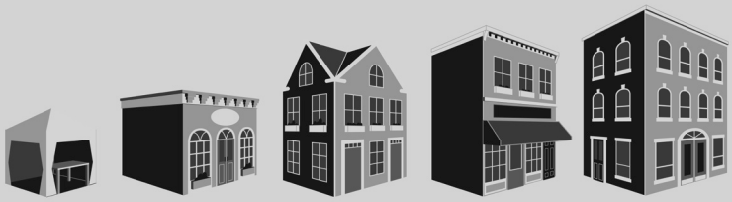


SMALL DEVELOPER COMPANION MANUAL

WHAT'S IN STORE

There are people who walk around their neighborhood and imagine a million ideas to improve it. They see the potential for infill, reuse, or starting a business. This workshop is for anyone who thinks that may be a calling for them: to build something small, but special.

This companion manual is intended to provide additional explanation and reference materials.

WHO WE ARE

The Incremental Development Alliance is a national non-profit that aims to grow the ranks of small developers.

Our founders are professionals in the urban development field who were overwhelmed by the number of people looking for the same advice: how do I build a small, multi-unit building? In order to stretch their mentorship and hard-won knowledge to more eager students, they formed the IncDev Alliance and set to work developing training and curriculum for aspiring small developers.

The Alliance part of our name celebrates the many individuals, institutions, foundations, and grassroots groups that are our allies in this work. Our Alliance also includes our participants who are implementers and doers in their own neighborhoods across the continent.

OUR VISION

We envision neighborhoods regenerated by small developers who care deeply about the places where they live and build.

OUR MISSION

- **Resurrect the small scale developer**, who combines local insight and relationships to build human-scale neighborhoods while earning a living.
- **Make walkability legal again** by changing the rulebook in favor of the incremental projects that create great cities.
- **Line our streets with independent businesses** by helping them own buildings that create a long term source of income that grows alongside their neighborhood.
- **Rebuild skills while rebuilding our cities** by learning, elevating, and employing the work of local skilled trades. We need more people with the skills to construct, outfit, maintain, and repair the buildings we love.

WHAT WE DO

We train people to be small developers and help remove barriers to their success. To do this, we:

- **Train** small business owners, neighborhood advocates, design and real estate professionals, builders and others to be small developers;
- **Coach** civic groups and government agencies on how to create a healthy ecosystem for small developers and entrepreneurs; and
- **Connect** a continent of neighborhood level doers through alliances to celebrate success and share field notes.

HOW WE DO IT

- We design and curate training which is published in a range of learning materials.
- We host workshops, in person and online, for groups at various stages of development proficiency.
- We develop custom services for cities or foundations who would like to pilot projects to support small development in a targeted area.
- We speak at conferences and events.
- We support peer-to-peer learning communities for small developers, both online and in person.
- We remain implementers in our own communities, always speaking from experience.

WHAT IS INCREMENTAL DEVELOPMENT?

Today, real estate development mostly happens in big, expensive chunks - picture large scale subdivisions and condo towers. You need to be a professional development firm to be a part of that action. But the neighborhoods we love most were built in little pieces. That's the way great cities work - places are way more loveable and flexible when many people have been a part of building them. That is what we mean by incremental development: city-building in small steps.

We see incremental development as way for anyone and everyone to get involved in building and improving their neighborhood. In an incremental approach, no project is too small and because of that, we can allow our neighborhoods to evolve in a natural, community-led way. Incremental development actually helps neighborhoods become stronger with time by allowing them to mature gradually instead of locking them into boom-and-bust cycles that are common with larger developments.

EXAMPLES OF INCREMENTAL DEVELOPMENT IN PRACTICE

Thank you for participating in a Small Developer Training Workshop! We are here to listen and learn from people making a positive change in their neighborhoods, and to share tools and stories that will help them in that endeavor.

THIS IS A STARTING POINT

The nature of this Workshop is educational and experiential. We can present you with information, people, and encouragement that may help you take the next steps in your small development project. However, those next steps are your full responsibility. The information presented here is general in nature and must only be treated as a prompt for further research.

THIS IS NOT ADVICE

The Incremental Development Alliance and the team involved with this Workshop are **not** offering advice, be it personal, investment, business, construction or other. Nothing in this Workshop is a substitute for your own due diligence, analysis, calculations, and judgment. Where we provide calculation and valuation tools, they are intended for general illustration and education only. Any pre-defined values we offer are generic and must be amended according to your own market research. We do not endorse any outputs calculated.

AT YOUR OWN RISK

As such, we will not be liable, whether in contract, tort (including negligence) or otherwise, in respect of any damage, expense or other loss you may suffer arising out of such information or any reliance you may place upon such information. Any arrangements between you and any third party contacted via this Workshop are at your sole risk. By accepting these materials, you understand that you are using any and all information available in or through this Workshop at your own risk.

9 PRINCIPLES OF THE

INCDEV APPROACH

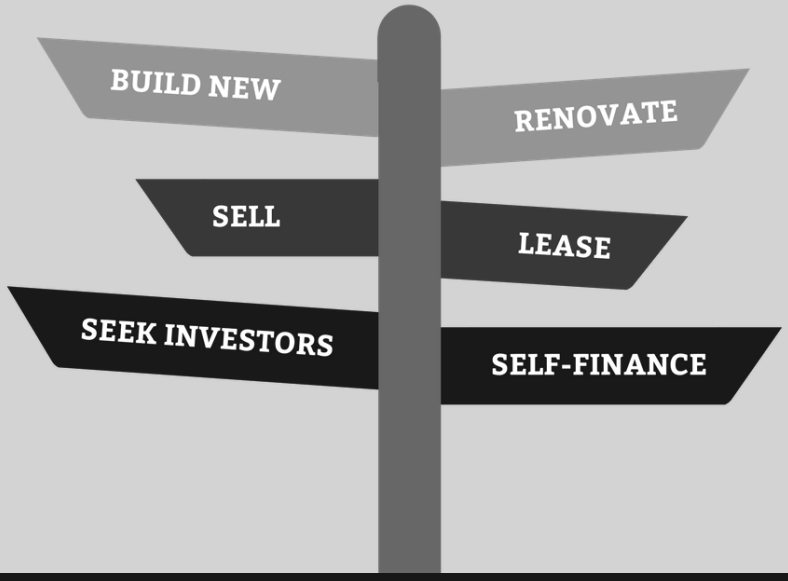
1. **Commit yourself to a place you love that needs you.**
2. **Take the next smallest step.**
3. **Learn the rules so you can maximize the opportunity within them.**
4. **Build in rectangles that can adapt and improve over time.**
5. **Opt for cozy & human over large & luxury.**
6. **Focus on building a stronger neighborhood one project at a time.**
7. **Employ, support, and partner with locals, creating stewards of the neighborhood.**
8. **Rightsize regulation and re-legalize time-honored buildings.**
9. **Build things that give more than they take.**

CONTENTS

WHAT MOTIVATES YOU?

THE THREE AXES OF REAL ESTATE DECISIONS

When starting out in development, it's important to understand how different approaches can affect your bottom line and lifestyle. In particular, the decisions to build new vs. renovate, lease vs. sell, and self-finance vs. seek investors will greatly impact how you spend your time and energy. A great first step is to self-finance an owner-occupied rental, either renovated or built new.



SHOULD YOU BUY/BUILD?

People pursue real estate development for different reasons and that is going to influence what looks like a "good deal" as an investment. There are some helpful rules of thumb outlined later that can help you sort out the good projects from the bad, but first decide how much money you need to earn off real estate and when.

Build Cash Flow

If you have additional investors involved in your project, you are in this category by default. Real estate can offer higher returns than conventional market investments but at a higher risk. If you or your investors are supporting your project with hopes to make higher returns than a conventional investment in say, mutual funds, you will be analyzing your projects from that metric.

Mortgage Free - Build Net Worth/Security

Another approach is to acquire inexpensive property that you can pay off in full quickly, so that any rental income (after expenses) goes straight into your pocket. These investments may not perform well on other heuristics due to the comparatively large up front cost and low initial rents (i.e. you are fronting a lot of cash) but being mortgage-free can buy your freedom later and build your net worth in the process. This is a popular motive for individuals looking to support their retirement income and improve their neighborhoods. Consider this a potential path to financial security rather than growth, and focus on your cash flow rather than immediate return on investment. - - Building Net Worth

Diversifying Your Portfolio - Striking the Balance

Similarly, some people use real estate as a way to protect their wealth without a clearly anticipated payout. If you are most interested in parking your money in real estate rather than growing it, you may care less about annual returns than reliability of the asset. If this sounds like you, find a place that is stable (a process that requires considerable wisdom) and build/buy something that cash flows.

DEVELOPMENT PROJECT FORMATION

BUSINESS & PEOPLE	PHYSICAL & TECHNICAL	FINANCE & RISK
PHASE 1: STARTUP		
What is your business model? How will you create value with the skills and connections on your team?	How do you cultivate a neighborhood? Identifying features of viable urban design - walkability, public space, etc.	How to use off-the-shelf financing options (from personal mortgage to partnerships) to do small scale projects.
PHASE 2: ASSESSING THE OPTIONS		
Market analysis, intro to the building blocks of a neighborhood. What's missing in your place? How can you fill a niche?	Site comparison and selection. How to read and understand zoning to optimize the building and site potential.	Using a Pro Forma spreadsheet, estimate income vs. expenses for specific projects. Which are feasible?
PHASE 3: MOVING FORWARD WITH THE BEST PROJECT		
Gather your design professionals. Understand the building, zoning, and incentive approval processes.	How to design a simple building that acts as a good neighbor (and isn't unnecessarily frustrating to get approved and built).	Asking for money from investors and presenting a project that's fundable. Due diligence, negotiation, and site acquisition.

READY TO TAKE THE NEXT STEP WITH YOUR PROJECT? CONSIDER A SMALL DEVELOPER BOOT CAMP!

Our two-day Small Developer Boot Camps build on the foundational training from the one-day Workshops. The Boot Camp is an opportunity for participants to bring an actual project in front of seasoned small developers. In small groups, participants work through exercises like digesting their zoning code, drawing a basic site plan, creating a financial pro forma model, and creating a pitch package for investors, all applied to their own specific project.

INC*DEV ALLIANCE

DEVELOPMENT SKILLS & ASSETS

Real estate development pulls together a wide range of skill sets that no single person possesses from the outset. The key is to know what you should learn and what you should outsource.

The most critical things you should not try to outsource as a small developer are practical business sense and general project management skills.

You need good judgment and intuition on how to make money and create value in your neighborhood. This includes identifying and comparing sites with the right ingredients to be successful - a skill honed through experience, good taste, and local insight.

You will also need the management skills to keep many moving parts in sync. Beyond business sense and project management, there are many other skills that come into play in the process of real estate development. The following pages can help you make a literal checklist of the skills you have, will learn, or will outsource.

PROPERTY EVALUATION

- Market analysis - finding niches or needs to fill in your neighborhood and comparing opportunities
- Gathering intelligence - talking to people who know an area most intimately, like neighbors, local business owners, and on-the-ground workers
- Navigating zoning - knowing what can and cannot be built on a site
- Basic math and spreadsheet skills - mostly arithmetic used to estimate cash flow and returns
- Engineering - assessing soil, storm-water, and utility conditions and limitations

ACQUIRING PROPERTY AND DEVELOPMENT APPROVALS

- Due diligence & site acquisition - doing the legal and bureaucratic homework to mitigate risk
- Familiarity with development approval processes and the people who administer them
- Architecture & technical drawings - designing a loveable, comfortable building that ages well
- Engineering & technical drawings - designing a building that is structurally sound
- A deep understanding of building codes and regulations

BUILDING DESIGN AND CONSTRUCTION

- Design sense - making good decisions about materials, layouts, features, and trade-offs that influence your building's sale or rental value
- Construction skills and construction management skills - to keep on time and budget
- Knowing enough about construction to hire and manage a team of skilled tradespeople

PROPERTY MANAGEMENT

- Marketing and people skills - attracting good tenants, both commercial and residential
- Conflict resolution - handling any tenancy issues professionally
- Building maintenance - activities to look after major heating and cooling, plumbing, landscaping and building exterior elements.

DEVELOPER SKILLS AND ASSETS CHECKLIST

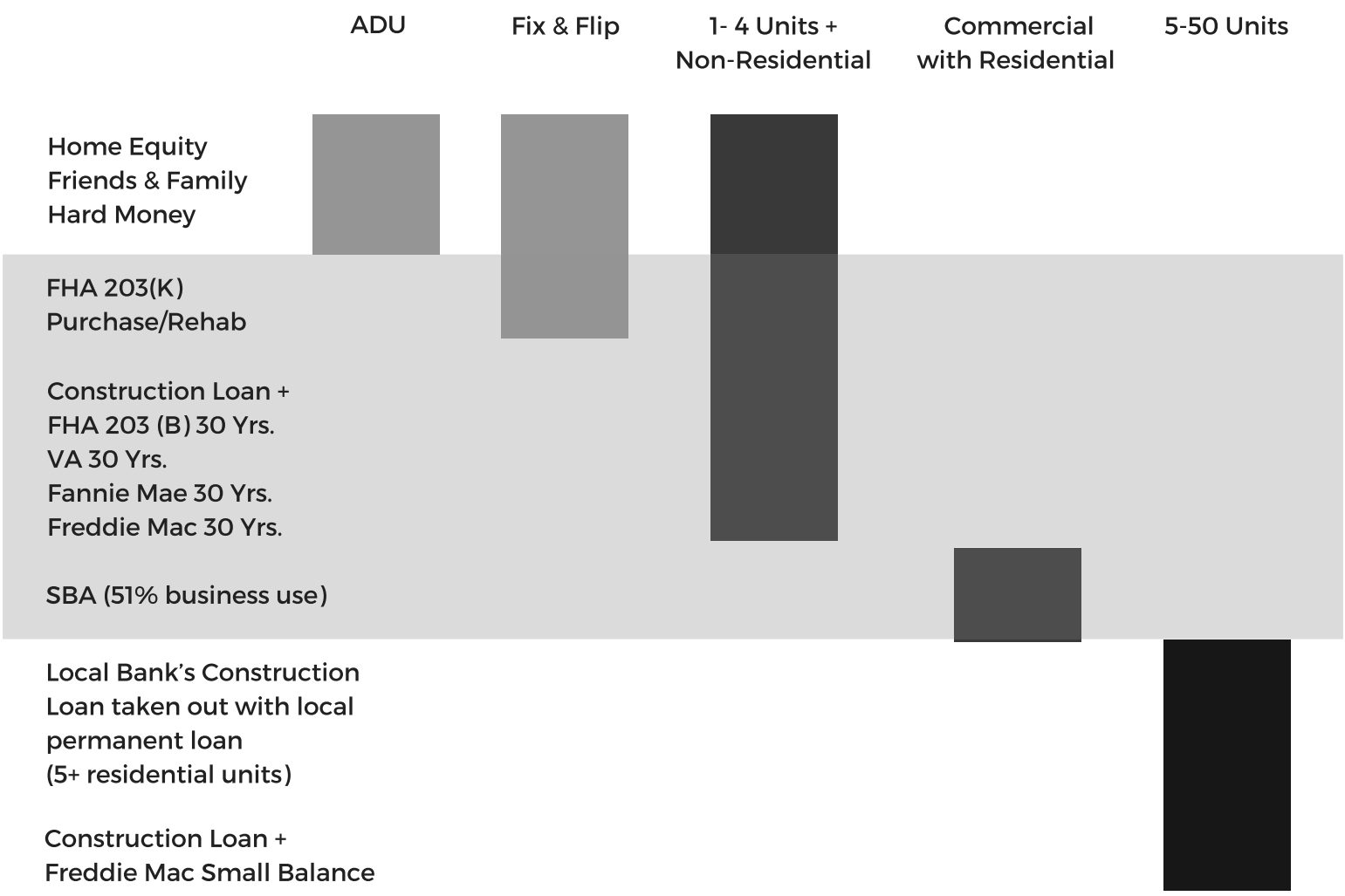
H=HAVE - - L=WILL LEARN - - O=OUTSOURCE

PHASE 1: STARTUP	H	L	O
Business sense - good judgment and intuition on how to create value in your neighborhood	X		
Identifying sites with the right ingredients to be successful			
Access to necessary financing (cash, loan, or investment)			
PHASE 2: ASSESSING THE OPTIONS			
Market analysis - finding niches or needs to fill in your neighborhood and comparing opportunities			
Knowing what can and cannot be built on a site by navigating zoning and knowing local neighbors			
Assessing soil, storm-water, and utility conditions and limitations			
Using a pro forma (a spreadsheet that estimates a development's income and expenses) to compare the potential and feasibility of multiple sites/projects			
PHASE 3: MOVING FORWARD WITH THE BEST PROJECT			
Familiarity with development approval processes and the people who administer them			
Building & site design: architecture & technical drawings			
Building & site design: engineering & technical drawings			
Building & site design: deep understanding of building codes and regulations			
Understanding how to place a building on a site so that it adds to its surroundings			
Structuring financial real estate deals and contracts and asking for money			
Due diligence & site acquisition - the legal and bureaucratic homework to mitigate risk			
PHASE 4: BUILDING YOUR PROJECT			
Building design: making good decisions about materials, layouts, features, and trade-offs that influence your building's sale or rental value			
Construction skills and construction management skills			
Knowing enough about construction to hire and manage a team of skilled tradespeople			
Managing the timeline and details of construction budget to maintain cash flow through and after construction			
PHASE 5: OPENING THE DOORS AND KEEPING THEM OPEN			
Attracting good tenants, both commercial and residential			
Selling or leasing a building (real estate agent or broker)			
Property management and maintenance			
Setting up tax arrangements that help long term sustainability of development			
Wisely reinvesting your returns in mutually beneficial projects			
ALL PHASES			
Business management skills to guide cash flow throughout the life-cycle of a project			
Project management skills to keep all the moving parts in sync	X		

FINANCING YOUR FIRST DEAL

Did you know you can build multi-unit buildings, even mixed-use ones, with a regular mortgage?

THE FINANCING STAIR STEPS



STARTER PROJECTS

One of the things we hear most often from people seeking coaching or advice on small development is "I just don't know what I don't know." While this document attempts to demystify the process, the truth is, those anxieties are well-founded. Real estate development is something you can only really learn by doing and every project has its own risks and surprises. This is why it is important to start small. Through the perspective of a rooted small developer, 'the neighborhood' is the project, advanced in building-by-building increments. Consider the following a collection of options in your real estate portfolio, each supporting the others.

In the pool of real estate development these are reliable pathways to learn to swim in the shallow end. They correspond with some standard financing steps so you can keep the money part simple and reserve your brain space for things like zoning and construction.

1) BUY A 1-4 UNIT BUILDING FOR RENT

Buy an existing building with one to four legal units that already rent. You should be able to find information on the existing cash flow of the building like the rental rates, taxes, and utility costs. Use a pro-forma to determine if the property makes sense as an investment.

You can buy a 1-4 unit building with an FHA backed mortgage, and if you plan on moving in as an owner-occupier the minimum down payment is 3.5%. If you do not live in the building, you will need a down payment over 20%.

Look for a place in a walkable neighborhood that doesn't need a lot of work. Any small improvements henceforth and your attentiveness as a landlord will help reduce tenant turnover and attract higher rents.

How does this make money?

If the rent you collect is greater than your mortgage and operating expenses, your building now has a positive cash flow.

2) BUILD AN ACCESSORY DWELLING UNIT TO YOUR SINGLE FAMILY HOME.

This one comes with a major caveat, so before you start pinteresting backyard cottages, check your zoning. Few cities permit ADUs to be built in any practical way. If you happen to be in a jurisdiction that does, like Portland, you can help push the needle by showing the rest of the country how advantageous ADUs can be in a neighborhood landscape.

You can finance your ADU with cash, a construction loan, or a home equity line of credit. Get your permits and build the thing yourself or with the help of a contractor or handy friends.

Make sure your rental unit is built to legal requirements and find a tenant. Better yet, already have one in mind.

How does this make money?

You are adding an income stream to your house. If the rent you collect is greater than your mortgage and property expenses, your house now has a positive cash flow.

FOOD TRUCKS AND TENTS IN A GOOD LOCATION CAN EVOLVE INTO BUILDINGS IF SUCCESSFUL. IN EACH CASE, SMALL DEVELOPERS ARE ACTIVATING SPACE AND CREATING VALUE IN THEIR NEIGHBORHOOD.

3) SEASONAL MARKET OR KIOSK

If you are interested in commercial space, this is a great way to learn the essentials at low cost, all while building trust in your community. Borrow or rent underutilized space from a landowner in a good location. Let's say you've got a few parking spaces in highly visible and accessible area that is hungry for retail. Your job is now to create value in that space. You can book vendors that pay a fee to be there and set up seating, food, or entertainment. Once you've mastered a temporary set-up, consider building a kiosk.

This kind of endeavor is best done with minimal cash and a DIY spirit. It will give you experience in creating value in underutilized space, understanding cash flow, and managing tenancy agreements.

How does this make money?

If you can rent out space for more than it costs you to be there, you have a positive cash flow. Additionally, if you own adjacent property, you could be increasing the value of the surrounding area.

4) BUILD NEW FOURPLEX

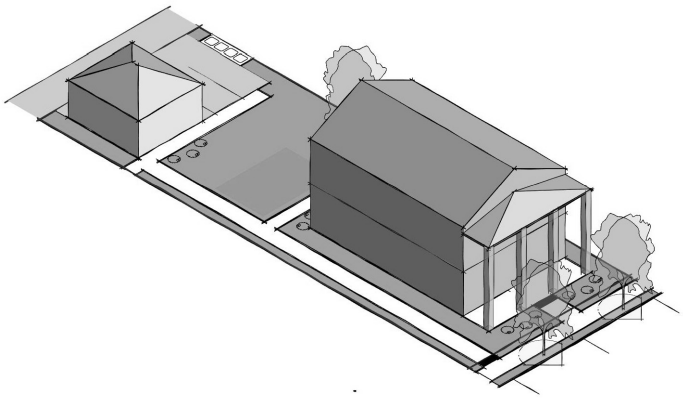
First, get pre-approved for a mortgage to determine your budget. You can include future rentals in your projected income. Then find land in a walkable area and pay less than 20% of your total budget for it. Put together some plans and cost estimates (likely involving a contractor) and take that to a local bank to get a construction loan. Again, this needs to be within the budget of your pre-approved mortgage.

Build a simple, flexible building.

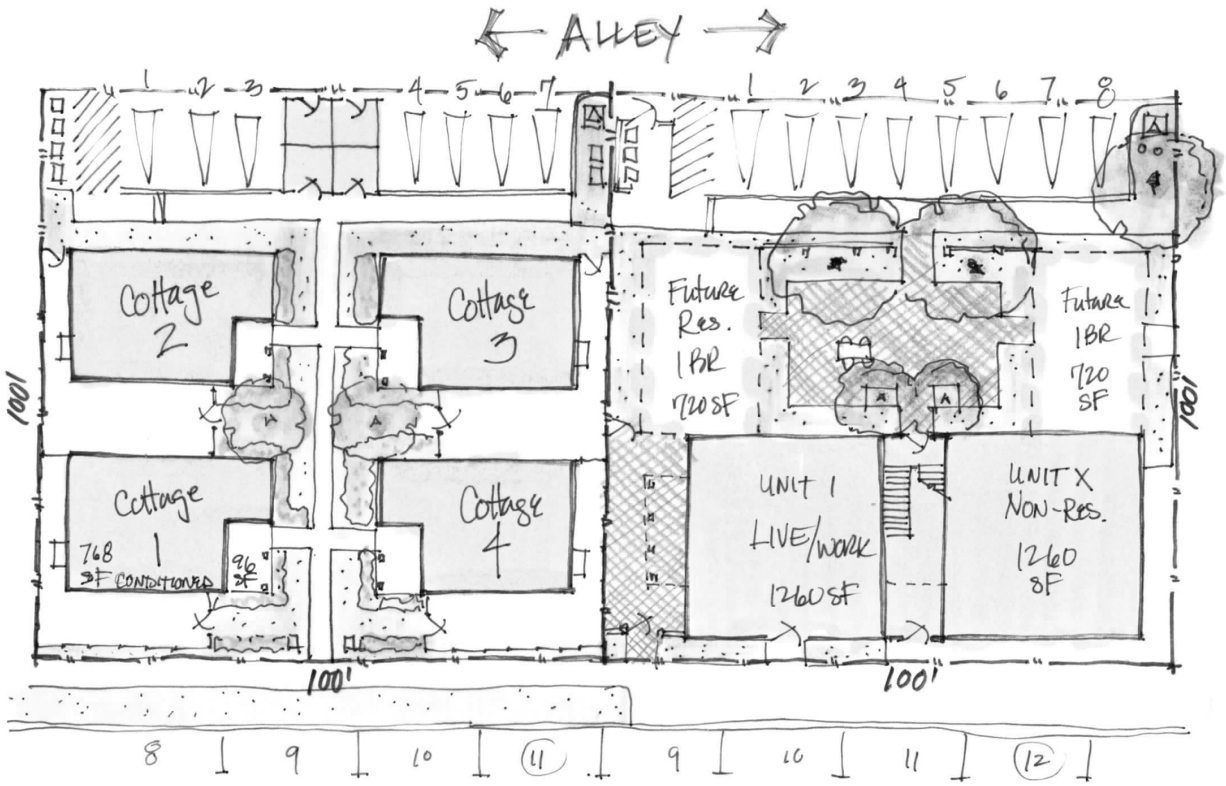
Replace your construction loan to a permanent loan (i.e. a mortgage). The bank will have an appraiser assess the value of your new fourplex and determine the value of your mortgage.

How does this make money?

If the rent you collect is greater than your mortgage and operating expenses, your fourplex now has a positive cash flow.



A DESIGN FOR A FOURPLEX. DRAWING BY BROWN DESIGN STUDIO, RENDERING BY KRONBERG WALL ARCHITECTS.



COTTAGE COURT (LEFT) AND 4-PLEX (RIGHT). NOTE THAT BOTH EXAMPLES ARE 1-4 UNIT PROJECTS THAT MEET THE REQUIREMENTS FOR AN FHA-BACKED MORTGAGE. EACH IS "A HOUSE" IN MORTGAGE TERMS.
FIGURE COURTESY OF ANDERSON | KIM ARCHITECTS

5) ONE STORY COMMERCIAL BUILDING REHAB

Identify an undervalued commercial space and a tenant. If you are an investor-owner of the commercial space, it's best to have a tenant in mind before buying. You'll need to buy it with cash or get a construction loan to do improvements (value determined by the viability of your tenant, typically 3-5 year personally guaranteed construction loan).

If you are a business owner who will occupy some or all of this building and you have a couple years of operating history, you can get a Small Business Administration 7A (SBA 7A) loan to buy or build the building with a minimum 10% down payment. You must have a credible business plan that demonstrates that within 5 years, you will use at least 51% of the floorspace for your business to qualify.

How does this make money?

Once you own the space, create more value than you paid for by filling it with a great business (or multiple businesses). If your building and tenants act as good neighbors, it can encourage others to follow suit. The services provided by the tenants are an amenity for the neighborhood, which creates more value in your property. Additionally, if you own adjacent property, you could be increasing the value of the surrounding area (i.e. your buildings).

6) 1-3 UNIT FIXER UPPER

First, be a handy-person or have a network of handy-people that will offer high quality work for low rates or barter.

Find a vastly undervalued building that requires some major gutting and overhaul.

Go get a FHA 203(k) Purchase/Rehab mortgage (which allows you to take out more than the price of the house to cover anticipated reno costs). If you intend to be an owner-occupier, you need a minimum 3.5% down payment. Or, you can get a construction loan*** (as in the Build New Fourplex section) and replace it with a mortgage later.

Then spend the rest of your waking hours bringing this property up to rentable quality as soon as possible.

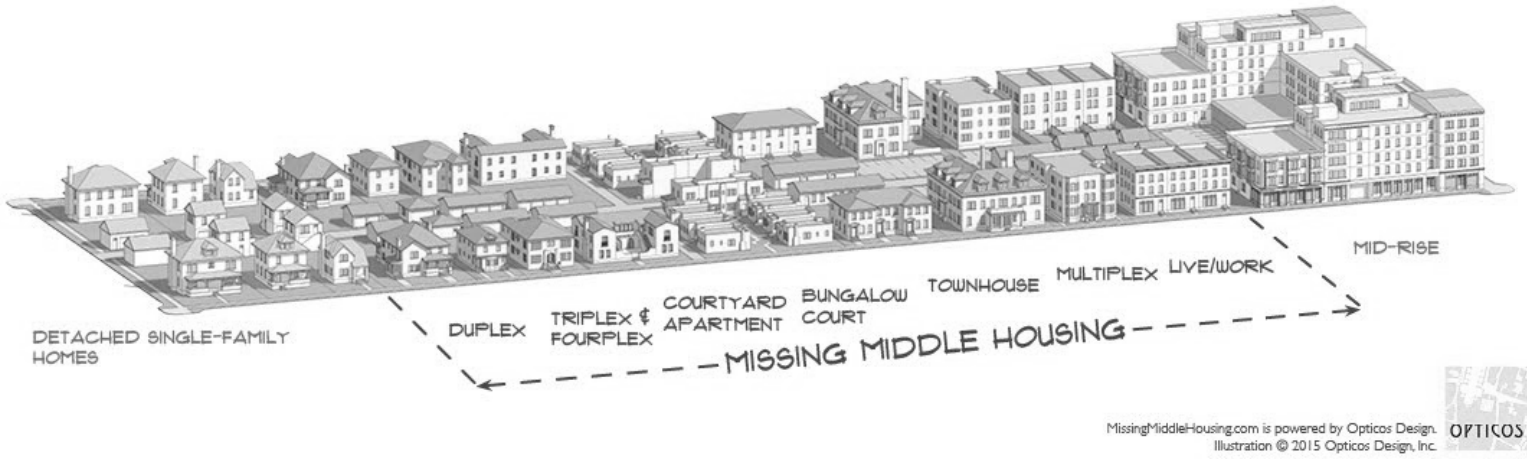
How does this make money?

If you can manage to pay less in buying and fixing this building than you can collect in rent, you will have a building with positive cash flow. There is also the option to “fix & flip” where you resell the property once it’s in good condition. We highly recommend a “buy & hold” approach instead where you keep the building and rent it out, earning money slowly over the long run.

- -

Whenever possible, we recommend living in the neighborhood or building which you are developing. The insights and relationships gained by living on site are invaluable. All of these options are time-tested ways that people like you have created value in their neighborhoods and opportunities for more people to live, do business, and give back locally.

BUILDING TYPES



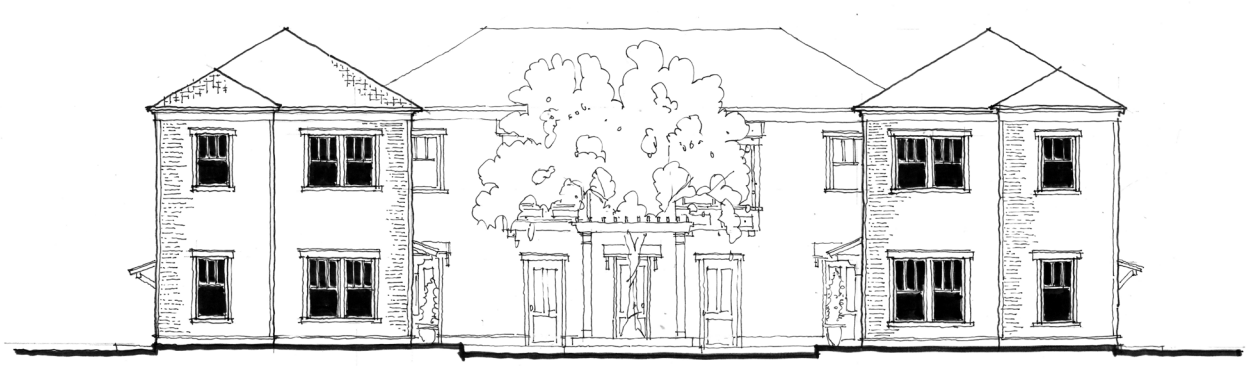
Missing Middle is a range of multi-unit or clustered housing types compatible in scale with single-family homes that help meet the growing demand for walkable urban living.

OPTICOS DESIGN

Our favourite adaptable buildings for small developers are the "Missing Middle," a term coined by Opticos Design for many cherished and hardworking buildings that fill traditional neighborhoods. They are the **Middle** because they span the gap between single-family houses and large apartment buildings. And they have become **Missing** because old buildings - duplexes, triplexes, six-plexes, etc. - that retire are not often replaced with new developments of the same nature. The entire real estate development system has been so focused on producing single-family detached homes at high efficiency that many other useful and beloved building types were effectively sidelined from the development market.

Time has proven how important and practical these buildings are in stitching a neighborhood together through thick and thin, generation after generation. Missing Middle buildings strengthen local economies. They are to real estate development what the small business is to commerce. People value having these buildings around and regular people can find the resources to build them.

Missing Middle buildings are perfect tools for adapting neighborhoods on a lot-by-lot basis. These buildings are well suited to the kind of infill lots available in most urban areas and they help add units without substantially changing the feel or scale of the street.



PRO-TIPS FOR BUILDING DESIGN

NOTES:

STICK TO THESE THREE PRINCIPLES

- **Flexibility:** Can accommodate a range of tenants/tenancies.
- **Repeatability:** Can be used on multiple parcels in different arrangements/configurations.
- **Cost Effectiveness:** Can be built within an average range of construction costs. “If you can’t get the rent, you can’t build the building.”

RULES OF THUMB FOR BUILDING DESIGN

Building - Overall

- Build in rectangles
- Dimensional layout should be in 2’ increments
- Avoid balconies
- Through units vs. back-to-back
- Minimum 9’ between floor plates

Building - Units

- Standardized unit configuration
- Standardized bathrooms and kitchens
- Quality doors and windows, minimize number of sizes
- Surface mounted light fixtures
- Durable and solid hardware and fixtures

Regulations to be aware of

- Requirements for fire sprinklers
- Requirements for exiting single stair walk-ups (International Building Code Section 1021 - Number of Exits)
- Requirements for accessibility (Fair Housing Act)
- Requirements for sound insulation between units

Site Planning

- Put your best face toward the street
- Locate parking behind building when possible
- Be aware of utilities - where do you connect to the main?

The better you know building regulations, the better you can work creatively within them.

IN PRAISE OF THE EXISTING BUILDING CODE

SEPTEMBER 24, 2014 - BY ERIC BETHANY OF KRONBERG WALL ARCHITECTS

http://kronbergwall.com/in-praise-of-the-existing-building-code/

We are very big fans of the International Existing Building Code. This is a very special code that allows for flexibility in renovating and reusing existing buildings. One major challenge with any new code is that existing buildings often don't meet new requirements. Retrofitting existing buildings to meet these new requirements is generally a more expensive process than constructing a new building. The unfortunate outcome of this process is that useful existing buildings are frequently left fallow and blighted because it is not worth the brain damage and added cost to bring the building up to current codes. Think about that for a minute: these are buildings (often historic) with tremendous intrinsic value that have been standing and functioning for over a hundred years, but are technically unusable according to current building codes.

This is where the existing building code comes in. It provides a lot more flexibility for a code official and building owner or architect to negotiate alternate ways to make things work. It also spells out how much compliance you have to achieve based upon how much work you are doing; for example, repairs require less compliance than alterations. There is also a handy chart that allows for flexibility with change of use. The table categorizes IBC occupancy classifications by "relative hazard": if you stay within your relative hazard level, you don't trigger additional requirements. This means that in many cases it is possible to change use without incurring prohibitive costs due to new code requirements.

The secret sauce to using this code is the historic building designation. If you can get your building into this special class, it provides much more flexibility to come up with equivalent compliance options, meaning that you may only be required to spend some quality time with the Fire Marshal and Building Official to ensure you meet NFPA 101 (Life Safety) requirements. While we support safe buildings, we also support coordinated, creative ways to do this in conjunction with the Fire Marshal. We have gotten buildings certified as Historic in New Orleans several times with the sole purpose of using the designation as a negotiation tool with local code officials to reduce upgrade requirements or provide creative equivalents and put great old buildings back into productive use. In our experience, local officials have usually said, "We're happy if the Fire Marshal is happy."

One further important point: the current International Building code (since the 2009 version), has required fire sprinklers for all multifamily buildings. This means anything from a triplex on up, or anything in a mixed use building counts as multifamily. For multifamily, there is the option to provide a NFPA 13R sprinkler system instead of a full 13 system. This is a big deal. A full 13 system requires a dedicated water line from the street with new tap and fee, new sprinkler riser, and all the valves and gauges before you even start running galvanized sprinkler pipe and heads. In Atlanta, the tap, fee, line to the building, and riser often price out at $60,000-$70,000 before you start running sprinkler heads. That's a lot of money. On the other hand, a 13R system is usually allowed to tap into the existing domestic water system without requiring all the separate infrastructure described above. It can also be run with PVC instead of hard pipe, further reducing cost.

One area of ambiguity in current building codes (IBC) comes up when you are dealing with a mixed use building, say a small amount of retail or office on the ground floor and two apartments

above. According to the code, the apartments have to be sprinklered, but the code isn't exactly clear as to whether the commercial space then needs to be sprinklered as well. Technically you aren't allowed to use a 13R sprinkler system for commercial use. So, if you are trying to renovate an old building to this type of use, there is a possibility a code official will require a full sprinkler system for the commercial space due to the residential requirements. The cost to bring a full 13 sprinkler system to the building is basically the same whether you have two units or two hundred. This is a cost that will quickly kill a renovation project, and it is a big road block to small scale, incremental redevelopment.

Enter the existing building code! This code provides a pathway to either completely avoid the need for sprinkler all together, or simply limit the amount of sprinklers with a 13R system to handle the multifamily portion of the project. As discussed above, the limits of reduction of requirements tie to the degree of alteration, and whether you are historic or not.

We constantly find that local government officials are completely unaware of the importance of the existing building code as a critical tool for redevelopment and reuse of portions of their town, often the cherished buildings along Main Street. In Georgia, the State Department of Community Affairs determines the required building codes. They have set a list of required codes, as well as a secondary list of optional codes. The Existing Building Code is in this optional list, meaning that your jurisdiction has to opt in to use this code. More and more, we are getting proactive in engaging with local leaders to lay out the importance of opting in to use this code. We see it as an under-appreciated and critical tool for enabling the revitalization of older buildings that provides a more meaningful and engaging alternative to shiny and new suburbanity. Whether in Georgia or elsewhere, we highly encourage you to see if your local town uses this code. If not, start pushing them to use it.

HOW TO BUILD A 3 STORY BUILDING WITHOUT AN ELEVATOR

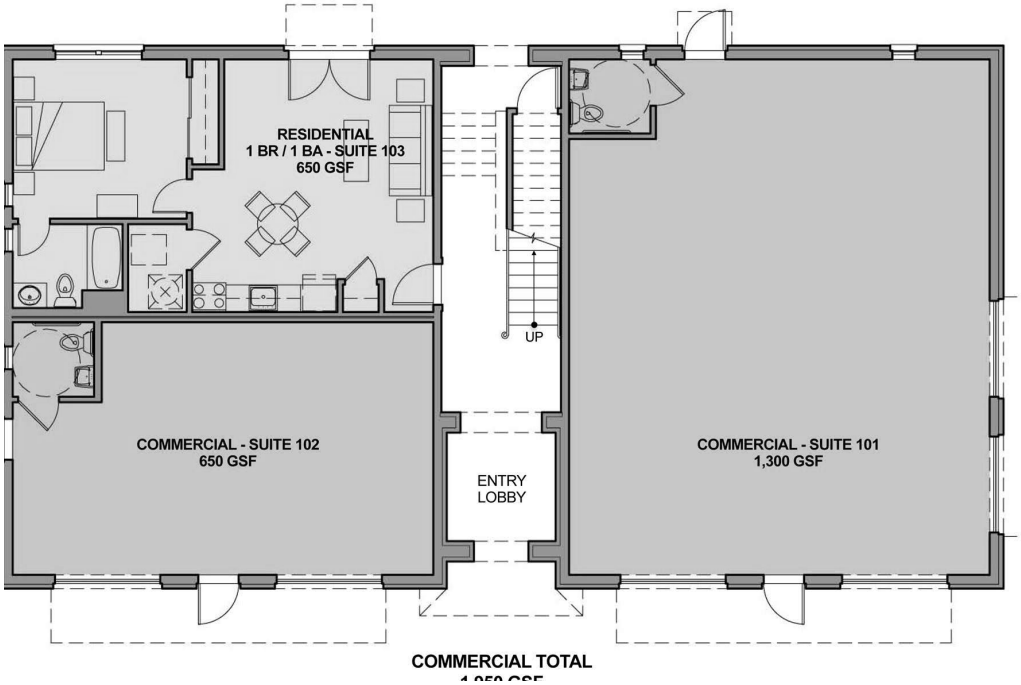
MAY 11, 2015 - WRITTEN BY R. JOHN ANDERSON, CODE RESEARCH AND DESIGN BY DAVID KIM

These thresholds fit a three story apartment building or mixed use building into the fire/life safety requirements of the International Building Code (IBC) and the accessibility requirements of the Fair Housing Act.

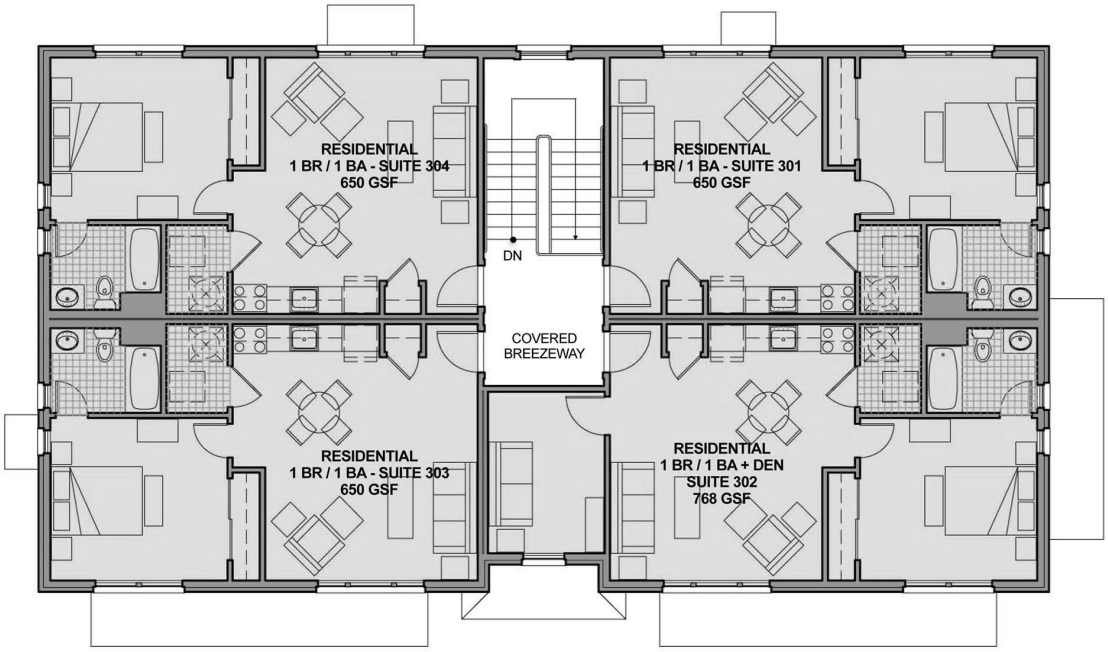
1. All ground floor units are accessible/adaptable (minimum one unit).
2. TYPE V wood frame construction with fire sprinklers.
3. When built with a single stair, upper stories are limited to four units each. (more than 4 units on a floor and two stair will be required separated by a rated corridor at least 1/2 the diagonal of the building floor plate in length –1/3 for buildings with fire sprinklers.)
4. 2nd floor units are limited in size to 125' max. exiting distance from the furthest point inside the unit to the entry door.
5. 3rd floor units are limited in size to 125' max. exiting distance from the furthest point inside the unit to the entry door. (3rd floor units can be two story units with internal stairs as long as the max. exiting distance of 125' is observed).

A comment from Will Dowdy:

This is a good summary. It's probably worth being explicit about that ground floor unit. If you don't have a unit on the ground floor, the requirement for accessibility is shifted to the second floor of the building, which means that you're stuck with an elevator. BIG problem. This design is an elegant solution.



GROUND FLOOR WITH ONE ACCESSIBLE UNIT TO TAKE CARE OF THE FAIR HOUSING ACT REQUIREMENT FOR ALL THE GROUND FLOOR UNITS TO BE ACCESSIBLE.



UPPER STORY PLAN

BACK-OF-THE-ENVELOPE CALCULATIONS

Before you buy or build a property, you'll want to map out all the expected income and expenditure on paper. A pro-forma is the most thorough way to do this. However when you are in the early stages of mapping out a project, you may consider some faster, lighter rules of thumb. None of these are bulletproof and we'd recommend you play around with all of them. Depending on your own goals for development and housing situation (i.e. will you be living in this building), you may be ok with a smaller or slower return than an investor would seek.

Estimating Your Income

The fastest way to estimate your rental income is to check out comparable buildings/units - you'll hear these called "comps" - on a rental listings website like Zillow or Craigslist. If you are buying an existing rental building, you should be able to ask what units already rent for.

Estimating Your Expenses

Estimating operating expenses (recurring costs that are not your mortgage) is far more difficult. Some people peg these at 50% of their rental income to make things simple. This figure is so variable and context dependent that it's impossible to deliver a reliable number. Be prepared for major expenses like deferred maintenance, real estate taxes, sewer and water, light bulbs, waste removal, landscaping, snow removal, and cash reserves for repairs. If you are living on site and acting as the property manager, you could reasonably expect to encounter lower costs but you should still set up a maintenance budget so that the building can cash flow if you leave town. It's more dangerous to underestimate expenses than overestimate, so it would be wise to expect at least 30% of your rental income to be eaten up by expenses.

THE RULE OF 100 (THE 1% RULE)

This old real estate rule of thumb dictates that you need to get at least $1 in rent for every $100 in cost. In other words, your rental income for the property needs to amount to at least 1% of what you pay for it. A $400,000 building needs to bring in $4000/month in rent.

CASH ON CASH RETURN

This method is a more complicated calculation, but a simple figure to understand and compare. Cash-on-cash return is based on the idea that your cash investment in real estate should give you returns greater than what you would earn in an alternative investment like stocks and bonds. Critically, (unlike the Cap Rate rule below) it does not assume that you will be buying property with cash and therefore incorporates mortgage payments into the calculation. Consider the following, adapted from Leonard Baron's explanation on the Zillow.com blog.

Let's say you find a triplex that costs $270,000 in a great neighborhood. You check the area rents on Craigslist and believe this building could easily rent for a total of $2000/month. You put in $60,000 up front for a down payment, closing costs, and minor renovations.

Since you plan on living in the building, you peg operating expenses on the low end of the spectrum at 33%, or $660/month. This leaves you with a monthly Net Operating Income (NOI) of $1349. After mortgage payments, that's $208/month in your pocket, or $2496 annually.

Your annual income ($2496) divided by your up front cash ($60,000) yields you a 4.16% cash-on-cash return. Since that's lower than what you could expect to earn in something like stocks and bonds, a typical investor may not see this as a good deal. Of course, the rate of return you may personally seek depends on your goals and situation. As a personal residence, this building would put you far further ahead than a home that does not generate revenue because it cash flows over $200/month. Also, you may be able to write off home expenses and depreciation from your taxes which would increase the return.

Rents Monthly - Market	$2000
Operating Expenses (33%)	-$660
Net Operating Income	**$1340**
Mortgage Payment	-$1132
Net Monthly Income	$208
Annual Income	**$2496**
Equity Cash	$60,000
Cash on Cash Return	**4.16%**

CAPITALIZATION RATE

The Capitalization Rate, or Cap Rate, is a measure of how much you'd earn on a property if you were to buy it in cash. It's a simple calculation of your Net Operating Income (NOI) divided by the total cost of the property. For example, imagine buying a building in cash for $110,000 and renting it out for $1000/month, or $12,000/year. Subtract from that your expenses like taxes, insurance, maintenance, and vacancy, let's say $450/month, or $5400, annually. You are left with a Net Operating Income of $6600/year. When you divide your NOI by the building cost ($6600/$110,000) you end up with 0.06. That is a "cap rate" of 6%.

There is no hard and fast rule for what makes a "good cap rate." You or your real estate investment partners will weight it against comparable projects in your regional market as well as returns available from non-real-estate investments.

Note: You may find a more useful term to be "Return on Estimated Project Cost." This is the same calculation as a Cap Rate but it incorporates the risk involved in using hypothetical figures. That is, if you have no proven rent or construction figures, you would want to use the term "Return on Estimated Project Cost" instead of Cap Rate.

Rents Monthly - Market	$1000
Operating Expenses (33%)	-$450
Net Operating Income (Monthly)	**$550**
Net Operating Income (Annually)	**$6600**
Building Cost	$110,000
Cap Rate	**6.00%**

DEBT SERVICE COVERAGE RATIO (DSCR)

The Debt Service Coverage Ratio looks at how much money your property nets vs. how much debt is owed, such as through mortgage payments. Ideally, you'd like to be cash flowing quite a lot more money than you need to pay out in debt service so that you've got wiggle room in case of unexpected expenses. If your rental income minus expenses, again your Net Operating Income, is the same as your mortgage payment, the ratio of income to debt is one to one (or a DSCR of 1.00). That's not good. Anyone lending you money will want to see that you have at least 25% more net income coming in than you pay in debt, a DSCR of 1.25. Although, lenders do have some flexibility on this number. In the case of a mortgage on a personal residence, lenders will factor all of your income/debts into the calculation, not just the building's cash flow. This is called a Personal Debt-to-Income Ratio (DTI) and it's a helpful tool in the interest of personal financial security, as you do not want to over-commit. A DTI of under 20% will be seen favorably by lenders, while under 36% is considered acceptable.[1]

1 FIGURES FROM ZILLOW.COM WHERE YOU CAN CALCULATE YOUR OWN DTI: HTTPS://WWW.ZILLOW.COM/MORTGAGE-CALCULATOR/DEBT-TO-INCOME-CALCULATOR/

You'll notice that all of these revolve around the idea of positive cash flow; that is, the money you earn each year on the property is greater than the money you spend. These rules of thumb do not rely on a property appreciating in value and do not depend on you selling the building in order to earn money. We believe this is the wisest and most humane approach to real estate investing - buildings that actually create value, not just profit off of the value of a rising neighborhood or real estate market. If your project does not cash flow, it is a liability, not an asset.

Monthly Mortgage Payment	$1000
Monthly Net Operating Income	$1250
Debt Service Coverage Ratio	**1.25**

All personal debts (monthly)	$1400
All personal income (monthly)	$5000
Personal Debt-to-Income Ratio	**28%**

INTRODUCTION TO THE PRO FORMA

INCOME

	UNIT TYPE	QUANT	RENT / UNIT	SF / UNIT	RENT / SF	TOTAL SF	TOTAL MONTHLY RENT
1							
2							
3							
4	Common Area						
5	Total						

	DESCRIPTION	CALCULATION	TERM	AMOUNT
6	Add up monthly rents x12 to calculate annual **Gross Potential Income** (GPI)	Sum ✖ 12	**GPI**	
7	Calculate **Vacancy Factor** (assume 5% of GPI) to account for unrented time between tenants.	GPI ✖ 0.05	**Vacancy Factor**	
8	Calculate **Operating Expenses (OpEx)**: Insurance, property taxes, property management, repairs, water, sewer, trash, etc. (assume 25% of GPI)	GPI ✖ 0.25	**OpEx**	
9	Subtract *Vacancy* and *OpEx* to calculate **Net Operating Income**	GPI - Vacancy - OpEx	**NOI**	

PROJECT COST

	COST CATEGORY	COST / BUILDING SF	QUANTITY	TOTAL
10	**Land Cost** *or* **Land + Existing Building Cost**			
11	**Hard Costs** (Use Total SF from Line 5)		SF	
12	**Soft Costs** (Use Total SF from Line 5)		SF	
13		**Total Project Cost**		

FINANCING

	DESCRIPTION	CALCULATION	TERM	AMOUNT
14	**Equity** may be a down payment in cash, land, or deferred fees.	25% of Project Cost	**Equity**	
15	Your **Loan Amount** is the *Total Project Cost* less the *Equity*.	Project Cost - Equity	**Loan Amount**	
16	Use an online mortgage calculator or loan calc app to determine **Monthly Debt Service** payments (5% interest, 25yr term).	Use bit.ly/incdevcalc	**Monthly Debt Service**	
17	Multiply *Monthly Debt Service* by 12 to produce your **Annual Debt Service**.	✖12	**Annual Debt Service**	
18	Your **Debt Service Coverage Ratio** (DSCR) shows how much breathing room there is in your cash flow to cover your debts. Most banks will expect a DSCR of at least 1.25.	NOI ➗ Annual Debt Service	**DSCR**	

IS IT WORTH IT?

	Description	Calculation	Term	Amount
19	Assuming you have no leverage (you don't need to borrow money), calculate your **Estimated Return on Project Cost,** your *Net Operating Income* divided by *Project Cost.*	NOI ÷ Project Cost	**Estimated Return on Project Cost**	
20	*If you are purchasing a building with proven income and expenses, this same calculation yields your **Capitalization Rate** or **Cap Rate**, aka **Unleveraged Return**. This rate is often used by professional real estate investors and should compensate for the risk involved in a project. If you have a mortgage or a loan and must account for the cost of debt, a Cash-on-Cash Return is a better measure.*			
21	Your **Net Annual Income** is your cash flow *after* debt service.	NOI - Annual Debt Service	**Net Annual Income**	
22	Your **Cash-on-Cash Return** reflects the rate you earn on your equity invested in the project.	Net Annual Income ÷ Equity	**Cash-on-Cash**	
23	*Considering other ways you could invest that equity, is this project a good option? Does it provide a competitive return or other benefits that are meaningful to you?*			

DEPRECIATION EXPENSES

24	*You can deduct building depreciation as an expense over the "useful life" of your rental property (which the IRS deems 27.5 years for residential buildings). In order to do this you must separate the cost of land from the cost of your building (i.e. improvements to the land), and depreciate that over the 27.5 year Recovery Period. By deducting your Annual Depreciation Expense from your income, you might save the tax on that portion of your income. Consult your tax advisor for more information.*			
25	First, multiply the *Project Cost* by .75 as a rough estimate of the **value of improvements to the land** for the basis of your depreciation expense.	Project Cost ✖ 0.75	**Estimated Value of Improvements**	
26	Divide the *Value of Improvments* by the *Recovery Period* of 27.5 years to determine the **Annual Depreciation Expense.**	Building Value ÷ 27.5	**Annual Depreciation Expense**	

VALUE-PER-ACRE

27	Calculate your **acreage.** There are 43,560 SF in an acre.	Lot area in SF ÷ 43,560	**Acreage**	
28	Using your *Project Cost* as a rough estimate of the taxable value your project provides to the city, calculate your **Value-Per-Acre.**	Project Cost ÷ Acreage	**Value-Per-Acre**	
29	What does that look like in real life? How many of these buildings would fit in an acre?	1 ÷ Acreage	**Lots-Per-Acre**	

There are many ways to make and use a Pro Forma. Create one that works for you.

Parallel Pro Forma

Items in Blue/Bold are fields to enter values for, remainder of cells calculate automatically

BASIC BUILDING INFO - New Construction, Mixed Use				OPTION 1	OPTION 2
Program of Use				Office	Office/Residential
Gross Bldg SF				2,500	5,000
Building Efficiency				1	1
Number of Levels				1	2
Proposed Height				14'	25'
Number of Residential Units	1250	sf/rent	$1,350	-	2
Number of Commercial Units	1250	sf/rent	$1,750	2	2
Number of Parking Spaces Required				8	12
INCOME					
Monthly Projected Rents - Residential*				$0	$2,700
Monthly Projected Rents - Commercial*				$3,500	$3,500
Gross Potential Income				$42,000	$74,400
Less Vacancy**			5%	-$2,100	-$3,720
Annual Taxes				-$9,425	-$17,400
Special Assessments				$0	$0
Operating Expenses			20%	-$8,400	-$14,880
Net Operating Income (NOI)***				$22,075	$38,400

*Research Area Rents and talk to local brokers or building owners to determine appropriate rental rates.

**You need to account for some vacancy or turnover. Use a vacancy rate that is currently and historically found in the market

***Net Operating Income (NOI) is the Cash flow after Expenses. It is used to determine the value of an asset.

COSTS			
Projected Hard Costs Per Square Foot	$100	$200,000	$433,750
Sitework Per Square Foot	$50	$26,250	$26,250
Projected Soft Costs	15%	$48,750	$90,000
Land Costs		$50,000	$50,000
Total Costs		$325,000	$600,000
Total Cost per Unit		$162,500	$150,000

THIS PARALLEL PRO FORMA EXAMPLE (CONTINUED ON THE NEXT PAGE) SHOWS HOW YOU CAN COMPARE THE POTENTIAL OF DIFFERENT PROPERTIES OR DIFFERENT PROJECTS ON THE SAME SITE, **NUMBERS FROM 111 EAST DAVIS BY MONTE ANDERSON**

Parallel Pro Forma

Items in Blue/Bold are fields to enter values for, remainder of cells calculate automatically

LOAN					
Down Payment			**25%**	$81,250	$150,000
Loan Amount				$243,750	$450,000
Loan Assumptions	Term Years*	Amort Years**	Interest		
	7	**25**	**4.5%**		
Monthly Debt Service				$1,350	$2,492
Total Annual Debt Service				$16,200	$29,904
Cash Flow After Debt Service				$5,875	$8,496
*Debt Service Coverage Ratio (DSCR)**** Formula: NOI / Annual Debt = DSCR				(1.36)	(1.28)

*Term is the length of time to either pay back the loan or refinance or sell.

**Amortization is the number of years over which the loan is paid off in equal installments. It is not the same as the term.

***Debt Service Coverge Ratio is the ratio of cash (or NOI) available to pay Debt Service. Lenders often require a 1.2 or 1.25 DSCR.

BOTTOM LINE VITALS		
*Cash on Cash Return** Formula: Cash Flow / Down Payment = Cash on Cash Return	7.2%	5.7%
Estimated Market Value (From County)	$303,000	$625,000
Value Per Acre	$1,893,641	$3,906,026

*Ratio of Annual Cash Flow to total Investment Required

Rehab or New Office Building

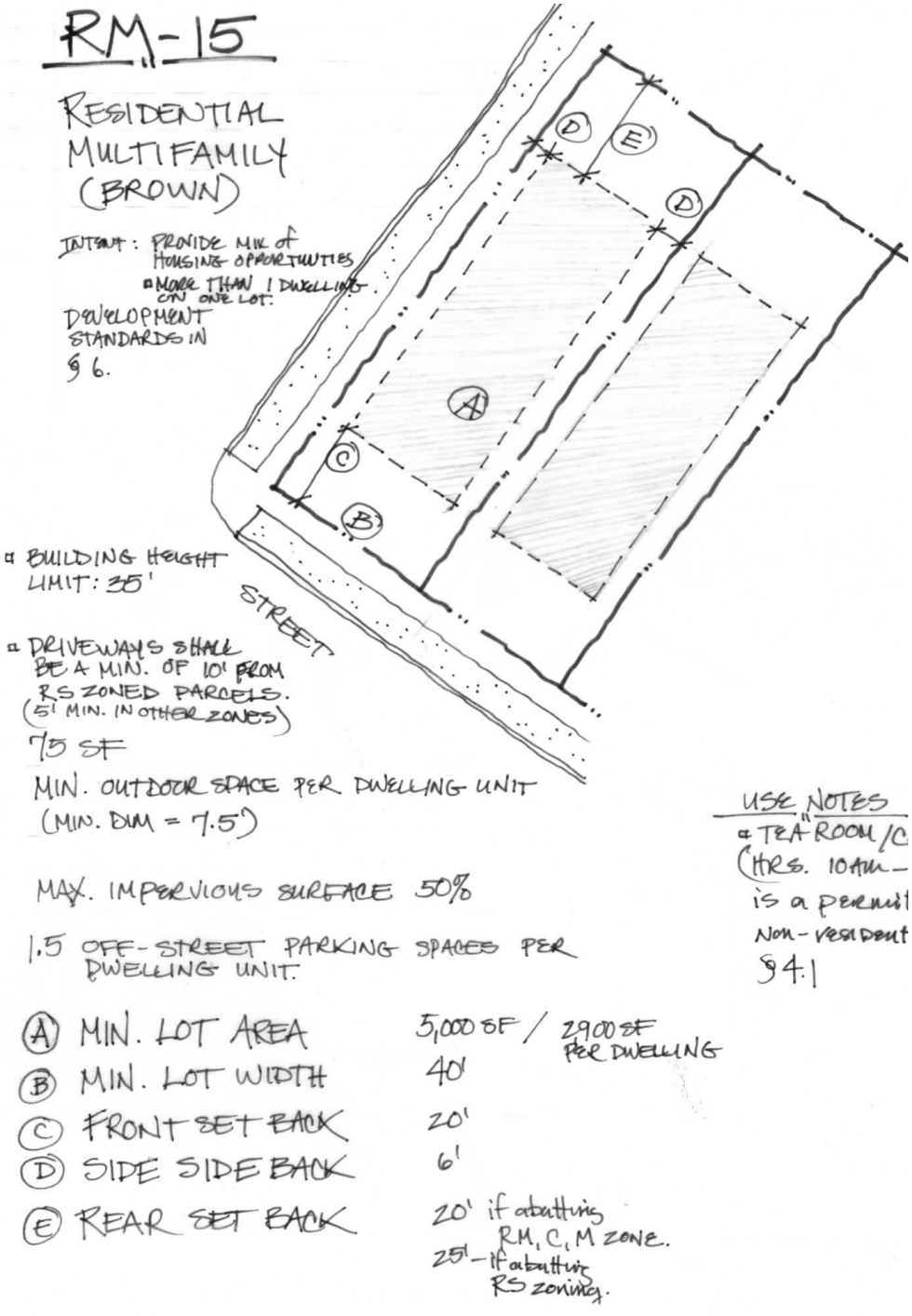

Office/Retail with Second Story Residential

BEFORE AND AFTER SHOTS OF 111 EAST DAVIS IN DUNCANVILLE TEXAS
BY SMALL DEVELOPER MONTE ANDERSON

DOES ZONING MAKE YOUR HEAD HURT?

It's not just you. Your city's zoning code is probably contradictory and nonsensical at times. For example, we ended up discovering that you'd need to buy two lots to be able to build anything in a particular neighborhood because the minimum lot size for new developments was something like 60' but the existing lots are only 40' wide.

To understand why a code seems so contradictory we have to understand its evolution, how a zoning code comes to be. It's not a divine document full of great city-building wisdom so much as an annotated history of bad experiences.



Very rarely does a code prescribe what it **wants** to see in the city. Usually, the code feels more like a string of "thou shalt nots" which reflect specific cases the city is trying to protect **against**, inspired by unpopular prior developments. The code is ostensibly used as a way to prevent overcrowding, or absentee landlords, or perceived parking mayhem, etc.

When the code fails to prevent a bad development (as is apt to happen in the face of human creativity), the only recourse is to add another arcane rule. This has the unfortunate effect of making good development more difficult and expensive as well. We must understand the code for what it is.

Side-note: If you're serious about getting to know your code, you're going to want a paper version in a binder. Ask for it at City Hall.

So how do you make sense of the zoning code?

Sometimes that's sadly an unanswerable question, but here's a great trick to wrap your head around zoning. You draw out all the bits and pieces the code throws at you until you have a sketch of what you're allowed to build. First, figure out which "zone" your site falls into. Then, find all the design parameters that apply to it. They will exist in different sections and contain things like setbacks, lot coverage, parking requirements, specifics on corner lots, height limits, etc. You may have to fish around a while for the clues, but you'll get there eventually.

A PRIMER ON:

ZONING

ZONING IS BASED ON A PLAN

BY EMILY BROWN

At the local level, governments have the responsibility of creating a long-term comprehensive plan for their community, and ensuring that development within the jurisdiction is in alignment with that plan. Local governments are granted these powers by the state, due to two federal acts that were enacted in the 1920's. The Standard State Zoning Enabling Act of 1926 and the Standard City Planning Enabling Act of 1928—together known as the Standard Acts—essentially set up a model to allow cities to enact zoning in alignment with a long-term comprehensive plan. Prior to these acts, municipalities had little control over development.

The mechanism through which local governments enact their power over development is through the comprehensive plan, often referred to as a "comp plan." This is the official statement of a municipal legislative body which sets forth major policies concerning future development. It includes development regulations, which translate the land use designations of the general plan into more specific ordinances, such as zoning, which regulate private market development projects.

These ordinances are then turned into processes, which result in permits given or citations issued by a municipality. Zoning ordinances are the legal structures that guide the enactment of the comp plan; private development that corresponds with zoning can be developed "by-right" or with no further processing than a permit. Development that does not fall within the structures of the comp plan must go through the process of seeking a variance.

Comp Plans and Small Developers

Comprehensive plans are created through a democratic process that aims—although not always effectively—to engage the public. Big picture issues are decided in the planning process, including issues that are very important to small scale developers, such as future parking plans. Small scale developers being involved in the creation of future plans can help create zoning scheme that are more amenable to incremental development.

Comp plans are seen as the genesis of all zoning decisions. All decisions are based on the extent to which a request conforms to the ideas set forth in the comp plan. Although comp plans and zoning ordinances can be stifling for small developers, they must be treated with respect throughout the process. Small developers seeking to change zoning ordinances should present their cases as a way to implement the true nature of the comp plan. Therefore, any arguments for changing zoning must align with ideals set forth in the comp plan, such as access to affordable housing or other idealistic goals that the established plan will not succeed in delivering, unless the zoning is changed.

Any arguments for changing zoning must align with ideals set forth in the comp plan, such as access to affordable housing or other idealistic goals that the established plan will not succeed in delivering, unless the zoning is changed.

Building Classifications

Building occupancy classifications categorize structures based on their usage, such as residential, industrial, etc. Although zoning ordinances are designed to reflect the community's comp plan they are often similar across the United States and Canada due to the wide scale adoption of model building codes. Model building codes are developed by standards organizations such as the International Building Code. Because developing proprietary building codes can be very expensive and taxing, most small municipalities will chose to adapt model building codes, sometimes with slight modifications for a particular jurisdiction. Once these codes are adapted, they are integrated into the zoning ordinance and become the law by which development is regulated.

The International Building Code is the most commonly used building code in the United States, and groups buildings as follows:

- Assembly (Group A) - places used for people gathering for entertainment, worship, and eating or drinking. Examples: churches, restaurants (with 50 or more possible occupants), theaters, and stadiums.Group A is divided into five sub groups:
  - A-1 Buildings intended for the production and viewing of performing arts or motion pictures (theaters, concert halls).
  - A-2 Buildings intended for food and/or drink consumption (restaurants).
  - A-3 Buildings intended for worship, recreation or amusement and other assembly uses not otherwise classified.
  - A-4 Buildings intended for viewing of indoor sporting events and activities with spectator seating (arenas).
  - A-5 Buildings intended for participation in or viewing outdoor activities (stadiums).
- Business (Group B) - places where services are provided (not to be confused with mercantile, below). Examples: banks, insurance agencies, government buildings (including police and fire stations), and doctor's offices.
- Educational (Group E) - schools and day care centers up to the 12th grade.
- Factory (Group F) - places where goods are manufactured or repaired (unless considered "High-Hazard" (below)). Examples: factories and dry cleaners.
- High-Hazard (Group H) - places involving production or storage of very flammable or toxic materials. Includes places handling explosives and/or highly toxic materials (such as fireworks, hydrogen peroxide, and cyanide).
- Institutional (Group I) - places where people are physically unable to leave without assistance. Examples: hospitals, nursing homes, and prisons. In some jurisdictions, Group I may be used to designate Industrial.
- Mercantile (Group M) - places where goods are displayed and sold. Examples: grocery stores, department stores, and gas stations.
- Residential (Group R) - places providing accommodations for overnight stay (excluding Institutional). Examples: houses, apartment buildings, hotels, and motels.
- Storage (Group S) - places where items are stored (unless considered High-Hazard). Examples: warehouses and parking garages.
- Utility and Miscellaneous (Group U) - others. Examples: water towers, barns, towers.

Players in the Zoning Process

There are three entities that weigh in when changes in zoning are proposed. The executive/administrative function is made up of the zoning administrator and the planning commission or zoning board. The zoning administrator is typically a paid position in the municipal government, while the planning commission or zoning board is a group of citizens who are elected or appointed to recommend to the local government the appropriate interpretation of zoning rules. The legislative faction is the city council or other law-making local body, which primarily serves to adopt the zoning code, approve the hiring of the zoning executive, and adopt amendments to the zoning code. The quasi-judicial aspect of the zoning process is mainly held by the appeals board, which hear requests for variances and amendments. The responsibilities of each player in the zoning process are detailed in the chart below.

TABLE 1: DELEGATION OF RESPONSIBILITY

ZONING ADMINISTRATOR	PLANNING COMMISSION	LEGISLATIVE BODY	APPEALS BOARD
Permits	Adopts plan (recommends adopting plan)	Might adopt plan (active in plan adoption)	Hear appeal of zoning administrator decision
Receive applications for special use, PUD, site plans and checks for completeness	Acts on special use, PUD permits (usually)	Appoints members of planning commission, appeals board, may hire zoning administrator	Hear appeal on special use, PUD, only if zoning says
Enforcement	Conduct hearing and make recommendation on zoning amendments	Adopt zoning amendments (might hold additional hearing)	Hear appeal on interpretation of zoning ordinance
Collect fees		Sets fees	Hear requests for variances

Permits

If a project aligns with the zoning code, then all that is needed is to apply for a permit through the zoning administrator. A building permit is one example of this type of zoning interaction. Note that if a project is outside of city limits, or in a special use zone, it may need to be approved by a county or regional entity in order to be permitted.

Special Use Permits

When a project is different than the by-right uses, but still allowed within that zoning, then a special use permit must be sought. These special uses are listed in the zoning code as acceptable, although not the main use of the zoning area. For example, an existing church in a residentially zoned neighborhood would need to seek a special use permit in order to build another building on their property. Religious uses are allowed in residential zones, but a special use permit is required because that is not the primary use purpose of the zone. Zoning commissions review special use permits to ensure that the use will not disrupt the zoning scheme.

While special uses are listed in each zoning area, it is also stated (or implied) that a special use must also follow standards found in the other three locations. The three other places where these standards must be found are:

- In the Article on the respective zoning district, including setbacks (front, rear, side, and waterfront), parcel size, parcel width, building size.
- In the Article on General Provisions, which are regulations that apply everywhere, including parking, screening, groundwater protection and lots more
- Sometimes there will also be specific standards for a specific type of Special Use such as mining, mobile home parks, heavy industry and more

The Special Use Permit Application must cite the standards that are found in these four different places. It is submitted to zoning administrator, then goes to zoning board. If all standards are met, then zoning board must approve.

Amendments

If the applicant seeks to change the standards, then they are not seeking a special use permit, but instead, an amendment. While permits and special use permits are administrative, amendments are a legislative action, which means that the city council or other local legislative body are involved.

Since zoning is based on a plan, an amendment to zoning must also follow the plan. Generally, there are two types: 1. Changing the zoning distribution boundary on the zoning map, or 2. Changing the text of the zoning ordinance. Either type has a much larger impact than just the project that it will allow; amendments to zoning change the comprehensive plan and the type of development that can happen in a zone for the foreseeable future. Thus, it has a much larger impact, which is why the legislative faction is involved.

To make an amendment, the petitioner will review the proposed amendment against the plan and prepare a submission for the hearing. It should highlight how this change will allow for the fulfillment of the comprehensive plan. That petitioner will then go before the planning commission first, which will then make a recommendation to the city council or other local legislative body. The legislative body can: adopt proposed amendment as recommended, hold additional hearings, where submitter is expected to attend and follow up, or return to the planning commission for further study.

Variances

Variances are for specific cases, and are the realm of the zoning appeals board. The appeals board has four responsibilities:

- Interpretation of the zoning ordinances
- Interpretation of the zoning map
- Issuance of dimensional/ regulation variances
- Issuance of use variances

It is in the interest of the zoning appeals board not to grant very many variances, as they do not want to set a precedent for changing the zoning code.

The first two types of variances occur when a party is asking the appeals board to double-check a decision of the zoning administrator. For example, this occurs when the permit applicant, the zoning administrator or the planning commission interprests the ordinance or zoning map in different ways.

Regulation variances are exceoptions to regulations for a given use in a zoning ordinance, such as lot size, yard setbacks, building height, building size, and parking requirements. They are most likely to be waived when a “practical difficulty” exists, such as, for example, if a parcel is large enough for use, but a minimum sized house would not fit between

the property setback and the setback from an existing water feature.

Questions that may be asked regarding a regulation variance will not be easy to answer. It is in the interest of the zoning appeals board not to grant very many variances, as they do not want to set a precedent for changing the zoning code. They include:

- Will strict compliance with the dimensional requirements of the zoning ordinance prevent the applicant from using the property for the permitted purpose?
- Will granting the variance be fair to the applicant or would a lesser variance work just as well?
- Is the need for the variance due to a situation that is unique to the property and would not generally be found elsewhere in the same zoning district?
- If granted, will the variance uphold the spirit and intent of the ordinance and be fair to neighboring properties?
- Has the need for the variance been created by some action of the applicant?

Use Variance

A use variance is sought when a property owner wishes to use his or her property for a function that is not a permitted use or a special use for the district. Generally, these are very difficult to obtain; the person seeking the use must show that an "unnecessary hardship" exists. They must show that their situation aligns with one of the following principles:

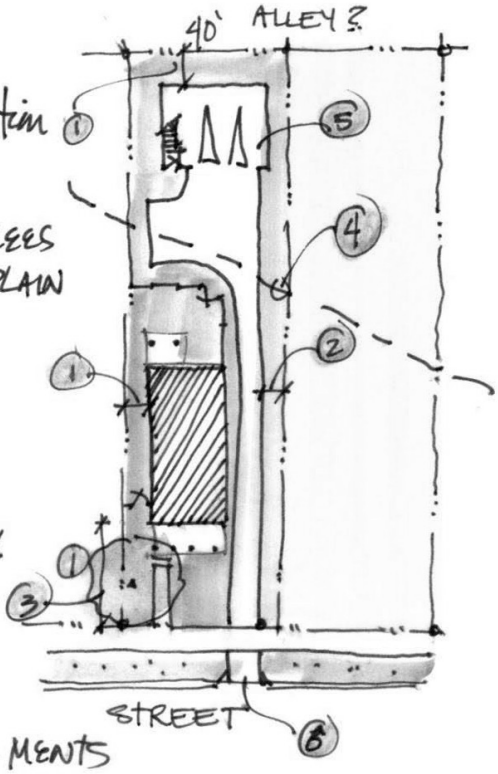
- The property owner must show credible proof his property will not yield a reasonable return if used only for a purpose allowed by the ordinace.
- The property owner must show the zoning ordinance gives rise to hardship amounting to confiscation or the disadvantage must be so great as to deprive the owner of all reasonable use of the property.
- The need for the variance is not created by some action of the applicant.
- The need for the variance is due to a situation that is unique to the property and would not generally be found elsewhere in the same zoning districut.

- http://lu.msue.msu.edu/pamphlet/Bcit/How%20to%20Influance%20Zoning.pdf
- https://en.wikipedia.org/wiki/Building_occupancy_classifications
- http://lu.msue.msu.edu/pamphlet/Bcit/How%20to%20Influance%20Zoning.pdf
- http://lu.msue.msu.edu/pamphlet/Bcit/Public%20Influance%20over%20Zoning.pdf

ZONING CHECKLIST

There are some common zoning parameters that apply to developments in most cities. Read through your local zoning code to find details on the following stipulations that might affect your lot.

- LEGAL DESCRIPTION + PLAT = STARTING POINT FOR FIGURING OUT LOT CONFIGURATION and possible EASEMENTS
- SURVEY LOCATES BUILDINGS, TREES UTILITIES, EASEMENTS, FLOOD PLAIN



ZONING

CHECK ALLOWED USES:
Detached SF House, Duplex, Triplex
FOURPLEX, ACCESSORY UNITS?
- ALLOWED NON-RESIDENTIAL USES.

(1) - SETBACKS & ENCROACHMENTS FRONT, SIDES, REAR

(2) - DRIVEWAY SET BACKS FROM SIDE PROP. LINE

(3) - TREE PRESERVATION REQUIREMENTS

(4) FEMA FLOOD INSURANCE ZONE(S)

(5) REQUIRED OFF-STREET PARKING (# + Config.)

(6) DRIVEWAY APRON REQUIREMENTS (WIDTH & CONSTRUCTION)

(7) % of Lot COVERAGE

(8) BUILDING HEIGHT & (HOW IT IS Measured.)

JUNE 2015 RJA

CULTIVATING A NEIGHBORHOOD

THROUGH BUILDING TO SELL...

We need owner-occupied entrepreneurs instead of real estate developers. [...] Owner-occupied entrepreneurs are the key to planning a neighborhood because they become the neighborhood guard. They're invested, and they care.

MONTE ANDERSON IN ADVOCATE MAGAZINE

Developer Monte Anderson partners with local entrepreneurs to help them anchor neighborhoods and distribute the supply of rental property among many owners. He's got someone in mind with every project and loves to sell his buildings to a local who can in turn rent out space.

A LIVE-WORK DEVELOPMENT MONTE BUILT AND SOLD TO A LOCAL PHOTOGRAPHER. ON THE LEFT, YOU'LL SEE THE "LIVE" HOME AND ON THE RIGHT, THE "WORK" STUDIO.

...OR BEING A LANDLORD

BY GRACEN JOHNSON, ORIGINALLY SHARED ON THE STRONG TOWNS BLOG

City Farming

We envision a world with a lot more landlords. Here's why we think that's such a good thing.

We use the notion of farming a lot - cultivating a neighborhood, so to speak. It's especially helpful when you consider the movements of small scale city-farmers and food-farmers to be moving in tandem.

The conventional development industry has spent decades specializing and chasing economies of scale. It can efficiently mass-produce housing at a relatively low cost per unit (with the help of millions of dollars upfront). It is industrialized farming. We get a lot of cheap "food," but at a great cost to wellness and society. The inputs (oil, water, fertilizer, land etc.) to keep this ship afloat are unsustainable. In the biggest, baddest of the bunch, the profits of industrialized farming funnel up to conglomerates, impoverishing the people who actually work the fields.

At the other end of the spectrum, small scale developers are not bound to economies of scale. They live in an economy of means, relying on relationships, resourcefulness, and adaptability to keep their overhead low. They are the local, ecological farmer and they need to be smart and attentive or they will not succeed. This farmer has no ambitions to quadruple the size of their farm - they couldn't manage it all. Instead, they try to create the most life out of the land they've got, without becoming reliant on unsustainable inputs. They love and care for their land and benefit from more neighbors who do the same. It attracts the bees and butterflies. And when the food goes to market, the profits are more fairly and widely distributed. Much of it gets re-spent locally.

The moral of the story is that if we want safe food and housing that are grown with care, in fair conditions, we need way more people on the production side of the equation.

The thing is, you need A LOT of small scale farmers in order to produce enough food locally. But it's hard work, and it's at the mercy of the weather, and in the best of times you're making a living, not a killing. Despite all this, there's a growing movement of people that *want* to pursue this small farming thing, they just never learned how.

I could take this already overdrawn analogy so much further, but I'll spare you. The moral of the story is that if we want safe food and housing that are grown with care, in fair conditions, we need way more people on the production side of the equation.

More Landlords

Jane Jacobs famously wrote: "Cities have the capability of providing something for everybody, only because, and only when, they are created by everybody."

She also coined the term "eyes on the street," to describe the good behavior and comfort that derives from knowing there are lots of people around forming natural surveillance.

One of the things I've absorbed hanging around small developer Monte Anderson is the benefit to what I'll call "landlords on the street." In 25 years of small scale development in South Dallas, Monte has brought a lot of housing units to fruition. Interestingly, he likes to sell off his properties while they are still affordable to cornerstone tenants that would otherwise get priced out of a neighborhood.

"The hope is an entrepreneur will come along and own that building and have three rental spaces," he said. "The entrepreneur builds net worth, and the entrepreneur is now a major stakeholder in downtown, which changes the self esteem and everything about that entrepreneur's life. They've got a piece of the action, they're not renting from 'the man.'"[1]

While Monte says he hopes "an entrepreneur will come along," he is not waiting passively for that to happen. For example, he joined community activists to create space for locals to test and grow their business ideas at low cost. The result - a pop-up market - has been a hit, resulting in at least one entrepreneur that is ready to take the next step and move into one of Monte's buildings.

"My approach is to come in and get other small developers and entrepreneurs to come in very early and be a part of the change. These are the people who make it cool, like artists and restaurateurs, and they [usually] end up not owning anything and getting pushed out in the end."

He keeps a few anchor buildings that pay rent, but Monte has the wisdom to understand that his farm is protected and made better when there are more landlords on the street.

"[...] He made a huge mark by helping people buy nearby land when prices were low, sometimes through personal loans or use of his credit rating.

"It's not that I'm a good guy, it's that I'm building a healthy community where everybody is a stakeholder," he said. "When a lot of us own, that's where the culture shifts, that's the 'secret sauce.'"

Landlords on the Street Ratio

Don't be confused here. Rental housing gets a lot of flack for "ruining" neighborhoods, but that's a misconception. Rental housing is great because it enables people of various preferences, circumstances, and life stages to live in the same neighbourhood. We all rent at some point, and often forever. Renters can just as easily have a sense of stewardship for their city as a homeowner might.

Rental housing is great because it enables people of various preferences, circumstances, and life stages to live in the same neighbourhood. We all rent at some point, and often forever.

1 ALL QUOTES ARE FROM A 2014 ARTICLE BY LEAH SHAFER, AVAILABLE AT: HTTP://CANDYSDIRT.COM/2014/12/11/DALLAS-DEVELOPER-MONTE-ANDERSON-NAMED-FIRST-URBAN-PIONEER/

HIGH END, DRIVE-TO GARDEN APARTMENTS

LOW END, WALKABLE MISSING MIDDLE

EVEN AT THE LOW END, MISSING MIDDLE BUILDINGS CAN PROVIDE AFFORDABLE HOUSING AND A PERFECTLY PLEASANT STREETSCAPE. SINCE BUILDINGS ARE DISTRIBUTED AMONG MANY OWNERS AND LANDLORDS, THE NEIGHBORHOOD WILL NOT FALL APART IF ONE PROPERTY GOES BAD.

Small developer John Anderson explains that building rental units is actually a very a smart approach for the small developer, especially with rental demand expected to grow steeply for years to come.

At first, I was struggling with what I thought was conflicting advice here. Should you build-to-sell or build-to-lease? From the developer's point of view, that largely depends on the kind of lifestyle you're looking for. From a societal point of view, what matters is that there are more landlords.

Picture two neighborhoods of the same land area with 70% rental housing. One has a landlord to renter ratio of 1:100 because it is mostly made up of single-family homes and garden apartments or tower-blocks. The other has a landlord to renter ratio of 1:6 because it is mostly made up of the missing middle. Which is more likely to create a happy city? The number of landlords, not renters, is the crux of the issue.

Of course, I've illustrated two extreme (yet common) ends of a spectrum. Depending on how many people you need to accommodate in a city, different positions on that spectrum will make more sense. What is clear is that the US and Canada (among other countries) are way too far on the end of mass-produced, industrial scale housing production and we'd benefit from a push toward the other end.

Whether you are the landlord or you're helping others own an income property, the more we can tighten up that landlord to renter ratio, the closer we get to that ideal of a city created by everybody. Having more landlords on the street means we've got more small developers being attentive to their neighborhoods and sharing the wealth created in real estate cycles, rather than getting pushed out. One can also hope that small developers are better able to see the long term value in being good farmers with the wisdom not to be greedy.

We need more rental housing. The key: **many rentals** owned by **many local landlords**, making a neighborhood that's both homey and diverse.

DEMAND FOR RENTAL HOUSING

BY EMILY BROWN & JOHN ANDERSON

Rental housing—especially that located in walkable urbanism—will continue to be in demand for the foreseeable future, and building this type of housing is not only profitable, but aligns with the values of incremental development.

National Trends Indicate Strong Rental Market

National trends point to the solubility of the rental market. Renowned real estate professor Chris Nelson's book Reshaping Metropolitan America lays out the case why he believes that 75% of new housing delivered between now and 2030 needs to be rental. Today the United States has 31 million single person households and 82 million households without children. In 2030, these numbers are projected to be 45 million and 105 million, respectively. Well over half of those households are looking to live in walkable urbanism.

Nelson predicts that rental apartments will be 48 percent of the growth of all new housing to be built between now and 2030. Some of this will be delivered by the conversion of existing detached housing, which has been overbuilt. But the demand for rental is still not being met. National demand for all new housing units is about 1.3 million units per year until 2030. In 2014, about 400,000 multi-family units were built; but if 48 percent of 1.3 million new units in annual productions is 624,000 rental units, then the number of rental units currently being built falls short of a quarter million rental units.

Prior to the recession, national homeownership rates were at a high of 70 percent. This was due to many different factors, including inflated mortgage financing that has been found to be unsustainable. After weathering the recession, and witnessing how unreliable an investment a single-family house can be, both Millennials and Baby Boomers are seeking out rental properties. A reticence toward child-bearing among younger families also contributes to the disinterest in single-family housing.

> Nelson believes 75% of new housing delivered between now and 2030 needs to be rental.

Renting Aligns with Incremental Ideals

Small scale development is can be a tedious process that requires significant equity from individual developers. Selling these properties as condos to individual buyers, or full out to other investors can deliver immediate returns, but holding on to them and collecting rent is a strategy that aligns more with the ideals of improving urbanism in a particular neighborhood.

To truly create value in a community, it should be continuously invested in with the goal of creating a walkable, dense node where business and residential can flourish. By starting with small, incremental improvements, such as public markets and small residential projects, small scale developers begin to build these kinds of neighborhoods. If these first small investments are improved upon, through adding more amenities and opportunity through mixed used development, then property values should continue to rise. Thus, rents will increase, and profits for the developer will grow beyond the initial payout of condo sales.

Selling condos or residential properties is a surefire way to recoup costs and make a profit. This model works for large-scale developers who want to exit a residential market when it is still on the top. Ideally, small scale developers are building at the bottom of the market and attempting to create more value in the neighborhood, therefore their profits will be realized by maintaining buildings and collecting rents, which will hopefully increase as the neighborhood reaches its potential.

Practical Concerns Weigh Toward Rental

Building for-sale housing does not always return large profits, and the considerations that accompany transfer of ownership can eat into any margins. In order to deliver a 10-12% margin, 30-40 houses a year need to be built to justify the overhead to control costs, ensure high quality product, deliver on time and cover warranty issues. On less than 30 closes per year, it is hard to keep outsider realtors in line and have a full time superintendent. When selling properties, you are at the mercy of local appraisers, who may not recognize the value of a well-located, well-built house in an urban neighborhood. If house is appraised at less than you want to sell it for, then the buyer will need to come up with a larger down payment, and you could lose the sale.

Alternatively, if you are well-organized enough to sell houses to buyers with inflated expectations, you could instead be building apartments and mixed use buildings with more flexible delivery deadlines, and be getting a much better return on your time and money investment.

Remember: If you can’t get the rent, you can’t build the building.

Buildings that don’t earn their keep don’t last very long in this world. We believe it is both possible and important for a small developer to focus on buildings that earn money. Seeing a development project with clear eyes rather than rose-colored glasses is the surest way to build something that can be maintained and even improved over time.

There are many creative ways to ensure that a building’s income exceeds its expenses, and small developers are uniquely positioned to make the most of creative strategies. This country is covered with inspiring precedents of buildings that punch above their weight, giving back to the city through taxes, to the neighborhood through street appeal, and to the owner through a positive cash flow.

Continent wide, communities are realizing that big developers cannot be induced to come build the neighborhoods they want. No one is coming to save them from the status quo. They’ve got to do it themselves. We believe this movement toward local ownership and neighborhood-based development is an important and powerful one.

STAY IN THE SAFE ZONE UNTIL YOU'RE READY TO ASK FOR MONEY.

MAY 28, 2015 - R. JOHN ANDERSON, FROM RJOHNTHEBAD.WORDPRESS.COM

When I ask folks who want to develop small projects what they are worried about, it's often that their lack of know how is going to create a problem that is so big that their project will blow up and they will lose all their investors' money. That is a legitimate fear. The best way to address it is to stay in the safe zone and build your know how until you are ready to ask someone for money.

Safe Zone Stage One

Work it out on paper One of the core skills a developer needs is the ability to understand how a building makes more money than is required to build and operate it. The best way to figure out if you understand your project thoroughly is to write stuff down. Get your plans and ideas on paper so you can test them and communicate them to other people. Do your market study so you understand what people are paying in rent for space that is comparable to what you want to provide. Test your idea for what you want to build on several potential sites. Build your pro forma from scratch, (even if you have access to someone else's template) so that you understand how the rents, hard construction costs, land cost, soft costs, and operating expenses all interact in a building that makes money. Dig into the hard construction costs so that you understand what the most expensive parts of the building are and what you can do to spend your construction budget where it will have the greatest benefit. If you see a project you like, try to reverse engineer it on paper. (<-this is a little like learning how to draw by tracing over another drawing).

Safe Zone Stage Two

Take your paper to your mentors, peers, and colleagues Once you are confident you can describe your project costs, likely rents, likely operating expenses, and your preferred deal structure with your investors, and you have your project down on paper, you are ready to go get other people you trust to look at your work. Better to learn that you have missed something from your mentor or your colleague than from a potential investor or construction lender. Find people who will be tough with you because they want you to be successful in your enterprise. Be sure you do the same for others when they ask. Sit down with your mentor or peer and lay out the project for them. How does the project make money? How much equity are you asking your investor for? When do they get their principal back? What is their return and when do they get it? What kind of debt financing are you trying to get? How is the cash flow after debt service going to be divided? What are the risks in the project? How are you planning to address them? What parts of the proposed project need to be described in more detail? Do you have a one page summary of the deal -or are you expecting an investor to read 23 pages of spreadsheets and site plans and figure it out for themselves?

Find someone who will play the role of your potential investor and practice your pitch on them. Have someone else observe and critique your effort. These should be people with enough experience in real estate that you know you are gaining real ability and confidence through the exercise.

ON ASKING FOR MONEY

WHEN IS AN INVESTOR'S CASH LIKE PLYWOOD?

JUNE 6, 2015 - R. JOHN ANDERSON, FROM RJOHNTHEBAD.WORDPRESS.COM

If you are a small developer, by the time you approach someone to invest in your project you should have the fundamentals of the project worked out. You should know how the building will make more money that it will cost to build and operate. You should have confidence in your budget for what the hard and soft costs for the building should be and how long it will take to build and lease. You should have a good working theory on what the terms of the construction loan will be and how much equity will be required. You should know how much cash you are asking the investor to put at risk, when they will get that cash back and how much of a return the project can pay the investor as consideration for putting their cash at risk.

That is when the investor's cash becomes like plywood. Like plywood, capital is one of many things you need to build the project, which is available from a wide variety of sources.

You should take care to use the right sort of plywood for the task. Make sure you have communicated clearly with the lumberyard about the amount of plywood you need and when you need it. You should also be very clear on the particulars of what you are willing to pay for the plywood and when you will pay for the plywood. It's the same with capital. You want the right capital, good terms and good communication.

Frame the investment in the project as a business transaction. The investor is not making a loan, they are investing equity in the project and they will own a piece of the project until such time as the commitments you make to them are satisfied. Their capital is at risk. They could lose all of it if the project spins out of control and the bank, (who did make a loan) takes over the project and sells it to recover the money they loaned for construction. In consideration for taking the risk of losing their investment you are offering to pay the investor a Preferred Return. They get their initial cash investment back and they get stipulated rate of return on top of their investment before anyone else gets a distribution of the money the building makes. They get paid first. That's the preferred part. Once the investor's principal and Preferred Return has been paid out, a common deal structure is for the capital partner (investor) and the operating partner to divide the cash flow that the project generates. This split of the cash flow and the proceeds if the project is sold is established in the Partnership Agreement or the LLC Operating Agreement. A higher preferred return can be paid if the capital partner is being paid off and removed from the project and the operating partner hangs on to ownership of the project and the cash flow, or if the project is being refinanced or sold after rents and operating expenses can be demonstrated over a year or two and the property is considered "stabilized."

Investors will be comparing your project to other things they might invest in. They will weigh the risk and the return of your project while considering their other options for putting their capital to work. As the Operating Partner, it is the developer 's job to design the deal. It is important to be disciplined when you design a deal structure and to think about that structure being used for more than just one project. After a couple projects you will see that it is much better to have a fairly standardized approach to what you offer to an investor, rather than building every deal around an agreement that has been highly customized to the investor's needs. Consider the kind of capital and investors your project requires and go find that capital and investor on purpose. Make sure the interests of the project and the interests of the investor are aligned and that expectations are well communicated. The Operating Partner has the authority to replace the Investor's capital at any time, provided that the returns laid out in the agreement are met. You reserve the right to change plywood vendors when needed, provided that you pay what you promised.

ASKING FOR MONEY

BY JIM HEID

Equity vs. Debt

Any development deal, Lean or otherwise, can be boiled down to two primary sources of capital: equity and debt. Equity usually comprises the first dollars in and last dollars out, meaning it holds the highest risk of any project's financing. Because it holds more risk, return expectations are higher. But with sufficient equity in a deal, debt can be easier to secure. While the mix of equity and debt (the "capital stack") varies from project to project, a traditional project's capital stack might be 20 to 40 percent equity and 80 to 60 percent debt. Because equity begets debt, securing equity is the starting point for any successful development project.

The Challenge of Conventional Capital Sources

Speaking at the 2014 Urban Land Institute Small Scale Developers Forum, Brett Wilkerson, Managing Director at Hawkeye Partners, pointed out that 50 percent of all institutional equity (trillions of dollars) is controlled by just 25 advisors. With so much capital to place, it is understandable that doing a single deal for $100 million could be preferable to doing 100 deals of $1 million each, even though the latter may have lower volatility and greater diversified returns. In addition, traditional capital sources have very low risk profiles and very high expectations for experience and skill sets. The projects that motivate Lean developers, and the attributes that help them succeed, are not always the qualities that conventional capital sources seek.

Alternative Sources

Some Lean Development projects can access conventional capital relatively easily because the project profile, modeled returns, market momentum and experience of the team is easily underwritten. But for more innovative projects, in unproven markets, or teams with limited experience, non-conventional capital sources may be the only route to realizing a project. Some of these include:

- FRIENDS AND FAMILY: Many small projects start with a simple capitalization from family members because that is often the lowest-hanging fruit. Be aware, however, that multiple capital units of less than $50,000 can make it difficult to get to scale without spending an inordinate amount of time managing investor relations. Even friends and family expect to be kept up to date on progress, receiving high-quality accurate reports on how the money is being used and where the project budgets and schedule stand.
- HIGH-NET-WORTH (HNW) INDIVIDUALS: An example is an "accredited investor," commonly described as having an investable net worth of at least $1 million and annual income in excess of $250,000. For HNW investors, this is generally an opportunistic business proposition, and returns need to be commensurate.
- FAMILY OFFICES: This is the term for operations that manage the legacy assets of wealthy families. Family offices seeking to define or enhance their missions while creating long-term returns may be better candidates for Lean, pioneering projects if both mission and goals are aligned. But they will not invest on emotion only; there has to be a credible business proposition and assessment of risk.
- FOUNDATIONS: In addition to grants, many foundations make program-related investments to further their missions, looking for return of capital and return on investment, albeit at a lower rate than conventional investors. Lean developers who can demonstrate that their projects satisfy both requirements may find foundations to be good sources of patient capital.
- GRANTS, TAX CREDITS, ETC.: The equity sources in this catch-all category require no return and less investor management once the placement is consummated, but the up-front work is extensive in time and effort. However, mastering the intricacies of effective grant writing and reporting, historic tax credits, new market tax credits, conservation easements, etc., creates intellectual property that adds value to your enterprise and can be used in subsequent projects.

How to Find Them

Non-conventional investors aren't found with a quick Google search. It takes time, patience and extensive networking. It is not like securing a home mortgage, which is highly commoditized. Obtaining project equity is often an obtuse, opaque, non-linear and non-standardized process. But common traits among non-conventional investors do exist. For example, as long as the business fundamentals are covered, non-conventional investors might be more interested in the emotional and social dimensions of a Lean investment that creates good neighborhoods. Developing your own "private pool" of investors takes time, high levels of relationship management, and a keen sense of understanding investor needs. Building a deliberate and rigorous search methodology will help you build long-term enterprise value because you will come to understand the subtleties of how the industry works.

What Do They Want?

Non-conventional investors want to be part of something. Foundations and other impact investors want to see lives changed by their investments. For individuals, investing in small deals can be exciting. Many of them were entrepreneurs themselves, and they like seeing new ideas. Many young entrepreneurial developers have found "patrons" in older, accomplished business persons who want to see the next generation succeed.

They want something tangible. Stocks and bonds can be obtuse and incomprehensible. But real estate is tangible. They get to see drawings become reality. They can visit the site and see it being constructed. And then it produces cash. What's not to like?

They want the bad news and the good news. You are not selling a product; you are creating a relationship. The basis of that relationship is trust, and to maintain that trust you have to be an active communicator. As one investor told me, "It's not how you act when things are going well — it's how you act when things go bad." That's when you establish your credibility and investors decide if they will reinvest with you.

And of course they want to be confident that they won't lose money. How can you provide that confidence?

- HAVE AN EXIT STRATEGY. If the rental market goes soft, can your apartment project be converted to condos? Can your retail project

accommodate other uses if that market takes a dip? What is the value of the underlying land as is, should you have a fire sale, and how much money can you give back to investors at that point? Dreaming big but anticipating the worst is how you protect your investors and yourself.

- BRING IN AN EXPERIENCED PARTNER. Investors want to know how you plan to manage risk, and for many, execution risk — whether you can build what you say you will, on time and in budget — is at the top of the list. Few will agree to let you learn on the job with their money. Having an experienced partner at your side will add credibility and provide you with the learning opportunity you need.
- SHOW THAT YOU KNOW THE MARKET. Andrew Frey provides instructions for conducting a market study in his paper on creating a financial model. If it is a pioneering project, don't rely on conventional market analysis. Also show that you know the competition.

Approaching Investors – Some Dos and Don'ts

Non-conventional investors have motivations and investment styles that are different from those of conventional capital sources. Keep the following in mind when approaching them.

- KNOW THE DIFFERENCE BETWEEN INVESTORS AND LENDERS. They have different risk/reward profiles and require different levels of security. With the right investors behind you, it's much easier to find your lenders. The reverse is not true.
- UNDERSTAND INVESTOR MOTIVATIONS. Are they looking for steady return? Are they looking for a home run? Are they interested in being a part of something important? Know what motivates them before developing your pitch.
- UNDERSTAND THAT REDUCING RISK REDUCES THE COST OF CAPITAL. Demonstrate reduced risk based on your own skill, the partnerships you have created, or the ability to provide various exit strategies depending on market scenarios.
- DON'T EMPHASIZE THE INNOVATIVE ASPECTS OF YOUR PROJECT. Lean developers are motivated by new paradigms, but to lenders and investors, innovation implies higher risk. Save that for the sales staff, not the investment community.
- DON'T CONFUSE PASSION WITH KNOWLEDGE. Passion can get people to listen, but also must have command of the facts. Show that you understand the deal — the risks, the potential rewards, how one's money is protected, and the implications of various scenarios.
- KNOW WHEN TO STOP PITCHING AND START LISTENING. Assume your potential investors make good decisions, are street smart, and have good intuition. If they ask questions, given them serious consideration. If they offer advice, take it — it's free.

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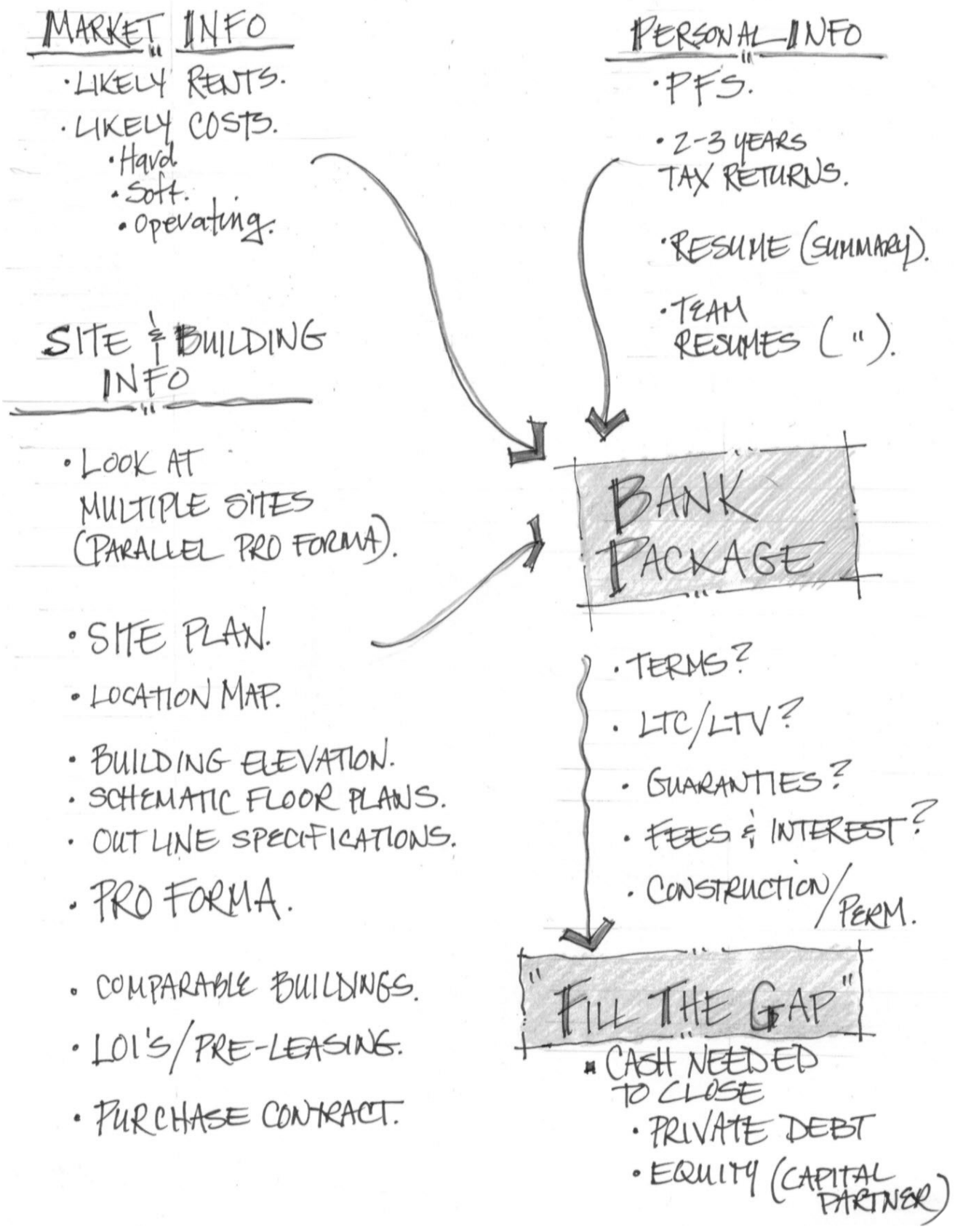
JIM HEID is a real estate developer, adviser, and author whose focus is the creation of new communities that contribute to their environment, region, and residents. In 2000, he founded UrbanGreen to act as a development partner and adviser to legacy landowners, institutions, and land development companies that embrace principles of sustainability. He is motivated by the need to deliver high-quality developments to a broader market — in an increasingly complex world of entitlements and financing — without compromising environmental, economic, or place-making objectives.

WHAT TO INCLUDE IN A BANK PACKAGE



DUE DILIGENCE