



A Presentation by



**Urban Land
Institute**

Idaho

Community Planning Association of Southwest Idaho (COMPASS)

Thursday May 26, 2012

- 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
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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

PUBLIC PROCESS

Comprehensive plan

Zoning entitlement

Subdivision plat

Infrastructure

Building plan review

Inspections

Certificate of Occupancy

PRIVATE PROCESS

Business Concept

Site Selection /Market
Study

Secure Financing

Due Diligence/real estate
purchase

PUBLIC PROCESS

Comprehensive plan

Zoning entitlement

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PRIVATE PROCESS

Business Concept

Site Selection /Market
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Secure Financing

Due Diligence/real estate
purchase

Site engineering

Architectural design

Pre-sales/leasing

Construction Management

PUBLIC PROCESS

Comprehensive plan

Zoning entitlement

Subdivision plat

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Building plan review

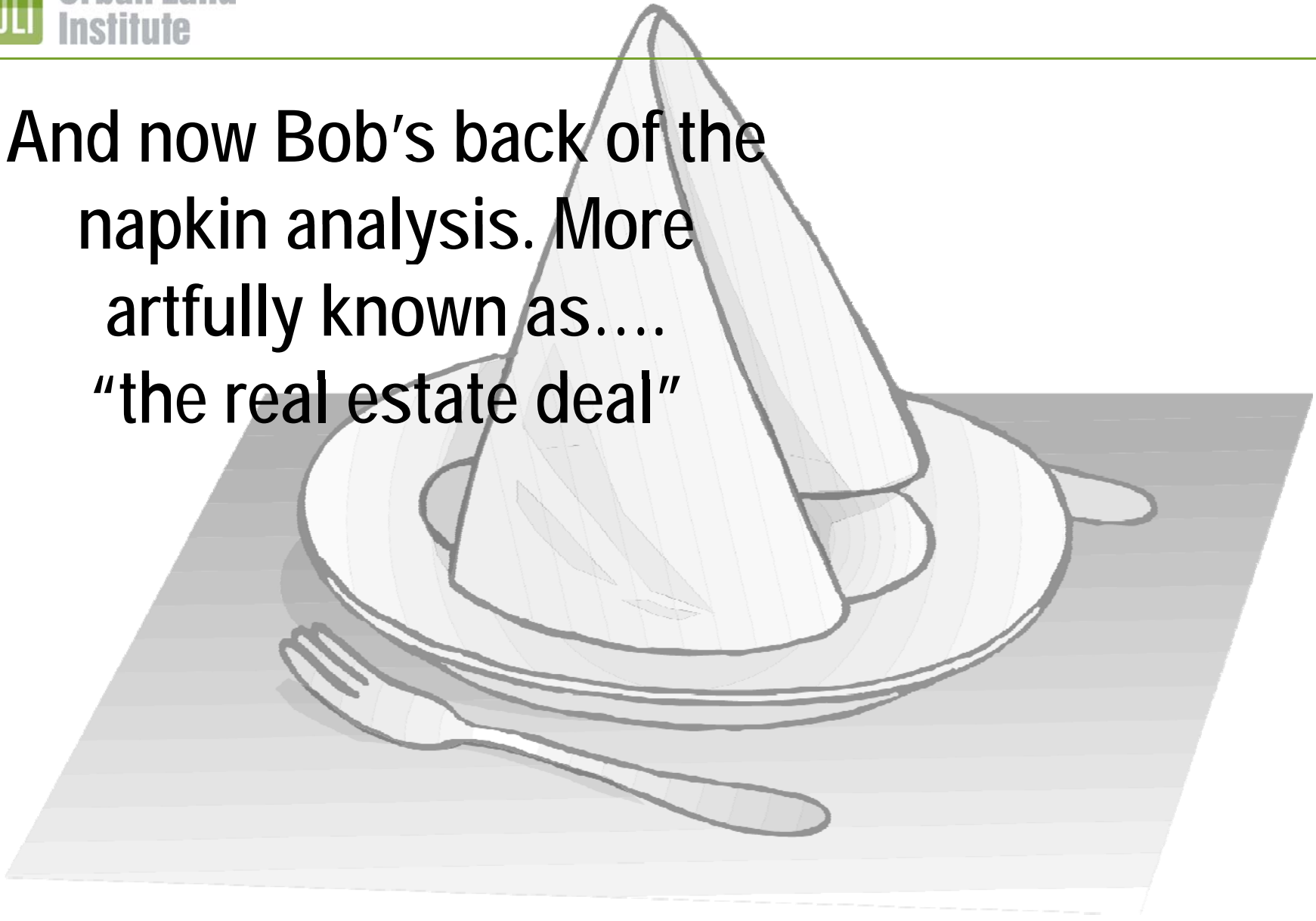
Inspections

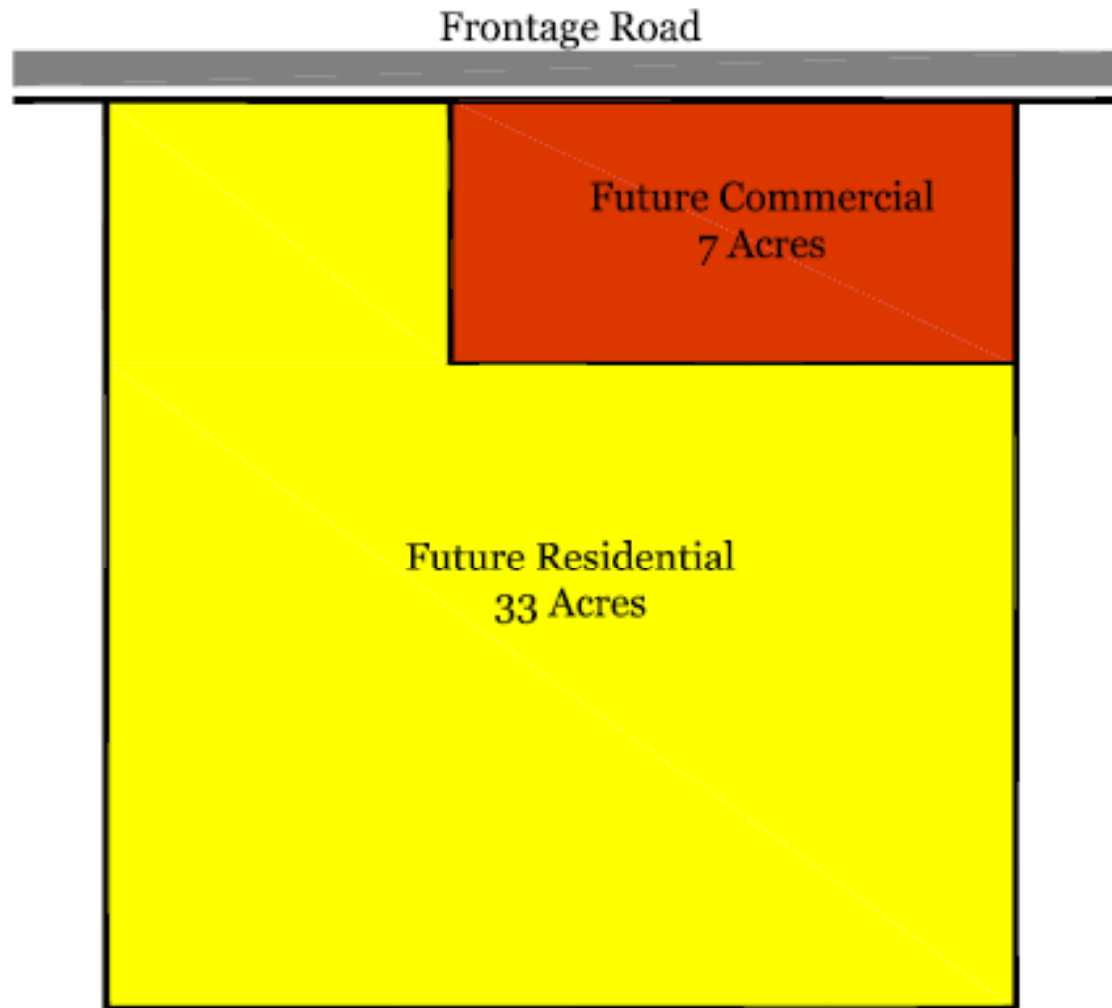
Certificate of Occupancy

Steps in the Development Process



And now Bob's back of the
napkin analysis. More
artfully known as....
"the real estate deal"





- 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

- 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

in Thousands

	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Total
Lot Sales	-	17	46	46	6		115
Commercial Pad						7 ac	7 ac
Total Revenue	-	\$1,147	\$3,105	\$3,105	\$405	\$1,525	\$9,287

Entitlement Costs	\$173						\$173
Site Development	-	\$2,803	\$934	-	-		\$3,738
Offsite Costs	-	\$350					\$350
Land Acquisition	\$1,600						\$1,600
Operating Costs	\$220	\$153	\$398	\$398	\$61	\$196	\$1,426
Total Costs	\$1,993	\$3,306	\$1,332	\$398	\$61	\$196	\$7,287

Net Cash Flow	(\$1,993)	(\$2,159)	\$1,773	\$2,707	\$344	\$1,329	\$2,001
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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

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...



Factors that impact development- beyond the control of the developer

Controlled by the public agency

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

Other factors

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

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

EXPERTISE THROUGH SPECIALIZATION AND COLLABORATION

Investment
Advisory

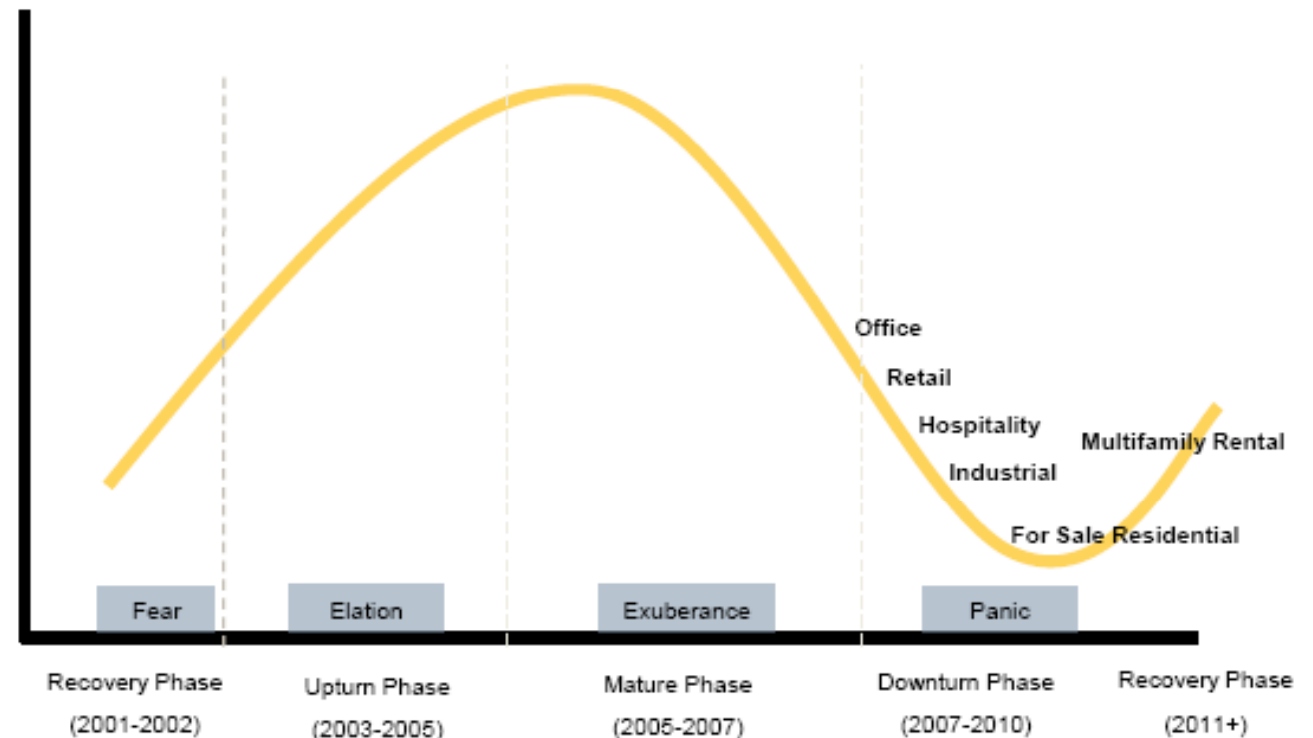
Community and
Resort Advisory

Urban Advisory

Public Strategies

Management
Consulting

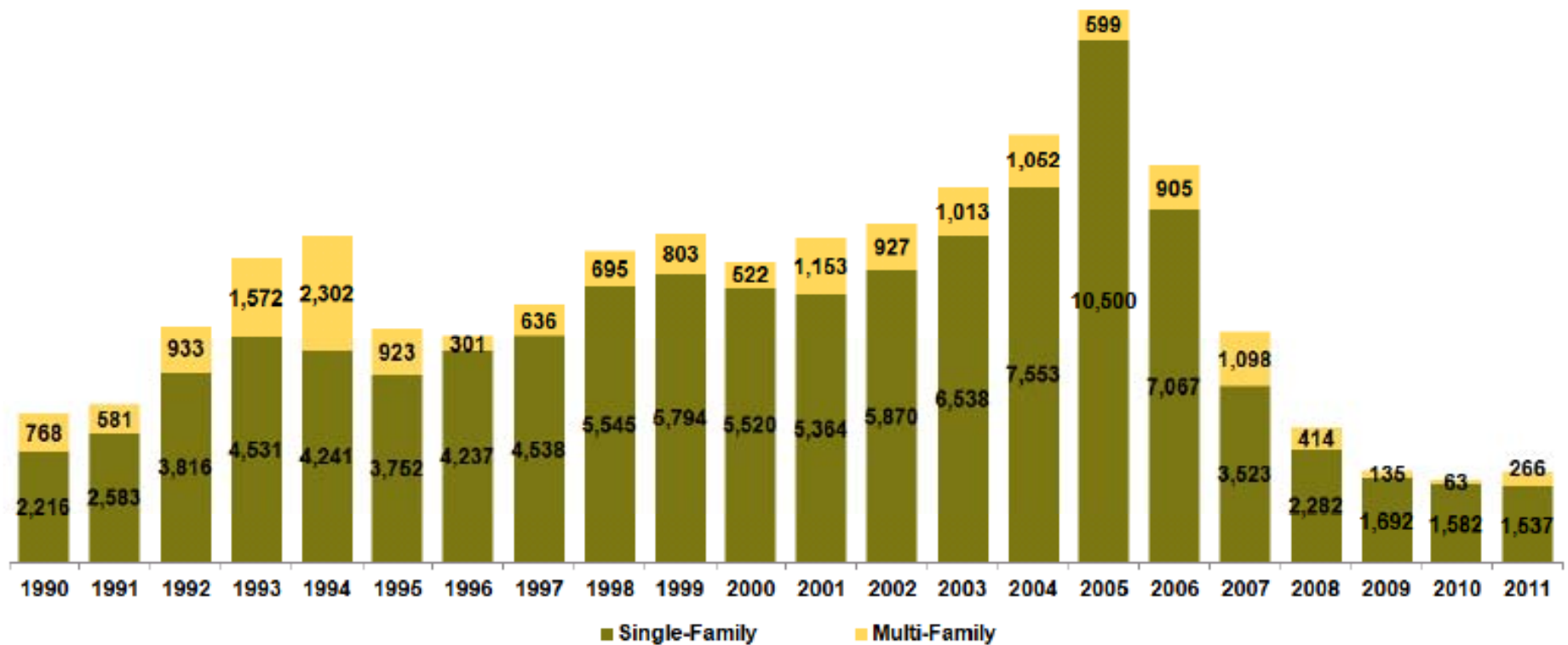
RCLCO maintains expertise by balancing specialization and collaboration on both client projects and firm research. We are organized into specific practice areas, but share knowledge and resources as “one firm.”



SITUATION ANALYSIS

HISTORICAL HOUSING PERMITS

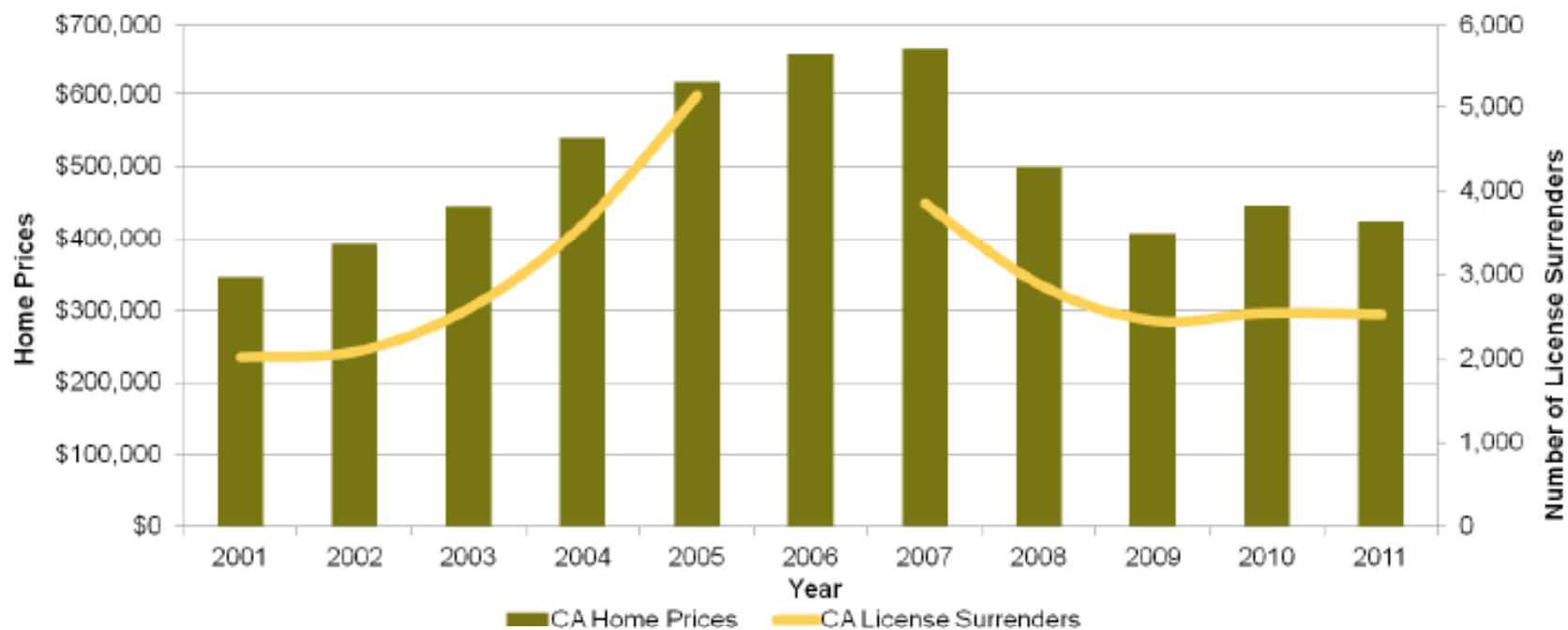
Historical Single-Family and Multifamily Permits
 Ada and Canyon Counties, ID
 1990 – 2011



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



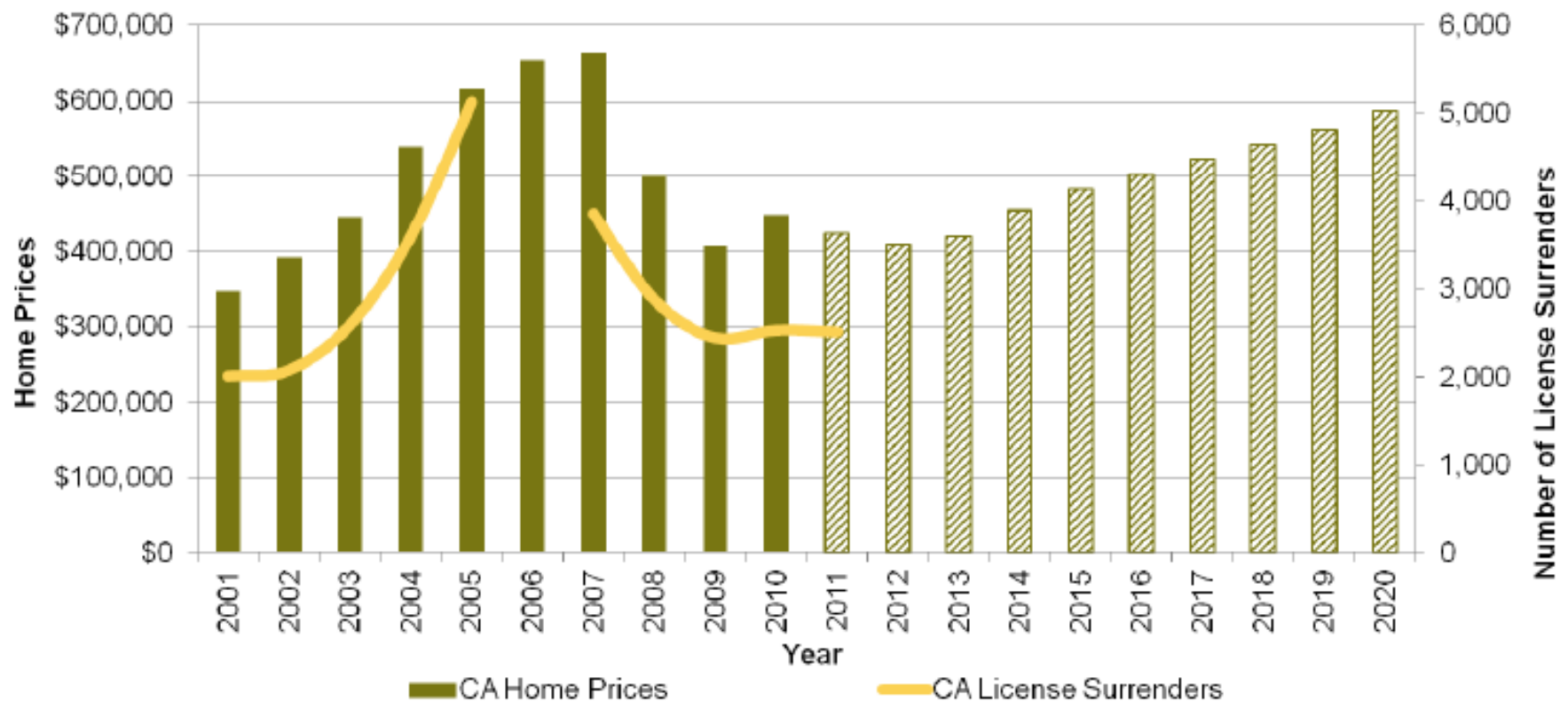
	YEAR										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Med Home Price Change	13%	13%	21%	14%	6%	8%	-25%	-19%	10%	-5%	
License Surrender Change	3%	25%	39%	42%	NA	-25%	-25%	-15%	4%	-1%	

NOTE: 2008 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

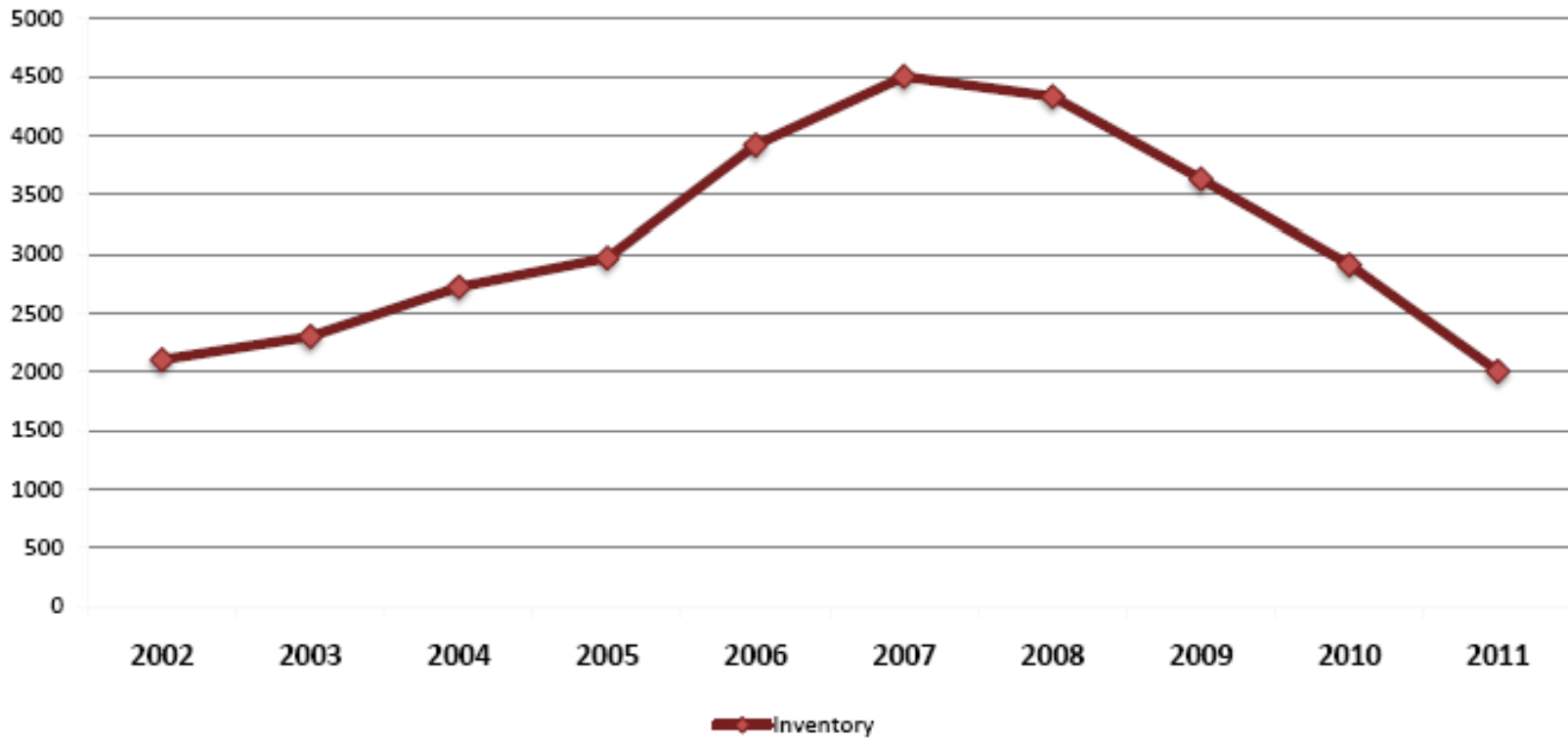
Historical and Projected Median Home Price in Major California Markets and Drivers License Surrenders
Ada and Canyon Counties, ID
2001 – 2020



NOTE: 2008 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

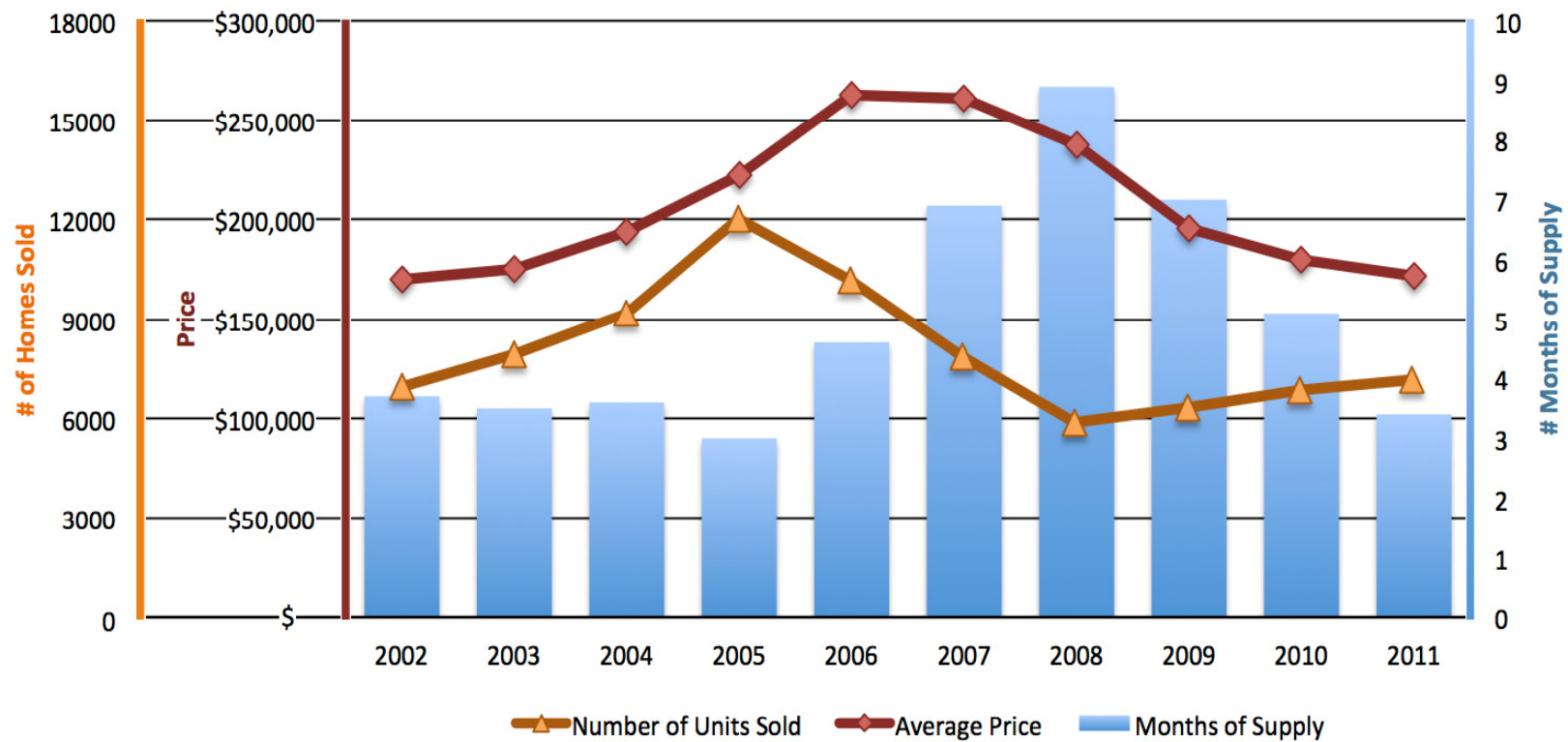
Group One Market Study

Inventory



Group One Market Study

Pace of Sales, Average Price & Months of Supply



Public Agencies

- Certainty
- No surprises
- Fairness
- No public controversy
- Tools that support good development
- Honesty
- Openness
- Feasibility
- Cost effectiveness

Developers

- Certainty
- No surprises
- Fairness
- No public controversy
- Tools that support good development
- Predictability
- Simplicity
- Flexibility
- Efficiency



Urban Land Institute

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.*