

The Conceptual pro forma: The 1st step from here...



17 May 2012

Maine Downtown Conference

Kevin Bunker, Developers Collaborative

...To here!



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Developers Collaborative Project Types

- All smart growth
- Rental housing: affordable and market-rate
- Condominiums
- Office
- Medical / Institutional



Crescent Heights, Portland



About Developers Collaborative

- Focuses on smart growth projects; public private partnerships
- 5 Historic Tax Credit projects; 4 affordable housing:
 - Waterville – complete
 - Lewiston – complete
 - Biddeford (with Avesta) – under construction
 - Livermore Falls – June 2012 start
 - Westbrook (with Avesta) – Fall 2012 start



Gilman Place, Waterville (1914-1935)



Gilman Place, Waterville (1914-1935)



Gilman Place, Waterville (1914-1935)



Healy Asylum, Lewiston (1893)



HEALY ASYLUM, CATHOLIC ORPHANAGE, LEWISTON.

Healy Asylum, Lewiston (1893)



Emery School, Biddeford (1912)



St. Hyacinth's, Westbrook (1894-1920)



Medical Arts Center, Livermore Falls



Elements of a Successful Project

- Location, location, location!
- The building & project team has to be right.
- The end use/user is key!
- Public: Good municipal partners.
- Private: At the end of the day, it has to be about \$\$\$.



Location, location, location!

- The obvious:

- Building location has to work for its end use.
- Different product types have different basic demand drivers.

- ...and beyond:

- Rents differ more than construction costs.
- Funding programs often geographically targeted.



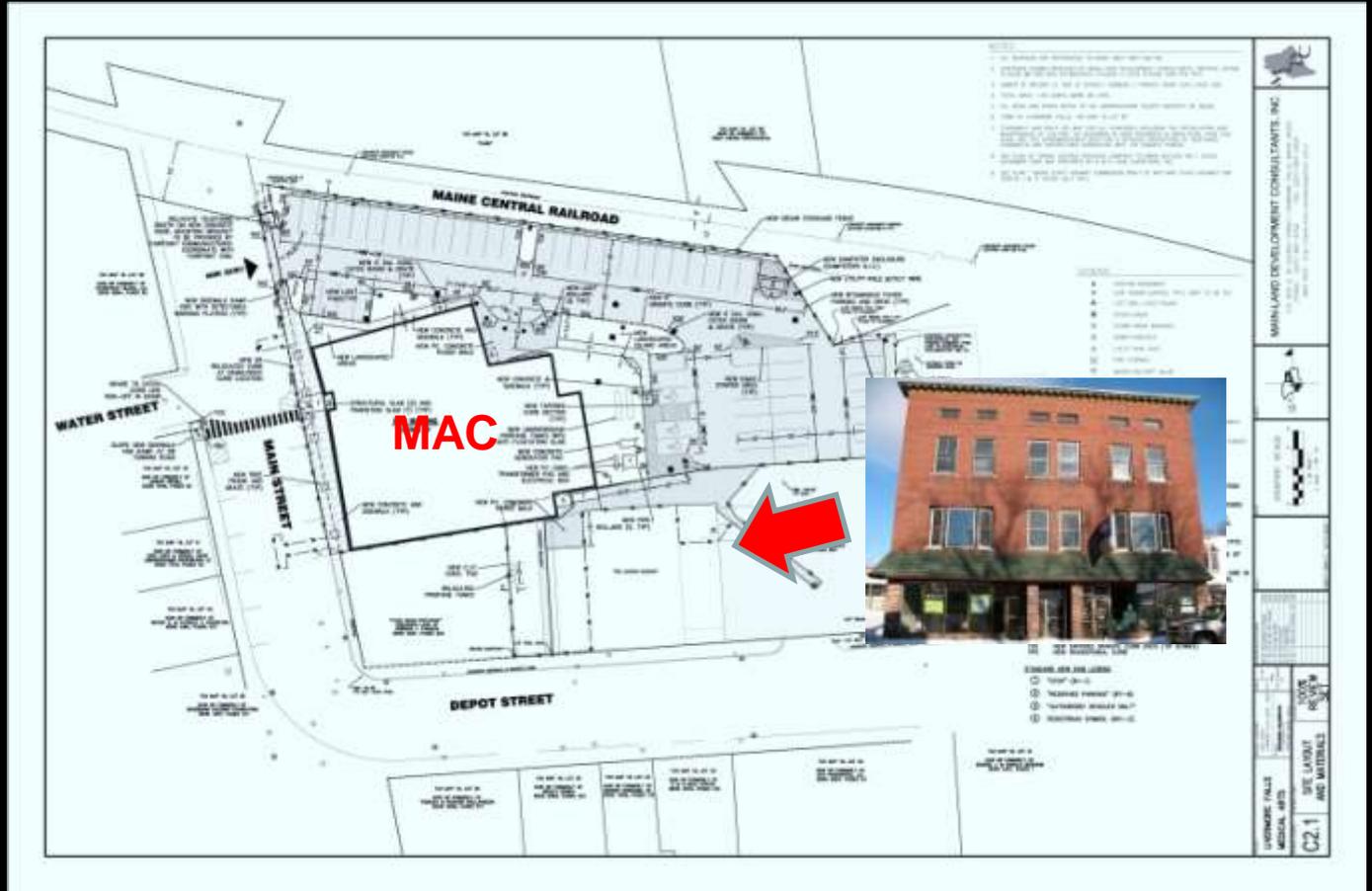
Location, location, location!



Webster Mill, Orono



Location, location, location!



*Downtown Medical Arts Campus,
Livermore Falls*



Location, location, location!



Downtown Medical Arts Campus, Livermore Falls



What else to look for in a building?

- Sized appropriately:
 - Different developers operate at different scales.
- Well-located for its use: ideally downtown
 - Example: senior vs. family housing
- A realistic Seller.
 - Many historic buildings have (-) economic value!



What to do when it can't be saved?



What else to look for in a building?

- In the right municipality:
 - Staff and Council matter; as discussed.
- Has to pass the BOE test.
 - Mind the gap!
 - More on this later.
- Structural problems sometimes cannot be overcome.



Sometimes it can't be saved :(



Webster Mill, Orono



Sometimes it can't be saved :(



The project team

- A developer is a generalist.
- Team is critical!
 - Architect
 - Historic Consultant
 - Legal
 - Financing relationships (banker, syndicator, investor)
- The most valuable consultants actively help a developer manage risk, not just “run the meter”.



The project team

- Experience matters.
- So does team chemistry.
- Don't pay for someone's learning curve.
- You're paying them; so listen to them!
- Consult MHPC early and often!



Public side: Good municipal partners

- Without a smart, motivated staff, PPPs are next to impossible.
- Supportive Council.
- 2 way street: A developer should expect to give as well as receive.



Private side: Importance of the bottom line

- Private developers may or may not be motivated by more than money.
- However, NONE can consistently lose money.
- Those are called: 1) ex-developers or, 2) philanthropists.

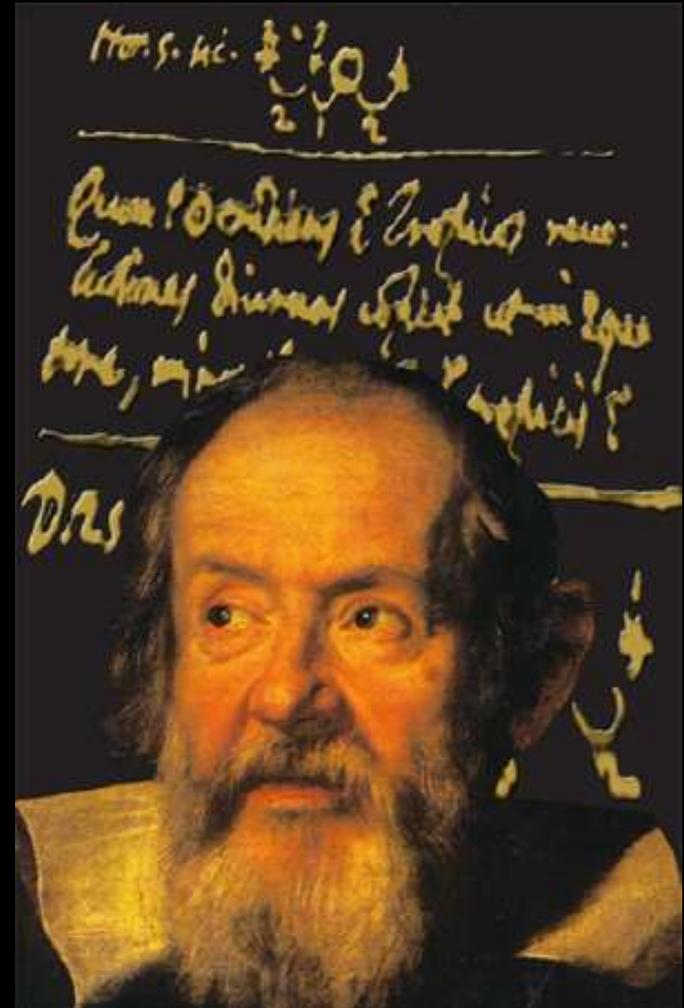


Why “the numbers” matter

“Mathematics is the language with which God has written the universe.”

-Galileo Galilei

It’s also the language with which we’ve chosen to write most of our built environment (as modified by zoning and existing conditions).



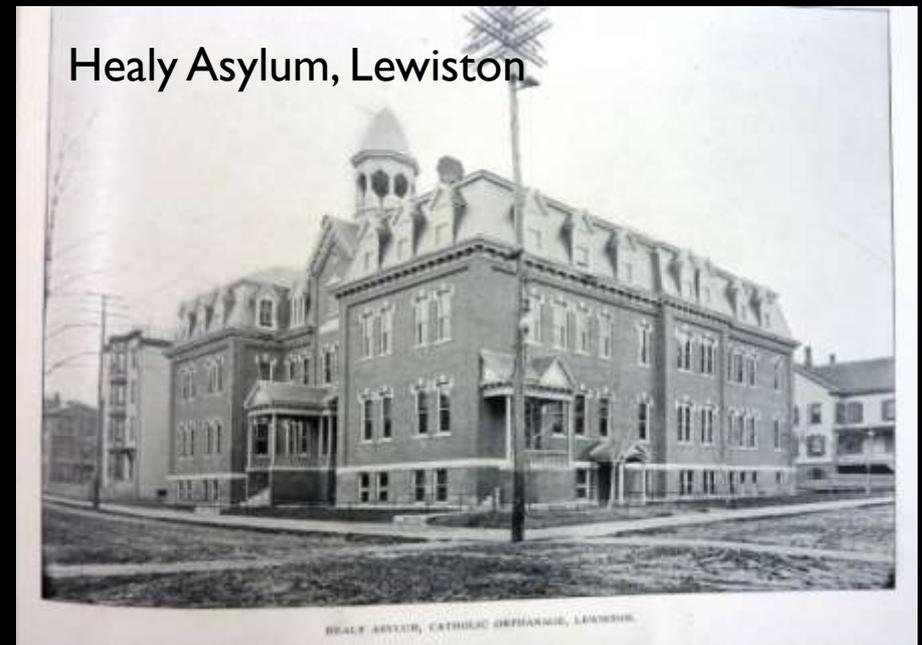
Why “the numbers” matter

- Every element of a project must ultimately enter into a pro forma: design, approvals, construction, etc.
- A developer can be community-oriented, but must still “pencil” out projects, or they won’t get financed and built.
- Nearly every project that is community oriented in some way, will have a “gap”. HTCs help fill it, but are only one tool. Use them all to be successful.



Components of a pro forma

- Sources & Uses
- Capital budget
- Operating budget
- DCFA / reversion
- Construction cash flow



Sources & Uses: The gap

- Uses are defined by the costs to construct: hard & soft.
- Sources include:
 - “Hard debt” (supported by project cash flow)
 - Equity (cash)
 - Tax credits
 - Grants, TIFs, etc. – gap fillers
- Sources can be enhanced by below-market terms.



Introduction to BOE analysis aka “Stage 1”

- 20,000 sf historic building in your downtown
- Mixed-use (of course!)
- For sale!
- How much can you pay?
- Return expectation 10%.
- Let's go to the BOE!



Lamb Block, Livermore Falls



BOE analysis

- Uses are readily estimated (using your project team, hopefully working on spec!)
- Sources require some math.
- First, how much hard (amortizing debt) can you get?
- Second, how much in HTC's?



BOE analysis

- Uses are readily estimated (using your project team, hopefully working on spec!)
- Sources require some math.
- First, how much hard (amortizing debt) can you get?
- Second, how much in HTC's?
- Then, filling the gap.



Sources: Hard Debt

- $\text{Income} - \text{Expenses} = \text{NOI}$ (net operating income)
- How much cash is generated by the property to service a mortgage and make your own return?



Gilman Place, Waterville

Other Sources: Tax Credits & Equity

- Calculate eligible basis; yield for HTC.
- Calculate equity.
- Determine the gap.
- Fill in the gap before you show it to your banker.



BOE Lessons

- “Back of Envelope” analysis is a useful project screen.
- “Hear about 100 projects, BOE 10, Do 1.”
- I probably have it at 75/25/1.
- Almost always, BOE will show a gap.
- That’s where PPP comes in.



Public Private Partnerships

- Like any successful relationship, each side should bring something to the table.
- To the public side: demand transparency from your private partner!
- Real estate development is a responsibility, 'cause whatever you build is going to be there for a while.



Another Way to Help Fill the Gap

- Owner-occupancy:

- Small scale (Main St. retail business)
- Larger scale (University, hospital, other major economic driver)

- Owners make their income from sources other than real estate (whether cups of coffee or treating patients) and can therefore ignore these laws to some extent.

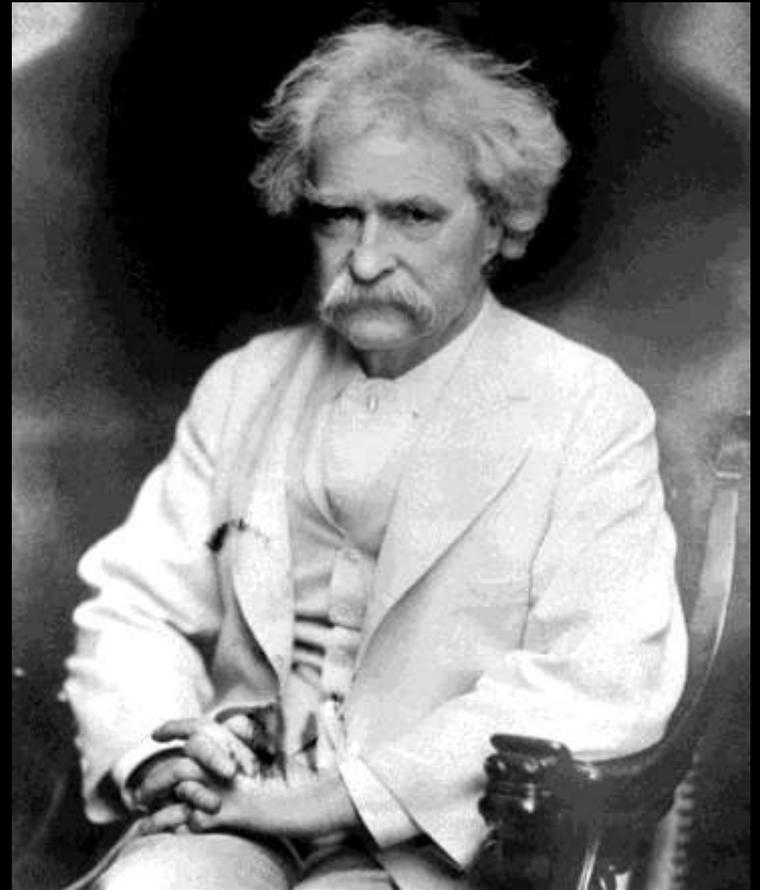
- The value of sweat equity (small scale) or deferred developer fee (larger scale)



The Limitations of the Numbers

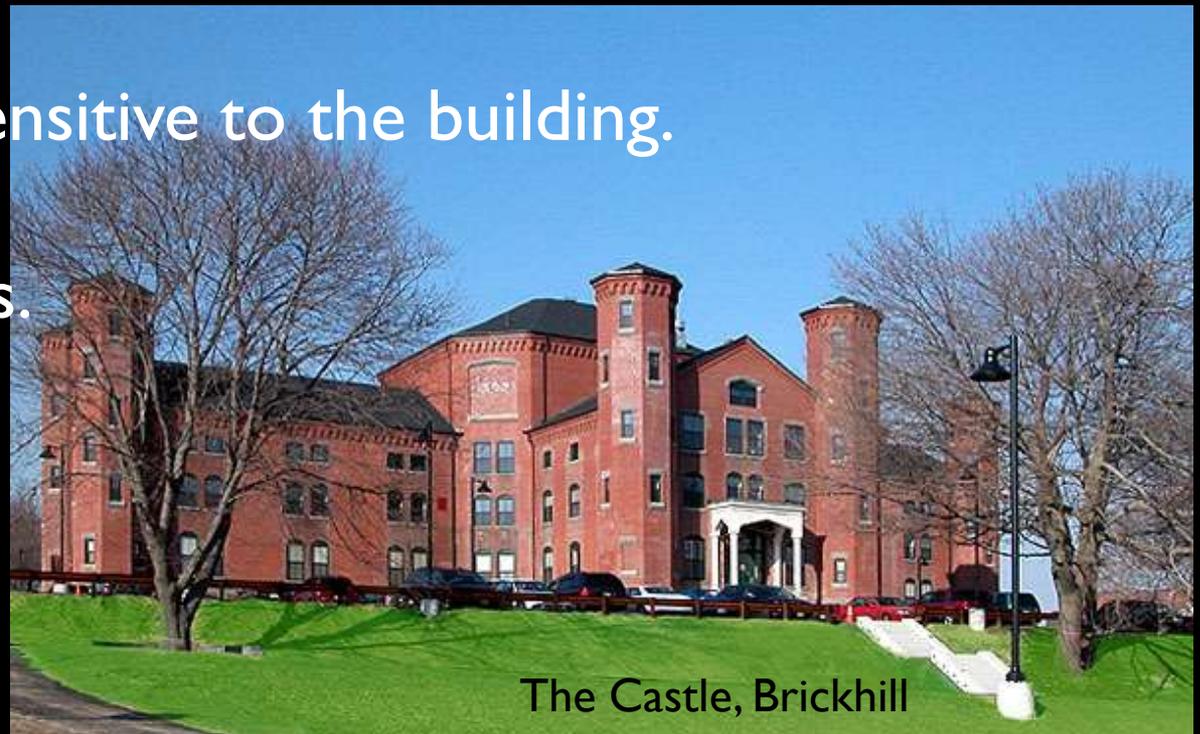
- GI/GO.

- "Figures often beguile me," he wrote, "particularly when I have the arranging of them myself; in which case the remark attributed to Disraeli would often apply with justice and force: 'There are three kinds of lies: lies, damned lies, and statistics.'"* - Mark Twain



When Not to Use the HTC

- HTC projects cost more.
- Sometimes HTC is not worth it, especially pre-2008.
- You can still be sensitive to the building.
- Disqualified leases.



Other Tips: Banking

- Develop a banking relationship.
- Know what they are looking for...not all banks are =.
- Local is usually a good place to start.
- Start with a termsheet; work toward a commitment letter.
- Keep your banker in the loop throughout!



Other Tips: Financial Management

- Be conservative in your assumptions.
- Keep an adequate contingency (10%).
- Track expenses monthly.
- Anticipate and manage change orders; consider an owner's rep.
- Watch construction interest!

