Chapel Hill Town Council Work Session

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Chapel Hill Town Council Work Session

My charge today:

"Explain the process a developer goes through before deciding to pursue a particular development opportunity"

Chapel Hill Town Council Work Session

"Explain the process a developer goes through before deciding to pursue a particular development opportunity"

Key Metric: Market Value > Replacement Value

Back of the envelope analysis

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Multifamily Development

Purely Hypothetical Development:

Assume Land cost = $1,500,000

And we want to build a market-rate multifamily project there

7.57 acres in two parcels (assumption)

Multifamily Development

Purely Hypothetical Development:

7.57 acres in two parcels (assumption)

Square feet in an acre?

Multifamily Development

Purely Hypothetical Development:

7.57	***acres in two parcels (assumption)***
<u>x43,560</u>	***<u>SF per acre</u>***
329,749	***total square feet of dirt***
<u>x.303</u>	***<u>Floor to Area Ratio (FAR)</u>***
99,914	***total allowable square feet (SF)***

Let's say 99,900 SF

Multifamily Development

Let's say 99,900 SF

900 SF per unit
111 units

Class A rents:	***$1,450 per month per unit***
12 months in a year:	***$17,400 per year/per unit***
X 111 units	***X 111***
Gross Rent Revenues	***$1,931,400 per year***

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Multifamily Development

Gross Rent Revenues	***$1,931,400 per year***
- Vacancy (8%)	***$154,512***
= Gross Effective Rev	***$1,776,888***
- Opg Expenses (40%)	***$710,799***
= Net Operating Income	***$1,066,132***

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Multifamily Development

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X Price/Earnings Ratio	*20*
= Market Value	*$21,332,656*

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Multifamily Development

Price Earnings = 20 times NOI

1 / (P/E) = .05
This is what we call a cap rate: 5%

So NOI	***$1,066,132***
/ Cap Rate	***.05***
Market Value	***$21,332,656***

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Multifamily Development

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/ Cap Rate	***5.0%***
= Market Value	***$21,332,656***

Multifamily Development

Cost Quote:

Hard Costs:	***$150.00 psf***
+ Soft Costs:	***$35.00 psf***
Total Costs	***$185.00 psf***

Total Square footage ***99,900***

Total Cost ***$18,481,500***

But this doesn't include land costs.

Multifamily Development

Cost Quote for Class A Apartments:

Hard Costs:	***$150.00 psf***
Soft Costs:	***$35.00 psf***
Total Devpmt Costs	***$185.00 psf***
Total Square footage	***99,900 sf***
Total Cost	***$18,481,500***
Land Cost	***$1,500,000***
Construction Cost and Land	***$19,981,500***

Multifamily Development

Market Value:	***$21,332,656***
Construction Cost and Land	***$19,981,500***
Profit	***$1,341,156***

Profit / Cost = $1,341,156 / $19,981,500

= 6.3% return

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Multifamily Development

Construction Cost and Land	***$19,981,500***
X 70% = Construction Loan	***$13,987,050***
So equity = 30%	***$5,994,450***
Profit	***$1,341,156***
Return	***=22.37%***

Return = Profit / Equity Investment

= $1,341/156 / $5,994,450

= 22.37% return

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Multifamily Development

So, what can go wrong?

Risk = Uncertainty of Outcomes

970 MLK Blvd Multifamily Deal

- ***Idea - Today***

- ***Steps between today and first rent check***

When do you face the most risk?

Multifamily Development

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When do you face the most risk?

Getting control of the land
Approvals/entitlements
Site plan
Raising equity
Raising debt
Lease-up
Sale

How would this work for an affordable housing project?

How would this work for an affordable housing project?

Maybe a mixed project?

Questions?

Conclusions:

Thanks!

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