Real Estate Development 101

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May 16,2022 – 6:00 PM
ULI Partnership Forum 2022
Jeff Ratnow

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- Real Estate is a Business.
- You all know more than you think you do – it's a lot of common sense.
- You spend money today intending and expecting to make more later.

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Wide Spectrum of Development Types

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So, how you know if you have a viable project?

- Spend less money today then you get in the future.

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How you get money from real estate?

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How you get money from real estate?

1. Rent of space
2. Sale of asset

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Rent – who pays?

1. Apartment Tenant
2. Business
3. Government
4. Operators (i.e. Hotels)

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Sale – who pays?

1. Home Buyer
2. Investors
3. Speculators

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- Good Deal?
- How do we look at it?
- How do we know?

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1. Uses – things you pay for
2. Sources – money you get to pay for uses
3. Income – money your asset generates
4. Expenses – cost to operate
5. Debt Service – loan payments

Hopefully there is money left over

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Proforma – uber simplified

Year	0	1	2	3	4	5	
0	2019	2020	2021	2022	2023	2024	Total
Investment	$ (2,500,000)	$ -	$ -	$ -	$ -	$ -	$ (2,500,000)
Income	$ -	$ 101,501	$ 104,546	$ 107,682	$ 110,913	$ 2,075,359	$ 2,500,000

Year 0 = Initial Investment

Year 1-4 = Rent

Year 5 = Rent + Sale

Break Even?

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Time Value of Money

Money today is worth more than in the future.

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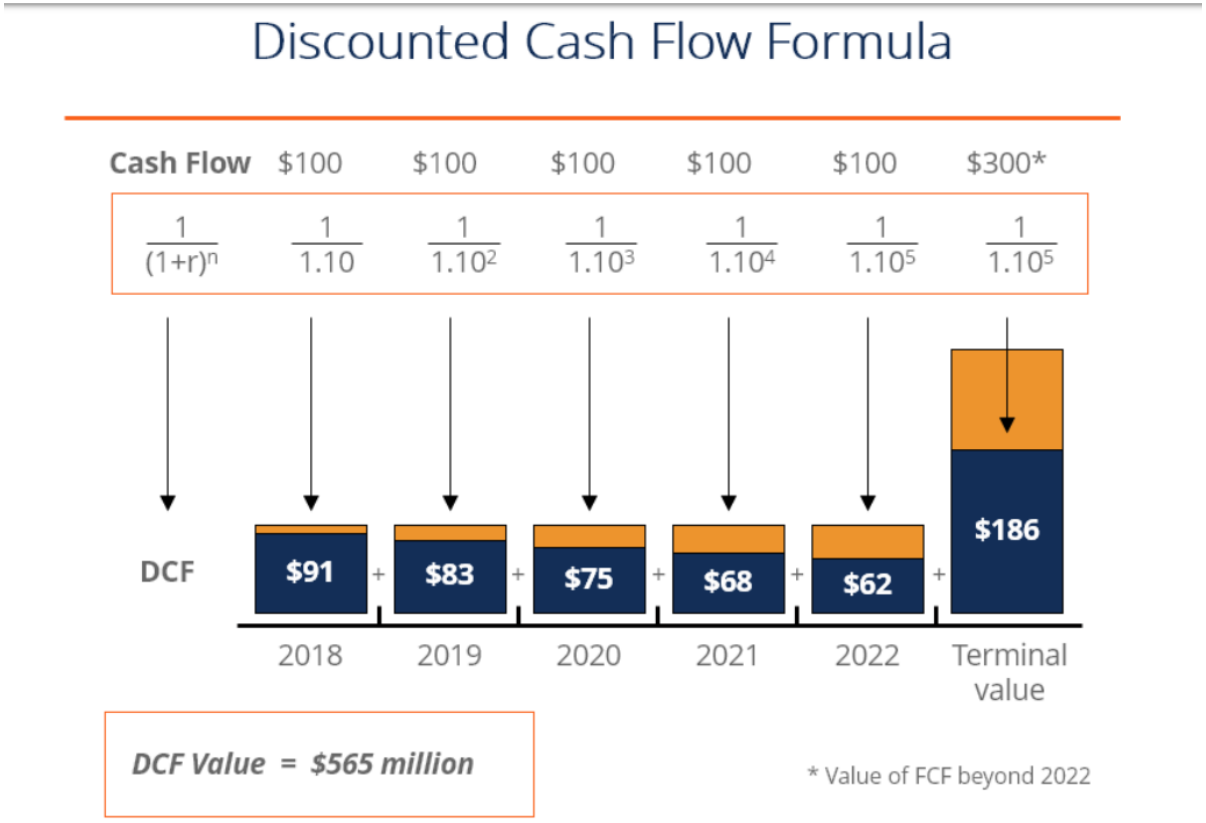
Discounted Cash Flow Analysis!



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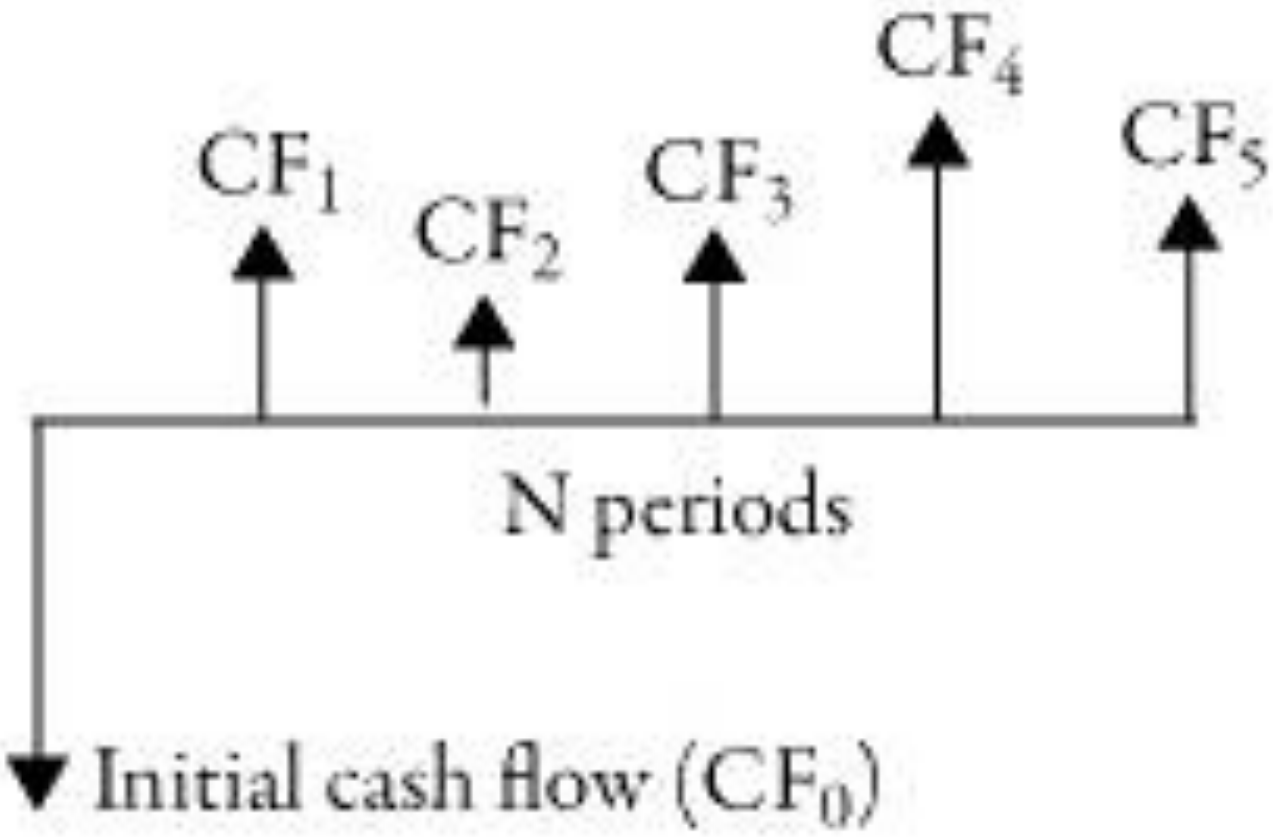

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Net Present Value (NPV)

$$NPV = \sum_{t=1}^{T} \frac{\text{Cash Flow}_t}{(1+i)^t} - \text{Initial Cash Investment}$$

t = Cash Flow Period
i = Interest Rate Assumption

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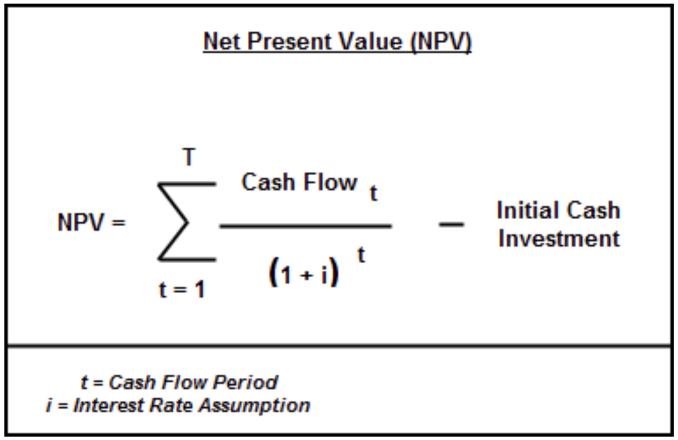
Variables/Symbols

- Time (t)
- Required rate of return (i)
- Cash Flow = Income
- Initial Cash Investment=Project Cost
- Sigma (Sum) of the cash flow occurrences
- Net Present Value (NPV)= DCF-Project Cost



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Time Value of Money

- Money today is worth more than money tomorrow.
- You can invest your money today and have more of it tomorrow.
- NPV>0 is a good investment.

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Time Value of Money

- To compare money over time, you need to discount it to today's value.

- Required Rate of Return
  - Function of Risk
  - Self Determined

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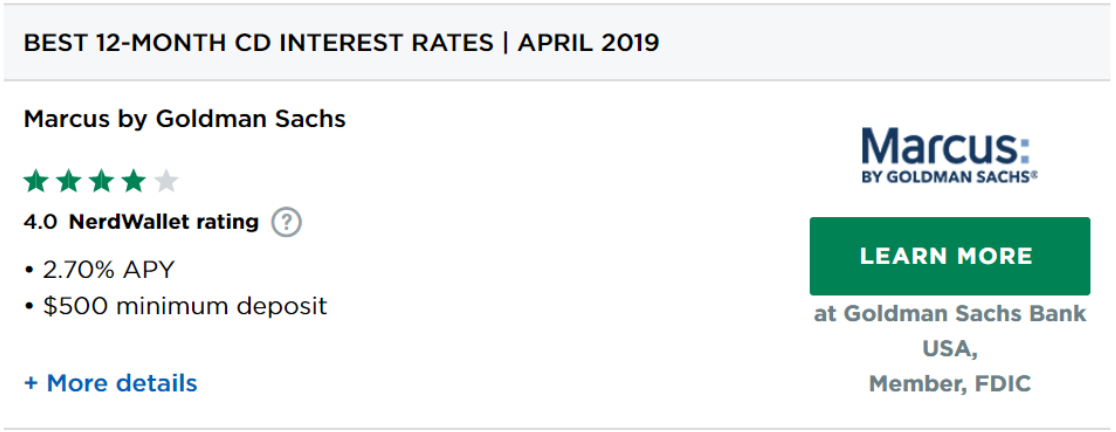

Invest $1000

End Year 1 = $1000x(1+2.7%)= $1027

End Year 2 = $1027x(1+2.7%)= $1055

End Year 3 = $1055x(1+2.7%)= $1083

End Year 4 = $1083x(1+2.7%)= $1112

End Year 5 = $1112x(1+2.7%)= $1142

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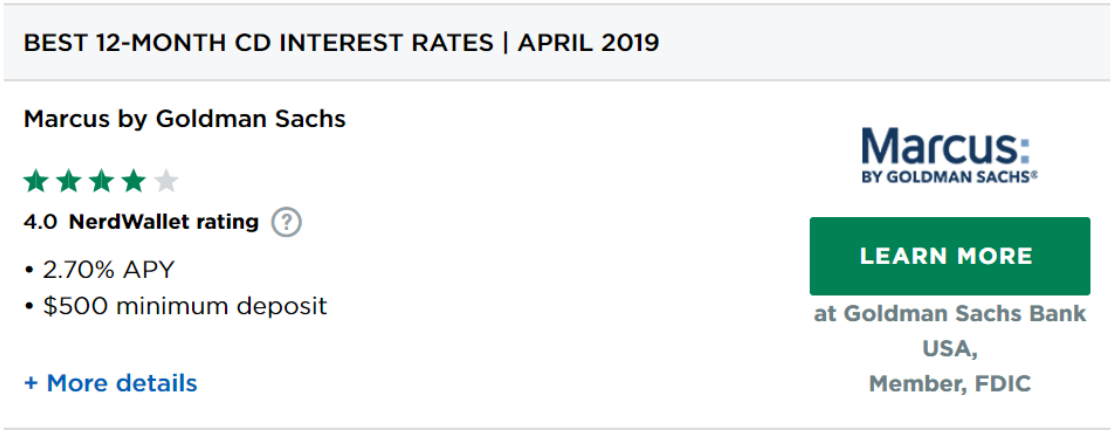

$$PV = \frac{\text{Cash Flow}}{(1+i)^{t}}$$

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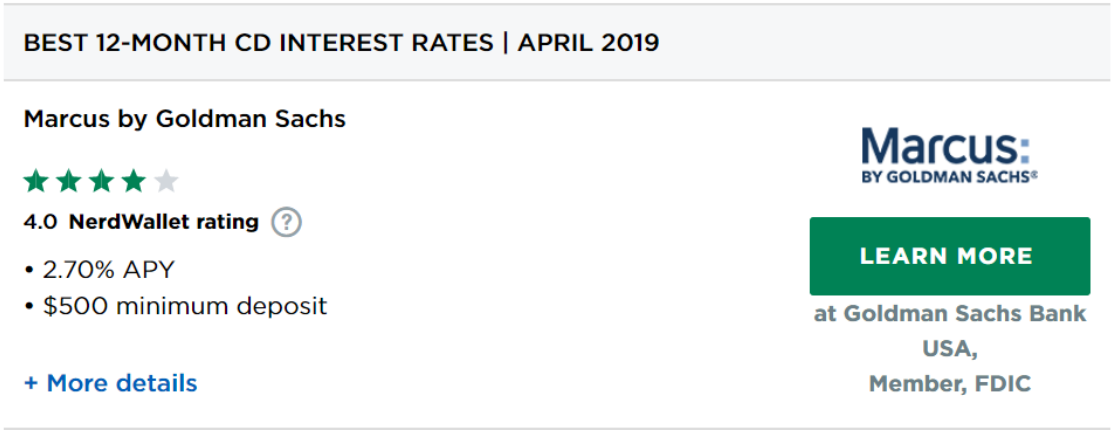

Invest $1000

PV Year 1 = $1027/(1+2.7%)^1= $1000

PV Year 2 = $1027/(1+2.7%)^2= $1000

PV Year 3 = $1055/(1+2.7%)^3= $1000

PV Year 4 = $1083/(1+2.7%)^4= $1000

PV Year 5 = $1112/(1+2.7%)^5= $1000

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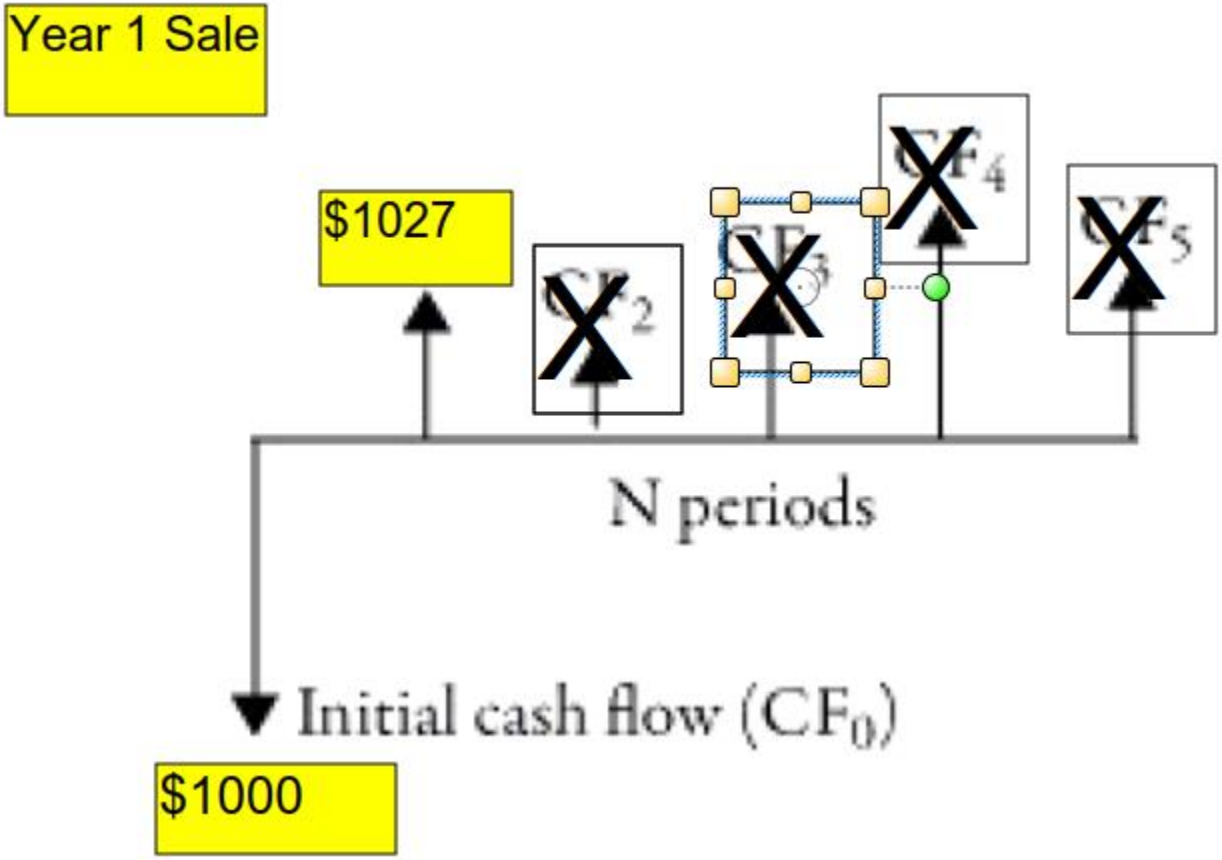

Only Occurrence of Cash Flow is at Sale

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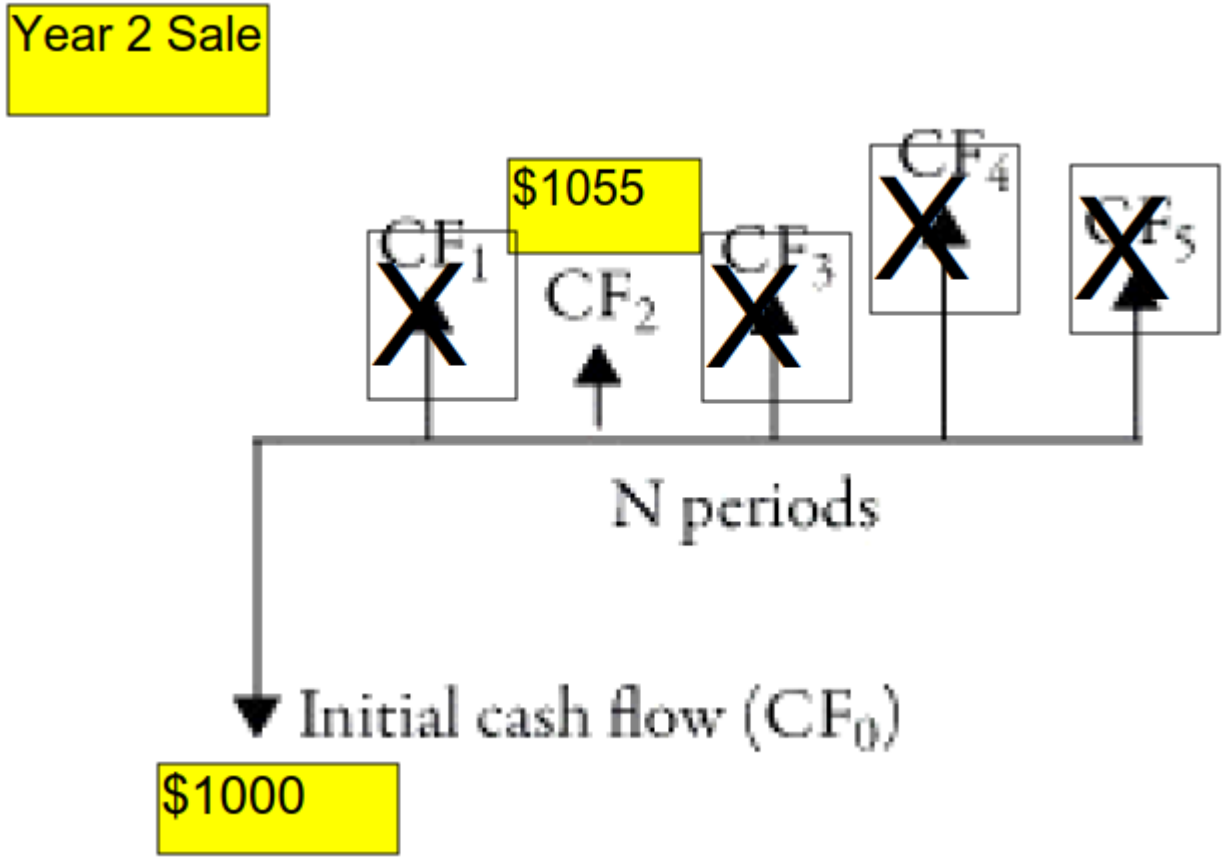

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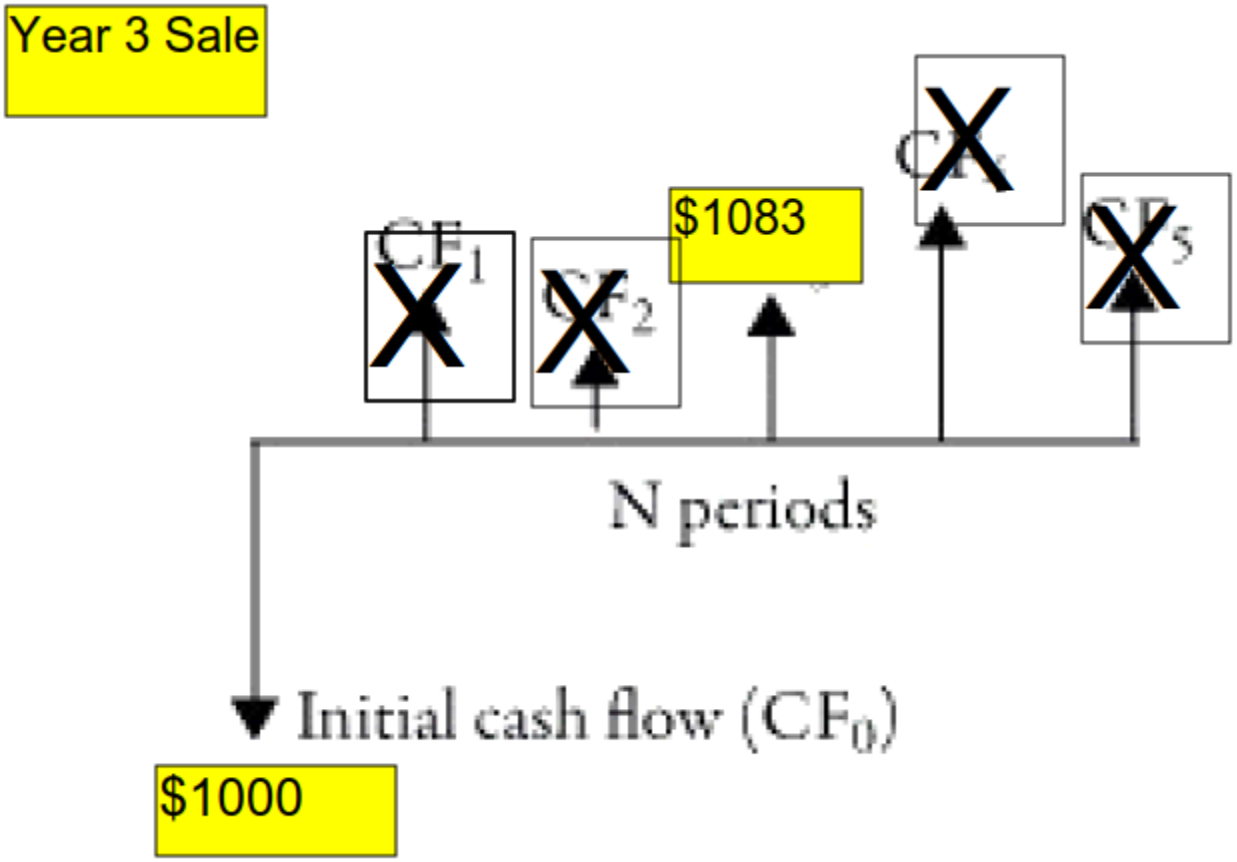

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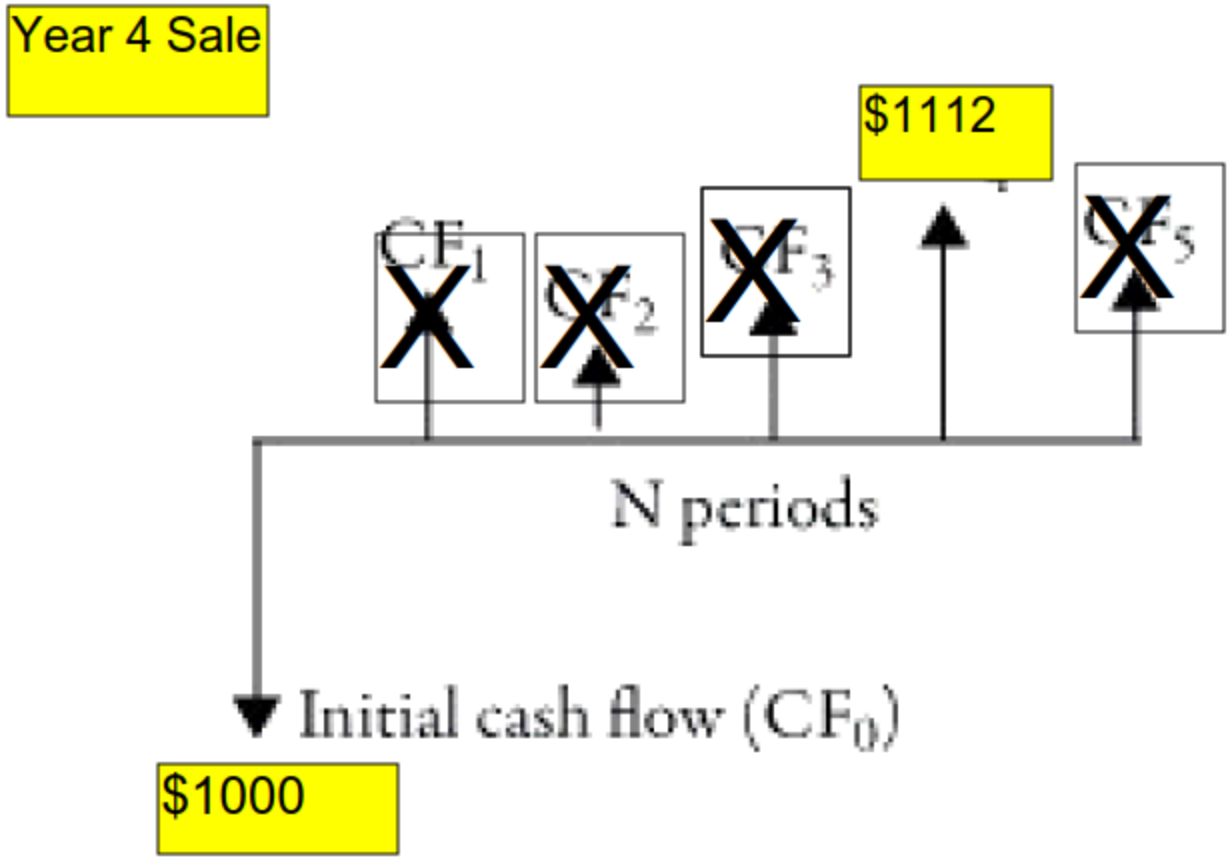

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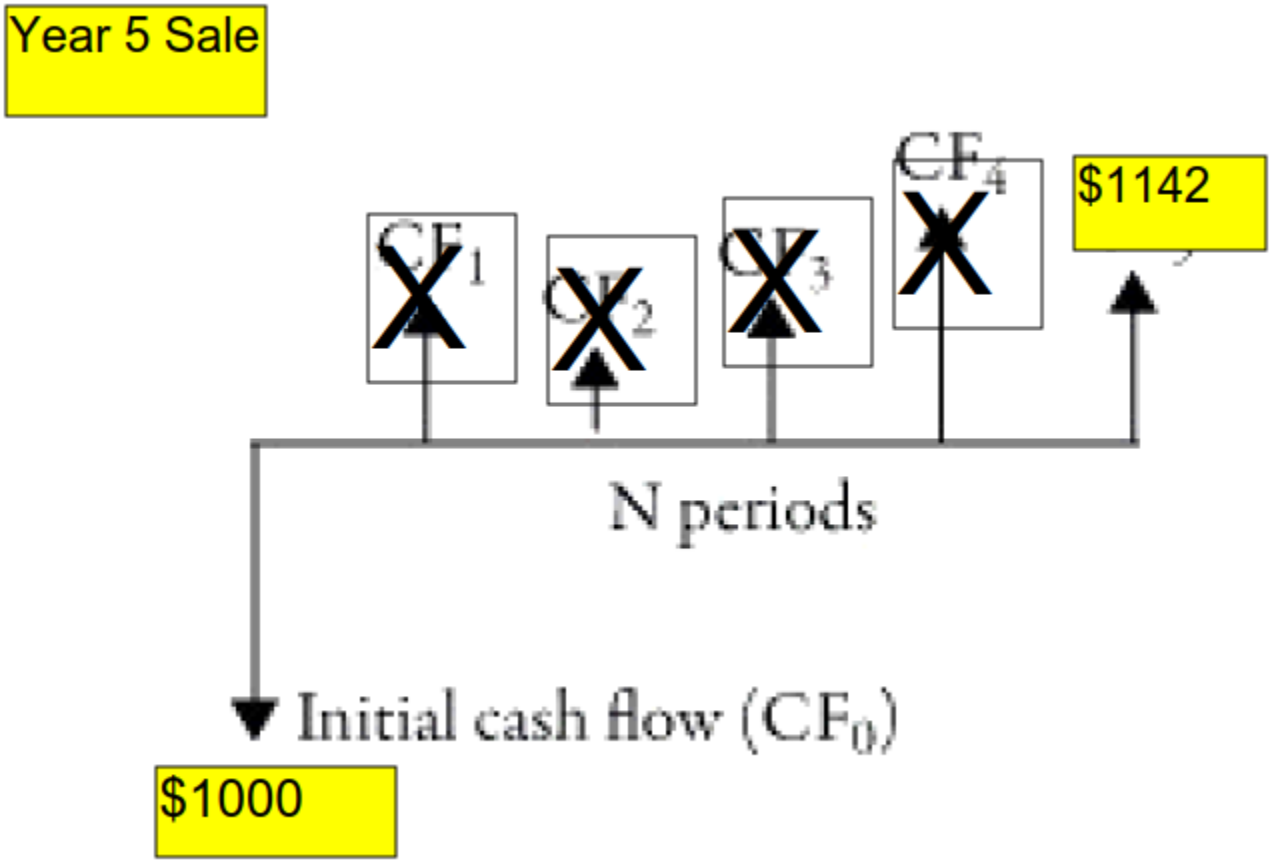

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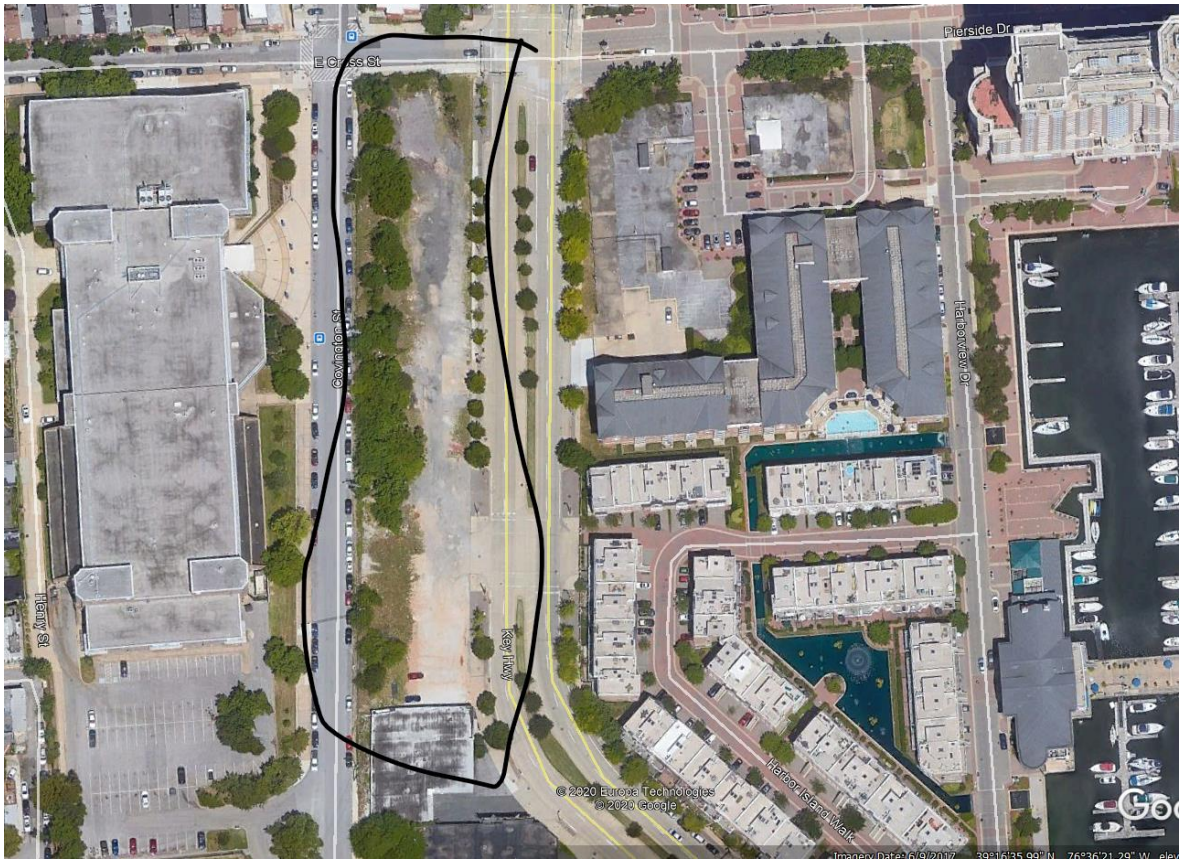
Case Study for Tonight-Qualitative



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Case Study for Tonight-Qualitative

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How did it Happen?

- Land Vacant for 30 + Years
- Many other developers failed
- Strategy?
- Market?
- Lending Environment?
- Construction Cost?

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How did it Happen?

Pro Forma											
Rental Product											
Year	0	1	2	3	4	5	6	7	8	9	10
Initial Investment	$ (60,000,000)										
Rental Income	$ -	$ 5,644,800	$ 5,814,144	$ 5,988,568	$ 6,168,225	$ 6,353,272	$ 6,543,870	$ 6,740,186	$ 6,942,392	$ 7,150,664	$ 7,365,184
Expenses		$(1,693,440)	$(1,744,243)	$(1,796,570)	$(1,850,468)	$(1,905,982)	$(1,963,161)	$(2,022,056)	$(2,082,718)	$(2,145,199)	$ (2,209,555)
Debt		$(2,304,431)	$(2,304,431)	$(2,304,431)	$(2,304,431)	$(2,304,431)	$(2,304,431)	$(2,304,431)	$(2,304,431)	$(2,304,431)	$ (2,304,431)
Sale											$ 151,722,784
Total	$ (60,000,000)	$ 1,646,929	$ 1,765,470	$ 1,887,567	$ 2,013,327	$ 2,142,860	$ 2,276,279	$ 2,413,700	$ 2,555,244	$ 2,701,034	$ 154,573,981

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Initial Investment
Land
Soft Costs
Hard Costs

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Rental Income
Unit Mix
Parking
Retail (Mixed Use)

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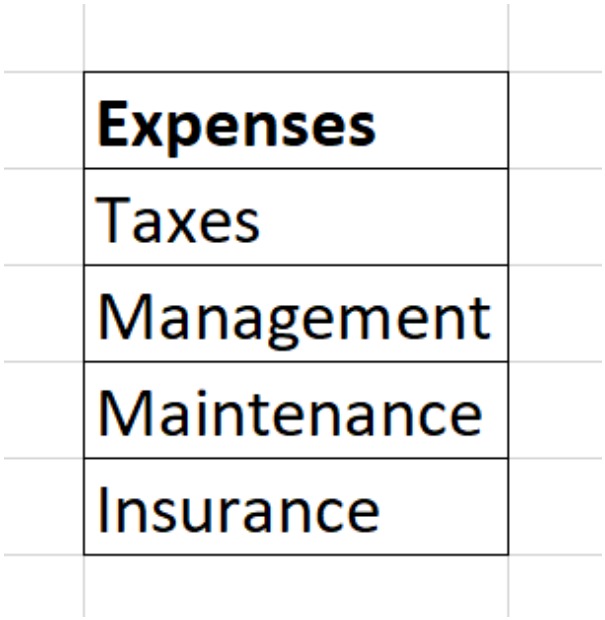

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Debt

Interest Rate

Amortization

Term

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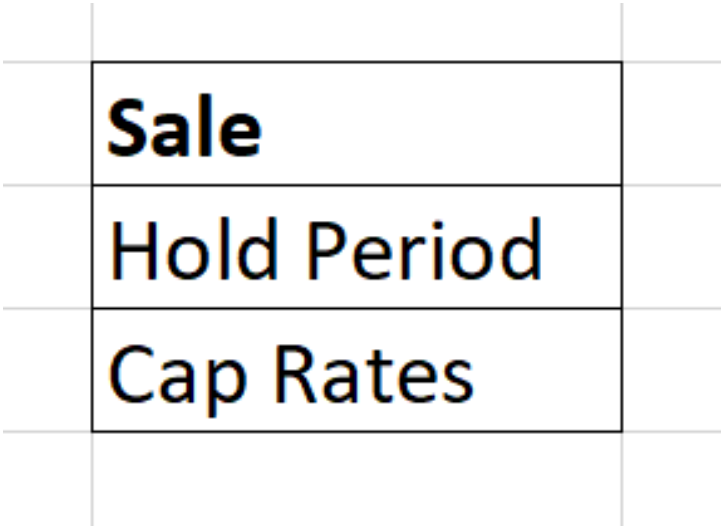

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Questions?