Building More Homes Incrementally

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Cultivating 1000 small developers
and cities that support them

IncDev Mission:
We 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 thriving ecosystem for small developers and entrepreneurs

Connect a continent of neighborhood level doers to celebrate success and share field notes through opportunistic alliances

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Zero to Three Stories, In Your Neighborhood
Constantly Evolving, Regenerating

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Neighborhood

Block

Lot

Big City

Small Town

Building of Intergenerational Wealth

Families

Leverage Building as Income Source

Provide Lifecycle Housing Choice

Communities

Flexible and Adaptable Buildings

Anti-Fragile Tax Base

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How This Got Started
(Where I was in 2009)

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Boom.
Bust.

Building mixed use, mixed income neighborhoods, at scale of dozens of acres.

Trying to build one building and finance it.

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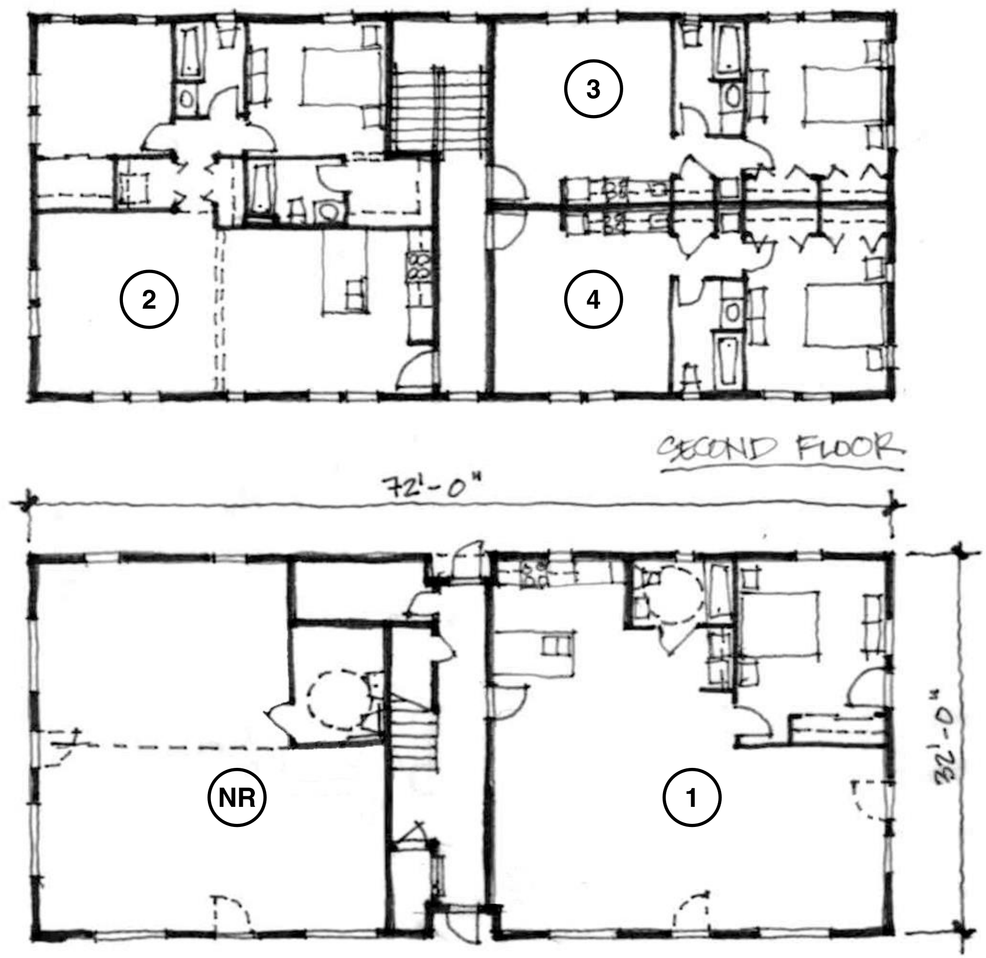
What To Do After
"The End of Financing As We Know It"

Unit	Program	Area
1	1BR - First Fl.	1,080 SF
2	2BR - Second Fl.	1,034 SF
3	1BR (#1) - Second Fl.	540 SF
4	1BR (#2) - Second Fl.	540 SF
	Common Area	488 SF
	Residential Subtotal	3,682 SF
NR	Non-Residential	906 SF
	Total	**4,588 SF**

19.7% of the building is non-residential.

FHA mortgages allow for a maximum of 20% non-residential.



Form Follows Finance
Fourplex

Lessons Learned

- **Rules Matter.** What you make easy and legal is what you get the most of in your town.
- **Financing Matters.** What can be financed gets built. What you want, but doesn't have a common, off the shelf financing mechanism, doesn't get built.
- **Codes Matter.** Building codes make stairstep tiers of cost.
- **Math Matters.** If you can't get the rent, you don't get the building.

Simple vs Easy

It’s Simple: Make a building that stays inside the boundaries of the least complex building codes, which is also legal to build in many zoning code areas, that also makes more money than it costs to build, and can be financed with a ubiquitous, common financing tool.

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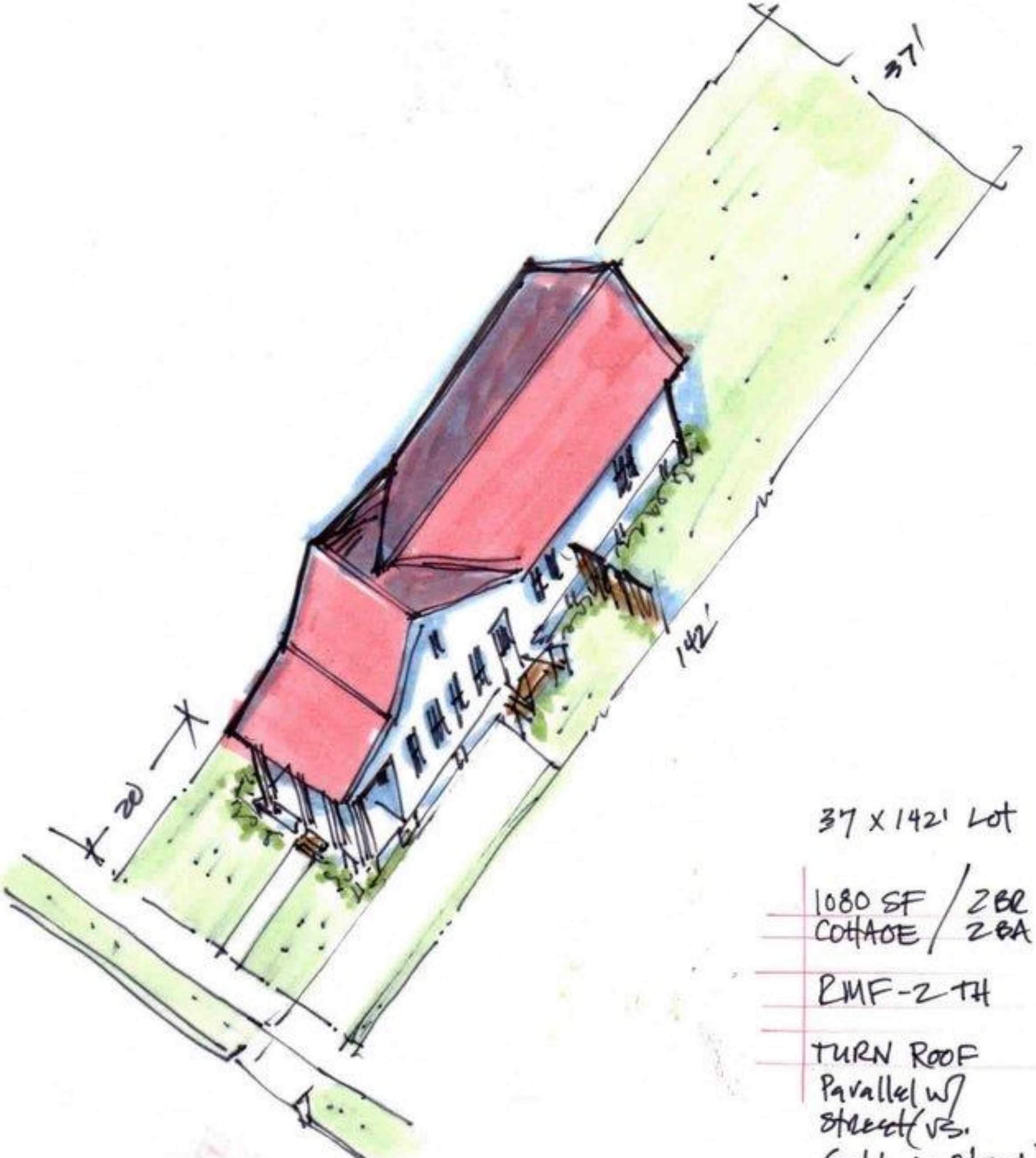

37 x 142' Lot

1080 SF / 2BR
COTTAGE / 2BA

RMF-2 TH

TURN ROOF
Parallel w/
street (vs.
Gable to street.)

Quick Recap of Situation in NH

~200 Local Planning Boards, some a bit behind the curve

The Town Meeting Decision Making Process

~0% Vacancy

Rising Sales Prices and Rents

<u>Some</u> fear of what change looks like

The Facts are Clear. There's a Housing Crisis.

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Hi, I’m John

As a small real estate developer, I’d like to build and renovate some housing in your neighborhood.

…but this situation is more about *feelings* than facts

This Will Move at the Speed of Trust

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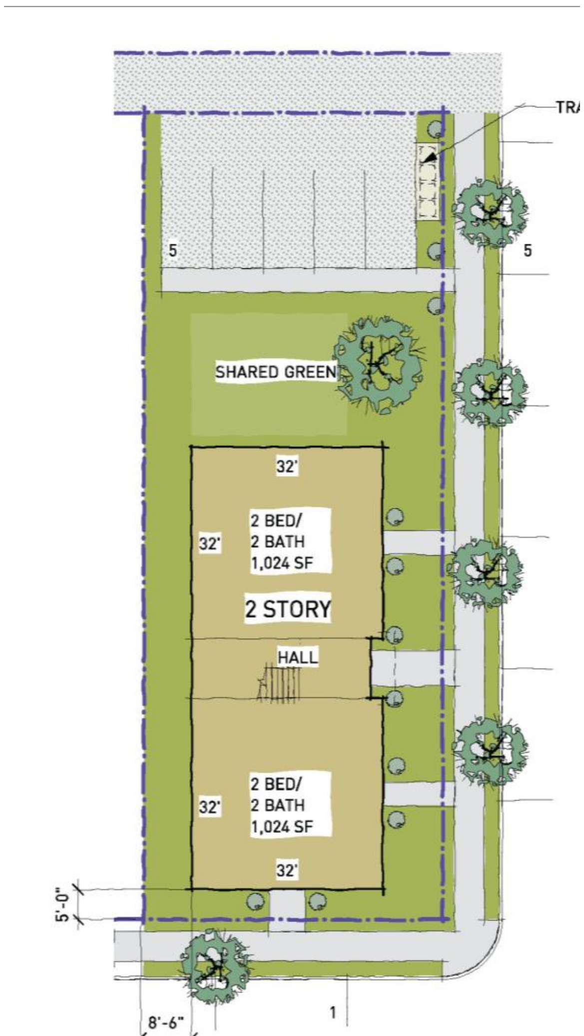
Here’s the Secret

This is the next big thing in real estate.

Really. Worth the price of admission by itself.

Ready for it?

Simple, Rectangular, Lovable



Are you getting
the kinds of
housing projects
you want to see?

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Why Not??

I'll Give You Three Reasons

Reason #1

Habit of Extractive Land Development

We Don’t Regenerate Like We Used To….

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Culture of Throwaway Buildings

Land Held in Hands of Few

Deteriorating Municipal Tax Base

Reason #2

Current State of the Development Industry

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Chronic Specialization

Patchwork Quilt of Arcane Regulation

Neighborhood Opposition and NIMBY's

Dire Construction Labor Shortage

Tariffs on Materials

Reason #3

Mismatch of Buildings to People

What we have and what we need don't fit well

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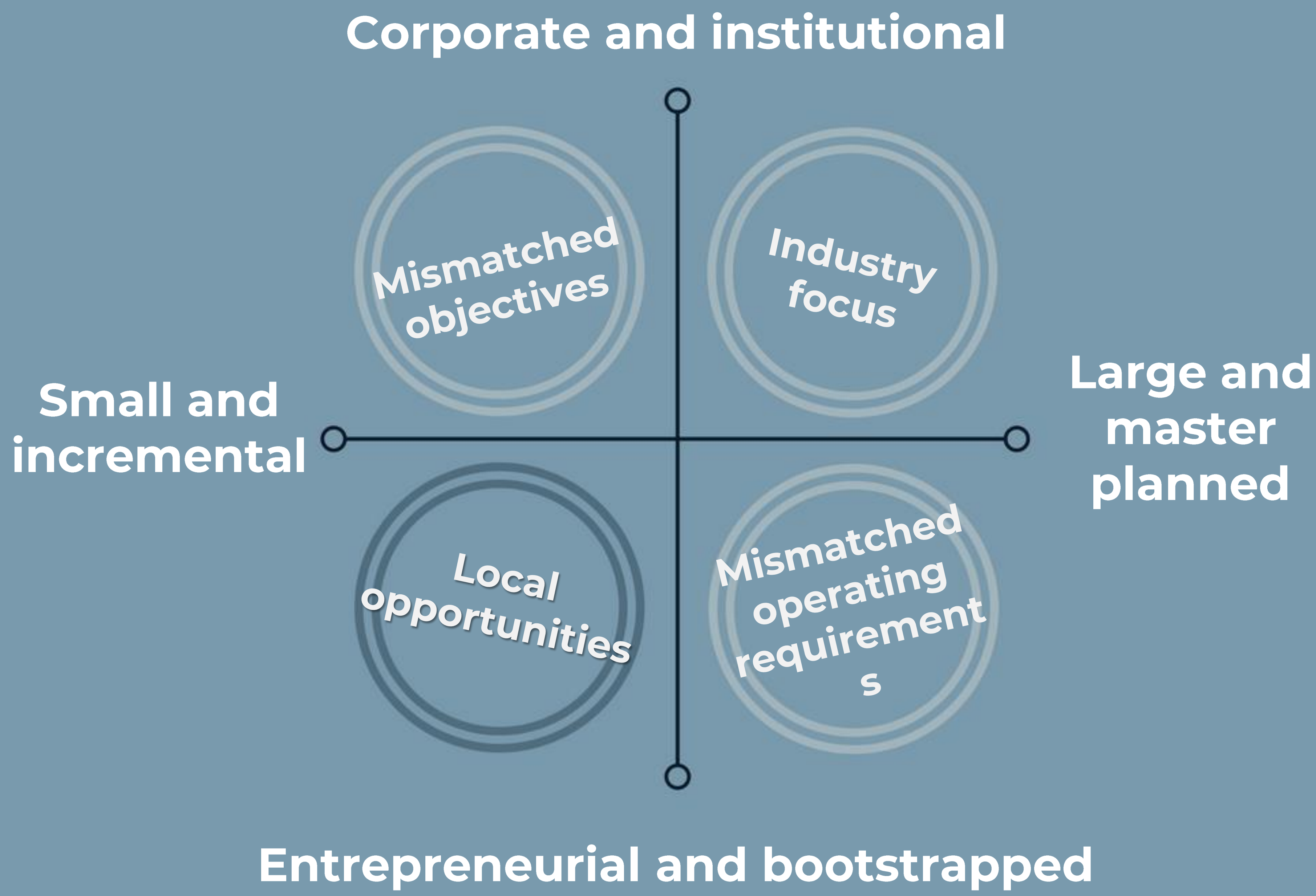
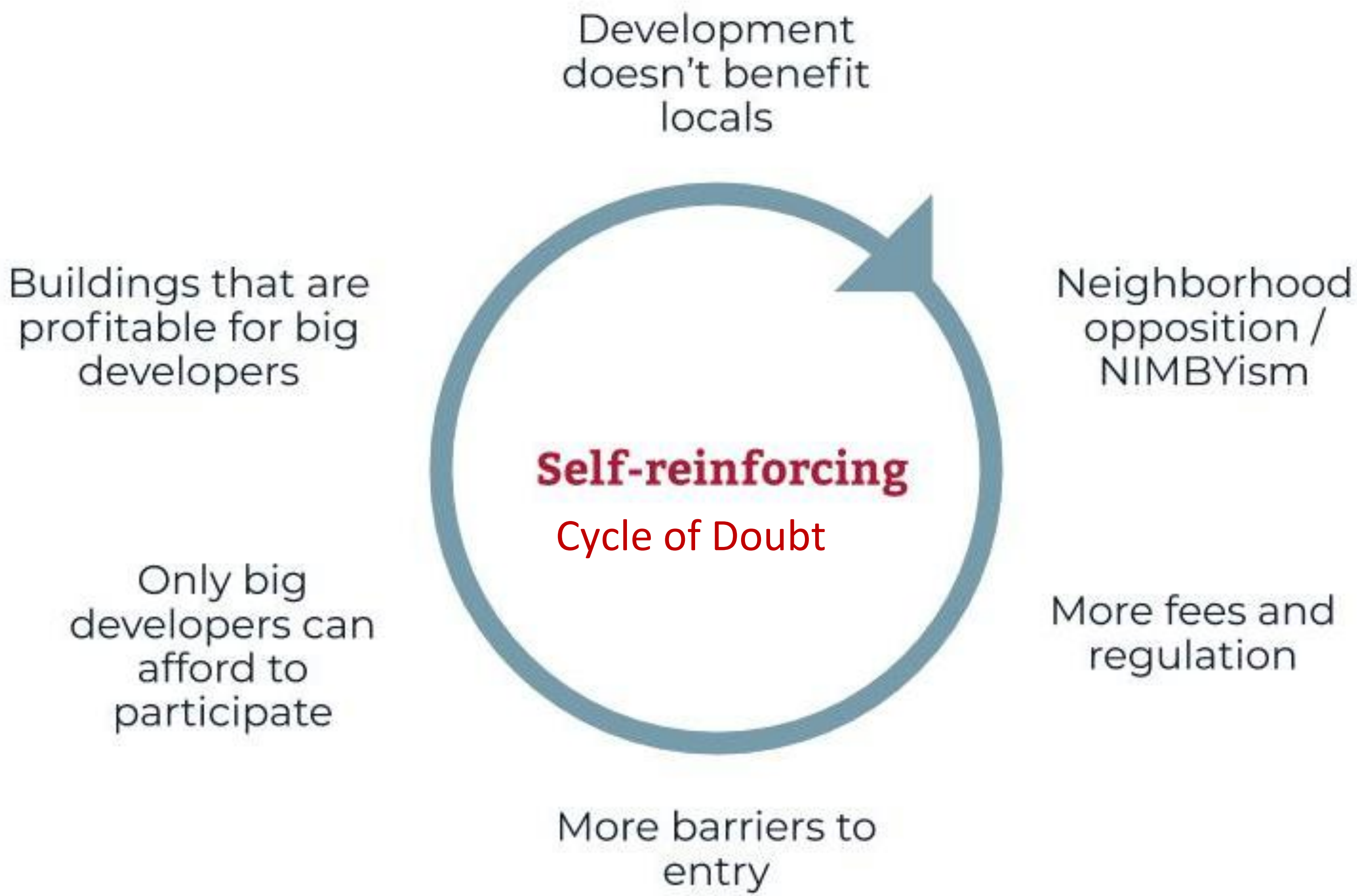
Goldilocks Problem:
Don't have enough of the 'just right' buildings

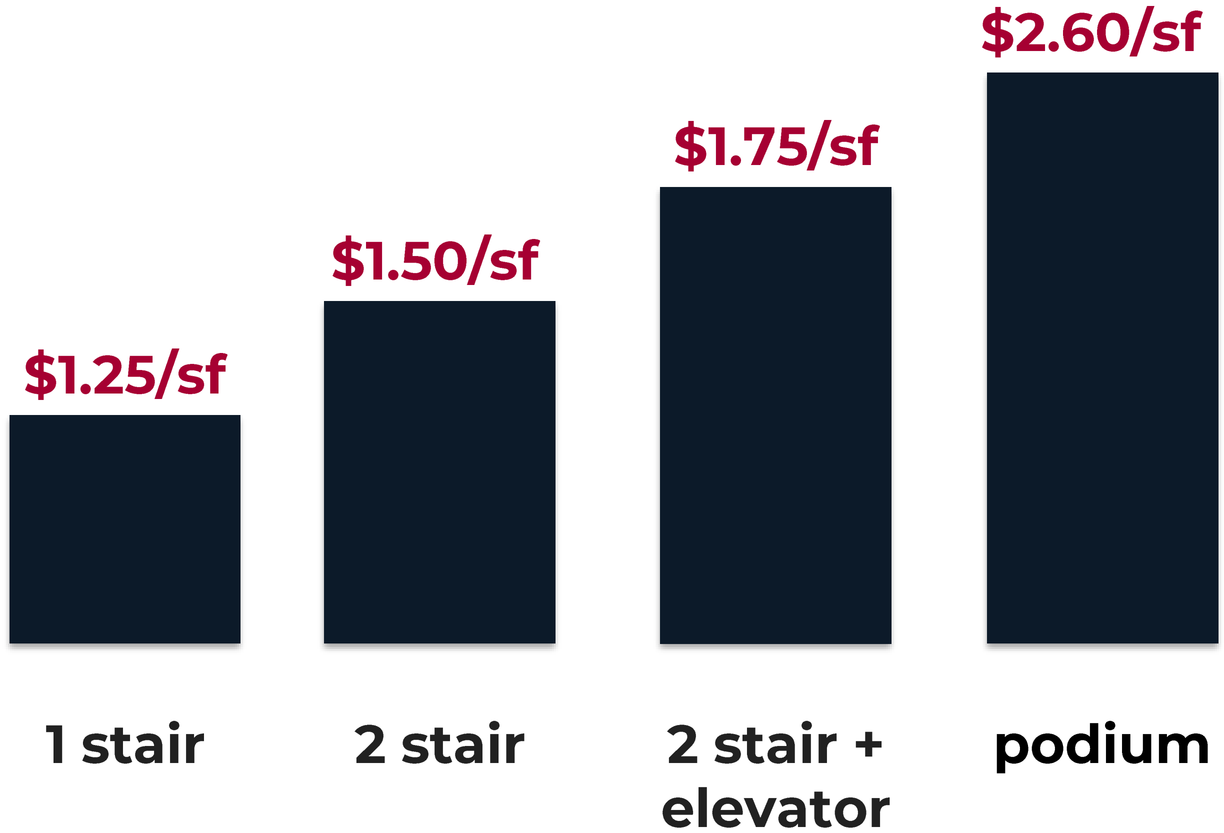
National demographics shifting to smaller units for single person households

Overheated real estate markets in walkable neighborhoods due to lack of supply of them


Corporate and institutional
Mismatched objectives
Industry focus
Small and incremental
Large and master planned
Local opportunities
Mismatched operating requirement s
Entrepreneurial and bootstrapped


Development doesn't benefit locals
Neighborhood opposition / NIMBYism
More fees and regulation
More barriers to entry
Only big developers can afford to participate
Buildings that are profitable for big developers
Self-reinforcing
Cycle of Doubt

Building Complexity Versus Required Rents to Cover Costs (Illustrative Numbers)



If you can't get the revenue, then you shouldn't build the building.

Solving Housing Shortages with New Big Buildings Is Only Possible with Big Rents

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Smaller Buildings Makes Smaller Prices Possible

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What Do We Have to Know to Make These Happen?

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Mastering Code and Financing Thresholds

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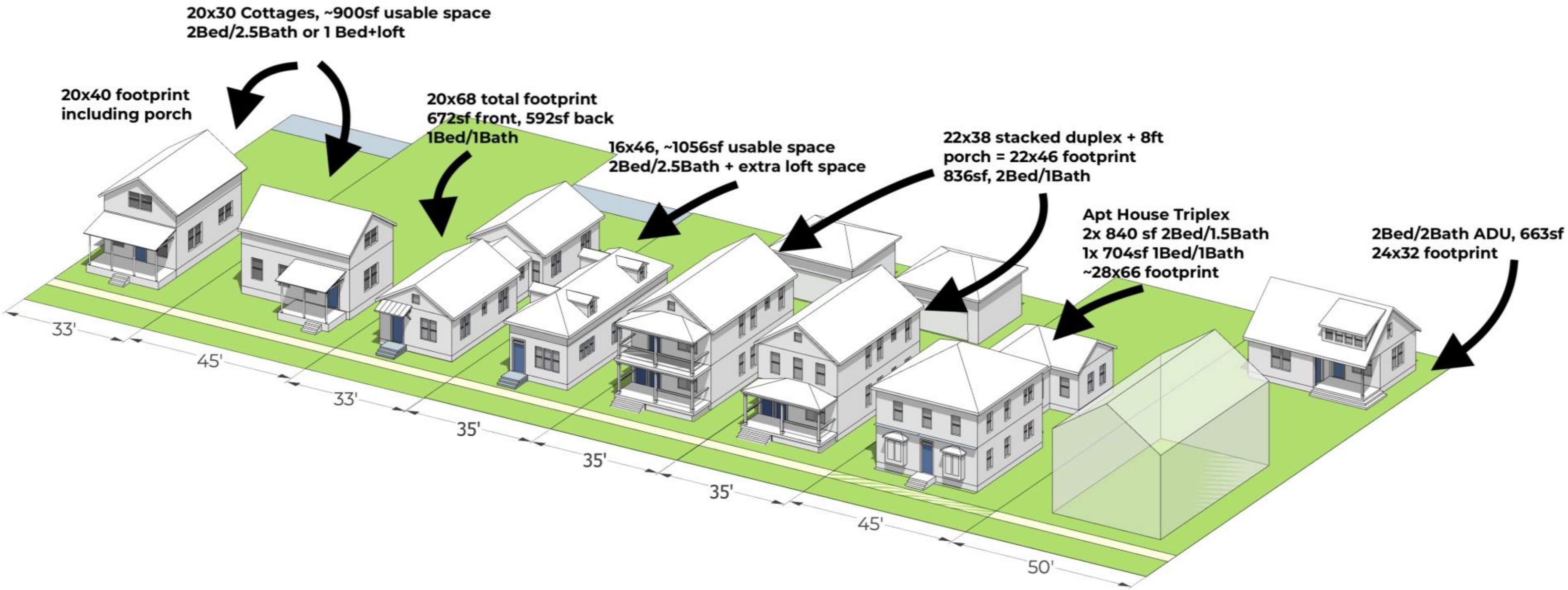
Small Building Thresholds

Building Code	Financing Mechanism
International Residential Code (IRC)	Residential Mortgage (30 Year Term)
International Building Code (IBC)	Commercial Loan (3-10 Year Term)

ZONING



1-4 units is a house
Housing variety, taking advantage of narrow lots

1-4 units is a house
This quadplex fits in with other grand homes.

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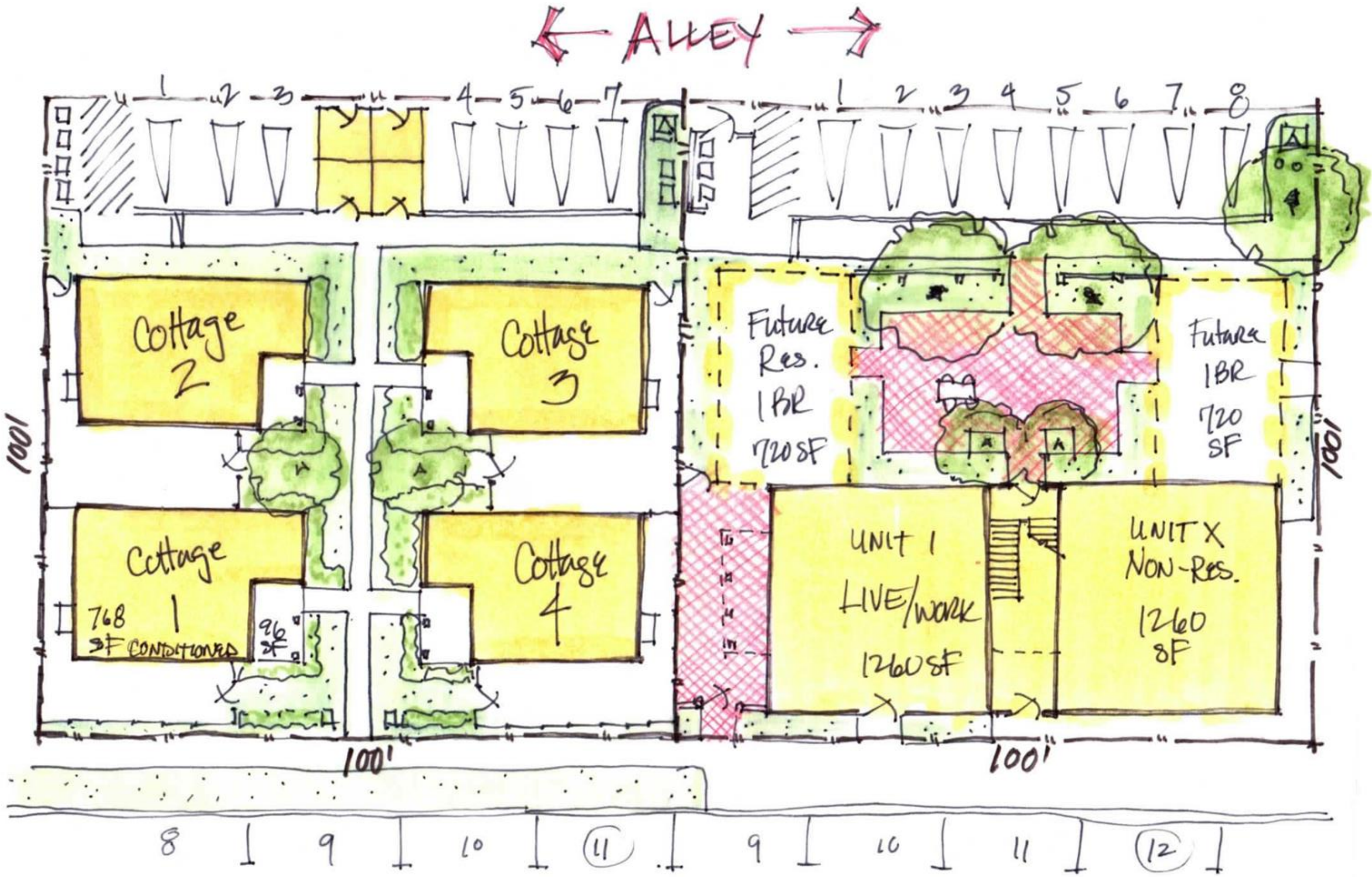

1-4 units is a house
Two options with equivalent financing.

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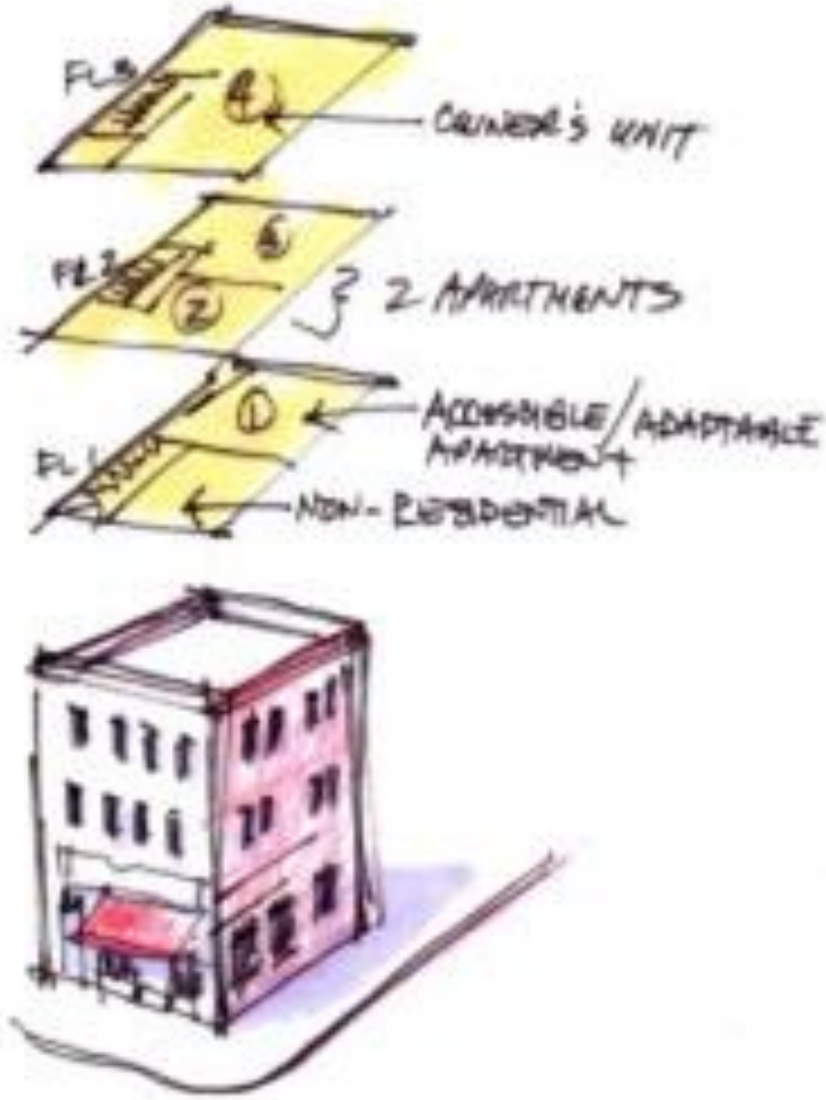

Rehab a 'House' (Owner Occupied)

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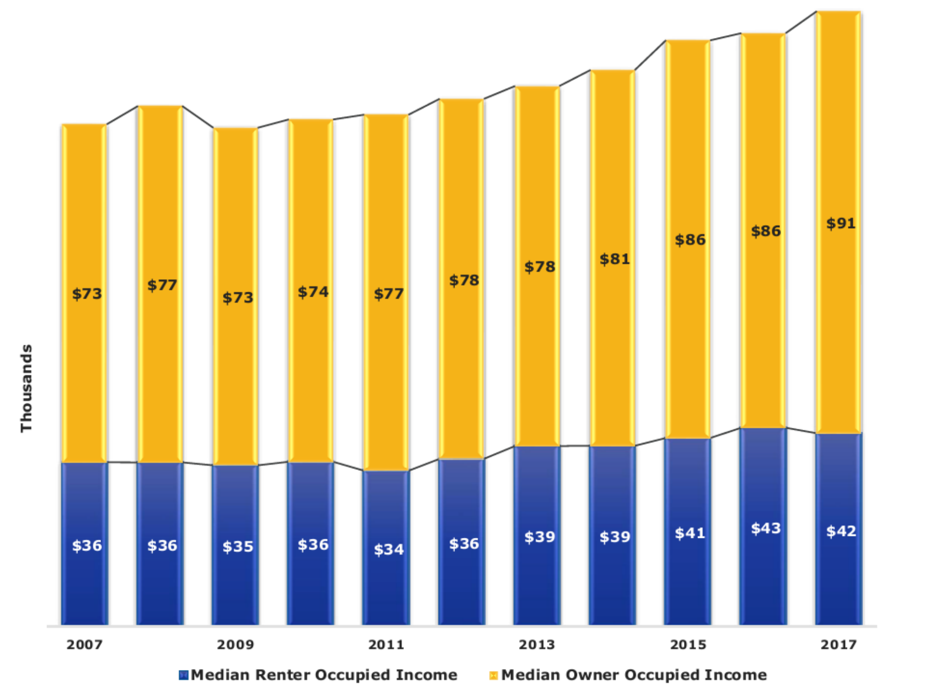
Incomes of New Hampshire Renters/Owners

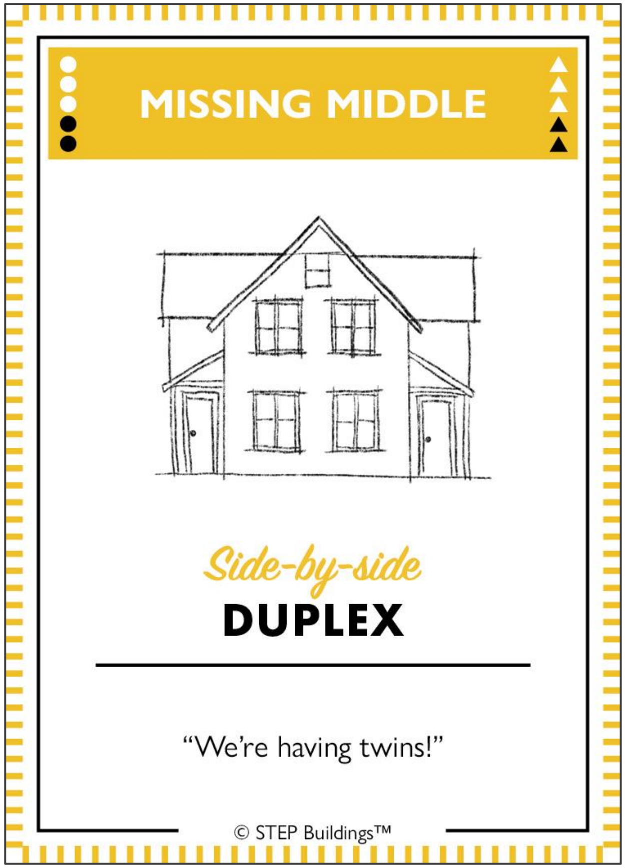
Owners: $91,000

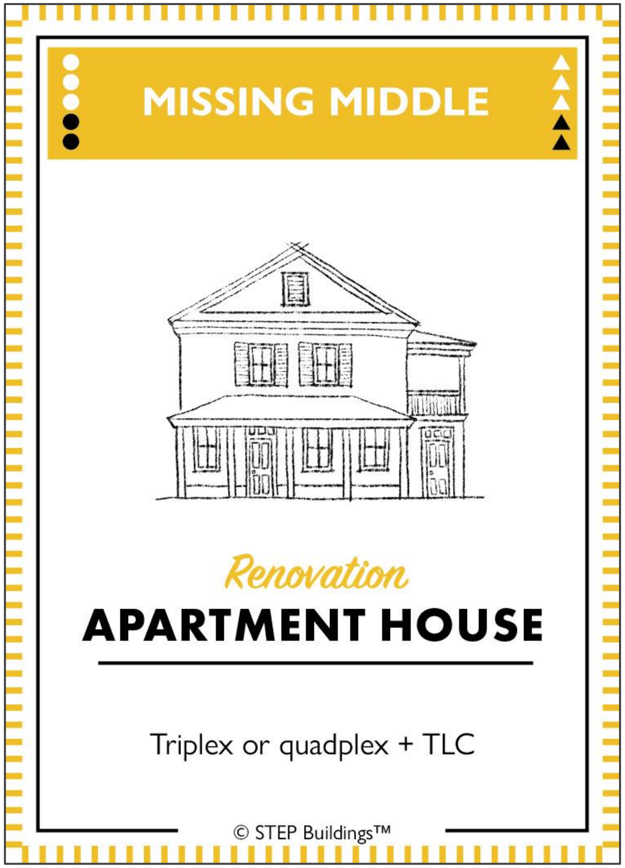
Renters: $42,000

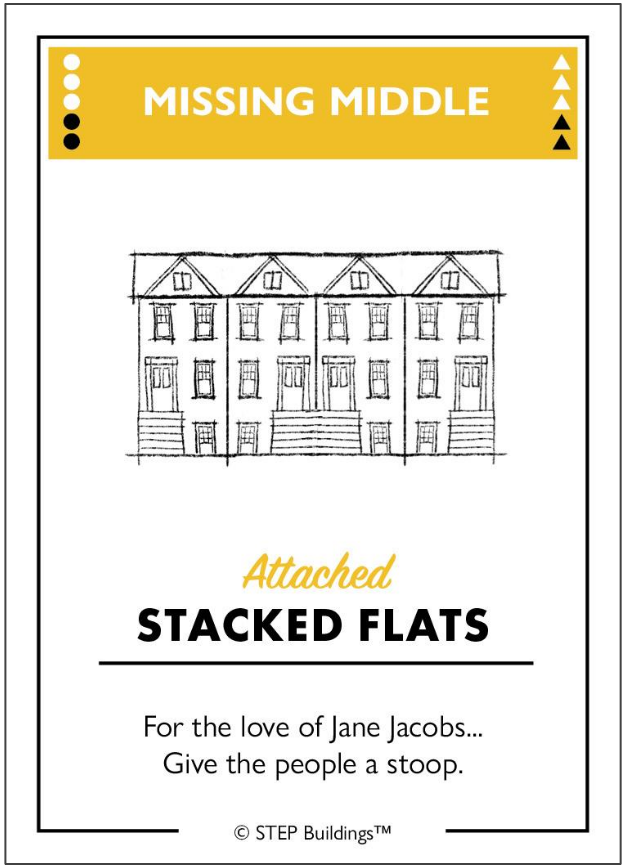
How Can These Groups Help Each Other?



ACS 2007-2017

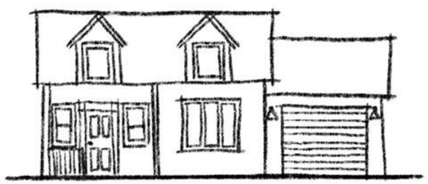






1-4 units is a house
Housing options for Owner Occupied Landlords

COMMERCIAL INCUBATION



Office / Workshop

HOME BUSINESS

"We got started in my garage."
Tax deductible square footage.

MAINSTREET LITE

Units	**1-3 res. + small non-res.**
Minimum lot width	**12'**
Finance	**mortgage**

Accessible "Live/Work Unit" (per IBC Residential Occupancy Type) on ground floor + up to 3 other units. Check specific loan terms for non-res. allowance.

1-4 units is a house
Potentially live/work

Suites, Units and Combinations Thereof

Aligning Supply and Demand

(inside the places we already have)

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A study of migrating households seeking Missing Middle Housing formats.

The City of Grayling

Net Annual Market Potential for New-Builds

POP. 1,842

5 Cottage House

4 Fourplex Townhse

2 Above Retail

4 Lofts Flats

sharonwoods@landuseusa.com | (517) 290-5531 | www.LandUseUSA.com

Let's Focus Here

Building Code	Financing Mechanism
International Residential Code (IRC)	Residential Mortgage (30 Year Term)
International Building Code (IBC)	Commercial Loan (3-10 Year Term)

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Pattern

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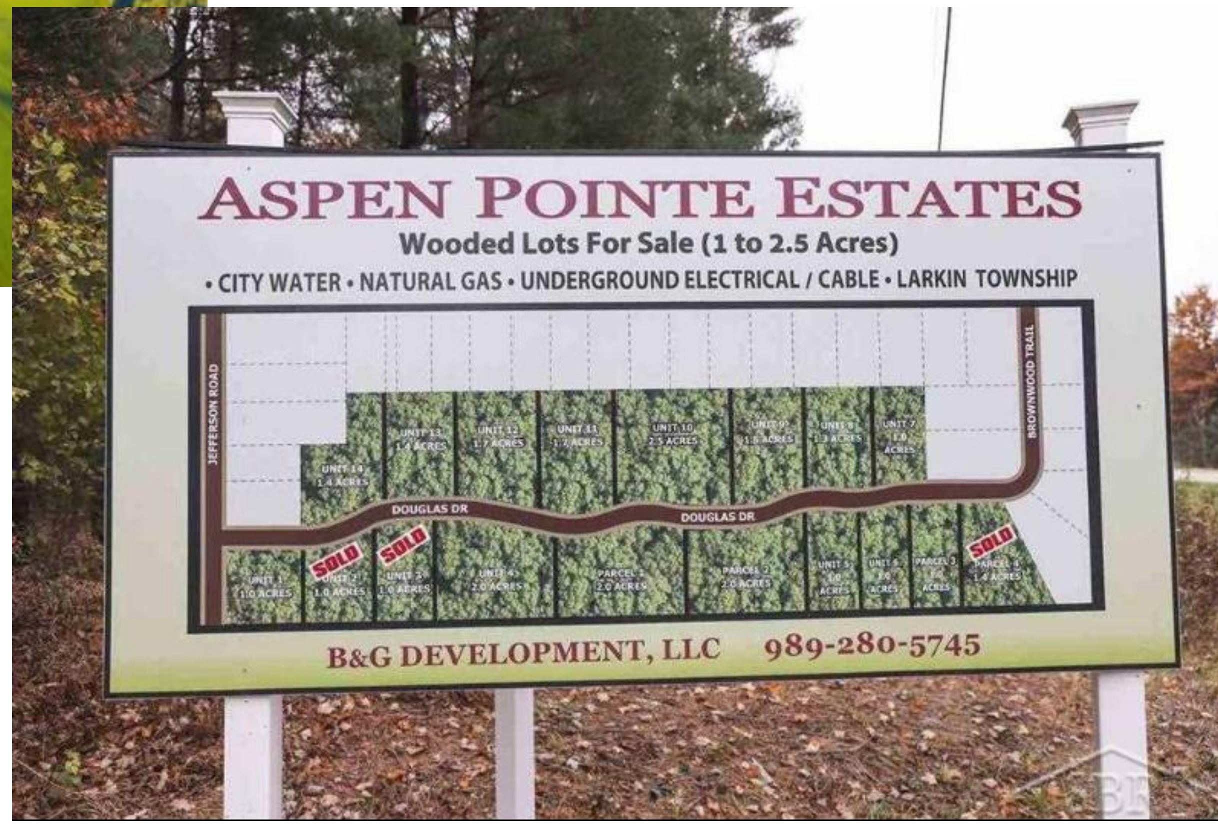
We Must Preserve the Rural Character!

This Should Save It!

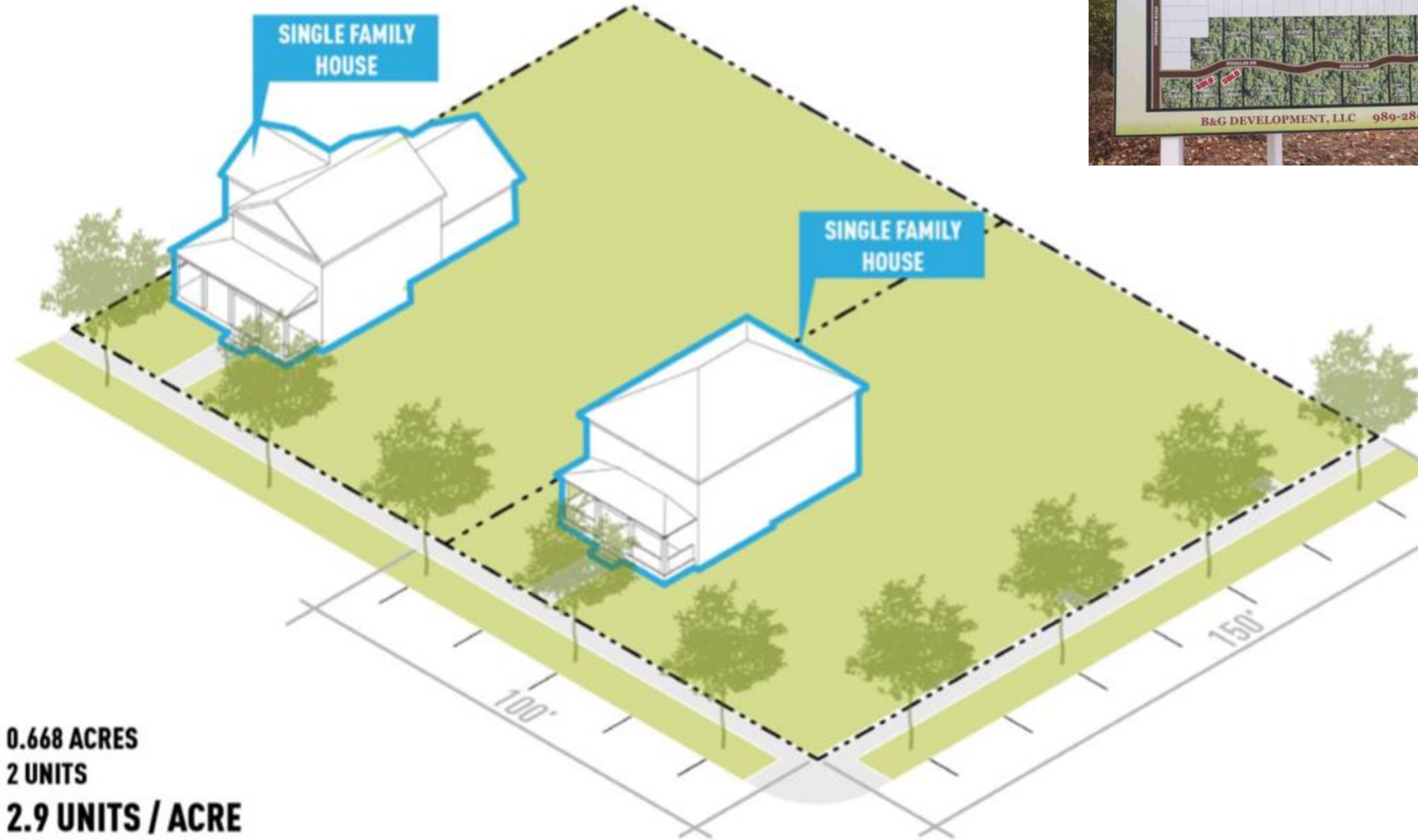
(The Zoning Made Me Do It)

(The Home Builders Made Me Do It)

(The Planning Commission Wanted It)



'Rural' Character Versus Rural Pattern



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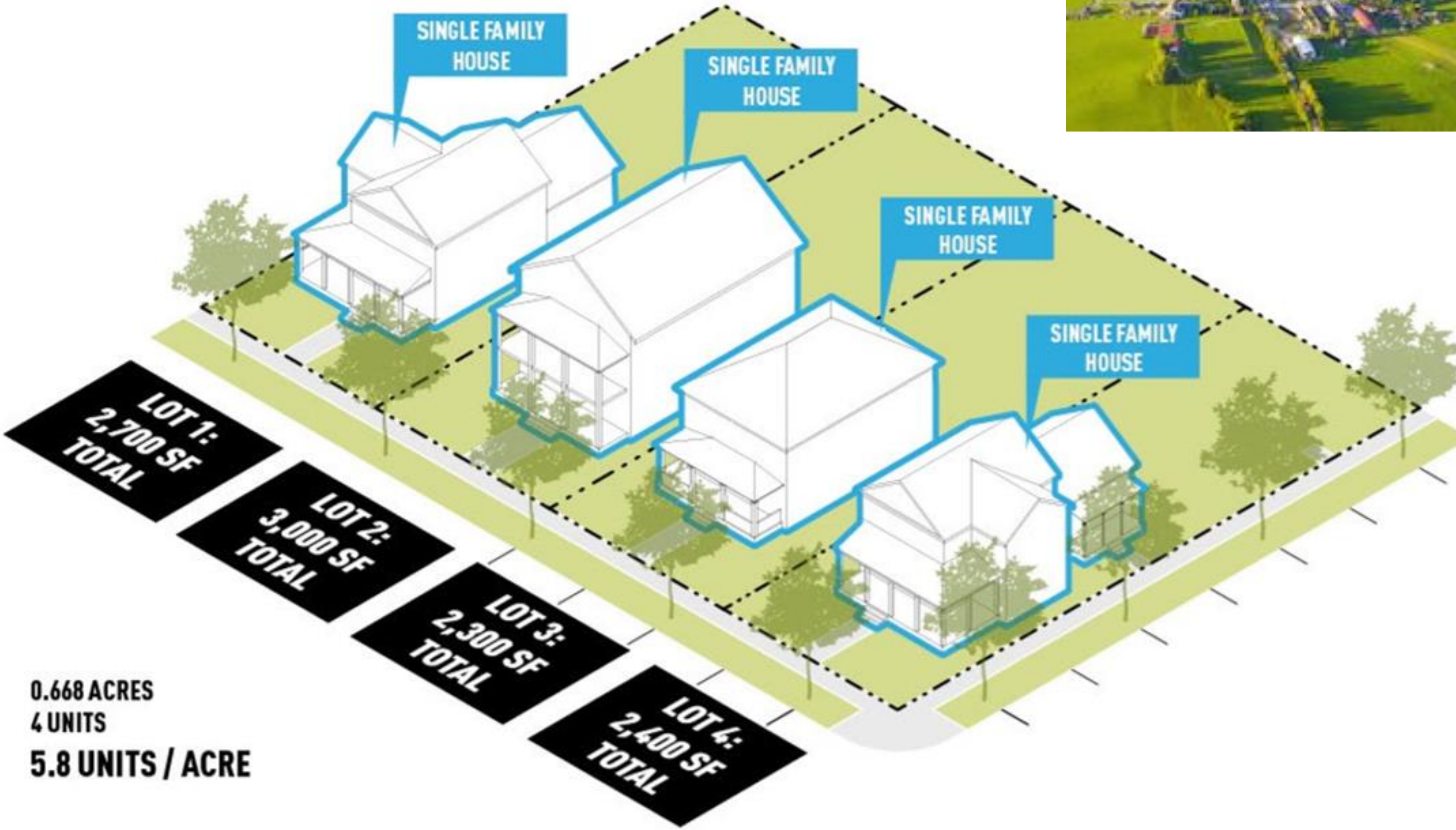

0.668 ACRES
4 UNITS
5.8 UNITS / ACRE

The People

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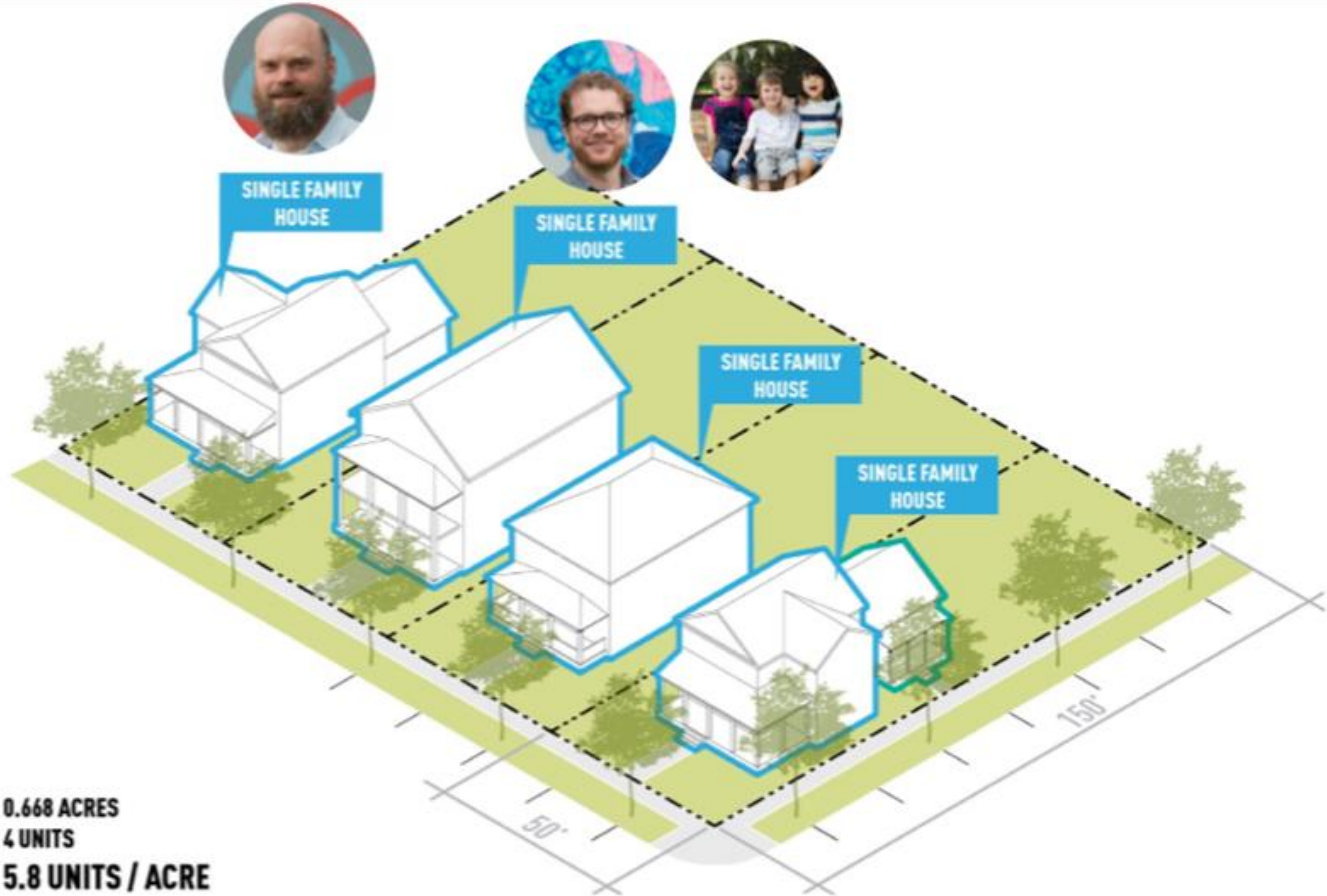
WE'RE ROOMATES LOOKING FOR AN AFFORDABLE PLACE WE CAN SHARE NEAR SCHOOL.

I'M A SINGLE YOUNG PROFESSIONAL SEEKING A RENTAL NEAR PLACES TO WALK, SHOP AND HANG OUT

I LOVE MY HOUSE, IT GIVES ME THE SPACE AND PRIVACY I NEED. I'M NEVER MOVING.

I'M READY TO DOWNSIZE. I NEED A LOW MAINTENANCE PLACE WHERE I CAN WALK.

I'VE GOT A GROWING FAMILY; WE NEED A PLACE WE CAN GROW INTO.



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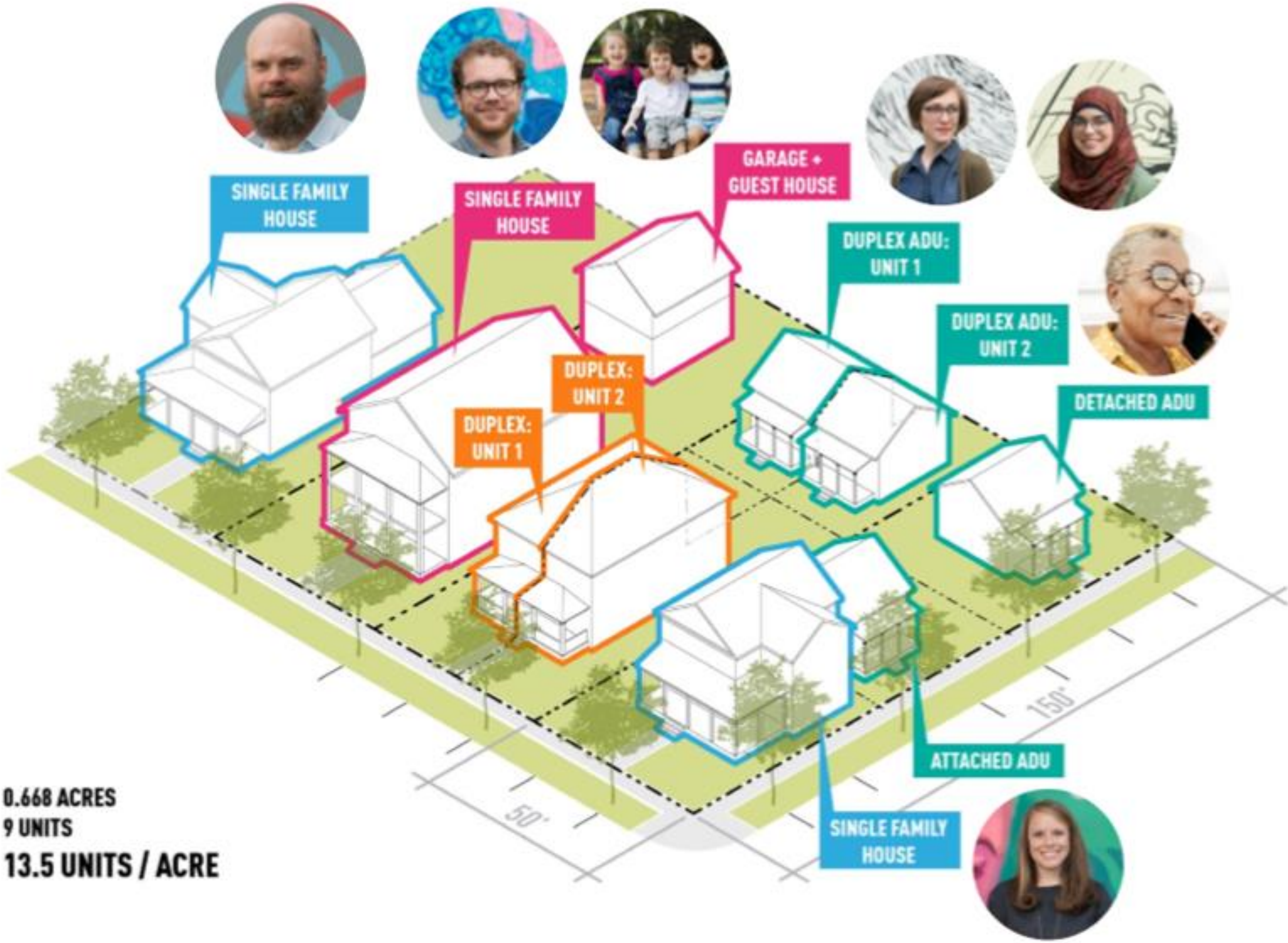
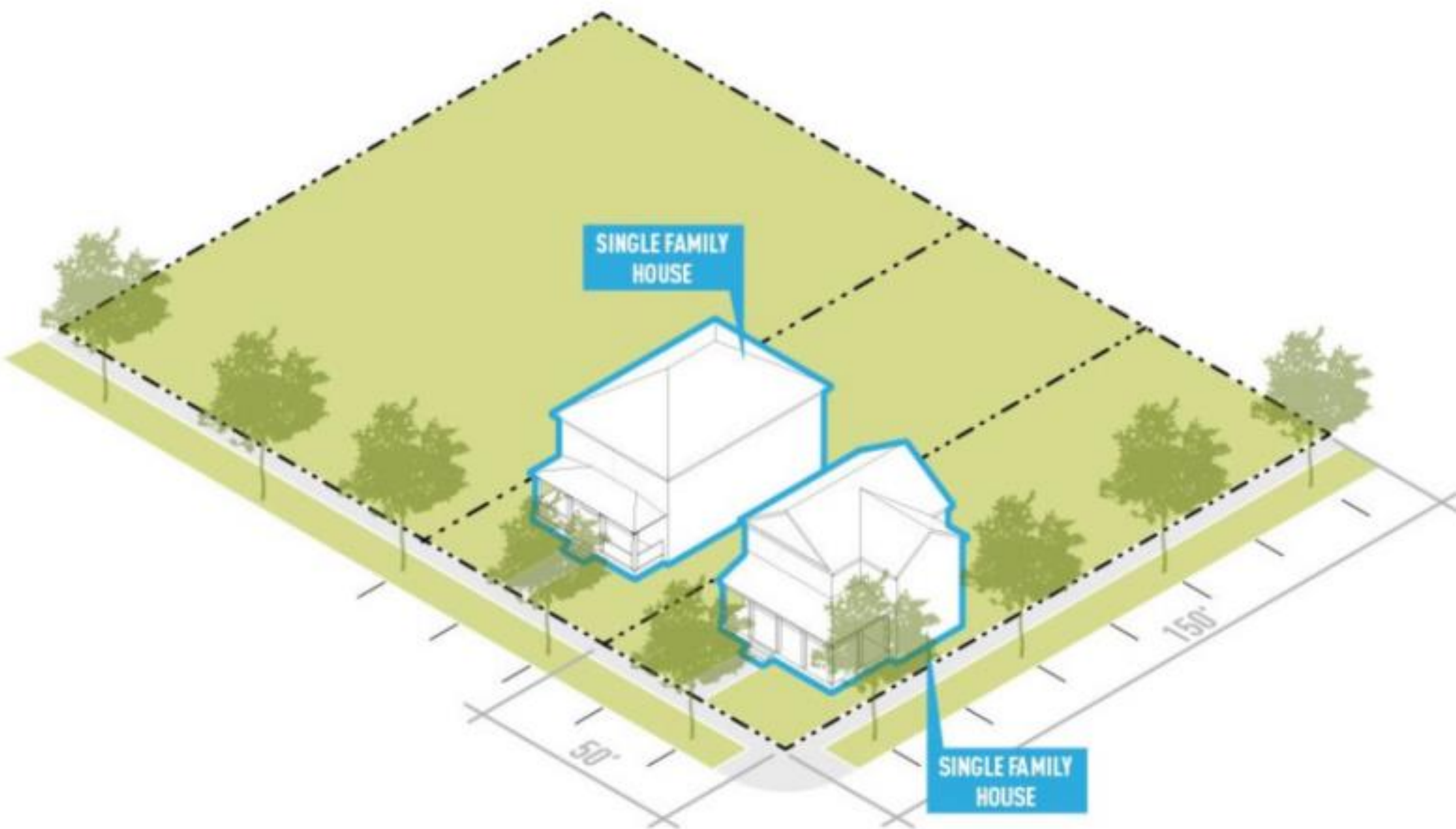
5.8 UNITS / ACRE


SINGLE FAMILY HOUSE
SINGLE FAMILY HOUSE
GARAGE + GUEST HOUSE
DUPLEX ADU: UNIT 1
DUPLEX ADU: UNIT 2
DUPLEX: UNIT 2
DUPLEX: UNIT 1
DETACHED ADU
150'
ATTACHED ADU
50'
SINGLE FAMILY HOUSE
0.668 ACRES
9 UNITS
13.5 UNITS / ACRE

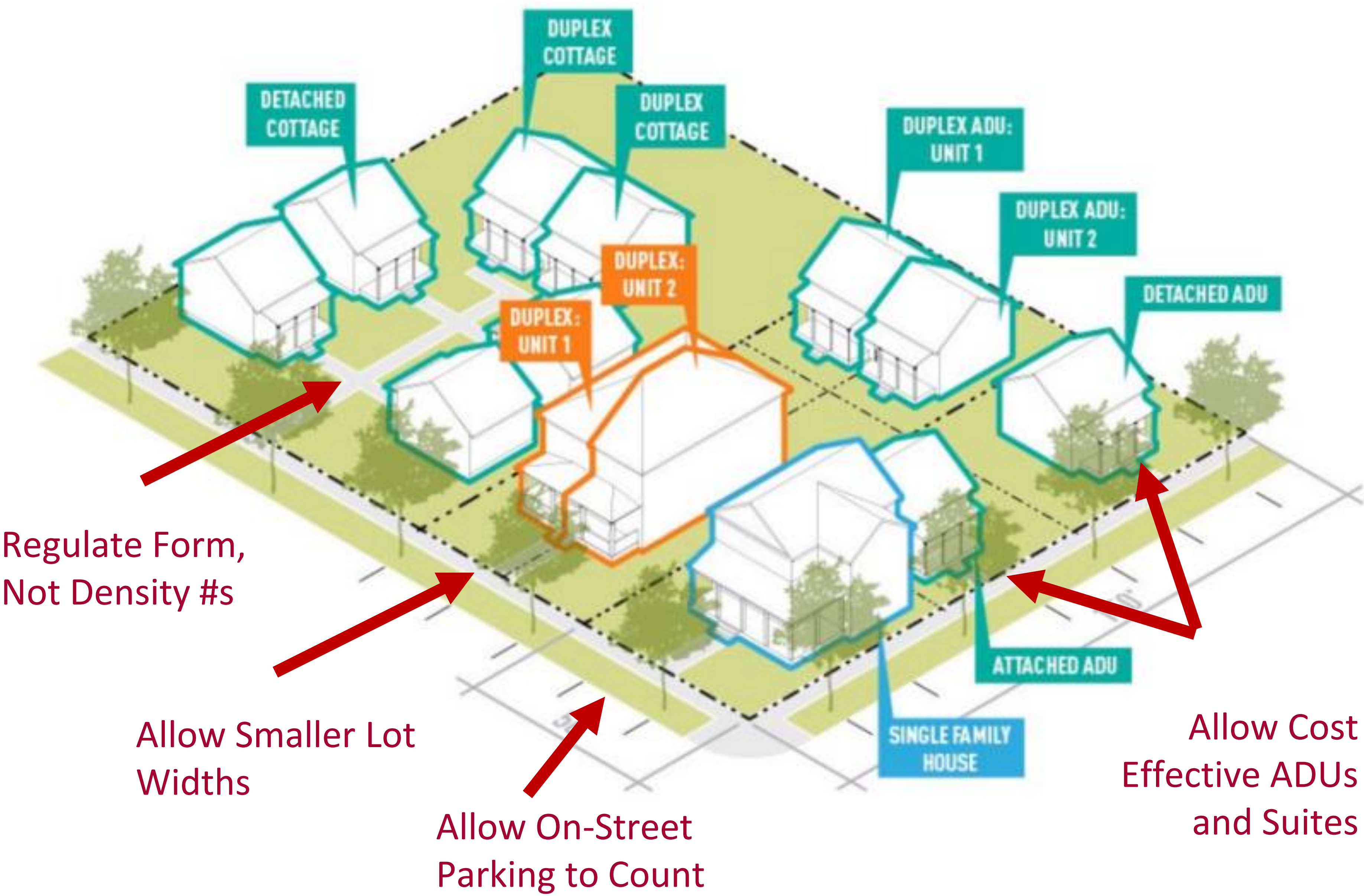
The Code Issues

Reasonable Size Houses on Compact Lots



All IRC Buildings – No Sprinklers

Zoning Fixes Needed to Re-Legalize Pattern



Here's the Catch

Not Enough
Small Developers to Fill
The Needs

Gotta Know How to Work at the
Lot by Lot Scale
(-and within the thresholds)

Who We Need

Small Developers

Known as Operating Partners, the people doing the work full time or on the side

Investment Partners

Known as Money Partners Through Land Ownership or Financial Equity/Debt

Small Development Champions

Folks who care about their city/neighborhood and are going to support change happening so the two groups above can do their jobs right

Small Developers

- Real Estate Development Professional (perhaps working at a larger scale entity) or Non-Profit Organization Developer
- Real Estate Agent, Broker, or Property Manager
- Architect, Urban Designer, Engineers, Landscape Architect, Urban Planner, Attorney
- Construction Contractor, Home Builder or Tradesperson
- Small Business Owner (In a related or unrelated industry to those above)

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Small Investors

- Local Community Banker or Loan Originators (For Profit or Non Profit)
- Property owners of any size or type
- Retired individuals from high net worth industry or position
- Private equity, angel or local investment/wealth management professionals
- Professionals from land banks/trusts, redevelopment agencies
- Program Officer or Executives from local Foundations

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Small Development Champions

- City Management, City Planning, Housing, Community or Economic Development Professionals
- Elected Officials, Aides to City Official, Manager or Legislator, Planning Commissioners
- County, Regional or State Government/Agency in Housing or Economic Development
- Non-Profit Organization Professional, Neighborhood Leader/Volunteer/Professional, College or University Leader
- Business Association, Chamber or Trade Group Leader

Things Folks in this Room Can Do

(Re)Legalize These Things

- Remove Non-Conforming Status for Desired Forms
- Stop Guessing/Requiring on the Parking
- Get your zoning code to actually allow what's stated in your comp/master plan without any variances
- Look at removing sprinkler requirements for 3-4 unit buildings (Minnesota requires no sprinklers for buildings under 4,500 sf)

Streamline What You Want

- Make your residential zoning classifications line up with 1-4 unit financial mechanism thresholds
- Create preapproved plans for small buildings like backyard cottages and duplexes to lower soft costs, shorten approval times, and generally lower risk
- Provide education to allied professions, property owners, public decision makers

Get Patient and Thoughtful Capital

- Work with lenders to create construction loans for 2-4 units as easy as 1 unit buildings.
- Utilize rental income to help younger households qualify to live in owner occupied multi unit houses
- Create a loan guarantee fund to backstop small developers who have skills, but not balance sheet to develop real estate, who often overpay for capital

Q: How Do We Find Small Developers?

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A: You Don’t.
You Grow Them

What Will I Learn at a 1 Day Workshop?

Open to ALL

Public Sector
Private Sector
Non-Profit Sector

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The Project Formation Process

Conventional Financing Thresholds

Building Types and Site Planning

Financial Pro forma

Asking for Money

Acquisition and Closing

Practice Project

Learn How a Building Makes Money

Via a Financial Proforma

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	[illegible] SF	$ 1.67	1,920 SF	$ 3,200
Two Bedrooms	2	$ 1200	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

WHAT WILL IT COST TO OPERATE THE BUILING?

#2. VACANCY AND OPERATING	% of Gross Income	
GPI - From #1		67,200
Vacancy Factor (% of GPI)	5%	3,360
Annual Operating Expenses(OpEx); Insurance, tax, property management, repairs, expenses, etc. (% of GPI-Vacancy)	25%	15,960
$ 63,800 x .25 = $15,960		

#3. CALCULATE NET OPERATING INCOME	
Take your Potential Gross Income (PGI) from #1	67,200
Subtract the Vacancy Factor −	3,360
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?

#4. COST OF BUILDING THE PROJECT	Quantity	Cost per SF	Total
Land Cost	1	N/A	$ 45,000
Hard Costs (Total SF from #1 x Cost per SF)	3568 x	$110	$ 392,480
Soft Costs (Total SF from #1 x Cost per SF)	3568 x	$25	$ 78,496
Other (Off-site Improvement Costs)	1	N/A	$ -0-
		Total Project Cost:	$ 515,976

#5. CALCULATE ESTIMATED RETURN ON PROJECT COST	
Take your **Annual NOI** from #3	$ 47,880
Divide that by your **Total Project Cost** from #4	$ 515,976
The product is your **Estimated Return on Project Cost**	9.27%

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

#6. DEBT SERVICE	$
Total Project Cost from #4	$ 515,976
Assume 25% **Equity** (down payment) is required in cash and other equity (land, deferred fees, etc.) −	128,994
Assumed **Loan Amount** is 75% of the Total Project Cost. This is the **Total Project Cost** less the **Equity** provided:	$ 386,982
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
Multiply Monthly Payment by 12 to produce your **Annual Debt Service**.	$ 32,256
Divide the Annual NOI by the **Annual Debt Service** to produce your **Debt Service Coverage Ratio:**	1.48

#7. CALCULATE CASH-ON-CASH RETURN	
Take your **Annual Net Operating Income** from #3	$ 47,880
Subtract your **Annual Debt Service** from #6	− 32,256
This produces your **Net Annual Income** (or Cash Flow after OpEx and Debt Service):	$ 15,624
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%

#8. ESTIMATE ANNUAL DEPRECIATION EXPENSE	
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 x .75 = 386,981 / 27.5 yrs = $14,072

Make a Basic Project Work on Paper

Asking for Money

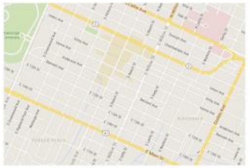
Small Building Investment Package

OVERVIEW

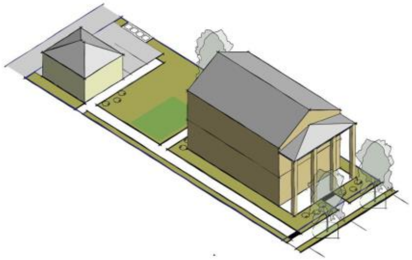
PRODUCT:

The quadplex has two units on each floor, four units total, and a small rear garage for two vehicles. Each 728 sf unit has two bedrooms, one bathroom, and direct access to the outdoors via a two story porch. The first floor units have their own front and rear doors and the second floor units are accessible from a central staircase at the front of the building. Four parking spaces are provided off the alley, one per unit.

LOCATION MAP:



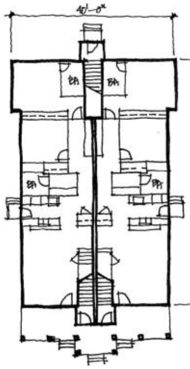
PRECEDENT IMAGE:



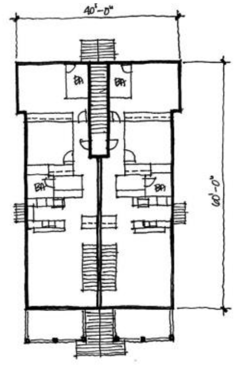
QUADPLEX BANK PACKAGE: PAGE 2

PLANS + ELEVATIONS

FRONT ELEVATION



FIRST FLOOR PLAN



SECOND FLOOR PLAN

QUADPLEX BANK PACKAGE: PAGE 4

PRO FORMA

Assumptions:
New construction building
Construction loan at 75% LTC
Current rents at $1.10 to $1.35 per SF for existing 1 and 2 BR apartments
Fire sprinklers required
Wood Frame TYPE V construction, gravel parking off alley and on-street
Refinance once a certificate of occupancy is granted using a 30 year mortgage

Project Costs

Land Cost	$30,000	6,750 SF parcel	$4.44 per parcel SF	7.0% of project costs
Hard Construction Costs				
Residential Conditioned SF	$320,320		$110 per conditioned SF	
Unconditioned SF	$6,750		$45 per SF	
Hard Cost Subtotal:	$327,070			76.0% of project costs
Soft Construction Costs	$73,488		$24 per building SF	17.1% of project costs
Hard and Soft Costs Subtotal:	$400,558			
Total Project Costs	**$430,558**			**100.0% Project Costs**

Net Operating Income

	Rate (per BSF)	Cond. SF	Uncond. SF	Monthly Rent	Annual Rent
2 story breezeway building with 6 units					
2 Bedroom 1 Bath FL 1	$1.24	728		$900	$10,800
2 Bedroom 1 Bath FL 1	$1.24	728		$900	$10,800
2 Bedroom 1 Bath FL 2	$1.24	728		$900	$10,800
2 Bedroom 1 Bath FL 2	$1.24	728		$900	$10,800
Stairway	$0.00		150		
Total		**2,912**	**150**	**$3,600**	**$43,200**
Building SF		3,062			

Building Count:	1
Total Conditioned SF:	2,912
Total Unconditioned SF:	150
Total Building SF:	3,062
Floor Area Ratio (FAR):	0.45
Annual Rent:	$43,200

	$43,200	**Gross Potential Income (GPI)**
	($2,160)	5% Vacancy Rate
	$41,040	**Gross Operating Income (GOI)**
formula: GOI less Operating Expenses	($12,312)	Operating Expenses (30% of GOI)
	$28,728	**Net Operating Income (NOI)**
	$430,558	Project Cost
formula: NOI divided by the Project Cost	$\boxed{6.67\%}$	**Cash Return on Project Costs (no leverage)**

Cash Flow & Debt Service

Project Cost:	100%	$430,558
Down Payment / Equity:	25%	$107,640
Debt:	75%	$322,919
Monthly payment P&I:		($1,733)
Annual NOI:		$28,728
Annual Debt Service:		($20,802)
Annual Cash Flow above debt service and operating expenses:		$\boxed{\$7{,}926}$
Annual depreciation @ 27.5 years		*$11,742*
Note: Residential Depreciation Expense Rate Used		

Loan Term:	30 Years
Interest Rate:	5.0%
Note: 1.25 min. typ.	
Debt Sevice Coverage Ratio (DSCR):	**1.38**
Pre-tax Return on Equity:	**7.36%**

QUADPLEX BANK PACKAGE: PAGE 5

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IncDev Alumni Projects

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Alli Quinlan

Fayetteville, Arkansas

New Construction Cottages and Cluster Housing

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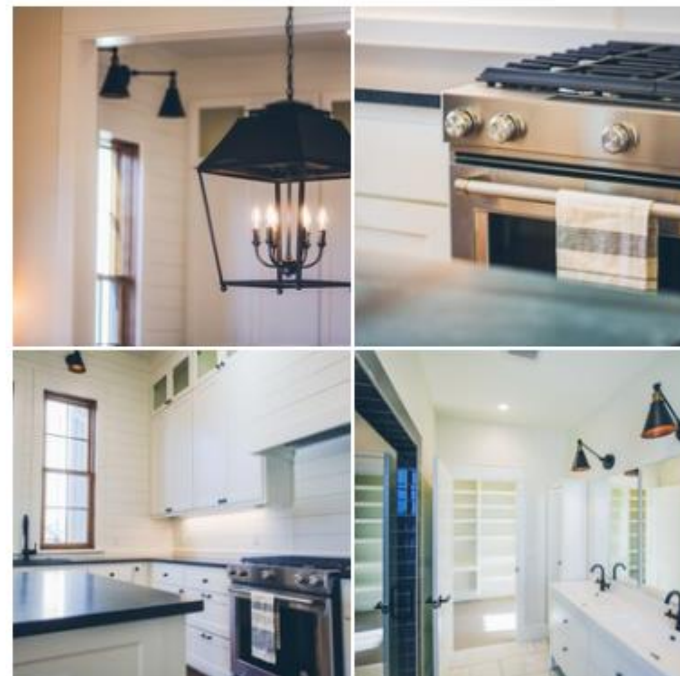
1,000-1,600 sf cottages on narrow lots, for sale

Clustered townhomes for rent and mixed use apartment building



Capt. Ryan Terry USMC

Bryan, Texas

New Construction Quadplexes With Non-Residential Space

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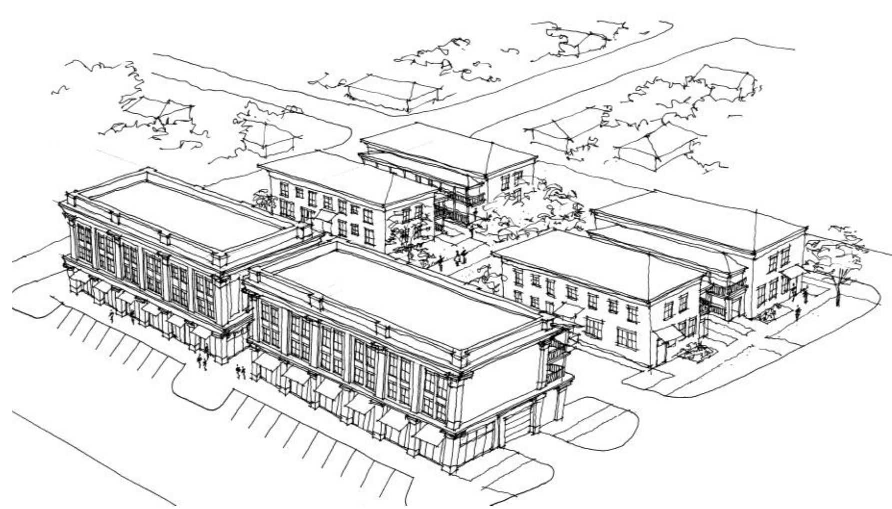
“Won” City RFP to Develop Downtown Block into Mixed Use/Residential

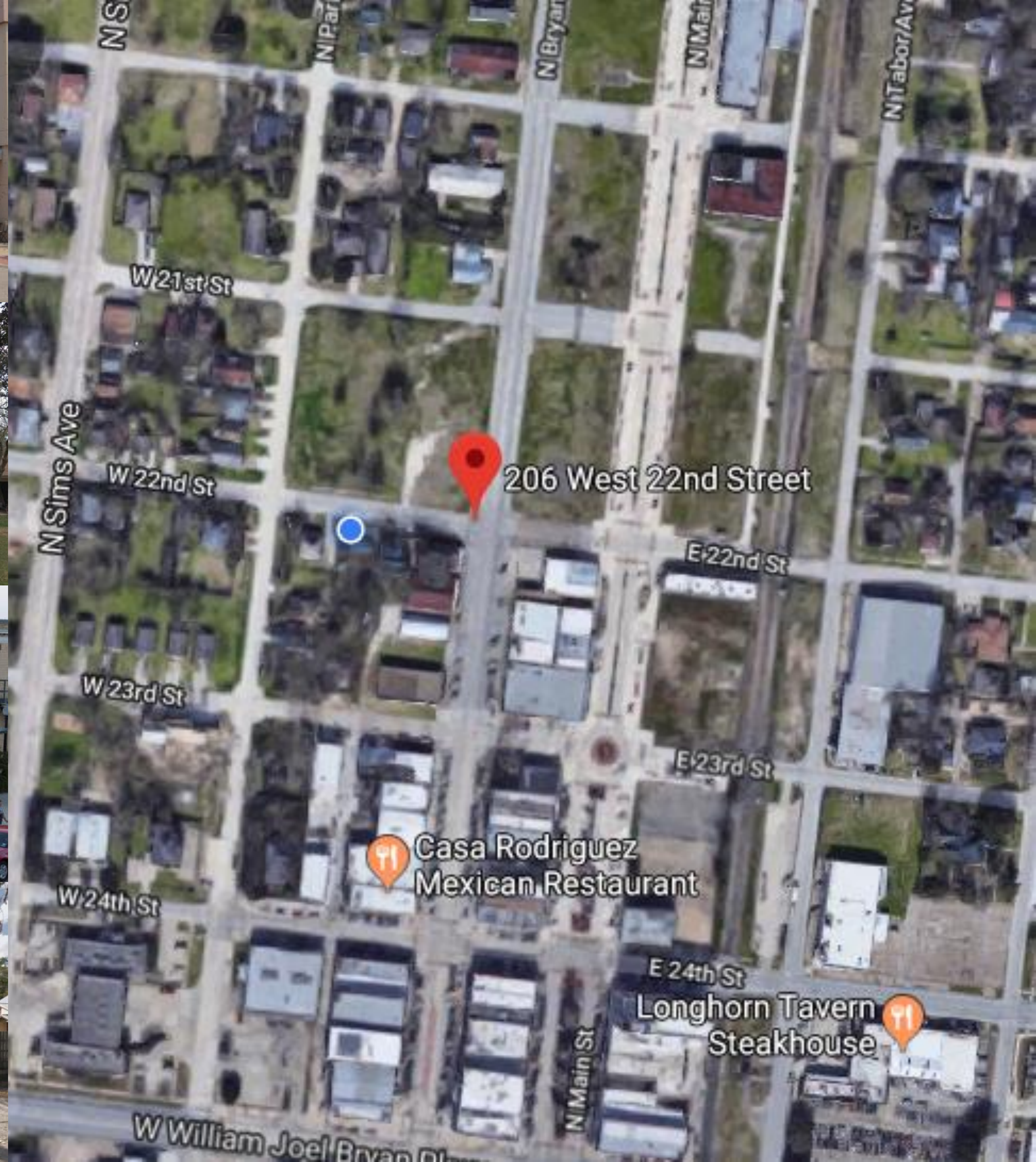
First New Construction Residential Buildings in Downtown in 40+ years

Negotiated Incremental






DOWNTOWN UNCORKED
DRUG STORE

W 24th St

N Sims Ave
N Bryan
N Main
N Tabor Ave
W 21st St
W 22nd St
206 West 22nd Street
E 22nd St
W 23rd St
E 23rd St
Casa Rodriguez
Mexican Restaurant
W 24th St
E 24th St
Longhorn Tavern
Steakhouse
N Main St
W William Joel Bryan Pkwy

Buildings Leased in Q1 2018
Each Lot Eligible for VA Permanent Mortgage

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Integrity CDC

Atlanta, Georgia

L. Lamont Wise

New Construction Cottages

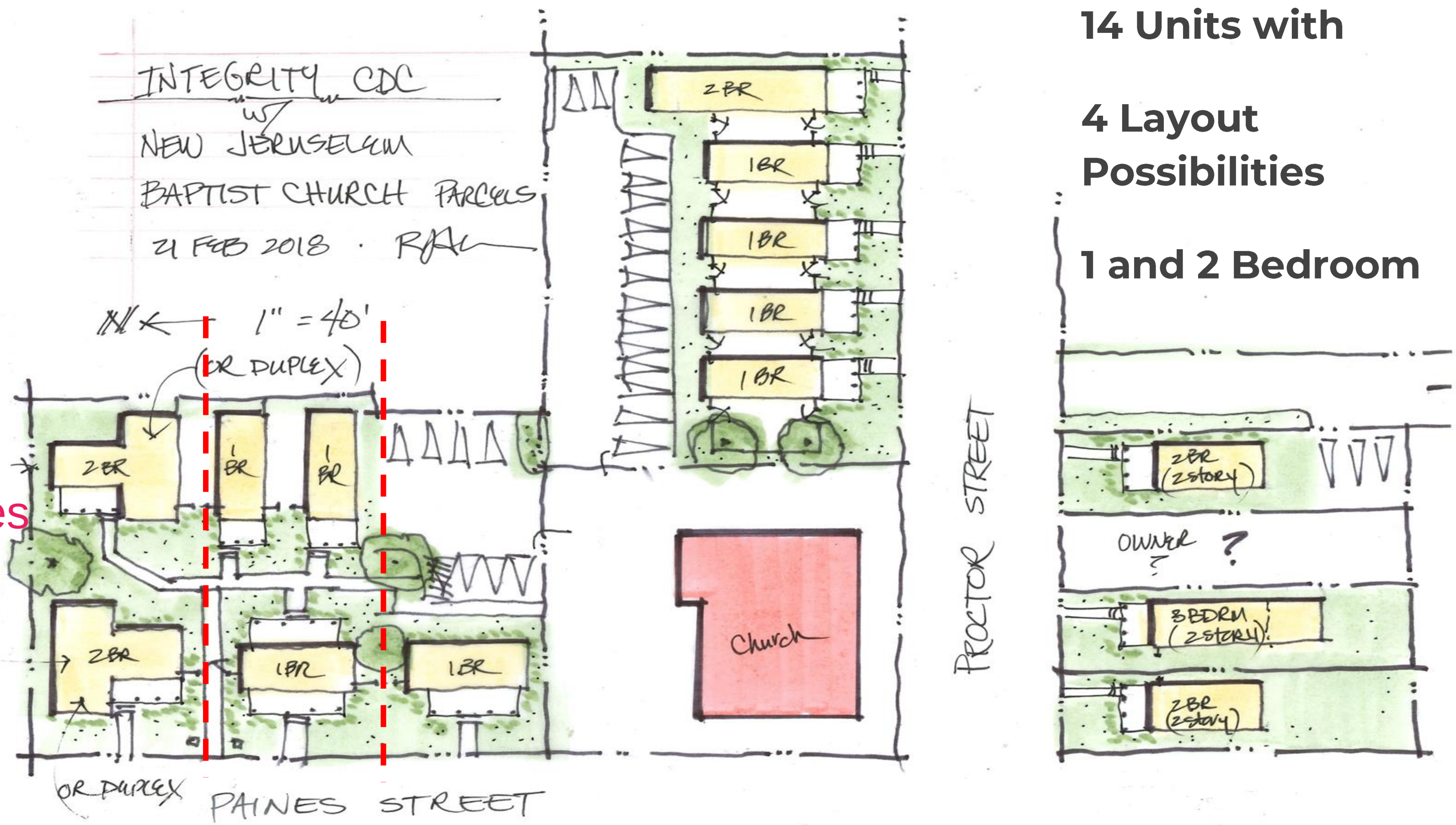
New Construction Cottages on Vacant Lots

Leverage Their Workforce Development Program for Returning Citizens and Youth in Trades to build

Housing for rent for Program Participants, low income populations

Sell selected cottages/ lots to mid income buyers to help build overall project equity

New Jerusalem Baptist Church / Integrity CDC



14 Units with

4 Layout Possibilities

1 and 2 Bedroom

Rezone to Maximize Rear of Sites

Build Front of Lots By-Right

Example Cottages

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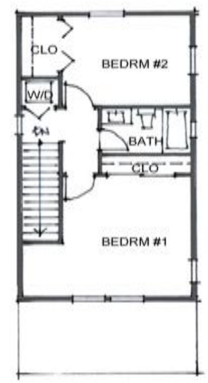
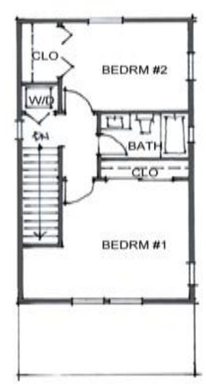
Example Floor Plans and Elevations

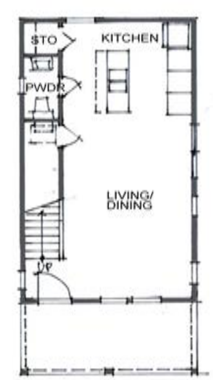


SECOND FLOOR

FIRST FLOOR
(16x48)



SECOND FLOOR



FIRST FLOOR
(16x32)

ARCHITECT BRUCE B. TOLAR
ARCHITECTURE + PLANNING

TOLAR • ANDERSON • KIM, LLC
PLANNING & URBAN DESIGN

The Call to Action

Cultivate Small Developers

Through Training, Mentoring and Small Business Support

Gather Investment Partners/Facilitators

Leverage Land Ownership and Pre-Arrange Access to Financial Capital

Collaborate with Small Development Champions

Work out the projects you want on paper, re-legalize the built environment through regulatory reform and pioneer first projects so small operators can follow

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Lessons Learned

- **Rules Matter.** What you make easy and legal is what you get the most of in your town.
- **Financing Matters.** What can be financed gets built. What you want, but doesn't have a common, off the shelf financing mechanism, doesn't get built.
- **Codes Matter.** Building codes make stairstep tiers of cost.
- **Math Matters.** If you can't get the rent, you don't get the building.

INC★DEV ALLIANCE

SMALL SCALE DEVELOPMENT WORKSHOP

September 2020
New Hampshire

Visit Us At:

www.incrementaldevelopment.org

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