

Back to the Future of Real Estate Development

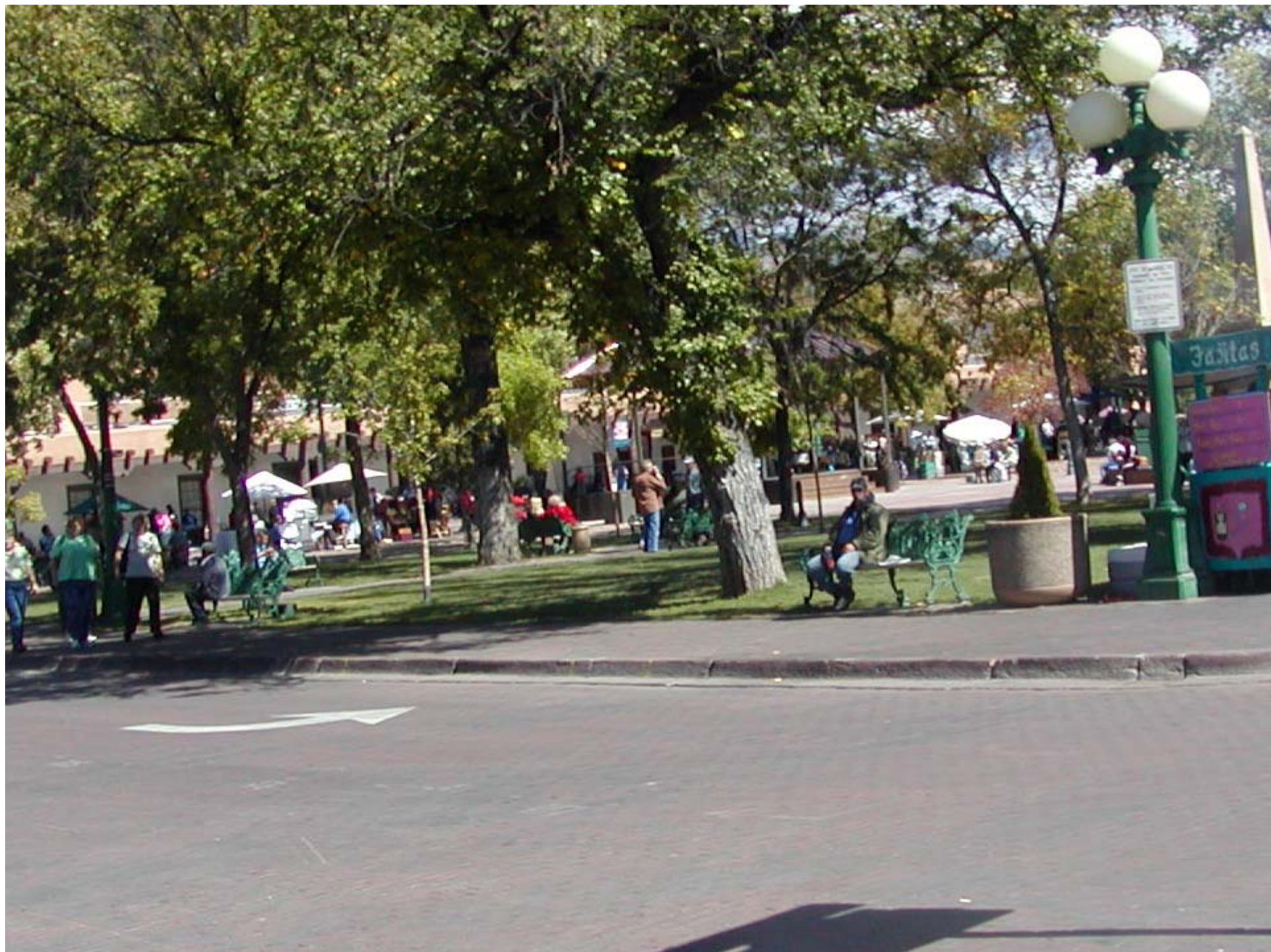
How Design, Financing and the Law Have to Change to Promote Smart Growth and Progressive Development

A Tale of Two Cities

Much Beloved Santa Fe, New
Mexico















BUT...Everyday Reality is a
Little Different

Could be Anywhere USA



















Elements of Conventional Development

- Simple
- Modular
- Segregated by Income and Race/Class
- Formula Driven
- Privacy the Highest Value for Residential For-Sale Products
- Parking Convenience & Visibility the Highest Value for Income Products
- Well Understood Product Types
- Transportation: Car and Truck Driven
- Short-Term Return and Finance Driven
- Disposable Product
- Suburban (0.2-0.4 FAR) and Semi-rural (Under 0.2 FAR) Character

19 Standard Product Types (2004)

Office

- Build to Suit
- Mixed-use Urban
- Multi-Tenant
- Medical

Industrial

- Build to Suit
- Bulk Warehouse

Retail

- Grocery Anchored
- Lifestyle Center
- Big Box Anchored
- Outlet Mall

Hotel

Not Possible W/O Subsidy

Apartment

- Suburban Garden
- Urban High Density

Miscellaneous

- Self-Storage
- Mobile Home Park

Housing

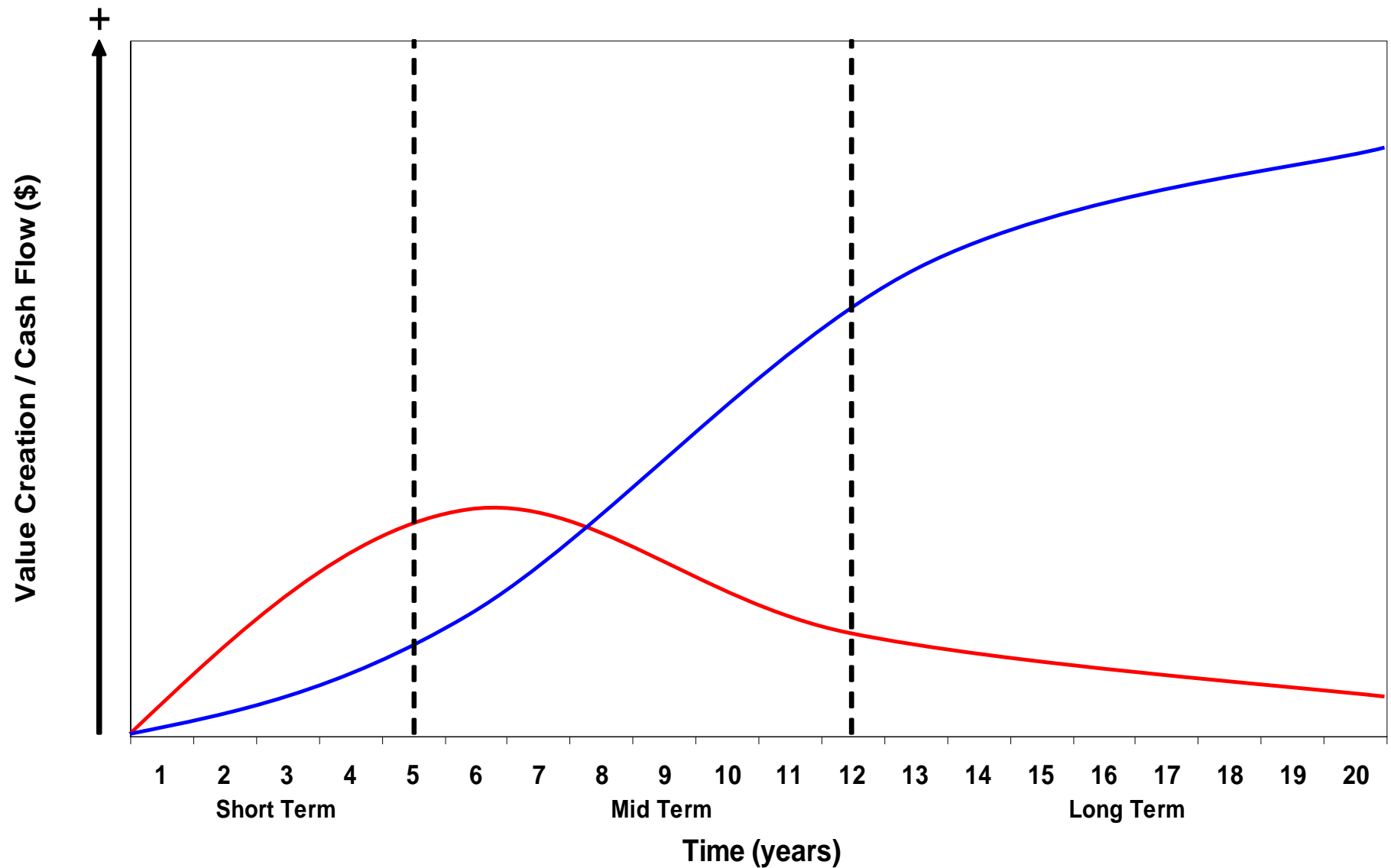
- Entry Level
- Move-Up
- Luxury
- Assisted/Retirement
- Resort/2nd Home

Source: Christopher B Leinberger

Elements of Progressive Development

- Complex
- Mixed-Use
- Integrated
- Grows from the Location
- Multi-Modal Transportation System
- Privacy AND Urbanity in For-Sale Residential
- Parking Convenience and Walkability in Commercial
- Poorly Understood MXD Product Types
- Walkability is **THE** key supported by multi-modal system
- Mid- and Long-Term Return Driven and Financed
- Built for the Ages
- Urban Character (Over 1.0 FAR)

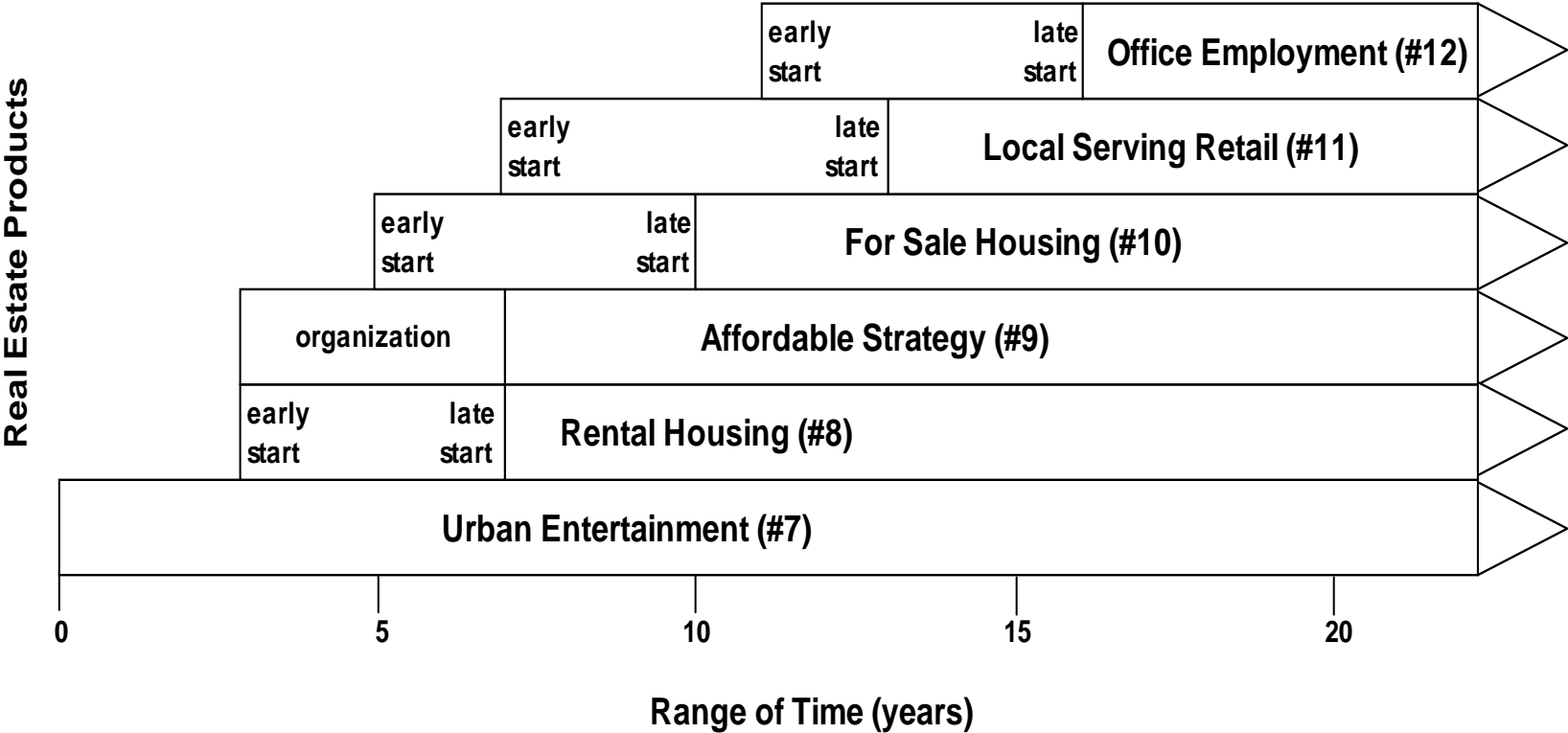
Financial Characteristics of Downtowns with Critical Mass (Blue) versus Suburban Development (Red)



Locations for Progressive Development

- Downtowns
- Second Generation Cores, e.g., Texas Medical Ctr, Park Cities, Uptown Dallas
- Suburban Downtowns, e.g., White Plains, Stamford, Wayne (PA)
- Universities, e.g., Cambridge Sq, UT, U of Penn
- Transit Oriented Development, e.g., Court House, Ballston
- New Suburban, e.g., Addison Circle, Reston Town Center
- Corridors, EDO in ABQ

Progressive Introduction of Real Estate Products in a Reviving Downtown



Source: Christopher B. Leinberger -- Arcadia Land Co. and Robert Charles Lesser & Co.

Alternatives to the 19 Standard Product Types

- Examples of How to Finance The Alternatives

Progressive Product Types

- For-Sale Housing/Office over Rental Retail—Ex. Gold Lofts
- Rental Office/Housing/Artists' Studios over Rental Retail—Ex. Crossroads & Nick's
- Bury the Big Box (Retail, Office and Housing)—Ex. Theatre Block & Gold Lofts
- Rental Housing Burying the Parking Deck over Retail—Ex. West Village





Progressive Product Types

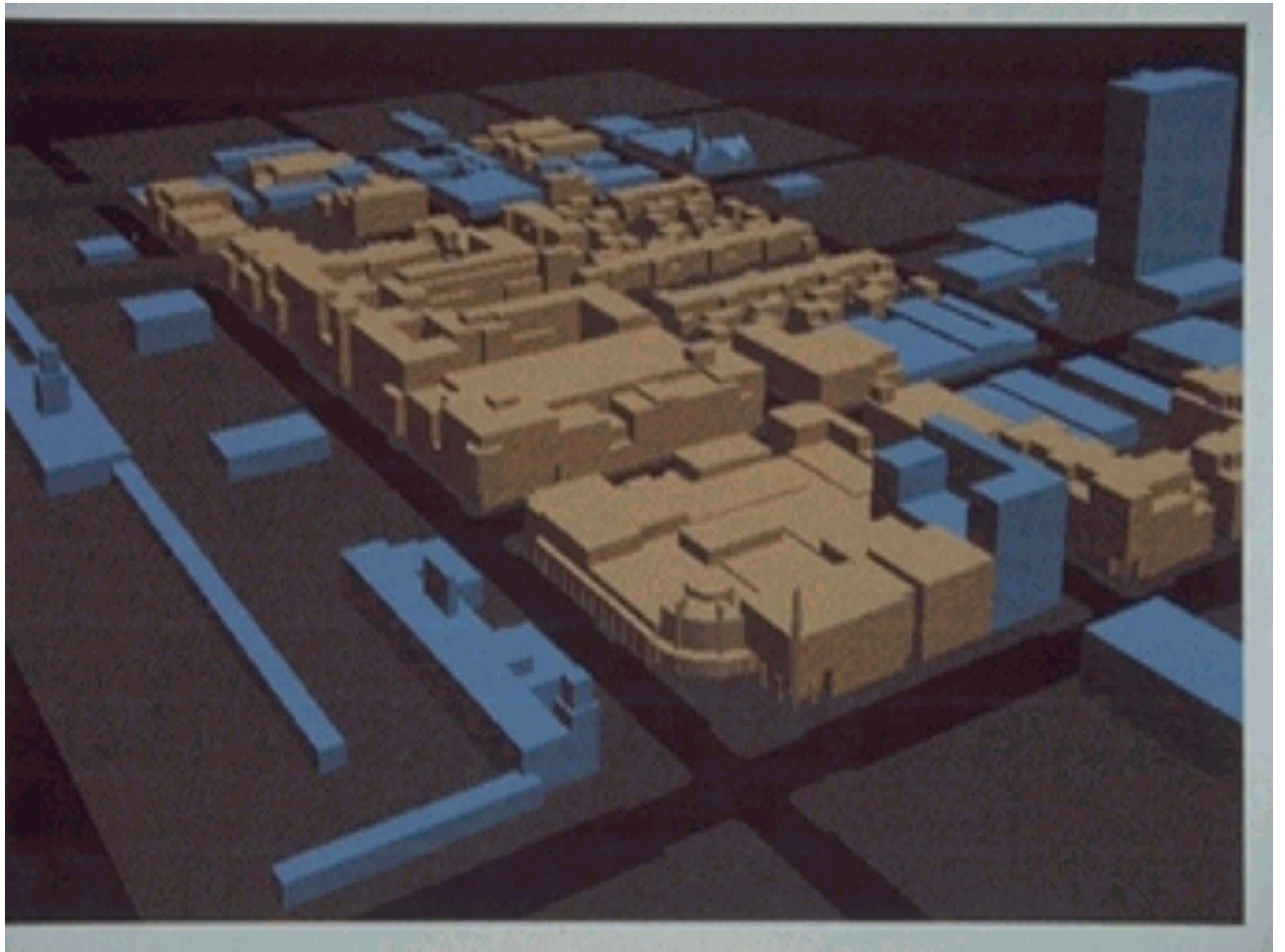
- For-Sale Housing/Office over Rental Retail—Ex. Gold Lofts
- Rental Office/Housing/Artists' Studios over Rental Retail—Ex. Crossroads & Nick's
- Bury the Big Box (Retail, Office and Housing)—Ex. Theatre Block & Gold Lofts
- Rental Housing Burying the Parking Deck over Retail—Ex. West Village





Progressive Product Types

- For-Sale Housing/Office over Rental Retail—Ex. Gold Lofts
- Rental Office/Housing/Artists' Studios over Rental Retail—Ex. Crossroads & Nick's
- Bury the Big Box (Retail, Office and Housing)—Ex. Theatre Block & Gold Lofts
- Rental Housing Burying the Parking Deck over Retail—Ex. West Village









Progressive Product Types

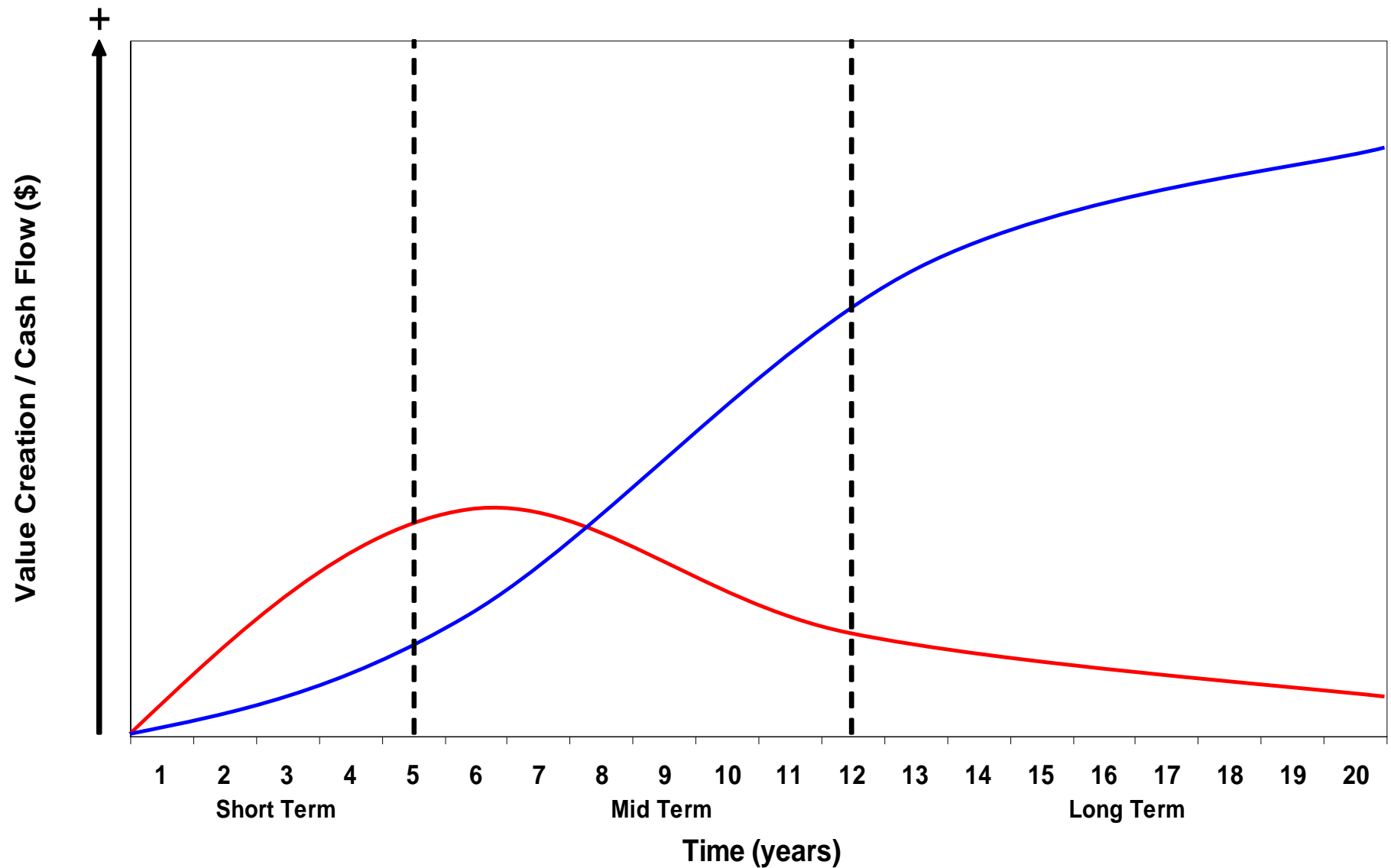
- For-Sale Housing/Office over Rental Retail—Ex. Gold Lofts
- Rental Office/Housing/Artists' Studios over Rental Retail—Ex. Crossroads & Nick's
- Bury the Big Box (Retail, Office and Housing)—Ex. Theatre Block & Gold Lofts
- Rental Housing Burying the Parking Deck over Retail—Ex. West Village



Two Examples of Financing

- Gold Avenue Lofts (for-sale office, for-sale residential and rental retail)
- Silver Court Apartments (rental apartments with rental retail)

Financial Characteristics of Downtowns with Critical Mass (Blue) versus Suburban Development (Red)





Gold Lofts (80,500 SF)		
	Cost (000's)	
Land	\$1,100	
Hard Costs	\$6,800	
Soft Costs	\$1,900	
Total	\$9,800	

Gold Lofts (41 for-sale units & 11,000 SF rental retail)						
000's	2005	2006	2007	2008	2009	2010
Cash Flow	\$201	\$3,063	\$123	\$140	\$155	\$155
(after debt svc)						
1st T (\$1.5M)	\$201	\$2,052	0	0	0	0
2nd T (\$0.98M)	0	0	\$123	\$140	\$155	\$116
3rd T (\$0.12M)	\$0	\$0	0	0	0	\$39



Silver Court Apartments (174 DU)			
	Cost (000's)	Per Unit (000's)	Per Rentable Foot
Land	\$900	\$5	\$6
Hard Costs	\$14,000	\$80	\$95
Soft Costs	\$3,000	\$17	\$20
Total	\$17,900	\$102	\$121

Silver Court Apartments (174 DU)							
000's	YEARS						
	1	2	3	4	5	6	7
NOI	\$1,626	\$1,694	\$1,764	\$1,838	\$1,914	\$1,993	\$1,869
Debt Svc	992	1,105	1,105	1,105	1,105	1,105	1,105
1st T (\$3.0M)	1,264	557	498	268	190	20	0
2nd T(\$1.4M)	12	15	21	27	36	497	654
3rd T(\$2.1M)	0	0	0	0	0	80	110

Expectations of Financing Progressive Development

- More Complex Equity Structure
- Fewer Debt Sources
- More Moving Parts Can Sidetrack Project (Silver Court)
- Developer Must Be Patient & Able to Support His/Her Own Overhead for 3-5 Years
- Observers Assume You Are Making a Fortune...don't expect favors
- Natural "Friends" Do Not Support Efforts

Disadvantages of Progressive Development

- More Complex/Harder to Do
- May be Illegal
- Mixed-Use Development Financing is Far More Difficult
- More Equity Means Fewer Deals
- Need for Critical Mass to Create Walkable, Special Place—3-6 Years from Start
- You and Colleagues Will Question Your Sanity

Advantages of Progressive Development

- Build Long-Term Wealth Due to Upward Spiral
- Memory/Emotion Kicks In As Asset
- Civic Investment Possible
- May Be Able to Wear White Hat (no guarantee)
- Non-Recourse Debt Possible
- Feel Better About What You Build—wife and kids proud of you

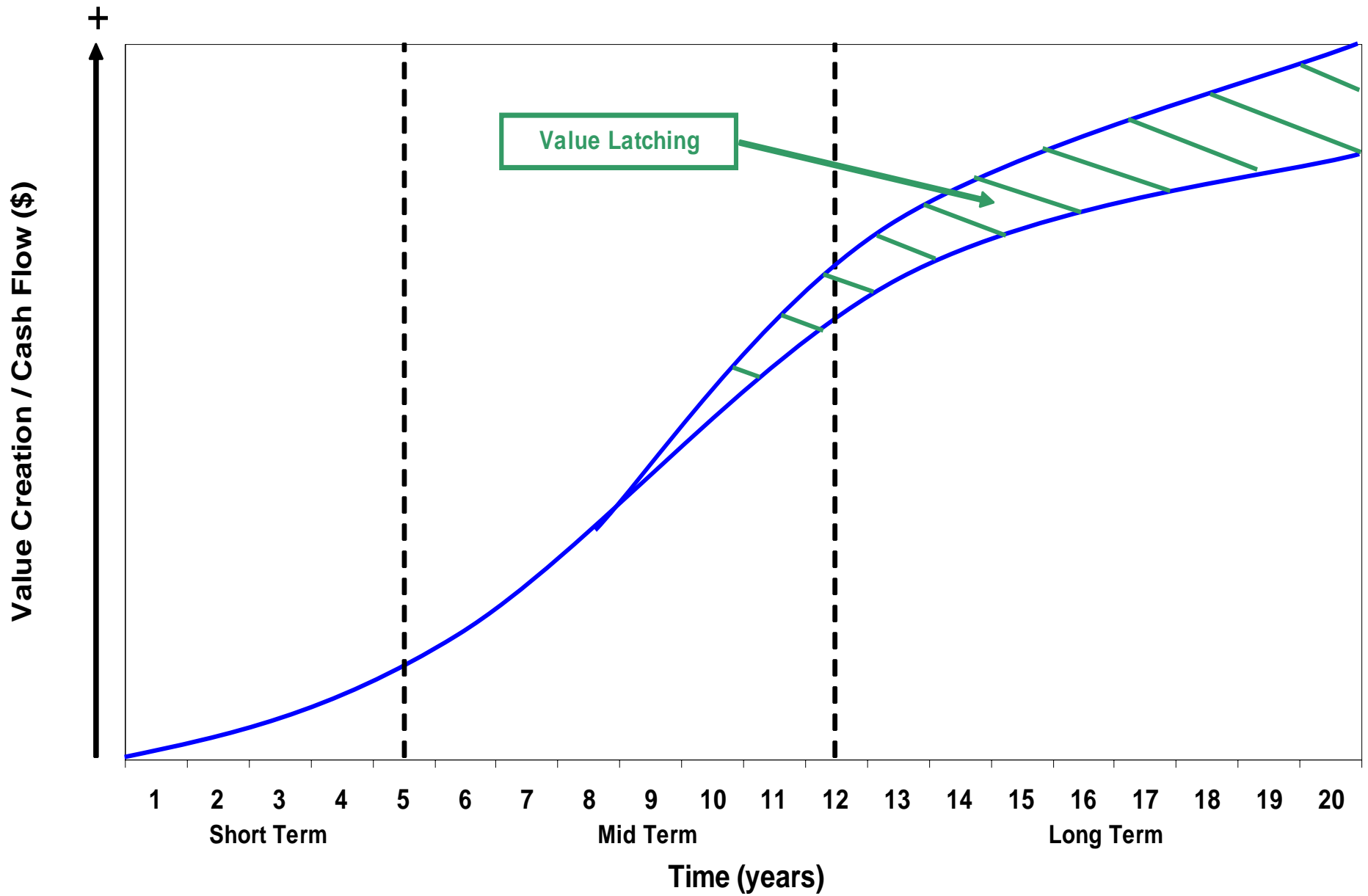
ABQ Civic Trust

Dealing with the Intentional
Consequences of Success



"It was an artist's loft. Now it's a lawyer's loft."

Progressive Real Estate Cash Flows with Value Latching



www.cleinberger.com

- “The Need for Alternatives to the 19 Standard Real Estate Products” (Places magazine)
- “Turning Around Downtown: Twelve Steps to Revitalization” (Brookings Institution paper for long version and Urban Land magazine for the summary)
- “Building for the Long-Term” (Urban Land magazine)
- “Financing Mixed-Use Development” (Urban Land magazine)





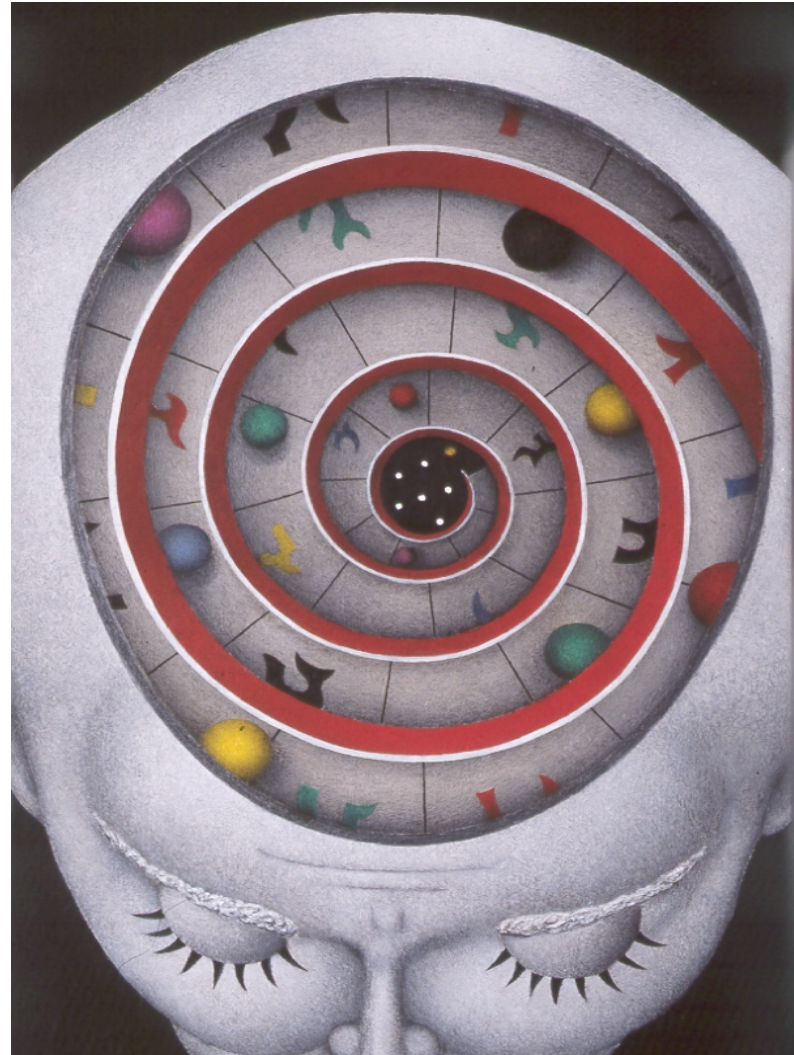


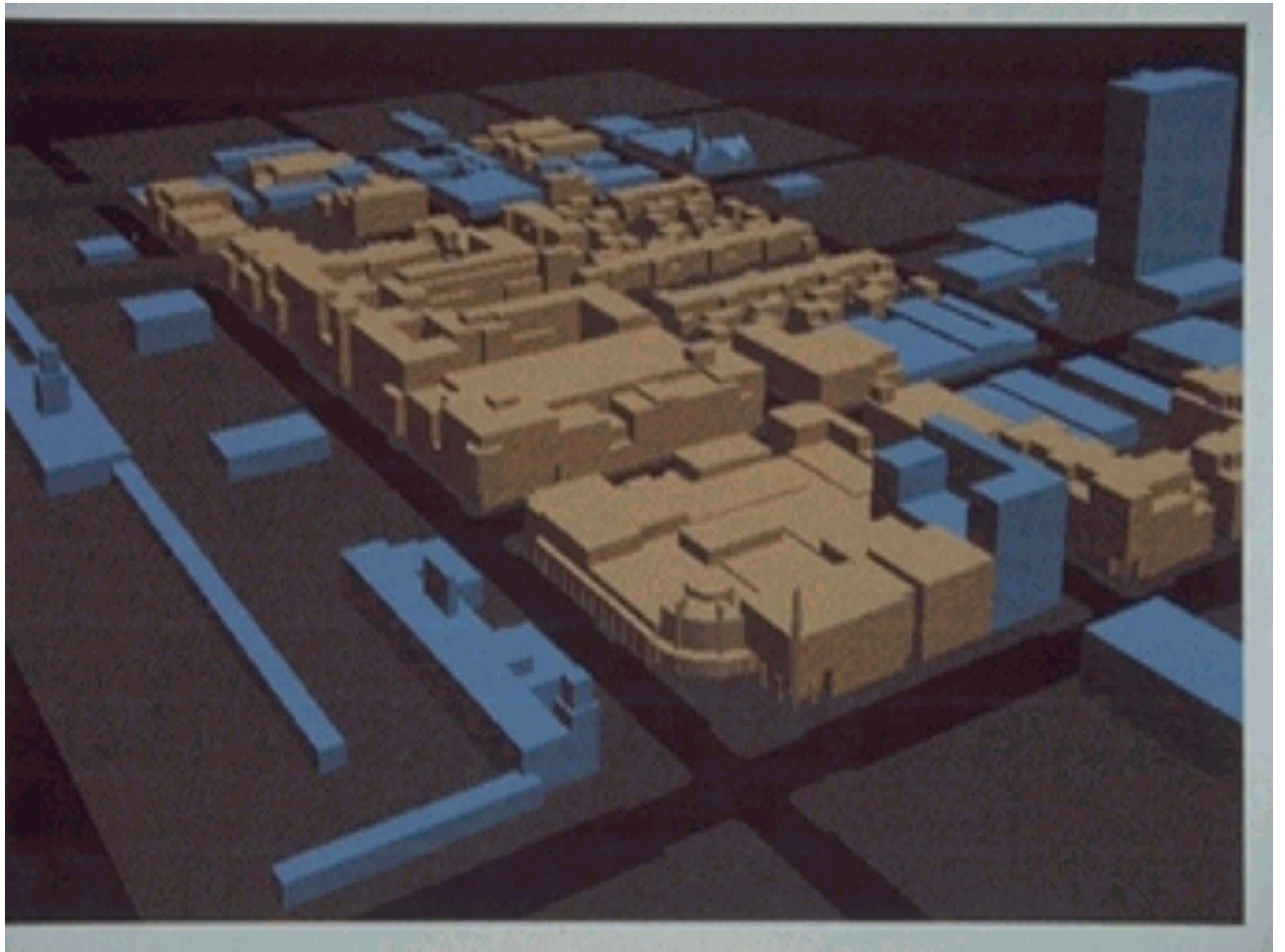
Comparison of Conventional Vs. Progressive Financing

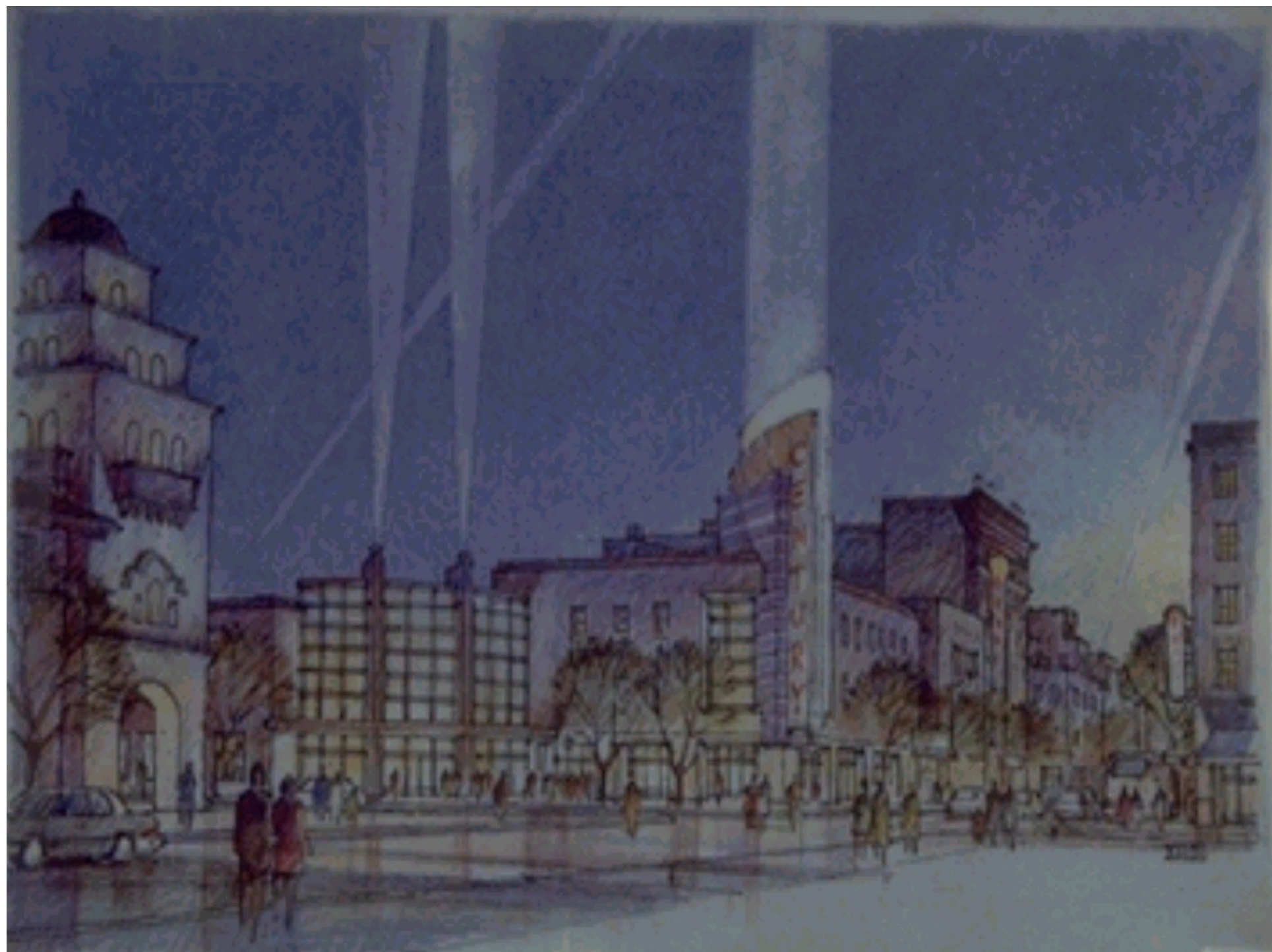
- 3-5 Year Time Horizon
- DCF/IRR
- Low Equity/High Debt
- Recourse Debt
- Low DCR's
- Build and Flip
- 10 + Year Time Horizon
- CCF and/or Overhead Coverage Ratio
- Higher Equity/Lower Debt (Gold Lofts)
- Non-Recourse Possible
- Higher DCR's
- Build and Hold (PPC)

Upward Spiral of Value Creation

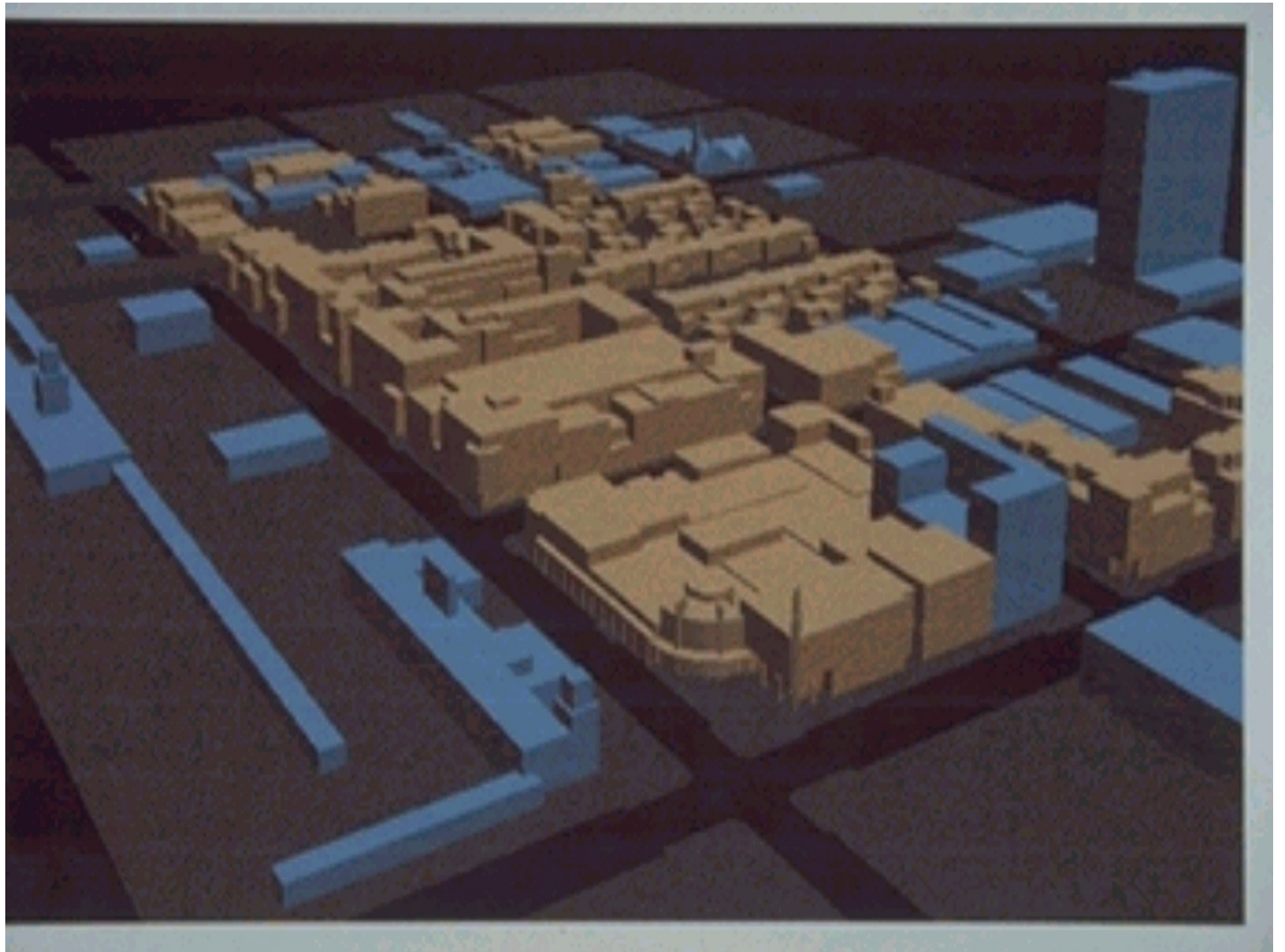
- More is Better
- Each New Element Adds Value to Existing Assets...IF within Walking Distance
- Creates a Special Place...as opposed to conventional sprawl



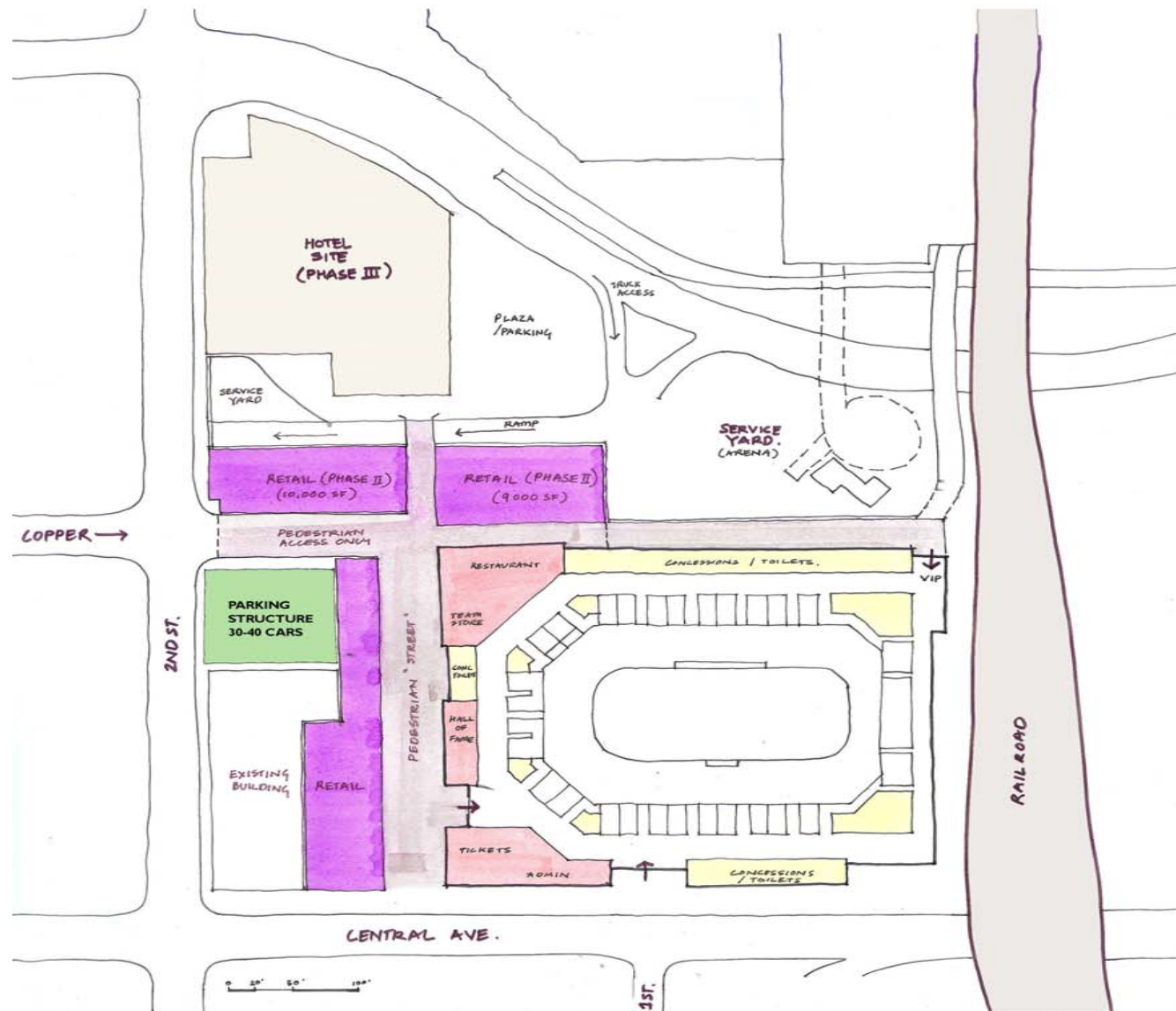


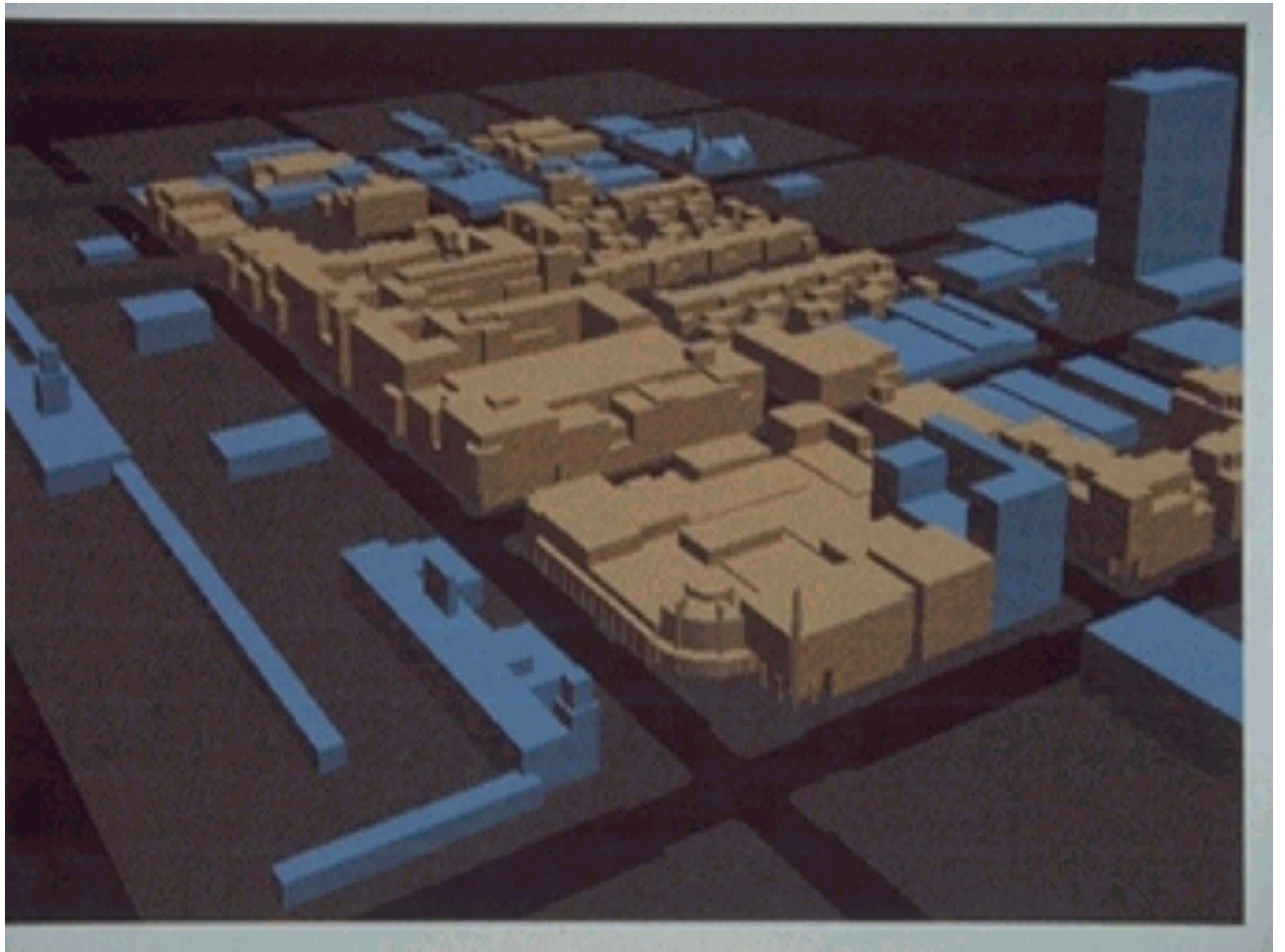








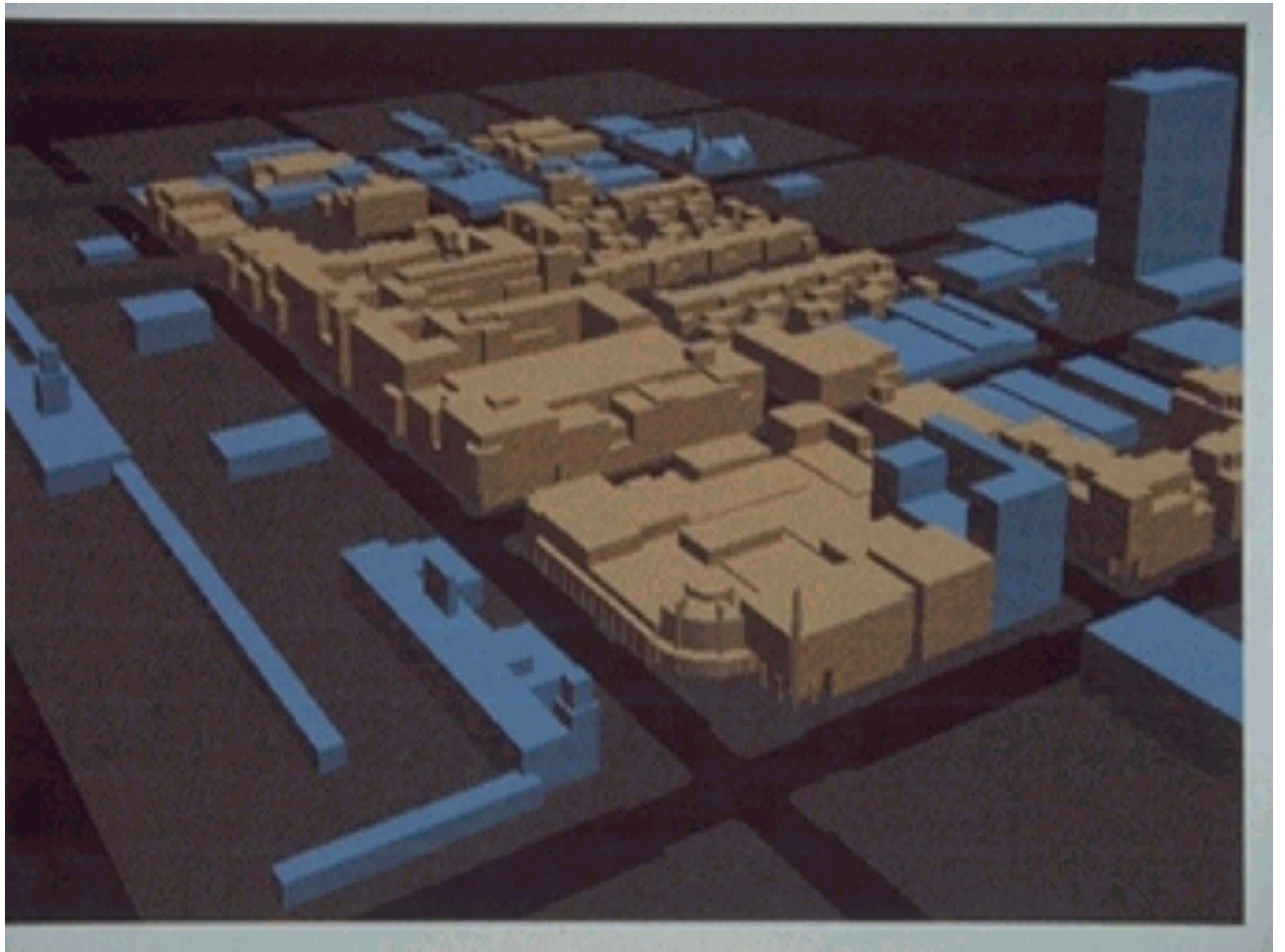




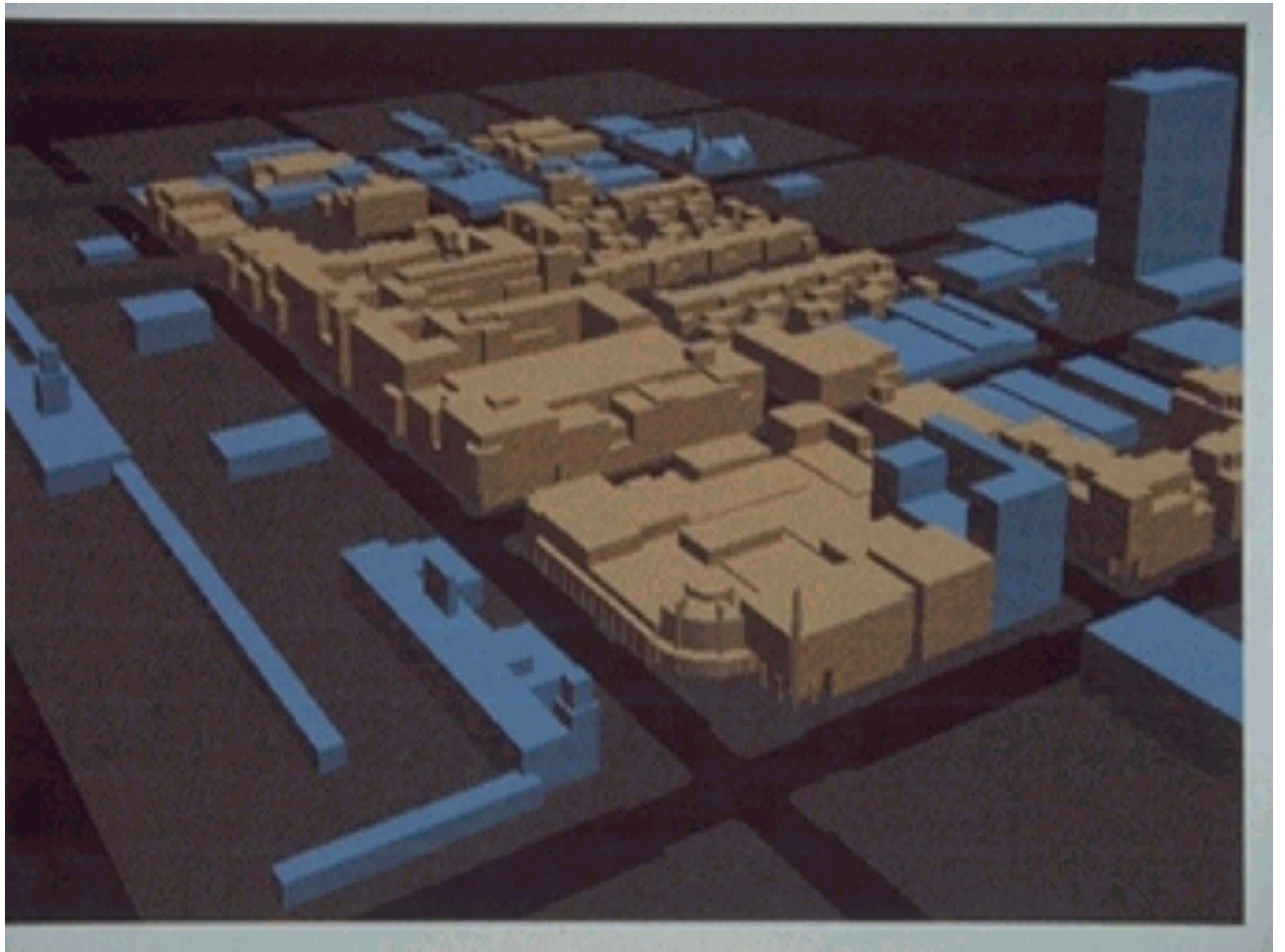


















Strategic Options for Development Company

- Product Focus—Same Product/Multiple Locations=**Conventional**
- Location Focus—New Products/Same Location=**Progressive**

Two “Truisms” of Development

- Understand Your Exit Strategy Before You Tie Up the Land
- Do NOT fall in Love with Your Projects

Underwriting Methodology

- Discounted Cash Flow/Net Present Value
- Short-Term Basis—5-7 Year Asset Class
- History—Real Estate as a Mid-to Long-Term Asset Class
- Compare Historic/Progressive vs Conventional Project (Theatre Block)







Progressive Product Types

- Vertical Retail/Housing (Rental or For-Sale) Ex. Gold Lofts
- Vertical Retail/Office Ex. Crossroads
- Bury the Big Retail Box (Retail, Office and Housing) Ex. Theatre Block
- Historic Rehab to Housing Ex. ABQ High
- Bury the Parking Deck Ex. Silver Court and Gold Lofts
- Vertical Retail/Artists Studios Ex. Fort 105/Nick's Place



Historic District Improvement
Company:
Catalytic Developer for Downtown
Albuquerque

HDIC Partners

- Arcadia Land Company
- McCune Charitable Foundation
- Downtown Action Team

Catalytic Developer Requirements

- Site Control, may include condemnation
- Patient Capital Base
- Long Term Vision
- Short Term Desire to Get Things Done
- Willingness to Encourage Competition
- Unique Relationship with City
- Acceptance of High Risk Investments

Spectrum of Catalytic Developers

- City Department--Community Redevelopment Agency (LA)
- Separate Agency--Centre City Development (San Diego)
- Non-profit/City--RiverCity Development Corporation (Chattanooga)
- Private/Non-profit--Historic District Improvement Company (Albuquerque)

Historic District Improvement Co

- Catalytic Developer
- McCune Foundation Investment
- Mid-term & Long-term Investment Horizon
- New Urbanism Design Orientation
- Private/Public J/V with City
- Changing Investment/Tenant Attitude

How to Form a Catalytic Developer

- Buy Vs Make---You Must Make
- Locally Committed Individuals Who Can Financially Support Themselves
- Patient Capital Source
- *Private/Public* Joint Venture Approach
- Luxury of Time to Create Critical Mass
- Doing Well While Doing Good Philosophy
- Be Prepared for “No Good Deed Goes Unpunished”

TABLE 1.
Comparing Spot Demand and Medium Cash Flow Edums

	Initial Investment (000s)	YEAR															IRR
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Example#1 (short-term investment)	100	0	8	11	13	14	15	16									15.1%
Example#2 (mid-term investment)	100	-5	-5	0	5	11	13	14	17	20	23	25	27	28	29	30	13.7%

Progressive Real Estate Cash Flows with Value Latching

