

# Better Together: Why Private Development and Public Interests are not Parallel Universes.

Creating Community: Cultivating and  
Sustaining Neighborhood Identity  
February 16, 2019

Presented By



Urban Land  
Institute

Idaho

# Presenters

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The mission of the Urban Land Institute is *to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.*

## About ULI

ULI—the Urban Land Institute is a 501(c) (3) nonprofit research and education organization supported by its members. Founded in 1936, the institute now has more than 40,000 members in over 90 countries representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service.

As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information and experience among local, national and international industry leaders and policy makers dedicated to creating better places.

# **Presentation Topics**

- **Public & Private Objectives for Development**
- **Public & Private Steps in the Development Process**
  - **The Business of Real Estate**
- **The Importance of an Integrated Planning Process**
  - **How to Work More Effectively Together**

## Public

- Transparency
- Feasibility
- Cost effectiveness

## Common

- Certainty/ No surprises
  - Honesty
  - Fairness
- Policies, regulations and staff resources that support good development
- No public controversy

## Private

- Simplicity
- Flexibility
- Efficiency

## PRIVATE PROCESS

Business Concept

Site Selection /Market Study

Secure Financing

Due Diligence/real estate  
purchase

## PUBLIC PROCESS

Comprehensive plan

Zoning entitlement

# PRIVATE PROCESS

Business Concept

Site Selection /Market Study

Secure Financing

Due Diligence/real estate  
purchase

Site engineering

Architectural design

Preliminary Bids

Pre-sales/leasing

Construction Management

# PUBLIC PROCESS

Comprehensive plan

Zoning entitlement

Subdivision plat

Infrastructure

Building plan review

Inspections

Certificate of Occupancy



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

# Conceptual Development



# Project Assumptions

Property Size: 7.95 acres

Price: \$85,000/acre - \$\$\$/lot

Development Assumption

- 24 residential lots (3.0 du/acre)

Price Assumptions

- Home Price = \$\$\$
- Lot Sale Price = 25% of home price or \$\$\$



# Project Cost Assumptions

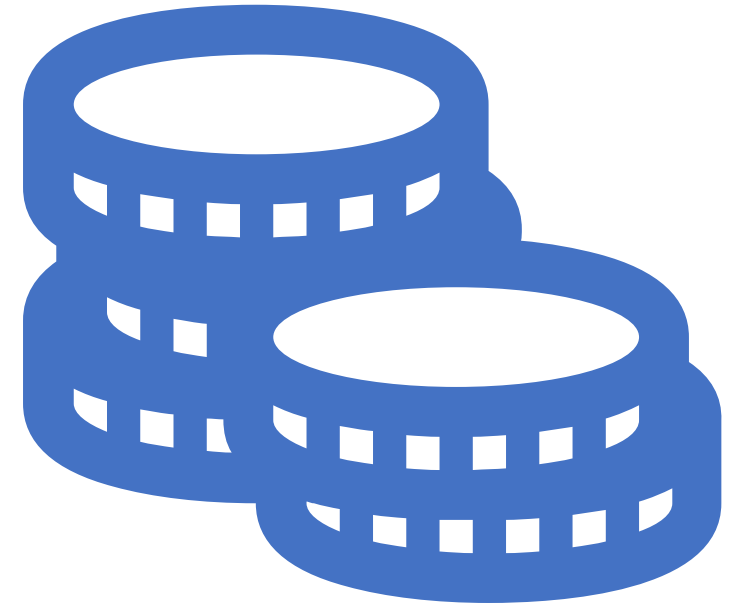
Planning, Engineering & Entitlement  
Costs = \$\$\$/lot

Site Development Costs = \$\$\$/lot

Off-site Costs = \$\$\$

## Soft Costs

- General & Administration
- Marketing
- Closing Costs
- Legal Costs
- Taxes
- Financing Costs



# Base Scenario Proforma

	Yr1 Q1, Q2	Yr1 Q3, Q4	Yr 2 Q1, Q2	Yr 2 Q3, Q4	Total
Lot Sales (2/Mo.)	-	-	10	14	24
<b>Total Revenue</b>	-	-	\$\$	\$\$	\$\$
Planning, Engineering Entitlement Costs	\$\$	-	-	-	\$\$
Site Development	-	\$\$	\$\$	-	\$\$
Offsite Costs	-	\$\$	-	-	\$\$
Land Acquisition	\$\$	-	-	-	\$\$
Operating Costs	\$\$	\$\$	\$\$	\$\$	\$\$
<b>Total Costs</b>	\$\$	\$\$	\$\$	\$\$	\$\$
<b>Net Cash Flow</b>	(\$\$)	(\$\$)	\$\$	\$\$	\$\$
<b>Cumulative</b>	(\$\$)	(\$\$)	(\$\$)	\$\$	\$\$

# Analyzing Returns

## Internal Rates of Return (IRR)

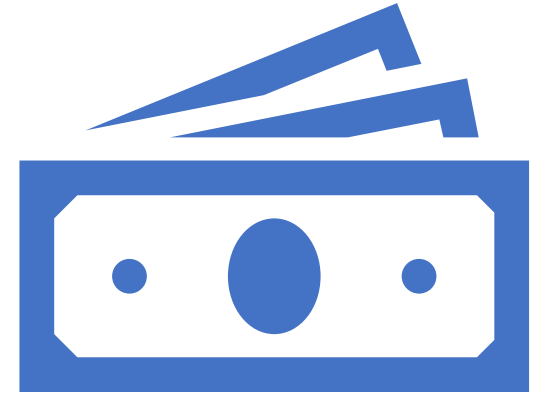
Equivalent to the interest rate paid on a bank account with the same up-front money (total costs) in order to get the same return (net cash) in the same amount of time.

*Example:* \$1 million invested at 10%/year for 5 years will return the investor's money plus \$100,000 per year for a total of \$1.5 million returned at the end of 5 years

- *The **TOTAL RETURNS** to the investor are \$1.5 million (50% on his/her money) **BUT IT IS ONLY EQUIVALENT TO A 10% INTEREST RATE***

**Time** is one of the biggest factors impacting returns

**Up-Front Costs** also have big impacts



# What is the “Right” Return?

HIGHER RISK = HIGHER IRR Required

- Real Estate Development is the HIGHEST RISK investment class

10-Year Treasury Bills are paying ~2.71%

- Virtually NO risk (Backed by the US Government)

Home Mortgage Rates ~4.57%

Developer of Project Requires 15%+ IRR

- The difference between 15% and 2.71% is **RISK**
- Each developer will require a different return depending on the risk associated with the project

*Because prices and costs can't be controlled – reducing risk is the focus of developers*



# Impacts on Returns

Developer requires 15% IRR to move forward

Proforma calculation	IRR 16.24%	Passed
Reduce lot density from 3.0 to 2.75 du/ac	IRR 13.38%	Failed
Increase site costs by 10%	IRR 12.70%	Failed
Reduce finished lot prices by 10%	IRR 11.02%	Failed
Add 6 months to entitlement	IRR 11.45%	Failed





# Overall Risks

Absorption Period

Entitlements

Rate Environment

Construction Process

Market Conditions/Demand

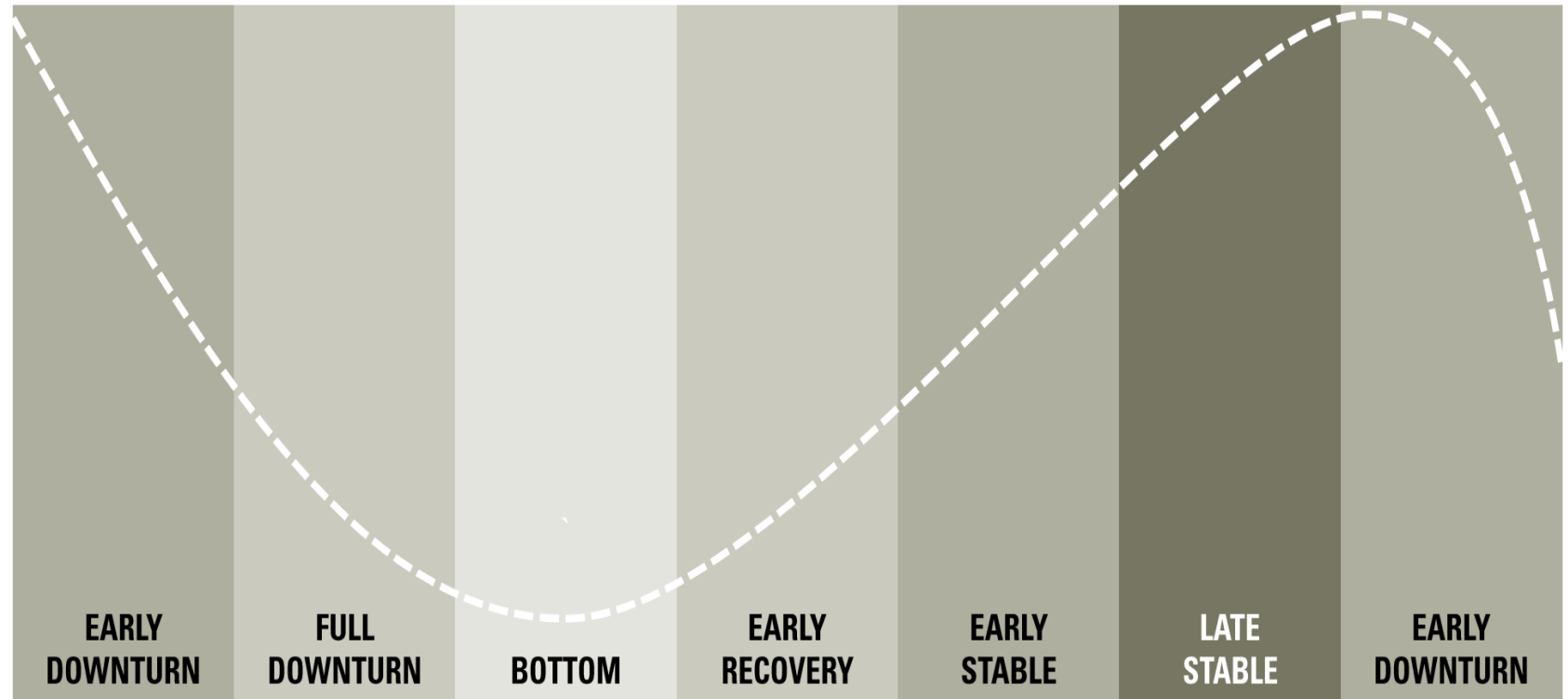


# Such a risky business requires...

- Large profit margins
- Significant liquidity for “what if” scenarios
- Vast experience by all professions
- Available capital



## The Real Estate Cycle (2018)

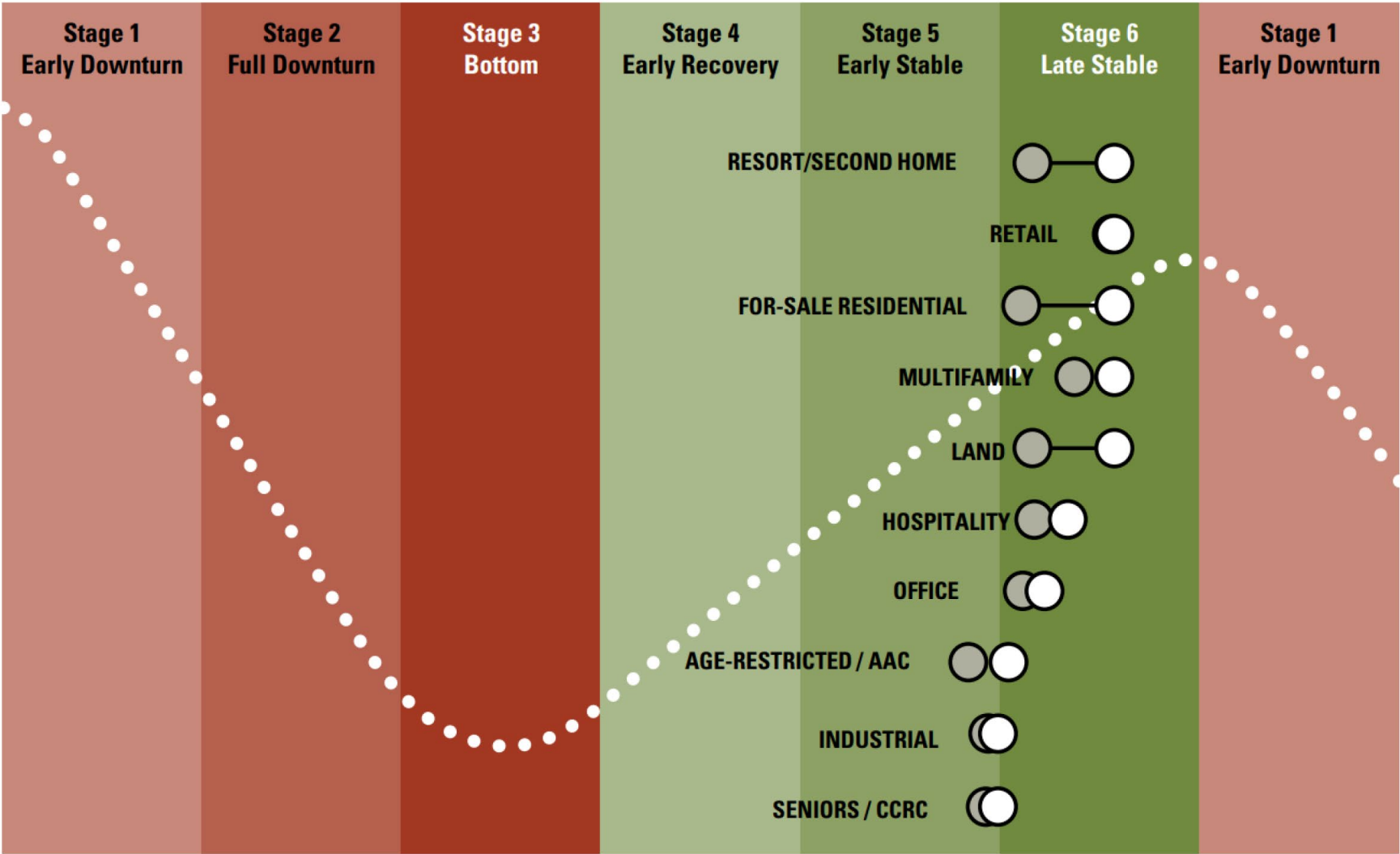


**RCLCO**  
REAL ESTATE ADVISORS

# The Real Estate Cycle (2018)

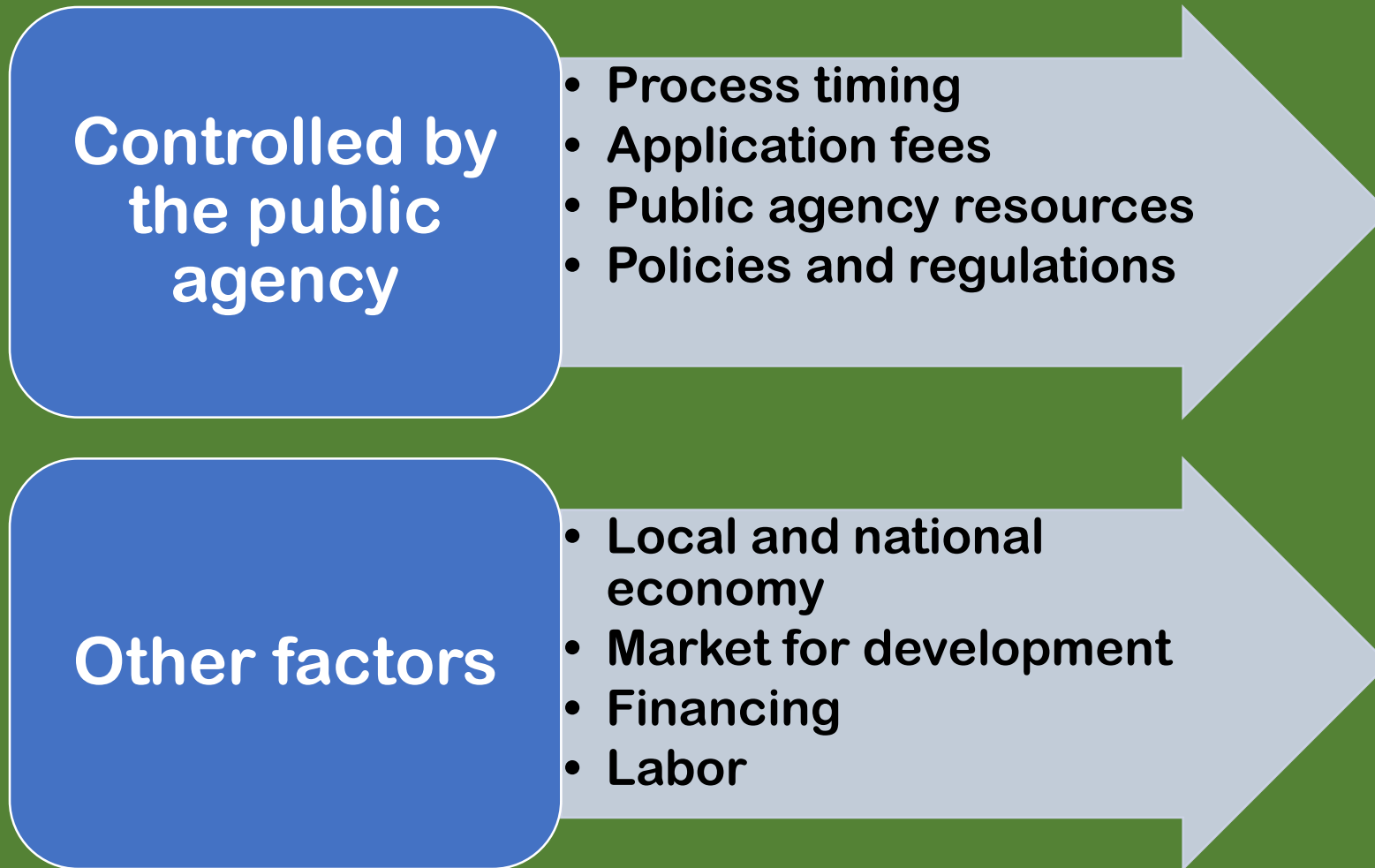
## Cycle Stage Movement over Past Six Months

Mid-2018 Survey
  YE 2018 Survey

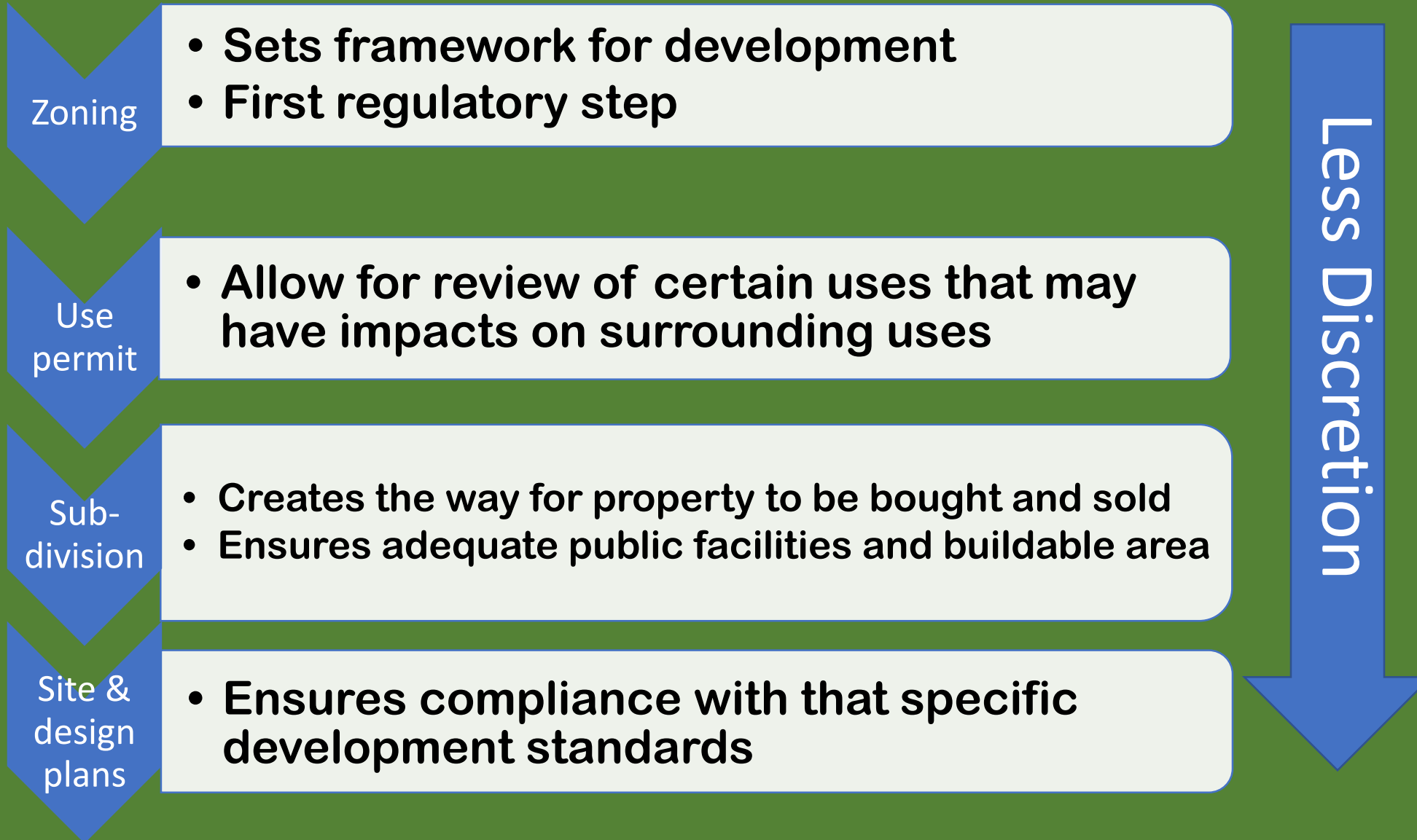


Source: RCLCO

# Factors that impact development- beyond the control of the developer



# Steps in the Development Process



# Zoning

## Issues decided at previous step

- **Comprehensive Plan land use and policies**
- **Existing zoning**
- **Zoning of other properties in the area**

## Issues on the Table

- **Consistency with Comprehensive Plan**
- **Zoning category proposed**
- **Site suitability**
- **Impact on services**

# Subdivision

## Issues decided at previous step

- Consistency with the Comprehensive Plan
- Land use
- Density
- Setbacks
- Height limits
- Parking requirements
- Landscaping requirements
- Impacts from land use
- Compatibility with adjacent uses
- Balance of uses city-wide
- Market for use

## Issues on the Table

- Compliance with the Zoning regulations
- Adequacy of infrastructure and services
- Subdivision design
- Title to property
- Compliance with Plat requirements



# Special Use Permits

## Issues decided at previous step

- Consistency with the Comprehensive Plan
- Allowance for use in the District
- Standards to be used in evaluating the use
- Density
- Setbacks
- Height limits
- Parking requirements
- Landscaping requirements

## Issues on the Table

- Use allowed by zoning ordinance
- Compliance with specific standards for use
- Suitability of property for use
- Conditions

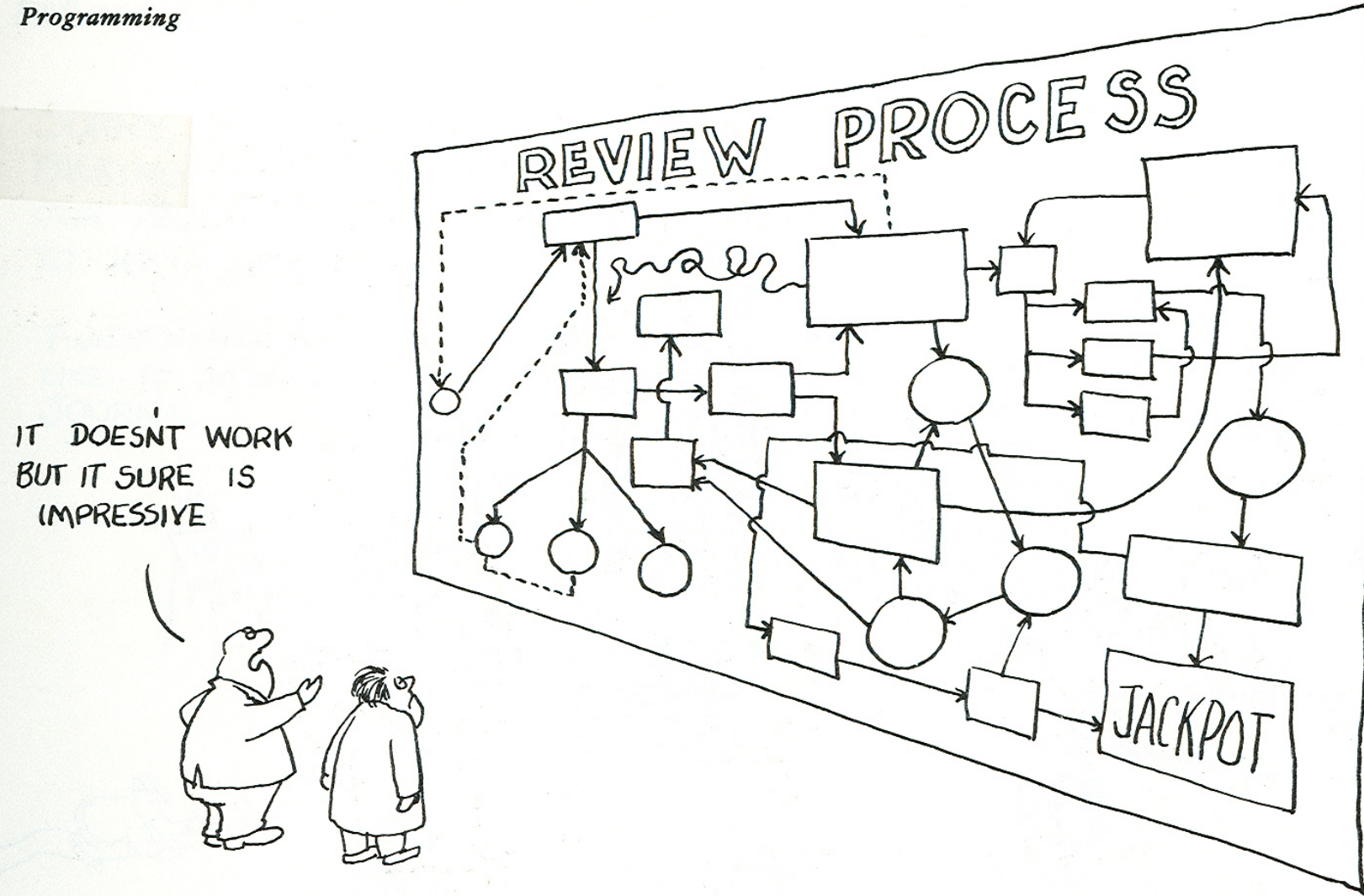
# Site and Design Plans

## Issues decided at previous step

- Consistency with the Comprehensive Plan
- Allowance for use in the District
- Balance of uses city-wide
- Market for use
- Compatibility with adjacent land uses
- Development standards
- Density
- Setbacks
- Height limits
- Parking requirements
- Landscaping requirements
- Availability of services
- Traffic impacts
- Drainage impacts

## Issues on the Table

- Compliance with zoning
- Building layout and orientation
- Landscaping
- Site triangle
- Drainage
- Buffer areas
- Screening
- Walkways and pedestrian ways
- Access points and internal circulation
- Public improvements
- Architectural treatment
- On site circulation and parking
- Building scale and design
- Open space
- Vicinity considerations



# How to Work Effectively Together

①

Understand  
the risks

②

Be clear

③

Identify  
shared  
goals

④

Maintain  
respect

⑤

Recognize  
mutual  
needs



# Questions



# About ULI

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- <https://www.facebook.com/OfficialULIdaho/>
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