

PHIUS POLICY SUMMIT |

DEVELOPER PERSPECTIVE

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ISSUE:

WHAT PREVENTS

MULTIFAMILY REAL

ESTATE DEVELOPERS

FROM PURSUING PHIOUS?

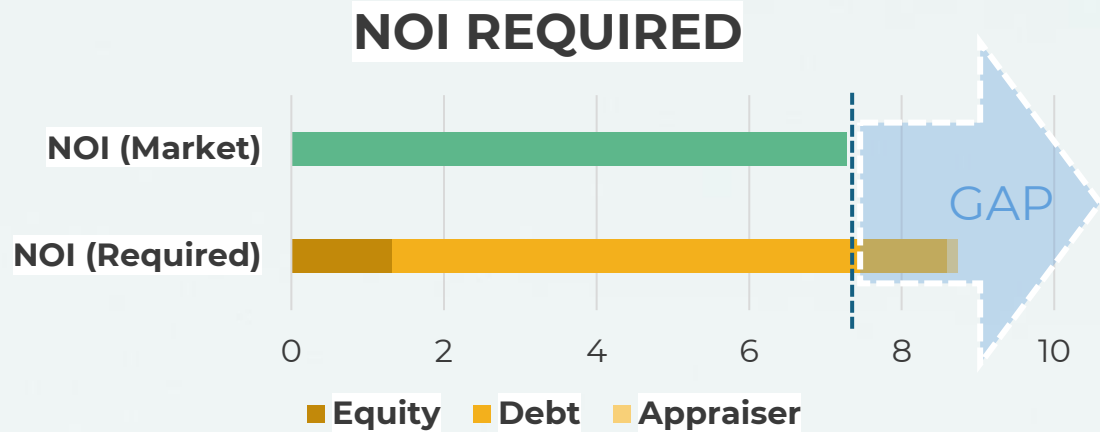


Policy and programs can impact all three and have compounding effects

OBJECTIVE:

- **ISSUE: FINANCIAL GAP**
- **UNDERSTAND THE BASIC REAL ESTATE PRINCIPLES**
- **UNDERSTAND THE ORIGIN OF THE FINANCIAL GAP**
- **SOLUTION: UNDERSTAND HOW LOCAL POLICIES
AND PROGRAMS CAN ADDRESS THE GAP**

CRE BASICS:



FINANCIAL GAP IS:

- COST OVERRUN, OR**
- DELTA BETWEEN MARKET NOI AND REQUIRED NOI**

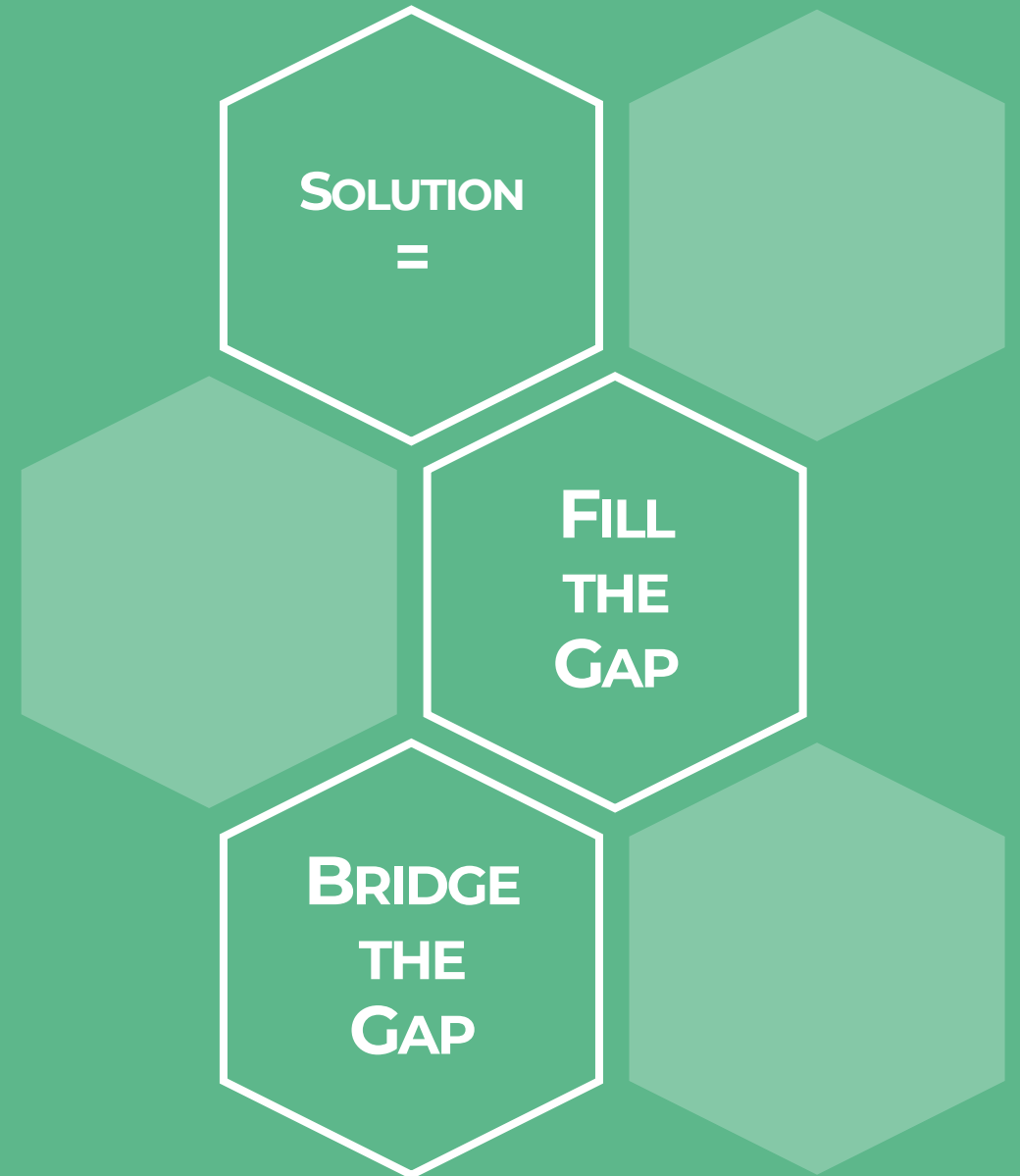
Front Door: Loan-to-Cost Approach	<i>Generic 1</i>	<i>Generic 2</i>
Capital Budget	Dollar	Dollar
Site Acquisition	\$10	\$10
Hard Costs	\$75	\$90
Soft Costs	\$15	\$20
Total Development Costs (TDC)	\$100	\$120
Equity	20%	20%
Equity Dividend Rate	5.50%	5.50%
Cash Throw Off Required for Equity	\$1.10	\$1.32
Debt	80%	80%
DSCR	1.20	1.20
Motgage Loan	\$80	\$96
Minimum NOI for Equity and Debt	\$7.17	\$8.60
Minimum NOI for Debt Service	\$7.28	\$8.74
Debt Yield		
Net Operating Income		
Required Minimum NOI	\$7.28	\$8.74
Operating Expenses	\$3.92	\$4.70
Effective Gross Income	\$11.20	\$13.44
Vacancy	5.00%	5.00%
Gross Required Revenue	\$11.79	\$14.15
Gross Revenue per Dollar of TDC	\$0.12	\$0.12

SOLUTION:

THE FINANCIAL GAP CAN

BE FILLED OR BRIDGED

1. FILL THE GAP (SOURCES OR USES)
2. BRIDGE THE GAP (REVENUE)



CASE STUDY:

- **32-UNIT MARKET-RATE SIDE-BY-SIDE WITH CONVENTIONAL APPROACH**
- **8% PREMIUM**
- **FINANCIAL GAP = \$794,000 TDC OR \$58,000 OF NOI**

Front Door: Loan-to-Cost Approach	<i>Phius</i> Dollar	<i>Conventional</i> Dollar	<i>Delta</i> Dollar
Capital Budget			
Site Acquisition	\$600,000	\$600,000	\$0
Hard Costs	\$8,472,665	\$7,829,472	\$643,193
Soft Costs	\$1,410,000	\$1,260,000	\$150,000
Total Development Costs (TDC)	\$10,482,665	\$9,689,472	\$793,193
Equity	20%	20%	
Equity Dividend Rate	5.50%	5.50%	
Cash Throw Off Required for Equity	\$115,309	\$106,584	\$8,725
Debt	80%	80%	
DSCR	1.20	1.20	
Motgage Loan	\$8,386,132	\$7,751,578	\$634,554
Minimum NOI for Equity and Debt	\$751,382	\$694,527	\$56,855
Minimum NOI for Debt Service	\$763,287	\$705,532	\$57,756
Debt Yield	9.10%	9.10%	
Net Operating Income			
Required Minimum NOI	\$763,287	\$705,532	\$57,756
Operating Expenses	\$411,001	\$379,902	\$31,099
Effective Gross Income	\$1,174,288	\$1,085,433	\$88,855
Vacancy	5.00%	5.00%	
Gross Required Revenue	\$1,236,093	\$1,142,561	\$93,532
Gross Revenue per Dollar of TDC	\$0.12	\$0.12	\$0.00

CASE STUDY:

GAP = APPX. \$794,000

GAP PER UNIT TO BE FILLED = APPX. \$24,800 TDC/UNIT

OR

GAP PER UNIT TO BE BRIDGED = APPX. \$2,890
REVENUE/YR/UNIT

COMBINATION OF BOTH FILLING AND BRIDGING CAN WORK

CASE STUDY | SOLVING THE GAP

COMMUNITIES WITH SUSTAINABILITY GOALS CAN INCENTIVIZE DEVELOPERS TO BUILD PHIUS CERTIFIED MULTIFAMILY BUILDINGS THROUGH LOCAL POLICIES

FILLING THE GAP		BRIDGE THE GAP
SOURCES	USES	REVENUE
SUBSIDIES OR GRANTS	IMPACT FEES PARKING REDUCTIONS EXPEDITED APPROVALS	DENSITY BONUS HEIGHT INCREASE FLOOR AREA INCREASE CAPTURE ENERGY SAVINGS

CASE STUDY | SOLVING THE GAP

FILLING THE GAP | USES - IMPACT FEES

BEGINNING GAP = APPX. \$794,000

MUNICIPAL IMPACT FEES = \$4,796 / UNIT = \$153,472

CURRENT GAP = \$640,528

CASE STUDY | SOLVING THE GAP

FILLING THE GAP | USES – PARKING REDUCTION

BEGINNING GAP = APPX. \$640,528

PARKING REDUCTION = APPX. \$96,000

- REDUCE FROM 1.0 SPACE/UNIT TO 0.75 SPACES/UNIT

CURRENT GAP = \$544,528

CASE STUDY | SOLVING THE GAP

FILLING THE GAP | USES – EXPEDITED APPROVALS

BEGINNING GAP = APPX. \$544,528

EXPEDITED APPROVALS = APPX. \$45,000

- ASSUME TWO (2) MONTHS QUICKER (ENTITLEMENT PROCESS AND PERMITTING)

CURRENT GAP = \$499,528

CASE STUDY | SOLVING THE GAP

BRIDGING THE GAP | REVENUE – ZONING INCENTIVES

BEGINNING GAP = APPX. \$499,528

ZONING INCENTIVES = APPX. \$149,000 GAP ADJUSTMENT

- **ADD TEN UNITS VIA ZONING INCENTIVES (DENSITY, HEIGHT, FLOOR AREA BONUSES)**
- **INCREASES TOTAL DEVELOPMENT COSTS (TDC)**
- **ADJUSTS CONVENTIONAL BASIS, BUT THE FINANCIAL GAP IS LOWER FOR MORE UNITS**
- **MAXIMUM SUPPORTABLE LOAN BASED ON LENDER'S DEBT-YIELD AND LOAN-TO-VALUE**
INCREASES (6% CAP RATE) EQUATES TO APPX. \$2.4M

CURRENT GAP = \$350,528

CASE STUDY | SOLVING THE GAP

BRIDGING THE GAP | REVENUE – CAPTURE ENERGY SAVINGS

BEGINNING GAP = APPX. \$350,528

ENERGY SAVINGS REVENUE CAPTURED = APPX. \$220,000

- MODIFIED GROSS LEASE, ENERGY INCLUDED, EFFICIENCY SAVINGS CAPTURED AS
ADDITIONAL NOI
- ASSUMES 6% CAP RATE
- ASSUMES 50% ENERGY CONSUMPTION REDUCTION

CURRENT GAP = \$130,528

CASE STUDY | SOLVING THE GAP

BEGINNING GAP = APPX. \$794,000

ENDING GAP = APPX. \$130,528

INCENTIVES SUMMARY

1. **IMPACT FEES**
2. **PARKING REDUCTIONS**
3. **EXPEDITED APPROVALS**
4. **DENSITY BONUS**
5. **HEIGHT INCREASES**
6. **FLOOR AREA INCREASES**
7. **ENERGY SAVINGS CAPTURE**

SOLUTION
=

FILL
THE
GAP

BRIDGE
THE
GAP

AFFORDABLE HOUSING AND PHIUS

- THE BENEFITS OF PHIUS PAIR EXTREMELY WELL WITH AFFORDABLE HOUSING
- SECTION 42 (LIHTC)
 - QUALIFIED ALLOCATION PLAN (QAP)
 - SCORING – ENSURE POINT ALLOCATION RECOGNIZES THE FULL VALUE OF PHIUS – ESPECIALLY WHEN COMPARED TO OTHER GREEN STANDARDS
- OTHER HOUSING AFFORDABILITY PROGRAMS EXIST – CONSIDER TYING PHIUS TO THOSE PROGRAMS, ESPECIALLY IF PHIUS IS NOT INCLUDED ON YOUR STATE’S QAP

SCORING

CONCLUSION:

WHAT TO TAKE AWAY:

- **FINANCIAL GAPS CAN BE EITHER FILLED OR BRIDGED**
 - SOURCES AND USES
 - REVENUE
- **POLICY OR PROGRAMS SHOULD FOCUS ON TARGETING FUNDAMENTAL REAL ESTATE DYNAMICS**
- **LOCAL POLICY MAKERS CAN PLAY A LARGE ROLE IN INCENTIVIZING PHUS PROJECTS**