12.1% of the building is non-residential.
FHA mortgages allow for a maximum of
20% non-residential.



Cash + CW	
Capitalized Expenditures	616,411
Less: Depreciation	(220,444)
Accumulated Depreciation	601,222
Net PP&E	302,211
Less: A/R	(5,272)
Less: Inventory	(1,771)
Net PP&E, Inventory and Accounts Receivable	302,211
Field Station Coverage	1.34
Less: Cash + CW	616,411
Less: Depreciation	(220,444)
Less: Inventory	(1,771)
Less: Accounts Receivable	(5,272)

How to Avoid Elevators



Extraction vs. Generative Models



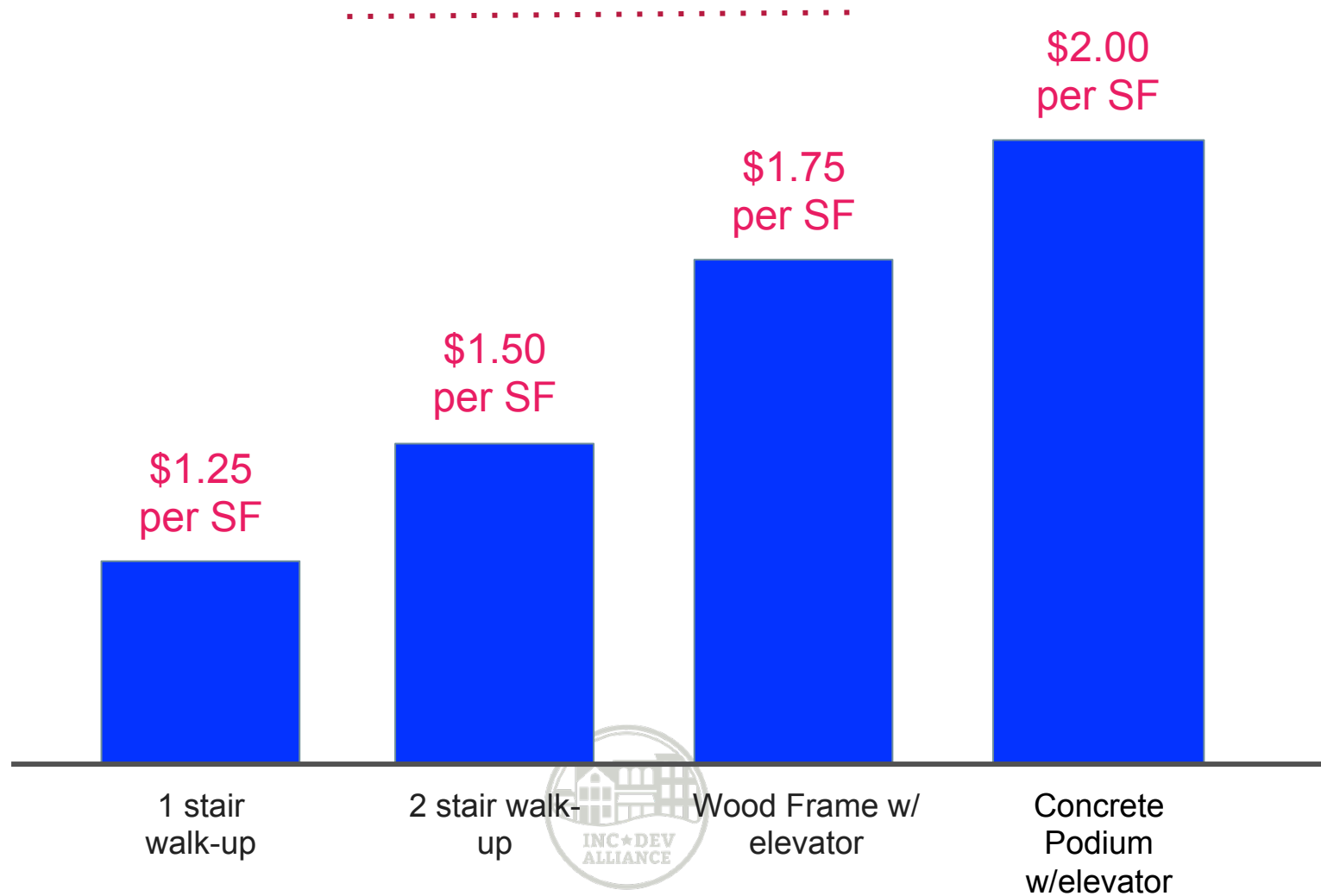
One Story – Commercial Front, Residential Back



One Story – Commercial



Rent Thresholds to Construct Building Types

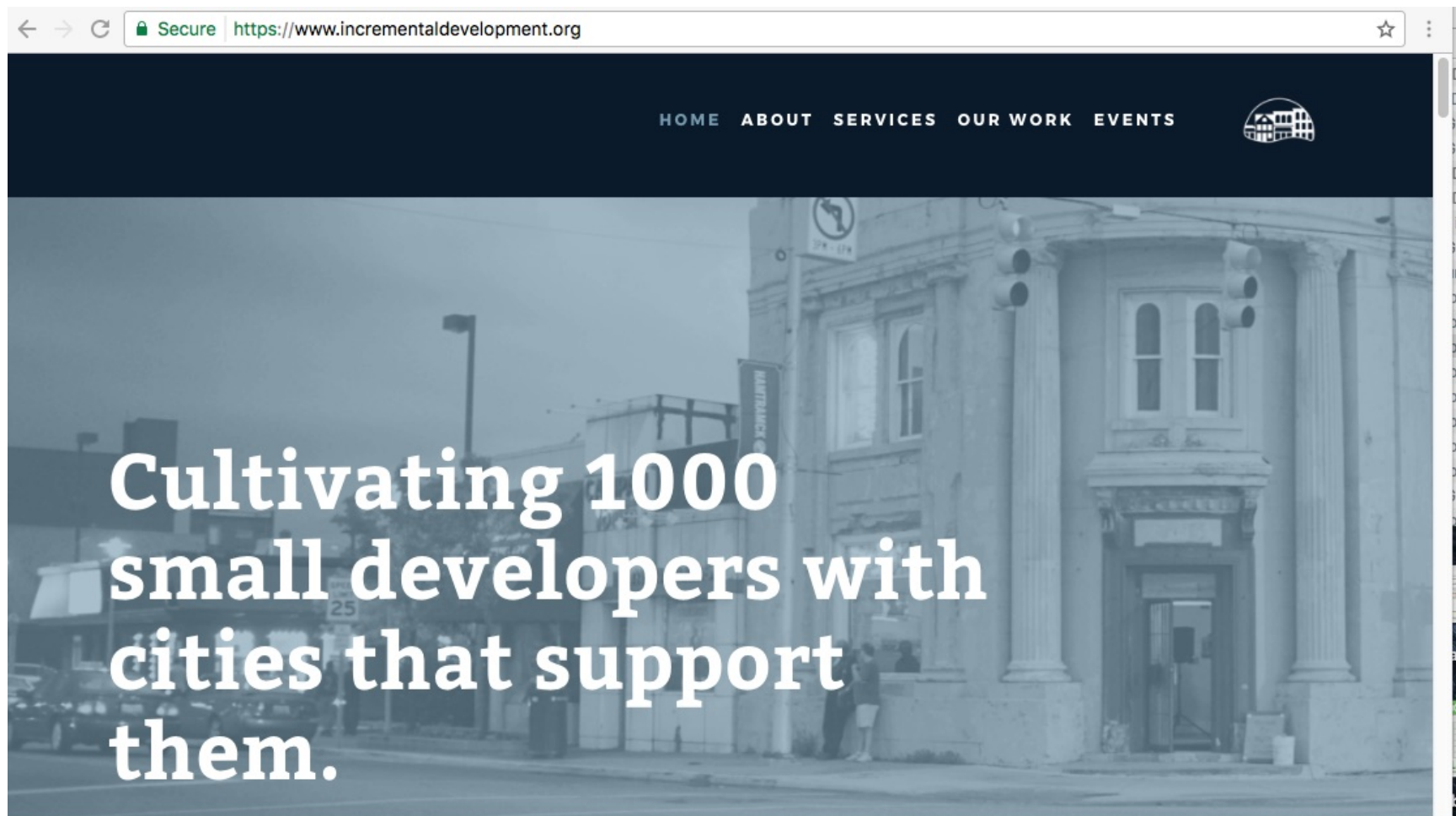


The Rule of 100.

\$1 per SF per month can
support \$100 in total
project costs.



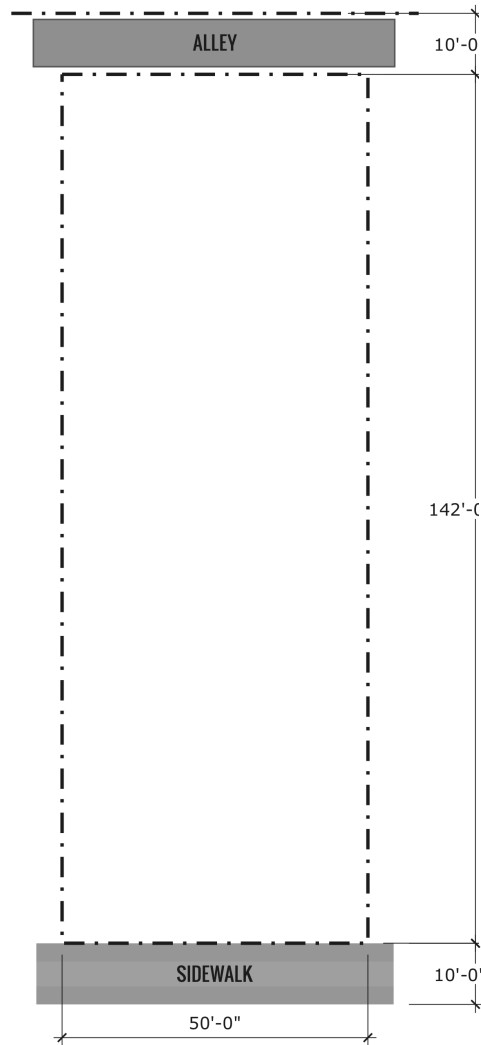
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A - Single Lot

142' deep, 50' frontage
10' alley

Scale: 1"= 20ft



Turn to Pages 33-40

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

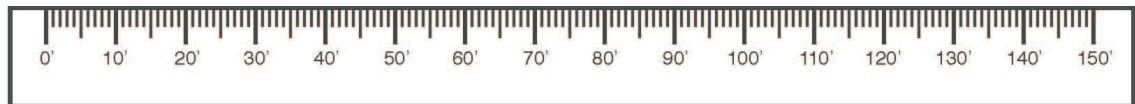
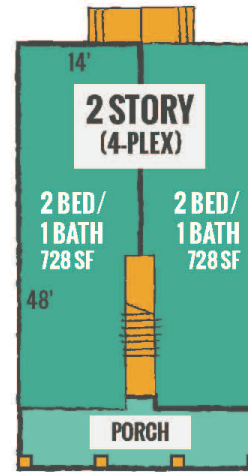
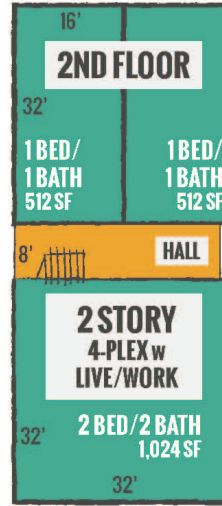
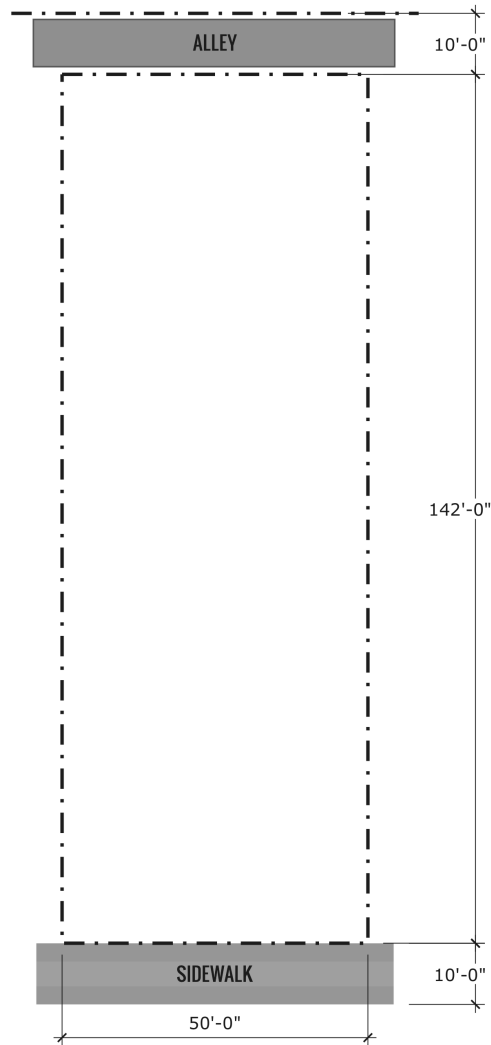


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10' alley

Scale: 1" = 20ft

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Make a Basic Project Work on Paper



Small Scale Development Workshop - Static Pro Forma Worksheet

WHAT REVENUE CAN YOUR BUILDING PRODUCE?						
#1. MONEY IN	Quantity	Rent per Unit	SF per Unit	Rent/SF	Total SF	Total Monthly Rent
Studio Apartments		\$	480 SF	\$	SF	\$
One Bedrooms	4	\$ 800	720 SF	\$ 1.67	1,920 SF	\$ 3,200
Two Bedrooms	2	\$ 1,200	720 SF	\$ 1.67	1,440 SF	\$ 2,400
Commercial Space		\$	SF		SF	\$
Common Area/Storage/Garages		\$	208 SF	\$	208 SF	\$
				Total	3,568 SF	\$ 5,600

Gross Potential Annual Income - GPI (Monthly Rent x 12)	\$ 67,200
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WHAT WILL IT COST TO OPERATE THE BUILDING?				#3. CALCULATE NET OPERATING INCOME	
#2. VACANCY AND OPERATING	% of Gross Income				
GPI - From #1		67,200	Take your Potential Gross Income (PGI) from #1		67,200
Vacancy Factor (% of GPI)	5%	3,360	Subtract the Vacancy Factor	-	3,360
Annual Operating Expenses (OpEx); Insurance, tax, property management, repairs, expenses, etc. (% of GPI-Vacancy)	25%	15,960	Sub-Total is the Gross Operating Income (GOI):		63,800
			Subtract the Operating Expenses GOI X 25% OpEx) from #2		15,960
			Remainder is the annual Net Operating Income (NOI):		47,880

WHAT WILL IT COST TO BUILD? - WHAT IS YOUR RETURN ON PROJECT COST?					#5. CALCULATE ESTIMATED RETURN ON PROJECT COST	
#4. COST OF BUILDING THE PROJECT	Quantity	Cost per SF	Total			
Land Cost	1	N/A	\$ 45,000	Take your Annual NOI from #3		\$ 47,880
Hard Costs (Total SF from #1 x Cost per SF)	3,568 x	\$110	\$ 392,480	Divide that by your Total Project Cost from #4		\$ 515,976
Soft Costs (Total SF from #1 x Cost per SF)	3,568 x	\$25	\$ 78,996	The product is your Estimated Return on Project Cost		9.27%
Other (Off-site Improvement Costs)	1	N/A	\$ -0-			
Total Project Cost:			\$ 515,976			

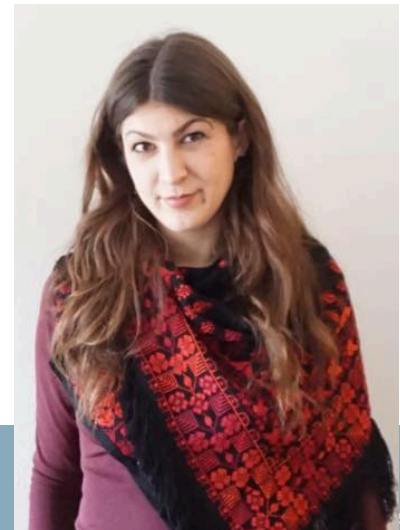
HOW DO YOU FINANCE THE BUILDING? - HOW MUCH MONEY IS LEFT AFTER YOU PAY EXPENSES AND DEBT SERVICE?					
#6. DEBT SERVICE	\$		#7. CALCULATE CASH-ON-CASH RETURN		
Total Project Cost from #4	\$ 515,976	Take your Annual Net Operating Income from #3	\$ 47,880		
Assume 25% Equity (down payment) is required in cash and other equity (land, deferred fees, etc.)	128,996	Subtract your Annual Debt Service from #6	- 32,256		
Assumed Loan Amount is 75% of the Total Project Cost. This is the Total Project Cost less the Equity provided:	\$ 386,982	This produces your Net Annual Income (or Cash Flow after OpEx and Debt Service):	\$ 15,624		
How much do you have to pay each month to service that debt? (Assume 4.5% interest and 25 year amortization with no PMI) www.mortgagecalculator.org	\$ 2,688	Divide your Net Annual Income by the 25% Equity number from #6 to calculate your return on the Equity; your Cash on Cash Return:	12%		
Multiply Monthly Payment by 12 to produce your Annual Debt Service.	\$ 32,256	#8. ESTIMATE ANNUAL DEPRECIATION EXPENSE			
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		

$$515,976 \times .75 = 386,982 / 27.5 \text{ yrs} = 14,072$$

When Is Money Like Plywood?







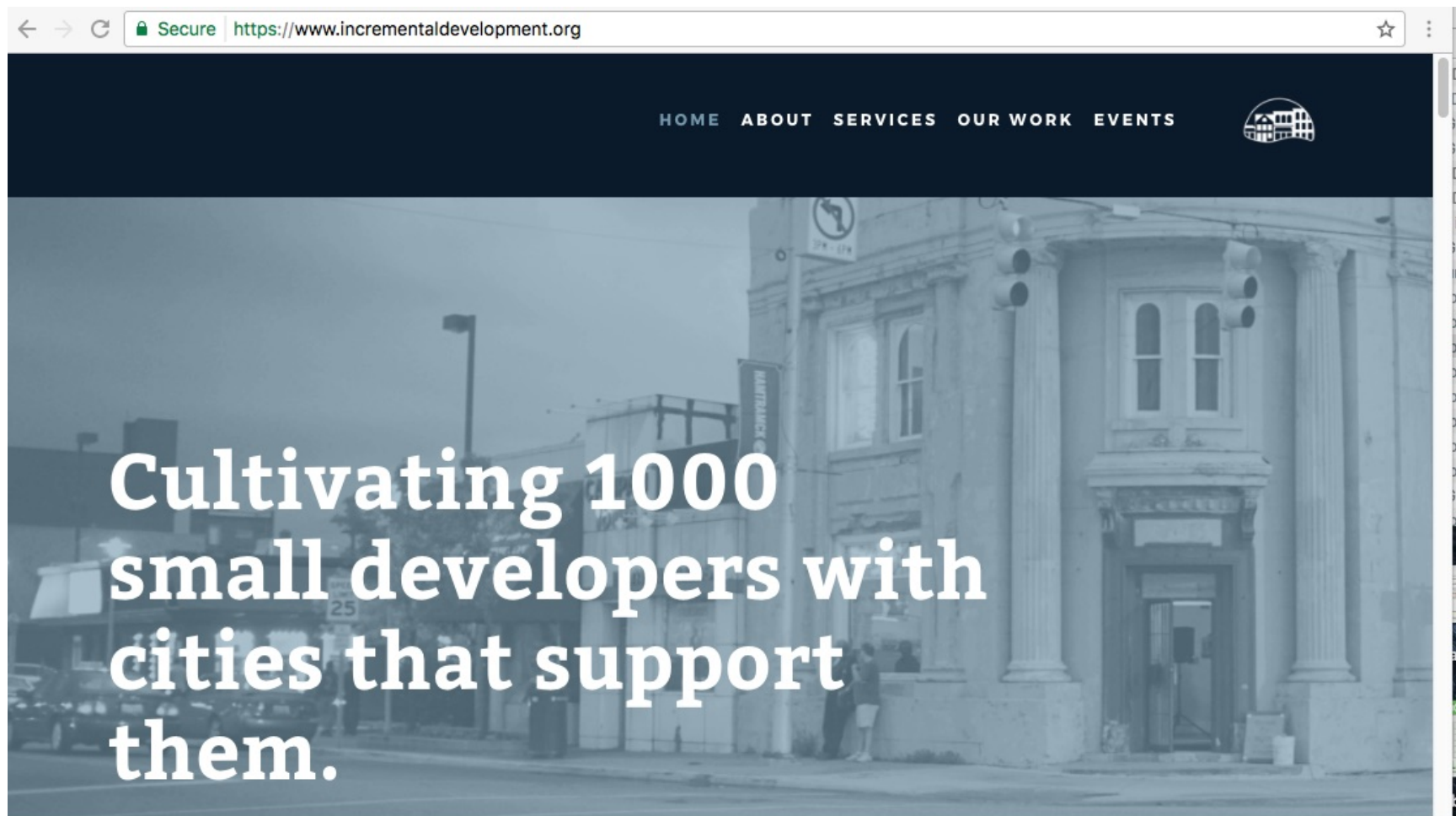
Small Developers (IncDev Alumni)



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