Development 101
• Gary Allen is a partner with the Givens Pursley law firm. (morning presentation)
• Brian Ballard is a partner in the law firm of Hawley Troxell (evening presentation)
• Matt Brookshier is Director of Acquisitions and Development for Grossman Company Properties (evening presentation)
• Bruce Chatterton is the Community Development Director for the City of Meridian
• Diane Kushlan is a partner in Kushlan | Associates
• Robert Taunton is Principal of Taunton Consulting, LLC
Presentation Topics

- Steps in the development process
- An integrated approach to real estate development
- The real estate cycle
- What current conditions mean for cities and counties
- Factors that impact the development process
- What’s wanted in the development process
PRIVATE PROCESS

- Business Concept
- Site Selection /Market Study
- Secure Financing
- Due Diligence/real estate purchase

PUBLIC PROCESS

- Comprehensive plan
- Zoning entitlement
- Subdivision plat
- Infrastructure
- Building plan review
- Inspections
- Certificate of Occupancy
Steps in the Development Process

- **Zoning**
  - Sets framework for development
  - First regulatory step
- **Use permit**
  - Allow for review of certain uses that may have impacts on surrounding uses
- **Subdivision**
  - Enables property to be bought and sold
  - Ensures adequate public facilities and buildable areas
- **Site and design plans**
  - Ensures compliance with specific development standards

More detail

Less Discretion
And now Bob’s back of the napkin analysis. More artfully known as. . . . “the real estate deal”
Conceptual Development

Frontage Road

Future Commercial
7 Acres

Future Residential
33 Acres
Project Assumptions

• Property: 40 acres

• Price: $40,000 per acre

• Development Assumptions
  – 7 acre commercial corner
  – 115 home lots (3.5 du/ac)

• Price Assumptions
  – Home Price = $250,000
  – Lot Sales Price = 25% of home price ($62,500)
  – Commercial Land = $5.00/sf
Project Cost Assumptions

- Planning & Entitlement Costs = $1,500/lot
- Site Development Costs = $32,500/lot
- Offsite Development Costs = $350,000
- Development Company Operating Expenses
  - General & Admin: $100,000 first year, 6% of revenues after
  - Marketing: $75,000 first year, 1% of revenues after
  - Closing Costs: 5% on revenues
  - Legal Costs: $75,000 spread across project
  - Taxes: $15,000 first year, 0.5% of revenues after
## Base Scenario Proforma

<table>
<thead>
<tr>
<th></th>
<th>Yr1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
<th>Yr 5</th>
<th>Yr 6</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Lot Sales</td>
<td>-</td>
<td>17</td>
<td>46</td>
<td>46</td>
<td>6</td>
<td>115</td>
<td></td>
</tr>
<tr>
<td>Commercial Pad</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7 ac</td>
<td>7 ac</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>-</td>
<td>$1,147</td>
<td>$3,105</td>
<td>$3,105</td>
<td>$405</td>
<td>$1,525</td>
<td>$9,287</td>
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<tr>
<td>Entitlement Costs</td>
<td>$173</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$173</td>
</tr>
<tr>
<td>Site Development</td>
<td>-</td>
<td>$2,803</td>
<td>$934</td>
<td>-</td>
<td>-</td>
<td></td>
<td>$3,738</td>
</tr>
<tr>
<td>Offsite Costs</td>
<td>-</td>
<td>$350</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$350</td>
</tr>
<tr>
<td>Land Acquisition</td>
<td>$1,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,600</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>$220</td>
<td>$153</td>
<td>$398</td>
<td>$398</td>
<td>$61</td>
<td>$196</td>
<td>$1,426</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$1,993</td>
<td>$3,306</td>
<td>$1,332</td>
<td>$398</td>
<td>$61</td>
<td>$196</td>
<td>$7,287</td>
</tr>
<tr>
<td><strong>Net Cash Flow</strong></td>
<td>($1,993)</td>
<td>($2,159)</td>
<td>$1,773</td>
<td>$2,707</td>
<td>$344</td>
<td>$1,329</td>
<td>$2,001</td>
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</table>

**Internal Rate of Return = 16.24%**
• **Internal Rates of Return (IRR)**

   Equivalent to the interest rate paid on a bank account with the same up-front money (total costs) in order to get the same return (net cash) in the same amount of time.

   *Ex:* $1 million invested at 10%/year for 5 years will return the investor’s money plus $100,000 per year for a total of $1.5 million returned at the end of 5 years.  

   The TOTAL RETURNS to the investor are $1.5 million (50% on his/her money) BUT IT IS ONLY EQUIVALENT TO A 10% INTEREST RATE

• **Time is one of the biggest factors impacting returns**

• **Up-Front Costs also have big impacts**
Impacts of Returns

Project Analysis: Requires 15% IRR to go forward

- Base Scenario IRR = 16.24% (Passed)
- Reduce Lot Density from 3.5 du/ac to 3.0 du/ac
  - New IRR = 13.38% (FAILED)
- Increase Offsite Costs from $350,000 to $700,000
  - New IRR = 11.75% (FAILED)
- Increase Site Development Costs by 10%
  - New IRR = 12.70% (FAILED)
- Reduce Finished Home Prices by 10%
  - New IRR = 11.02% (FAILED)
- Add 1 Year of Entitlement (No Extra Entitlement Costs)
  - New IRR = 11.45% (FAILED)
What is the “Right” Rate of Return?

- **HIGHER RISK = HIGHER IRR Required**
  - Real Estate Development is the HIGHEST RISK investment class
- 10-Year Treasury Bills are paying ~2.01%
  - Virtually NO risk (Backed by the US Government)
- Home Mortgage Rates ~4%
- Development of Raw Land Requires 15%+
  - The difference between 15% and 2.01% is **RISK**
  - Each developer will require a different return depending on the risk associated with the project
- **Because prices and costs can’t be controlled – reducing risk is the focus of developers**
Overall Risks

- Absorption Period
- Entitlements
- Rate Environment
- Construction Process
- Market Conditions/Demand
Such a Risky Business Requires...

- Large profit margins
- Successful Project
- Available capital
- Significant liquidity for “what if” scenarios
- Vast experience by all professions
Factors that impact development—beyond the control of the developer

- Process timing
- Application fees
- Public agency resources
- Policies and regulations

Controlled by the public agency

- Local and national economy
- Market for development
- Financing
- Labor

Other factors
What does the Current Market Mean for Cities and Counties?

Risk management will play a larger role

- A once marketable plat is no longer
- Letters of credit may be suspect and you should plan to draw
- May become part/full time subdivision general contractors
- Everything from weeds to taxes

Realization that the developer is under new financial constraints and the buck literally stops
RCLCO maintains expertise by balancing specialization and collaboration on both client projects and firm research. We are organized into specific practice areas, but share knowledge and resources as “one firm.”

![Graph showing economic phases]

- **Upturn Phase (2003-2006)**
- **Mature Phase (2005-2007)**
- **Downturn Phase (2007-2010)**
- **Recovery Phase (2011+)**

Types of projects include:

- Office
- Retail
- Hospitality
- Industrial
- Multifamily Rental
- For Sale Residential
historical single-family and multifamily permits
ada and canyon counties, id
1990 - 2011

source: u.s. department of housing and urban development; rclco
IMPACT OF CALIFORNIA HOME PRICES AND DRIVERS LICENSE SURRENDERS

Median Home Price in Major California Markets and Drivers License Surrenders
Ada and Canyon Counties, ID
2001 – 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>CA Home Prices</th>
<th>CA License Surrenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$300,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2002</td>
<td>$400,000</td>
<td>4,000</td>
</tr>
<tr>
<td>2003</td>
<td>$500,000</td>
<td>5,000</td>
</tr>
<tr>
<td>2004</td>
<td>$600,000</td>
<td>6,000</td>
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<tr>
<td>2005</td>
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<td>2006</td>
<td>$800,000</td>
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<td>2007</td>
<td>$900,000</td>
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<td>2008</td>
<td>$1,000,000</td>
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<td>2009</td>
<td>$1,100,000</td>
<td>11,000</td>
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<td>2010</td>
<td>$1,200,000</td>
<td>12,000</td>
</tr>
<tr>
<td>2011</td>
<td>$1,300,000</td>
<td>13,000</td>
</tr>
</tbody>
</table>

NOTE: 2006 license surrender data not available. Median home price reflects the weighted average median home price for Los Angeles, San Diego, San Francisco, and San Jose metropolitan areas.

SOURCE: Idaho Department of Transportation; Economy.com, RCLCO
IMPACT OF CALIFORNIA MIGRATION LIKELY Follows HOME PRICE INCREASES

Historical and Projected Median Home Price in Major California Markets and Drivers License Surrenders
Ada and Canyon Counties, ID
2001 – 2020

NOTE: 2006 data not available. Median home price reflects the weighted average median home price for Los Angeles, San Diego, San Francisco, and San Jose metropolitan areas.
SOURCE: Idaho Department of Transportation; Economy.com; RCLCO

ULI Idaho
Group One Market Study

Pace of Sales, Average Price & Months of Supply

- Number of Units Sold
- Average Price
- Months of Supply
What is Desired from the Development Process?

<table>
<thead>
<tr>
<th>Public Agencies</th>
<th>Developers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Certainty</td>
<td>• Certainty</td>
</tr>
<tr>
<td>• No surprises</td>
<td>• No surprises</td>
</tr>
<tr>
<td>• Fairness</td>
<td>• Fairness</td>
</tr>
<tr>
<td>• No public controversy</td>
<td>• No public controversy</td>
</tr>
<tr>
<td>• Tools that support good development</td>
<td>• Tools that support good development</td>
</tr>
<tr>
<td>• Honesty</td>
<td>• Predictability</td>
</tr>
<tr>
<td>• Openness</td>
<td>• Simplicity</td>
</tr>
<tr>
<td>• Feasibility</td>
<td>• Flexibility</td>
</tr>
<tr>
<td>• Cost effectiveness</td>
<td>• Efficiency</td>
</tr>
</tbody>
</table>
ULI—the Urban Land Institute is a 501(c) (3) nonprofit research and education organization supported by its members. Founded in 1936, the institute now has more than 30,000 members in over 90 countries representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service.

As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information and experience among local, national and international industry leaders and policy makers dedicated to creating better places.

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.