



D-TAP

Real Estate Development Basics

Workshop 2 – Day 1

Introduction



Course Instructors



Andy Babula

University of St. Thomas

Varro Real Estate



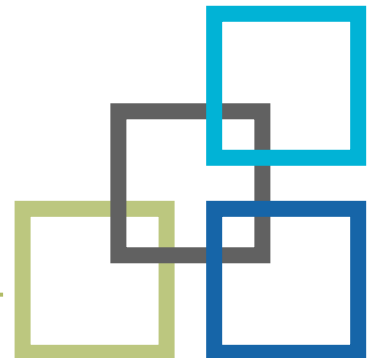
Alex Frank

Magnolia Homes



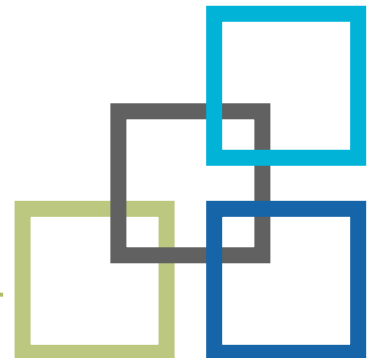
Miranda Walker

U. S. Bank



Refresh of Key Points from Workshop 1

- Types of Real Estate Investing: Risk v. Reward
- Requirements for Success (Money, Time, Relationships, etc.)
- Development Basics (HBU, Value v. Cost)
- Pros and Cons
- Tips for Getting Started



Critical Elements of Development – Skills Needed

Site Selection &
Opportunity
Identification

Acquisition &
Due Diligence

Planning, Zoning,
& Entitlements

Design

Construction

Financial
Feasibility

Financing

Lease Up &
Property
Management



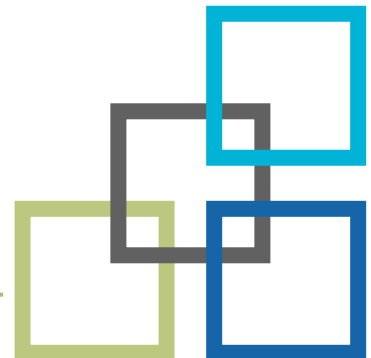
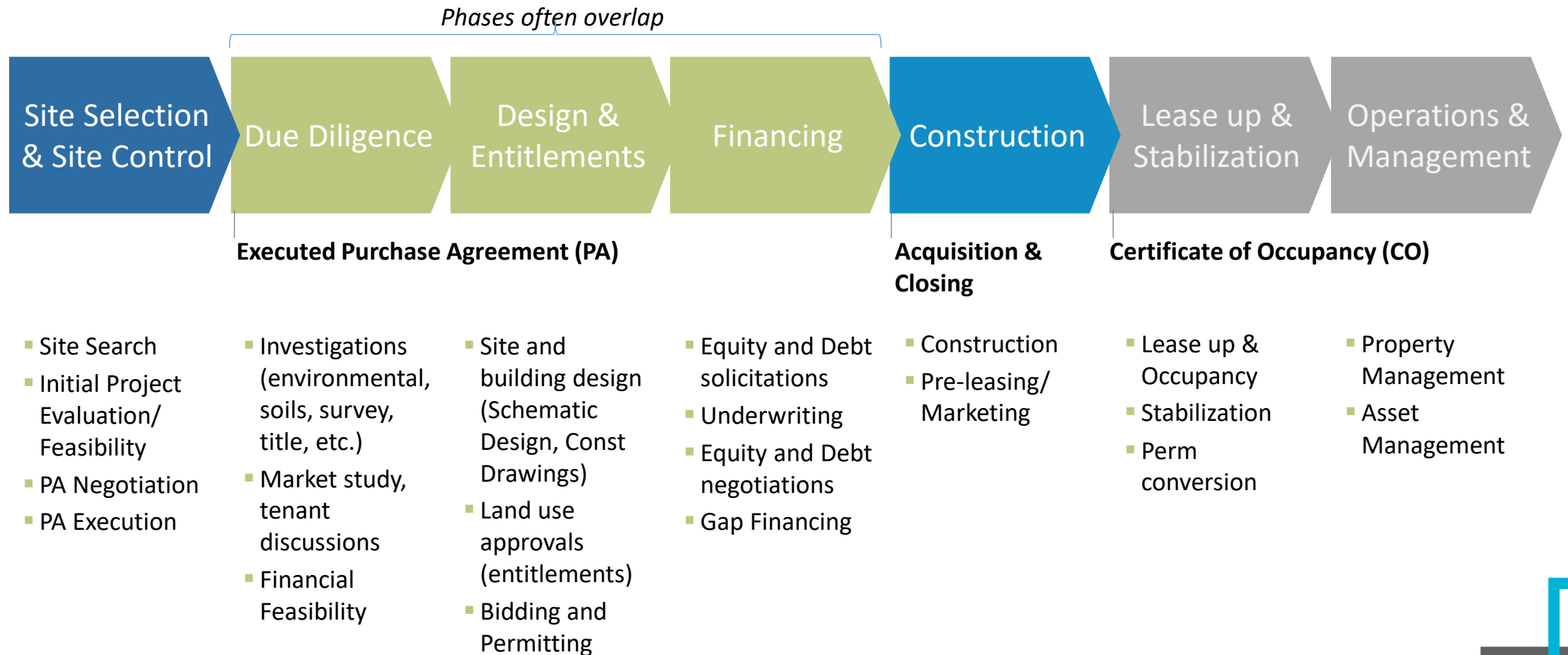
Introductions

Name

Real Estate Skill



Development Process

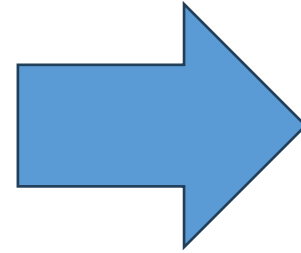


Site Selection & Opportunity Identification



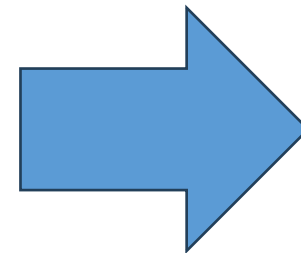
Highest & Best Use

Site looking for use

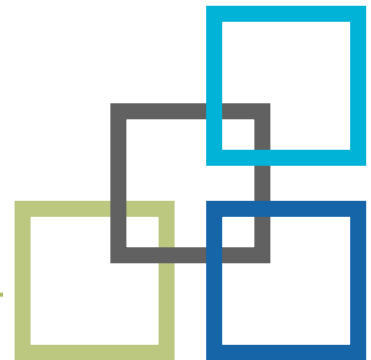


Use?

Use looking for site



Site?



Highest & Best Use – 4 Tests

Legally permissible



Physically possible



Financially feasible



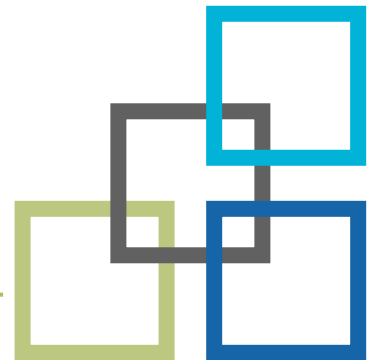
Maximally productive



What to Consider When Selecting a Site



- Location
- Basic Specifications
- Permitted Use (Zoning)
- Demand/Desirability
- Property Conditions
- Existing Tenants
- Availability
- Price



Location

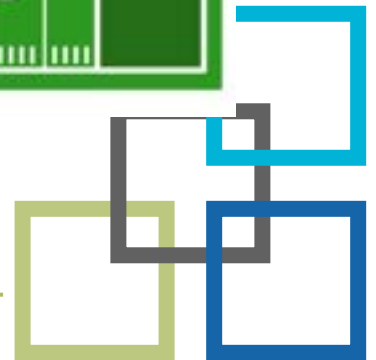
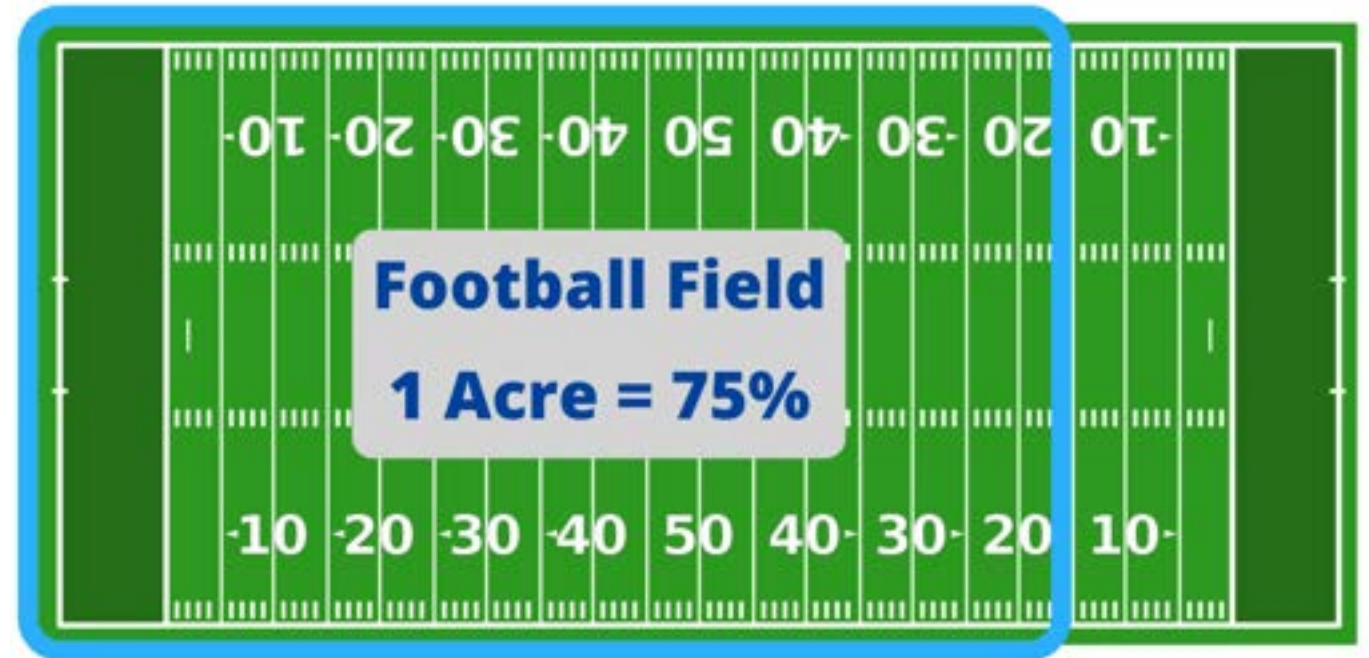
- Demographics
- Externalities (amenities, anchors, schools, crime)
- Traffic/Roads
- Trends



Basics

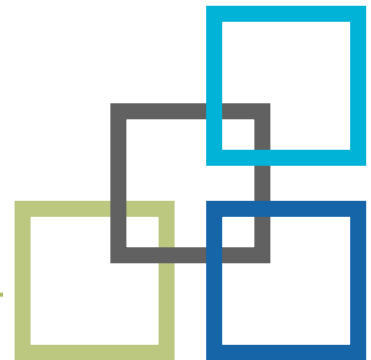
- Size
- Age/Condition of Structure
- Access
- Visibility
- Parking

1 acre = 43,560 SF



Buildable Land (Physically Possible)

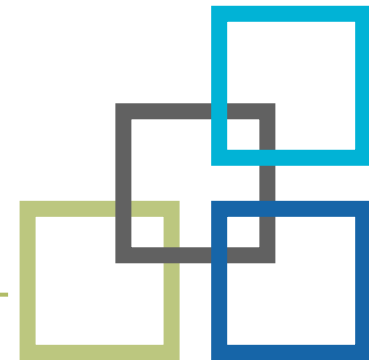
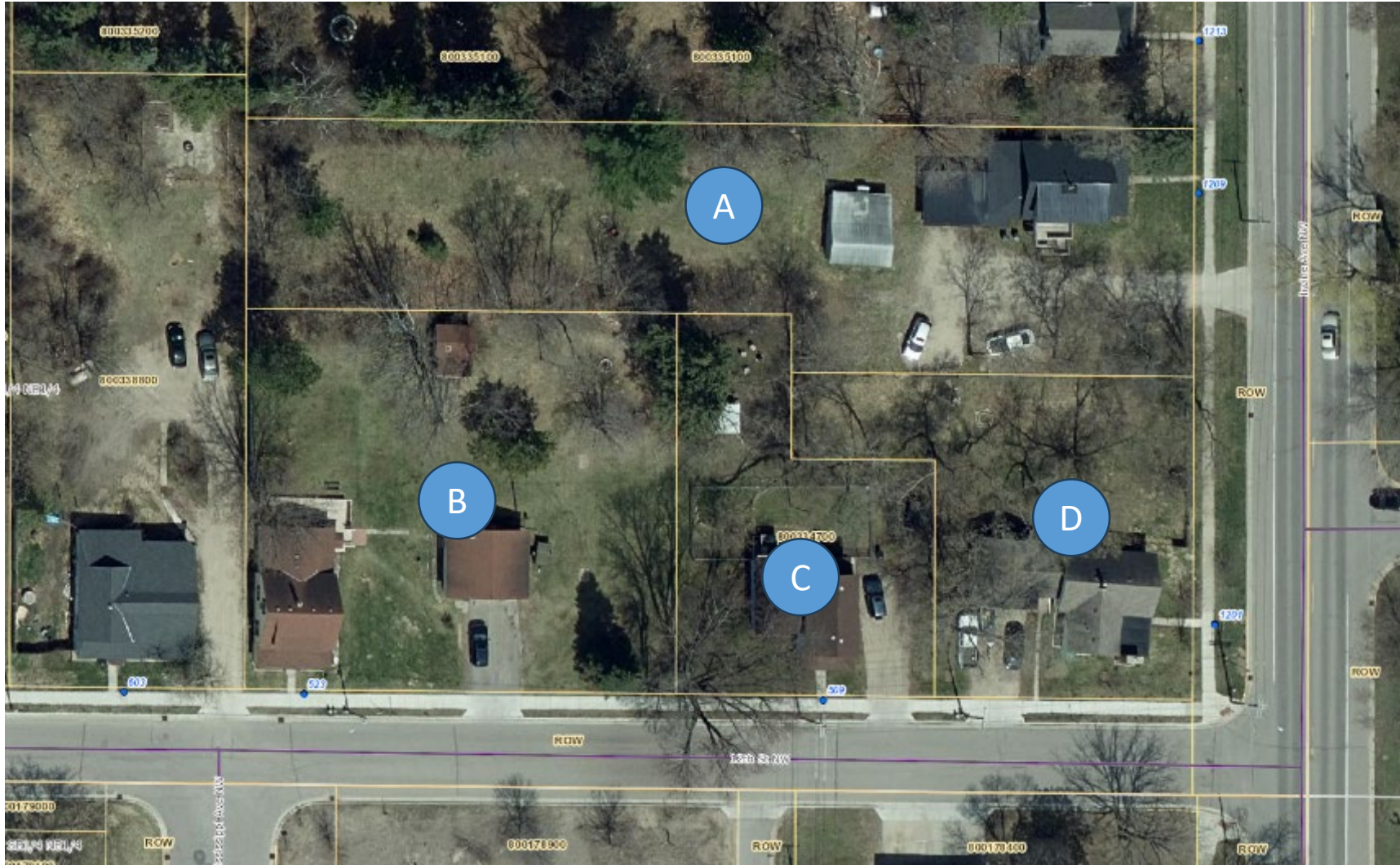
- Lot size and shape
- Soils, wetlands
- Environmental
- Topography
- Utilities



Buildable Land - Topography



Buildable Land – Lot Size & Shape



Finding Basic Site Specifications

Hennepin County

www.hennepin.us/residents/property/property-information-search

Hennepin Interactive Maps

900 3rd Street North, Minneapolis

Type an address or a property ID (PID) [Search help](#)

Tools Legend Print Share Help

Property

Go to Property links

Clear results

PID: 2202924210054
900 3rd St N
Minneapolis, MN 55401

Owner/Taxpayer	
Owner:	Gurley Lofts Llc
Taxpayer:	GURLEY LOFTS LLC C/O SCHAFER RICHARDSON INC 900 NORTH 3RD ST MINNEAPOLIS MN 55401

Tax Parcel	
Parcel Area:	0.46 acres 19,880 sq ft
Torrens/Abstract:	Abstract

Map layers

Finding Basic Site Specifications

City of Minneapolis

apps.ci.minneapolis.mn.us/AddressPortalApp/

The screenshot shows the Minneapolis City of Lakes Property Information portal. The page title is "Property Information" and the breadcrumb is "Address Search / Property Summary". The main heading is "Property summary".

Address: 900 3RD ST N 55401 Property ID: 2202924210054

Owner
Please visit [Hennepin County](#) for current information.

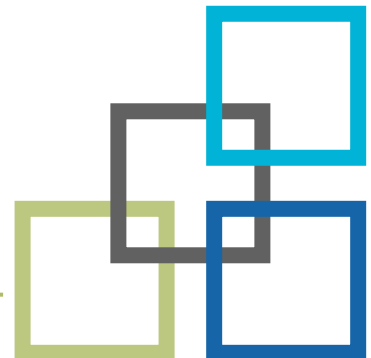
Taxpayer (Source: Hennepin County)
Please visit [Hennepin County](#) for current information.

This address is in
[North Loop neighborhood](#)
[Police precinct 1](#)
[Ward 3](#)

Related links
[Garbage & recycling schedule](#)
[Hennepin County property information](#)

Valuation history | **Lot info** | **Classifications** | **Rental info** | **Lead paint status*** | **Energy star** | **Parcel flags**

Lot size	19,800
Tract/block	126200 / 2010
Zone	BFT10 / Transit 50 Built Form Overlay District DP / Downtown Parking Overlay District DT1 / Downtown Center District A A A



Demographics - MN Compass

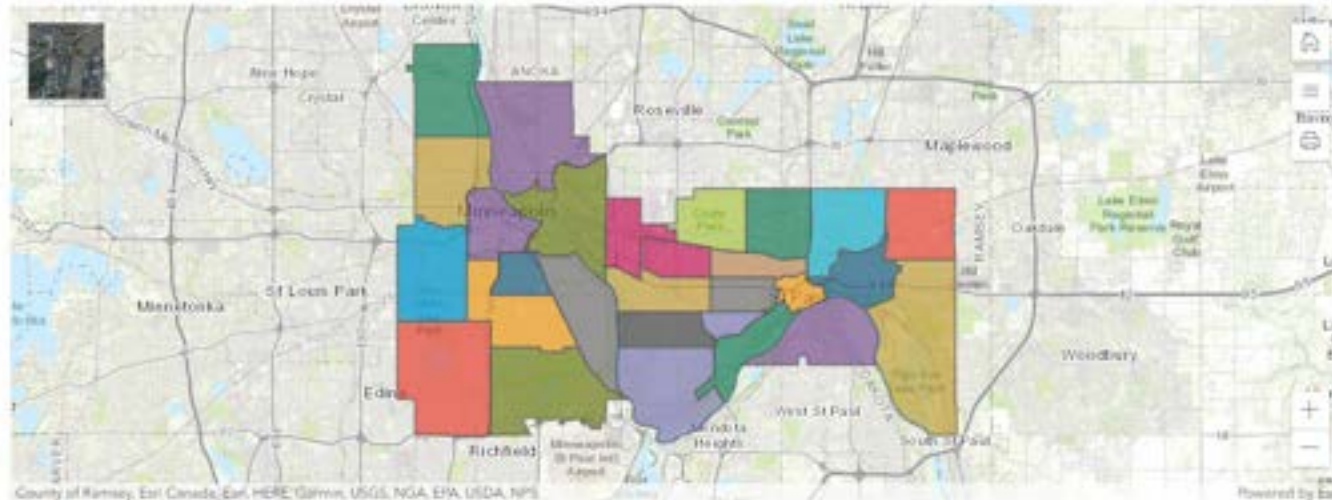
www.mncompass.org/profiles/neighborhoods/minneapolis-saint-paul#!community-areas

LOCATION PROFILES

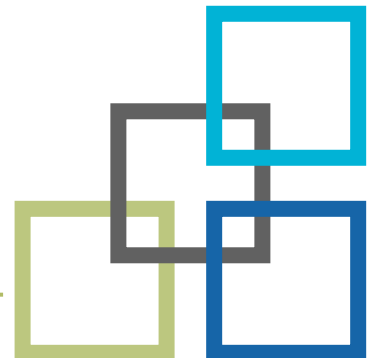
Minneapolis-Saint Paul Neighborhoods

Minneapolis-Saint Paul at a glance

Select map views of the data:

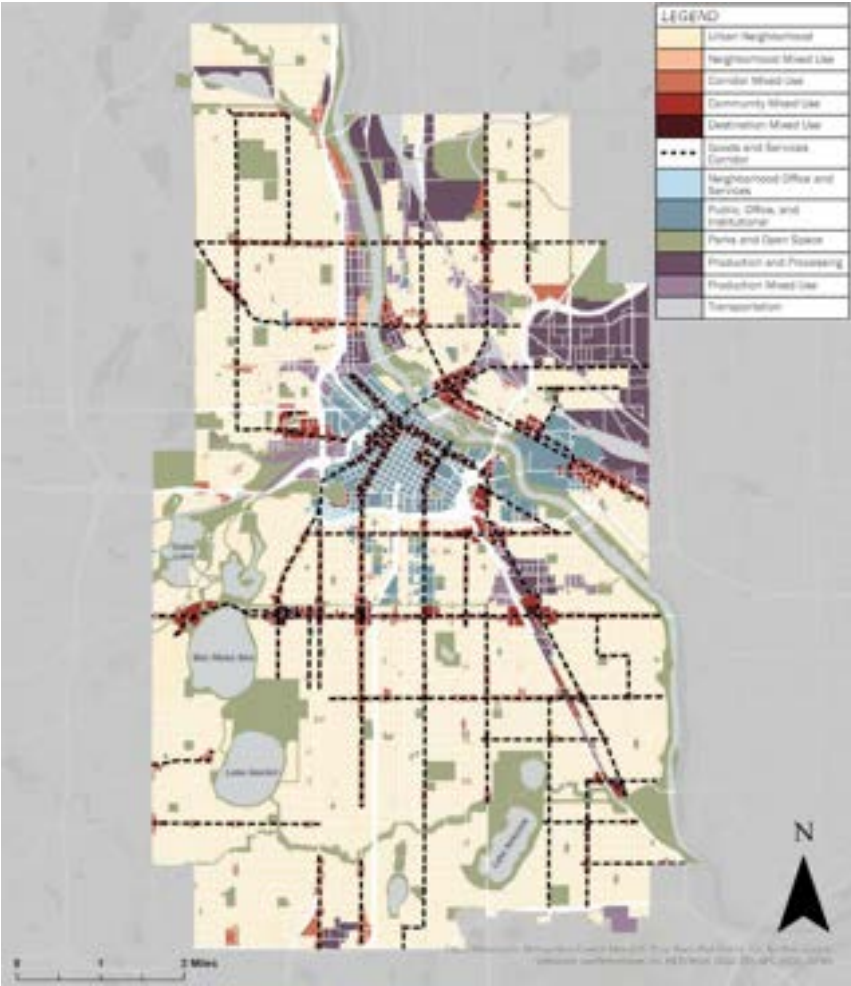


Source: 2017-2021 American Community Survey 5-year estimates, adjusted to fit current neighborhood boundaries using the 2020 Census counts. The 5-year estimates represent averages of data collected over that time period.

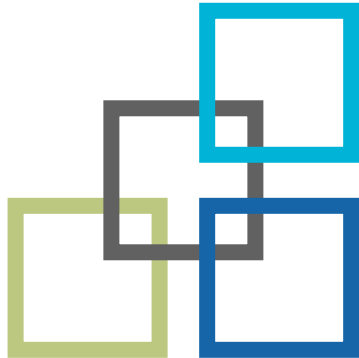
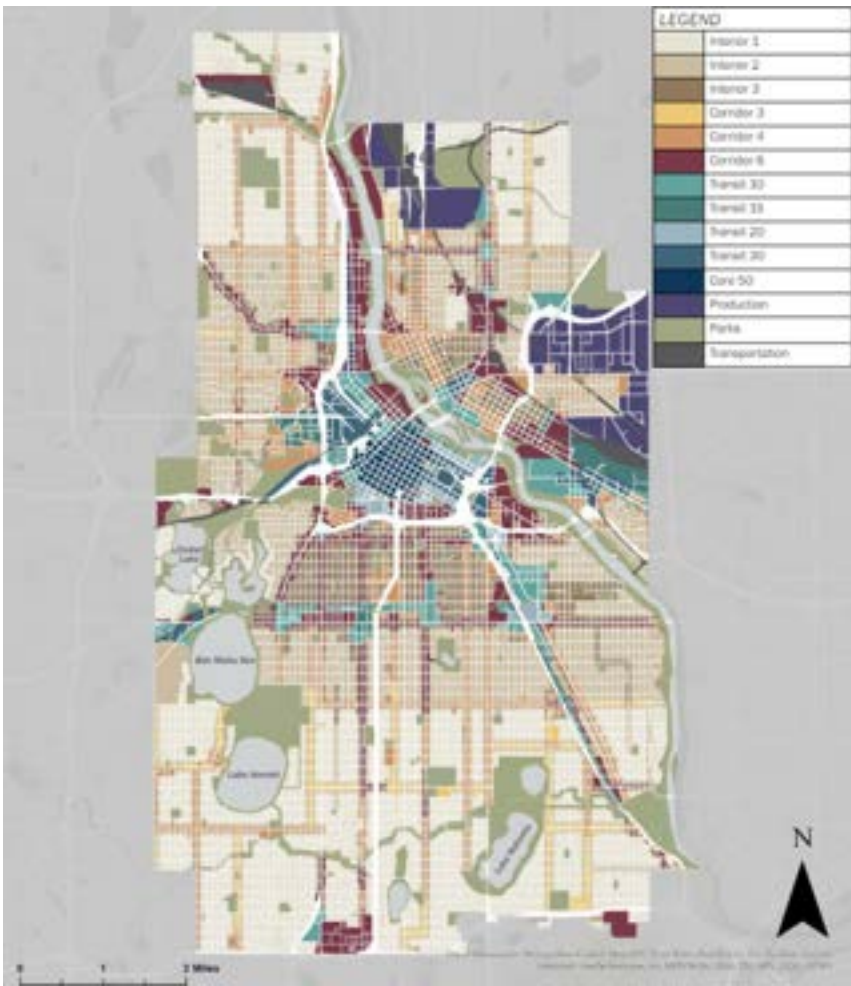


Zoning (Legally Permissible)

Land Use



Built Form



Basic Financial Analysis (Financially Feasible)



OR



Back of the Envelope:

- Pre-development costs (design, inspections, etc.)
- Cost to acquire, build, and/or remodel
- Amount of rentable space/units
- Rents
- Expenses (operating, capital, debt)
- Working capital
- Expected returns



MetCouncil Census Data

metrotransitmn.shinyapps.io/census-2020/



Discover Census Trends

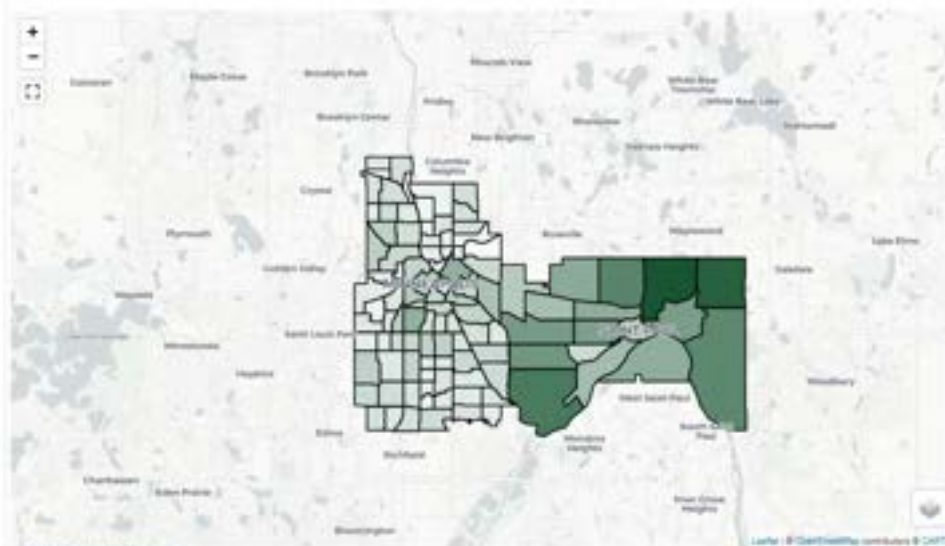
Four decades of geographically aligned data for the Twin Cities Region

HOME ABOUT

Discover Census Trends offers yesterday's decennial census data (back to 1990) in today's (2020) administrative and political boundaries. Consistent geographies over time let you focus immediately on the demographic and housing trends, rather than the tedious work of aligning geographic boundaries in the first place. To start your discovery of census trends, select a topic or geography below.

SELECT A TOPIC
Total population

SELECT A GEOGRAPHY
7-county Metropolitan Region



Trend Values by group Trend by group Table Download data

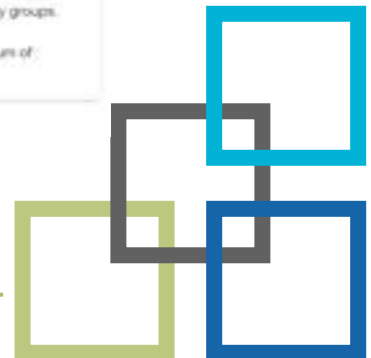
Total population, 7-county Metropolitan Region



Notes

The race and ethnicity groups and terms used in this project reflect federal standards. Neither reflect the full diversity, lived experiences, or preferred identification of the people they are meant to describe. Please note that data may not be available for all race and ethnicity groups.

Race groups are not mutually exclusive. Several categories include people who also identify as Hispanic or Latino. Therefore, the sum of individual race and ethnicity groups may be greater than the total population.



Market Potential – Traffic, Visibility, Accessibility

minneapolis.ms2soft.com/tcads/tsearch.asp?loc=Minneapolis&mod

dot.state.mn.us/traffic/data/tma.html

Station Data

Station Type	Countdown	Sheet	WM
Total	1,373	0	
AADT	1,371	0	
Volume	1,372	0	
Class	467	0	
Speed	478	0	
Gap	0	0	
WM	0	0	

Percent of Data by Type

Type	Percentage
AADT	~99%
Volume	~100%
Class	~34%
Speed	~35%
Gap	0%
WM	0%

Location Data (from popup):

- Location ID: 273
- Located On: Broadway St NE BETWEEN 6th St NE AND Washington St NE
- Direction: 2-WAY
- Count: 15417 (2017)
- EB Count: 7825 (2017)
- WB Count: 7592 (2017)



Additional Minneapolis Resources for Site Selection

Minneapolis Communities and Neighborhoods

www.mncompass.org/profiles/neighborhoods/minneapolis-saint-paul#!community-areas

Minneapolis Planning and Zoning

www2.minneapolismn.gov/business-services/planning-zoning/

Minneapolis Zoning Map

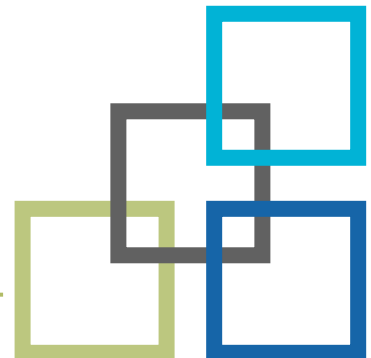
www2.minneapolismn.gov/business-services/planning-zoning/zoning-maps/

Minneapolis CPED Organization

www.minneapolismn.gov/cped/cped_about

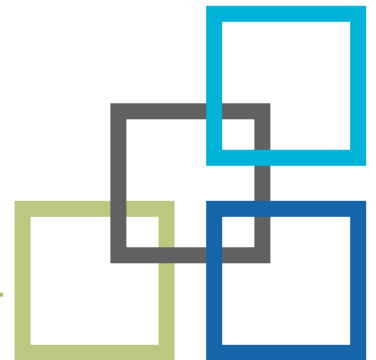
Minneapolis Interactive Maps

cityoflakes.maps.arcgis.com/home/index.html



Availability - On/Off Market

- **On Market** = Listed by a real estate broker
- **Off Market**
 - Not listed, but being sold by a real estate broker (quiet listing)
 - Not for sale...yet!



Multiple Listing Services sites

Residential Focus

realtor.com

zillow.com

themlsonline.com/minnesota-real-estate

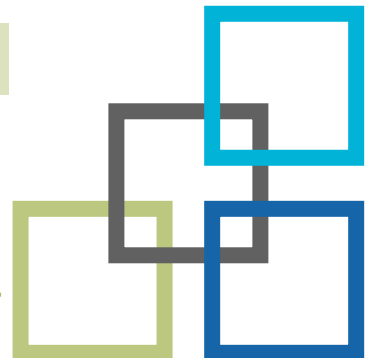
edinarealty.com

Commercial Focus

loopnet.com

mncar.org/public-commercial-listing

costar.com



Build Your Inventory Comparison

Building Name	Option 1	Option 2	Option 3	Option 4
BASIC BUILDING INFORMATION				
Address	123 Main St.	2300 Chicago	900 N 2nd St	1400 Lake St
City	Minneapolis	Minneapolis	Minneapolis	Minneapolis
Zip	55408	55423	55454	55450
Previous Sale Date	9/14/2006	5/17/2015	6/21/2005	6/23/2009
Previous Sale Price	\$624,850	\$985,000	\$453,000	\$789,000
Estimated Market Value	\$850,000	\$1,015,000	\$759,500	\$1,256,000
Number of Units	2	2	2	2
Parcel ID (PID)	0474824120007	0474824120004	0474824120006	0474824120005
Legal/Abstract or Torrens	Torrens	Torrens	Torrens	Torrens
Lot Size	9,000	6,000	5,500	5,000
Lot Dimensions	100x90	120x50	110x50	125x40
Gross Bldg SF	6,000	7,200	5,000	8,300
Net Bldg SF	5,000	6,200	4,500	7,500
Building Efficiency	83%	86%	90%	90%
Number of Levels	2	2	2	3
Basement (Y/N)	N	N	Y	Y
Elevator	N	N	N	Y
Dock	N	N	N	N
Year Built	1975	1958	1923	2001
Historic (Y/N)	N	N	Y	N
Clear Heights (Interior)	12	9	10	12
Vehicle Counts (X cars/day or VPD)	10,500	4,300	19,450	23,950
Parking	10	8	0	12



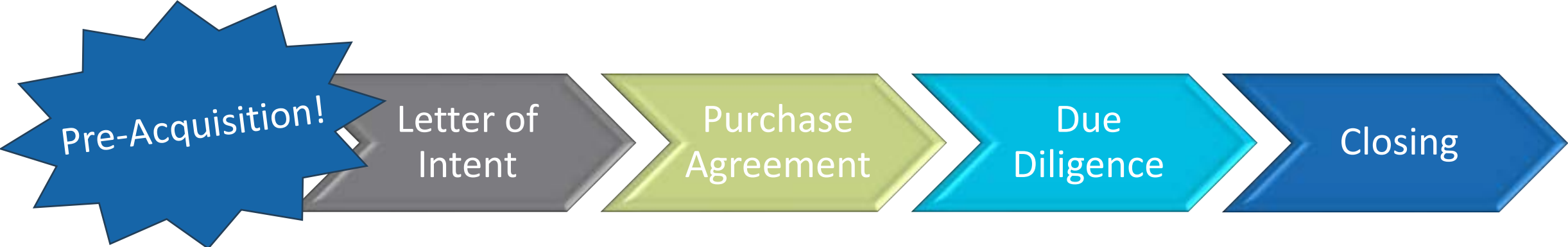
Activity C: Site Selection Questionnaire



Acquisition & Due Diligence



Acquisition Process



Letter of Intent

Dear Seller,

The purpose of this letter is to set forth some of the basic terms and conditions of the proposed purchase by the undersigned (the "Buyer") of certain real estate owned by you (the "Seller"). The terms set forth in this Letter will not become binding until a more detailed "Purchase Agreement" is negotiated and signed by the parties, as contemplated below by the sections of this Letter entitled "Non-binding."

1. DESCRIPTION OF PROPERTY. The property proposed to be sold is located at 1000 5th Street, Minneapolis, Minnesota and is legally described in the attached Exhibit "A".

The Real Estate is subject to public highways, covenants, restrictions and zoning, if any.

2. PRICE. The proposed purchase price is \$450,000.00, of which \$10,000.00 would be deposited with Seller, or Seller's agent, upon acceptance of a binding Purchase Agreement. Buyer would pay the balance to Seller at closing.

3. POSSESSION. Possession would be given on September 30, 2017, or sooner by mutual agreement. Settlement would be made at the closing, immediately prior to possession.

4. INSPECTION. After the final acceptance of a binding Purchase Agreement, Buyer may have the Real Estate inspected by a person of Buyer's choice to determine if there are any structural, mechanical, plumbing or electrical deficiencies, structural pest damage or infestation, any unsafe conditions or other damage, including the presence of radon gas, any lead-based paint hazards, and inspections for other conditions that are customary to the locality and/or that are required by law.

5. SELLER'S WARRANTIES. Seller warrants that the title of the proposed property to be sold is and shall be good. Good title consists of Seller's actual possession of the property, Seller's right of possession of the property, and Seller's right of property. Buyer is responsible for performing any title search or other due diligence investigation of title as may be appropriate, and may withdraw from a binding Purchase Agreement if it is discovered that Seller does not have good title. Seller shall deliver title to the property to Buyer in the form of a Special Warranty Deed.

6. STANDARD PROVISIONS. The Purchase Agreement will include the standard provisions that are customary to the locality and/or that are required by law.

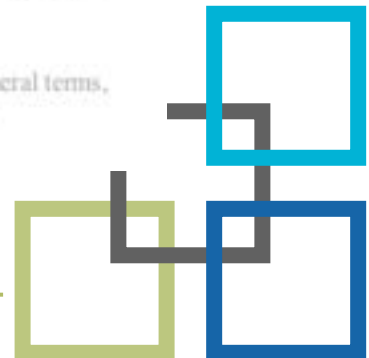
7. STANDSTILL. Seller shall not initiate or carry on negotiations for the sale of the Real Estate to any party other than Buyer unless either (1) Buyer and Seller fail to enter into a binding Purchase Agreement by October 06, 2017, or (2) Buyer and Seller agree in writing to abandon this Letter of Intent.

8. NON-BINDING. This Letter of Intent does not, and is not intended to, contractually bind the parties, and is only an expression of the basic conditions to be incorporated into a binding Purchasing Agreement. This Letter of Intent does not address all of the essential terms of any potential Purchase Agreement. This Letter does not require either party to negotiate in good faith or to proceed to the completion of a binding Purchase Agreement. The parties shall not be contractually bound unless and until they enter into a formal, written Purchase Agreement, which must be in form and content satisfactory to each party and to each party's legal counsel, in their sole discretion. Neither party may rely on this Letter as creating any legal obligation of any kind. No party shall be liable for any action in reliance on this non-binding Letter of Intent, including but not limited to, a claim for reliance or estoppel (such as a claim for out-of-pocket expenses incurred by a party), or a claim for breach of any obligation to negotiate in good faith. Notwithstanding the provisions of this paragraph to the contrary, Seller and Buyer agree that the above paragraph entitled "Stand Still" shall be binding, regardless of whether a binding Purchase Agreement is entered into by the parties.

9. CONFIDENTIALITY. Buyer and Seller agree to make good faith efforts to hold any pricing information, and any other confidential information in confidence and will not disclose this information to any person or entity without prior written consent from either party.

If you would like to discuss a sale of the Real Estate with the undersigned on these general terms, please sign and return a copy of this Letter of Intent to the undersigned at your earliest convenience.

Property
Price
Timing
Contingencies
Non-Binding



Purchase Agreement

M.S.B.A. Real Property Form No. 1 (1994 Rev. 1996 Rev. 1997 Rev. 2002 Rev. 2004 Rev. 2007 2008 2017)
Minnesota Standard Residential Purchase Agreement PURCHASE AGREEMENT / PAGE 1 of 12

MINNESOTA STANDARD RESIDENTIAL PURCHASE AGREEMENT

Copyright 1987 - 2016 Minnesota State Bar Association, Minneapolis, Minnesota.
BEFORE YOU USE OR SIGN THIS CONTRACT, YOU SHOULD CONSULT WITH A LAWYER TO DETERMINE THAT THIS CONTRACT ADEQUATELY PROTECTS YOUR LEGAL RIGHTS. Minnesota State Bar Association disclaims any liability arising out of use of this form.

1. PARTIES. This Purchase Agreement is made on _____ by and between _____ (party's name) of _____ (party's address) _____ SELLER, and _____ (party's name) of _____ BUYER.

2. OFFER/ACCEPTANCE. Buyer offers to purchase and Seller agrees to sell real property legally described as: _____ (Property Tax Identification Number or Tax Parcel Number) _____ located at _____ City of _____ County of _____ State of Minnesota. Zip Code _____

3. ACCEPTANCE DEADLINE. The acceptance date of this Purchase Agreement is the date it is delivered by the last party signing to the other party. This offer to purchase, unless accepted sooner, shall be void at 11:59 A.M. on [date] _____ and in such event all earnest money shall be refunded to Buyer.

4. FIXTURES AND PERSONAL PROPERTY. For the purposes of this Purchase Agreement, "fixtures" are items that are embedded in the land or attached to the building(s) and cannot be removed without damage to the real property. The method by which the fixture is "attached" could be screws, nails, adhesives, or any other mechanical connection which shows Seller's intent to make the item a relatively permanent part of the real estate. Examples of fixtures are doors and cabinets. "Personal property" includes items that are not attached to the building(s) or embedded in the land and that are removable without damage to the real property. Examples of personal property are free-standing (not "built in") appliances and furniture. Buyer and Seller should consider carefully the fixtures and personal property to be included in the sale. For example, a mirror attached to a wall by screws or nails is a fixture, while a mirror hung from a nail or picture hanger is personal property.

A. FIXTURES INCLUDED IN THE SALE. Title to fixtures passes to Buyer with the deed. All fixtures except those excluded at B, below, are included in this sale such as: garden bulbs, plants, shrubs, trees, landscaping, storm windows and inserts, storm doors and inserts, screens, awnings, window shades, blinds, curtain-traverse-drapery rods, mirrors, door mirrors, cabinets, counter tops, doors, door hardware, mantels, woodwork, attached lighting fixtures with bulbs, electrical wiring, electric outlets, electric switches, electric outlet plates and switch plates, plumbing and piping, plumbing fixtures, sump pumps, water heaters, heating systems, heating stoves, fireplace inserts, fireplace doors and screens, built-in humidifiers, built-in air conditioning units, built-in electronic air filters, automatic garage door openers with controls, television antennas, satellite dishes, water softeners, built-in dishwashers, garbage disposals, built-in trash compactors, built-in ovens and cooking stoves, hood-fans, intercoms, installed carpeting, built-in work benches, security systems, fences, retaining walls, terraces, gates, survey monuments, culverts, sheds, gazebos, trellises, underground irrigation systems, weatherstrips, lightning rods, flagpoles, light poles and lights, outdoor statuary, pumps, mail boxes, mail less boxes, and newspaper boxes.

B. FIXTURES EXCLUDED FROM THE SALE. The following fixtures are excluded from this sale and will be removed by Seller prior to closing: _____

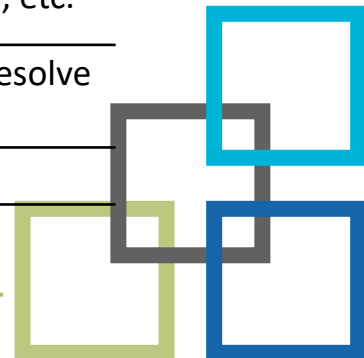
Any damage to the real property that occurs in Seller's removal of these fixtures will be repaired by Seller prior to closing. The following excluded and removed fixtures will be replaced by Seller with a functional equivalent: _____

After closing or prior to closing, Seller shall provide for payment of, satisfaction of, or release of any existing liens, claims, or encumbrances on the fixtures, except for the following encumbrances which Buyer accepts or assumes (if any): _____

C. PERSONAL PROPERTY. Any personal property to be purchased by Buyer is listed on the attached Personal Property Agreement.

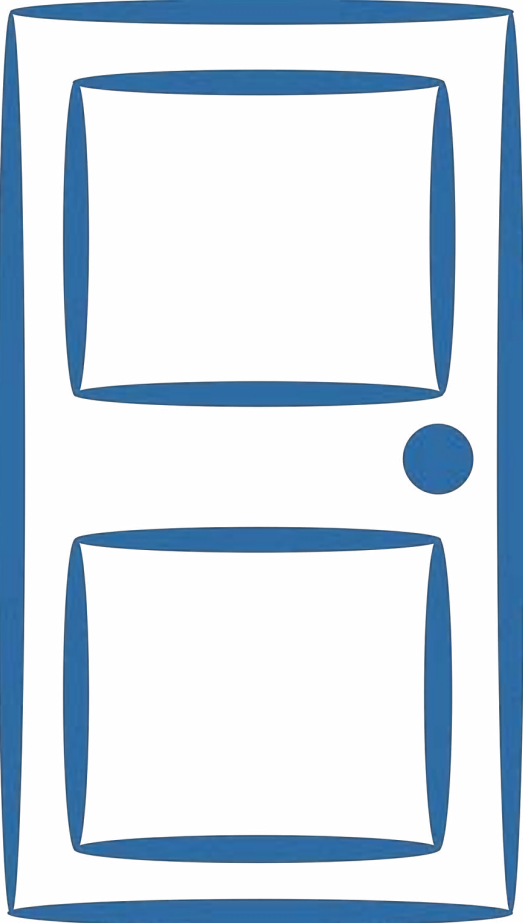
5. PRICE AND TERMS. The price for the real property is _____ Dollars (\$ _____) which Buyer shall pay as follows: _____

Who	Seller Buyer
Where / What	<ul style="list-style-type: none"> Property Description Fixtures (included/excluded) Personal property included Rights (Deed Type) and limitations
How much (& who pays)	<ul style="list-style-type: none"> Price Earnest money Taxes & Assessment situation – who pays what Closing costs – who pays what
When (Dates)	Contract Date, Contingency Period, Closing, Possession
Seller Disclosures	Boundaries & access, condition, wells, sewage, hazardous materials, damage, etc.)
Buyer Contingencies	Financing, inspections, title, existing home, etc.
Title	Process to confirm good title and how to resolve clouds
Miscellaneous	Damage, notices, etc.
Signatures	Signed & dated

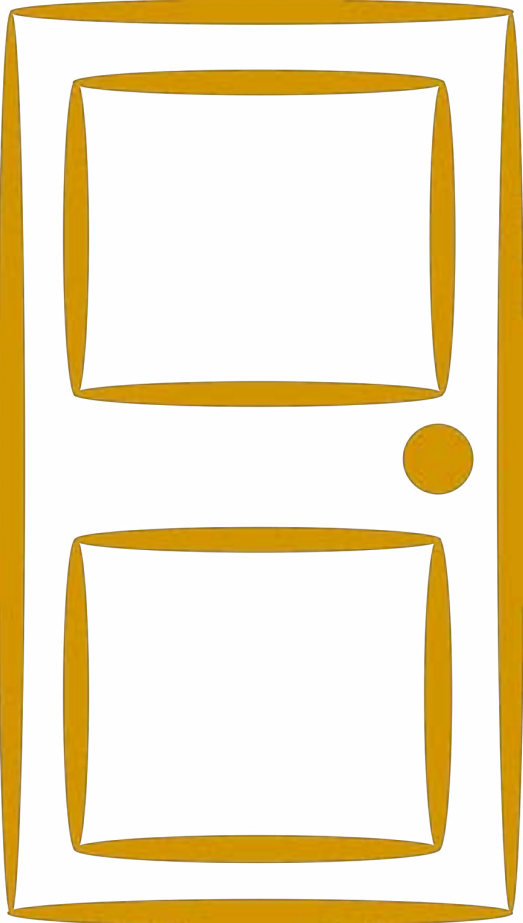


Two Offers: Which is Better?

#1



#2



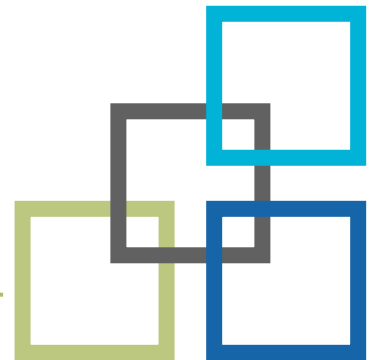
How Long “Under Contract”

All Cash/
Quick Close

“Free look” period

Paid extension(s)

No money goes
“hard” until all
Due Diligence is
complete and
tenants lined up



Due Diligence – Can I and Should I buy this?

What am I Buying?

- Survey (physical)
- Title (rights)
- Physical Inspections
- Environmental Review
- Assessments
- Tenant Review

Do they own it?

- Title (ownership)

Can I use it?

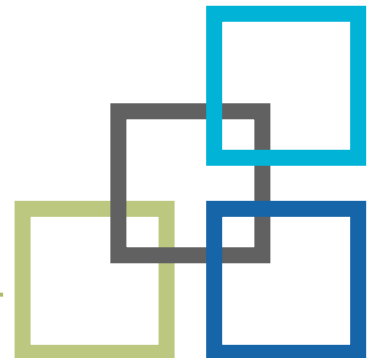
- Title (rights)
- Zoning
- Permitting (Entitlements)

Can I afford it?

- Financing

Should I buy it?

- Appraisal
- Financial Feasibility



Title Insurance

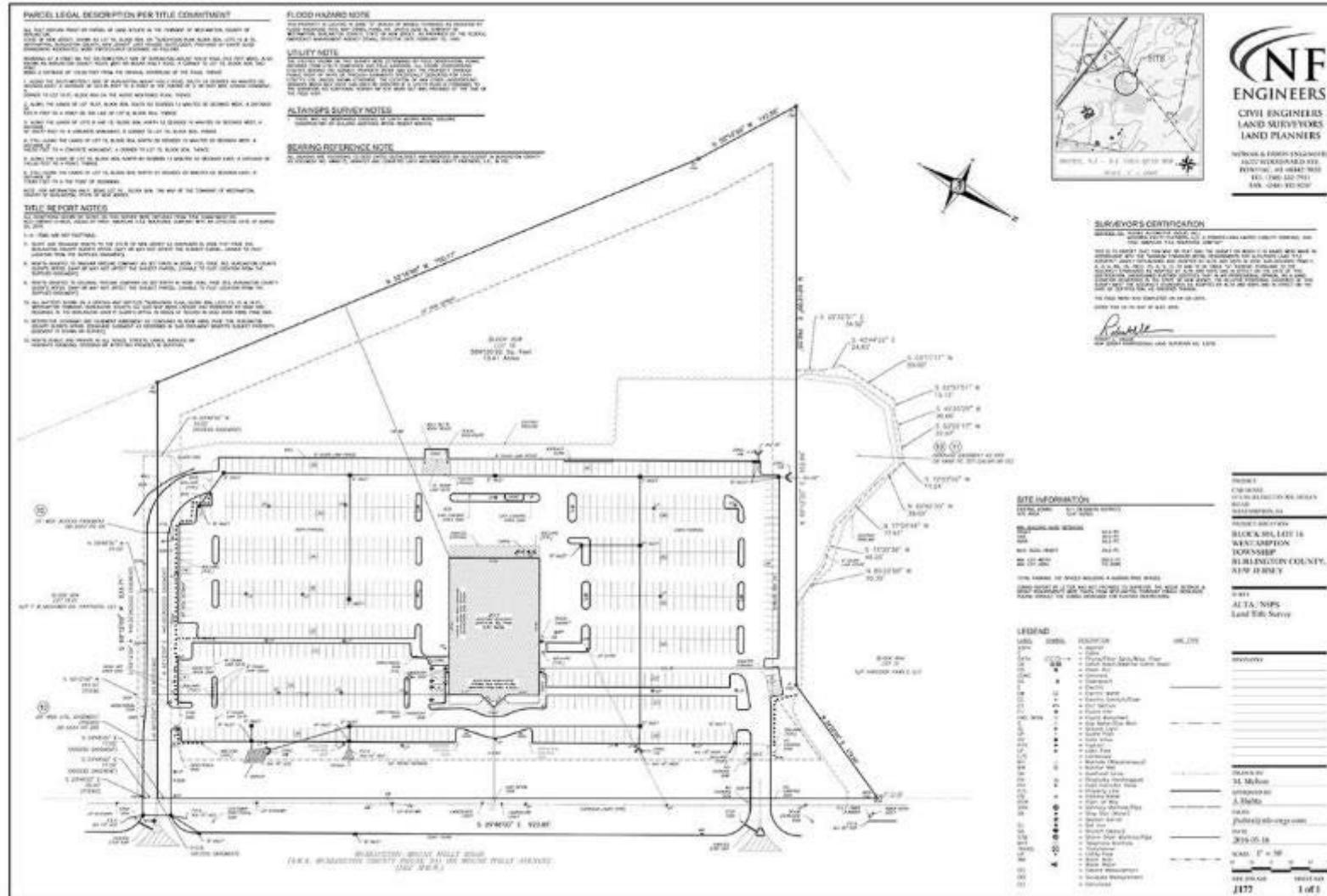


Appraisal

Work with your Lender!



Survey (ALTA)



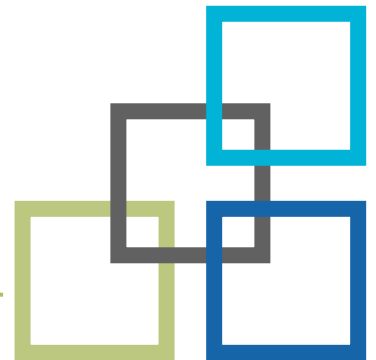
Environmental

Phase I

- Property Records
- History of Uses
- Photographs
- Surveys
- Maps
- Records of nearby properties

Phase II

- Soil samples
- Water samples
- Vapor samples
- Surveys for underground storage tanks
- Sampling of drums on site
- Testing of underground tanks



Soil Borings



Building Inspection(s)



Planning & Zoning



Comprehensive Plan and Small Area Plans

Comprehensive Plan



Small Area Plan



Zoning

Zoning controls **Land Use** and **Building Form**

Traditional Zoning

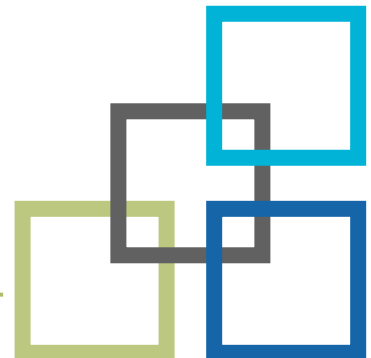
Single District (e.g., R1, R2, C1, C2, I2) → Determines Use and Form

Minneapolis Zoning

Primary Zoning District → Use

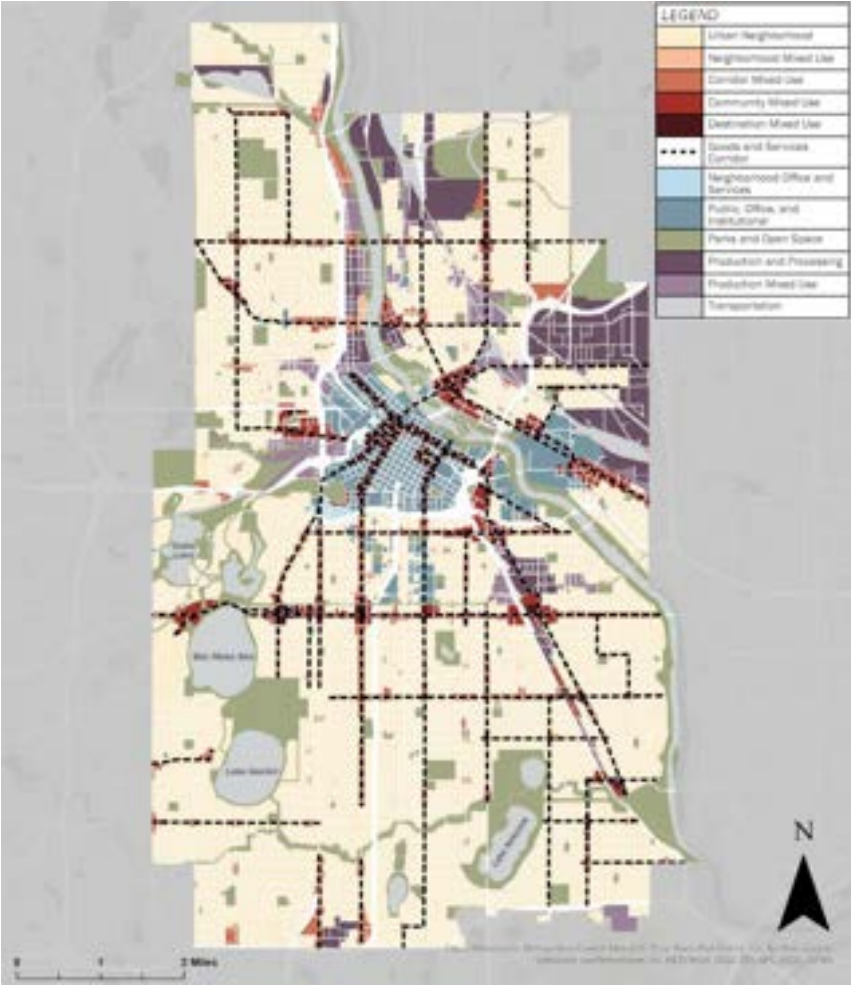
Built Form District → Form (e.g., size, positioning)

Overlay District → Special situations

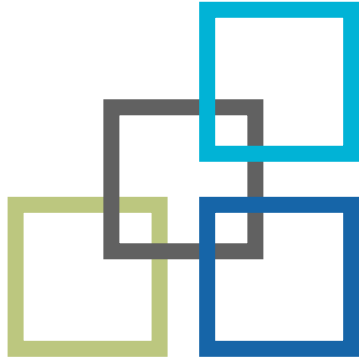
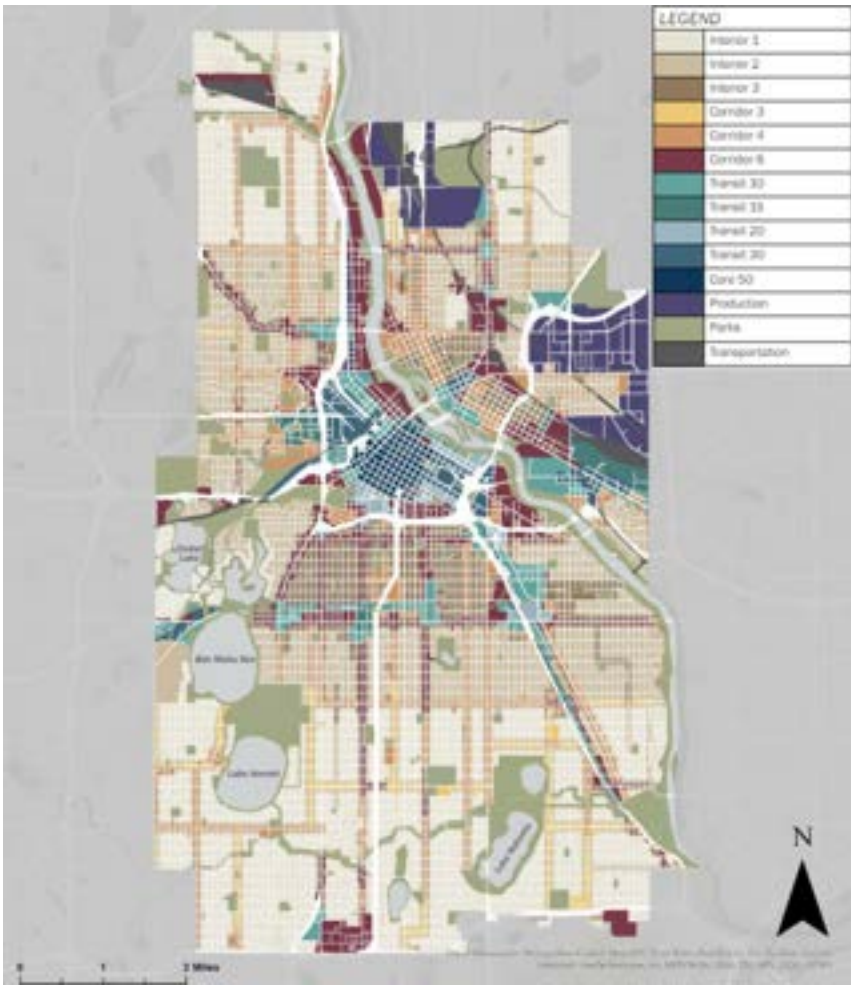


Zoning Maps - Minneapolis

Land Use



Built Form



Zoning – Land Use Districts (Primary Zoning)

FUTURE LAND USE MAP

The Future Land Use Map guides the types of uses allowed on a given parcel according to the categories described below. The map guides user only. The Future Land Use Map works in tandem with the Built Form Map to provide a complete set of guidance for each parcel.

Future Land Use Categories

There are 12 Future Land Use Categories. Click on a land use category in the carousel below to learn more about it.



Neighborhood Mixed Use

Neighborhood Mixed Use includes individual commercial uses and small collections of commercial uses, located primarily away from major streets, that should continue to serve their existing commercial function. Commercial zoning is appropriate, while expansion of commercial uses and zoning into surrounding areas is not encouraged. Semi-permanent or temporary commercial retail establishments such as farmer's markets are also appropriate in this category.

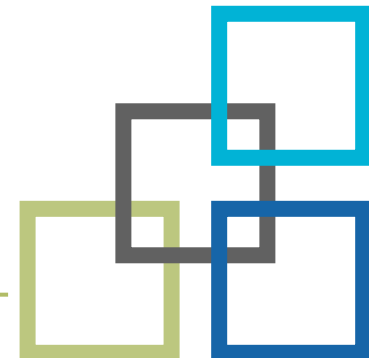
NEIGHBORHOOD MIXED USE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CORRIDOR MIXED USE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
COMMUNITY MIXED USE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
DESTINATION MIXED USE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Allowed
 Not Allowed

Related policies:

- [Policy 1: Access to Housing](#)
- [Policy 2: Access to Employment](#)
- [Policy 4: Access to Commercial Goods and Services](#)

Map color:



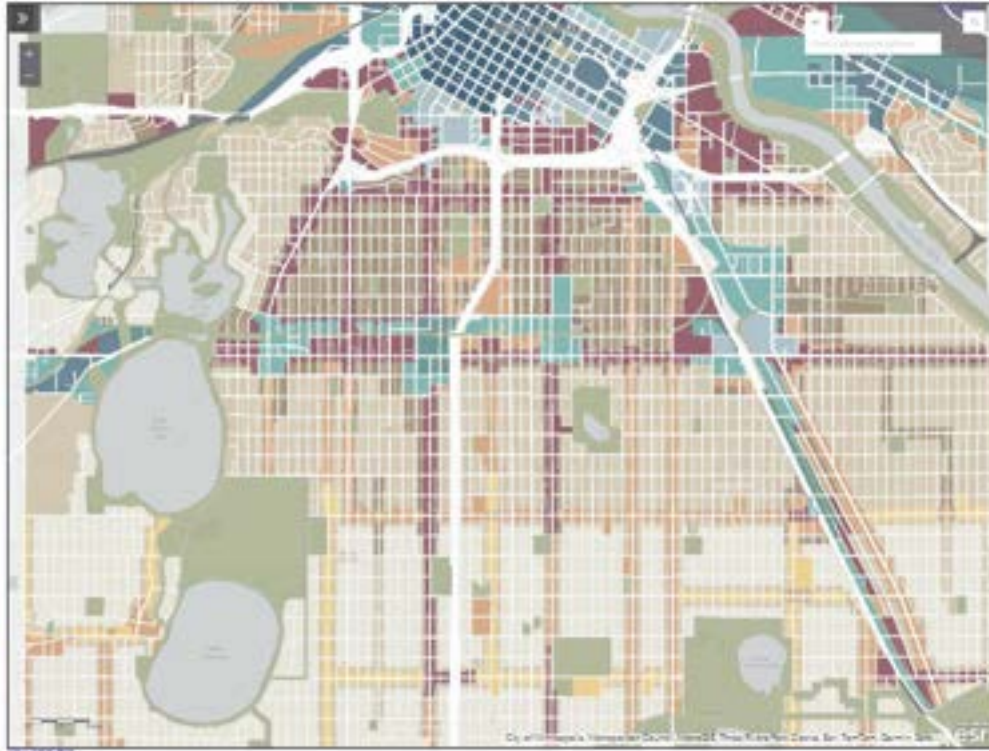
Zoning - Built Form Districts

BUILT FORM MAP

The Built Form Map guides the scale of development for every parcel in the city, independent of the uses allowed on the site. The built form of all new and remodeled buildings must be consistent with the guidance of the Built Form Map.

Built Form Districts

There are 14 Built Form districts. Click on a Built Form district in the compass below to learn more about it.



Corridor 3

The Corridor 3 district is typically applied along transit routes farther from downtown that are on narrower rights of way, and serves as a transition between lower intensity residential areas and areas immediately surrounding METRO stations.

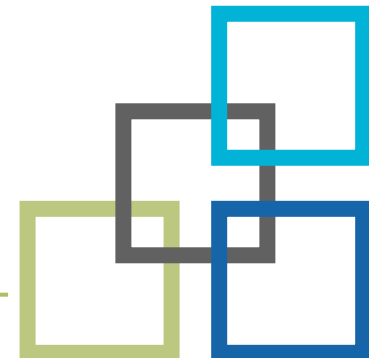
Built Form Guidance: New and remodeled buildings in the Corridor 3 district should reflect a variety of building types on both small and moderate-sized lots, including on combined lots. Building heights should be 1 to 3 stories. Requests to exceed 3 stories will be evaluated on the basis of whether or not a taller building is a reasonable means for further achieving Comprehensive Plan goals.



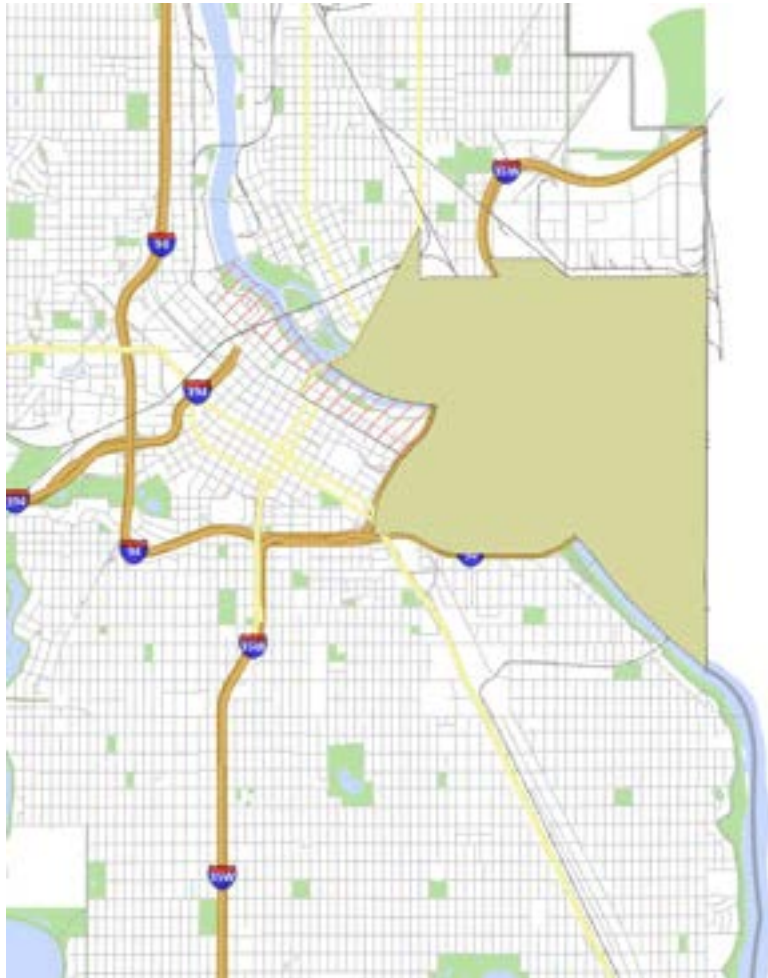
Related policies:

- [Policy 1. Access to Housing](#)
- [Policy 2. Access to Employment](#)
- [Policy 4. Access to Commercial Goods and Services](#)

Map color:



Zoning - Overlay Districts



ARTICLE IV. UA UNIVERSITY AREA OVERLAY DISTRICT

535.300. Purpose.

The UA University Area Overlay District is established to ensure high quality residential development through site design and off-street parking regulations that acknowledge the unique demands placed on land uses near a major center of educational employment and enrollment.

535.310. Established boundaries.

The boundaries of the UA University Area Overlay District shall be the areas shown on the official zoning map.

535.320. Definitions.

As used in this article, the following definitions shall mean:

Bedroom. For the purpose of the UA University Area Overlay District, a bedroom shall be defined as any space that can operate as a sleeping area within a dwelling unit that is separated from open areas of the dwelling unit by interior walls, is greater than seventy (70) square feet, and is located along an exterior wall. Areas dedicated to other functions may be classified as bedrooms as determined by the zoning administrator. Studio and efficiency units, which have no internal walls separating living and sleeping spaces, will be considered to have one (1) bedroom. In single-, two-, and three-family dwellings, cluster developments, and common lot developments located in the BF11 and BF12 Built Form Overlay Districts, a bedroom greater than one hundred fifty (150) square feet shall be counted as two (2) bedrooms and every additional one hundred (100) square feet or fraction thereof shall count as an additional bedroom.

535.330. Maximum bedroom count for single-, two-, and three-family dwellings, cluster developments, and common lot developments.

In the BF11 and BF12 Built Form Overlay Districts, single-, two-, and three-family dwellings, cluster developments, and common lot developments shall be limited to no more than nine (9) total bedrooms in any principal structure.

535.340. Off-street parking location.

Off-street parking for residential uses with up to three (3) units, when located in a surface lot, shall be landscaped and screened as required by the zoning ordinance and shall be located entirely within the rear twenty-five (25) feet of the lot when an alley is present. When no alley is present, surface parking shall be limited to the rear forty (40) feet of the lot.



Zoning Districts - Minneapolis

Primary Zoning Districts

UN1 Urban Neighborhood
UN2 Urban Neighborhood
UN3 Urban Neighborhood
RM1 Residence Goods and Services
RM2 Residence Office and Services
RM3 Residence and Institutional
CM1 Neighborhood Mixed-Use
CM2 Corridor Mixed-Use
CM3 Community Mixed-Use
CM4 Destination Mixed-Use
DT1 Downtown Center
DT2 Downtown Destination
PR1 Production Mixed-Use
PR2 Production and Processing
TR1 Transportation

Built Form Districts

BFI1 Interior 1
BFI2 Interior 2
BFI3 Interior 3
BFC3 Corridor 3
BFC4 Corridor 4
BFC6 Corridor 6
BFT10 Transit 10
BFT15 Transit 15
BFT20 Transit 20
BFT30 Transit 30
BFC50 Core 50
BFPA Parks
BFPR Production

Overlay Districts

HA Harmon Area
UA University Area
DH Downtown Housing
DP Downtown Parking
DS Downtown Shelter
SZ Split Zoning
TP Transitional Parking
AP Airport
SH Shoreland
FP Floodplain
MR Mississippi River Corridor Critical Area



Zoning Maps - Minneapolis

www2.minneapolismn.gov/business-services/planning-zoning/zoning-maps/

The screenshot displays the Minneapolis zoning map interface. At the top, the address "705 West Broadway, Minneapolis, Minnesota, 55411" is entered. Below the address, the "Results" section shows two categories: "Primary Zoning" and "Built Form".

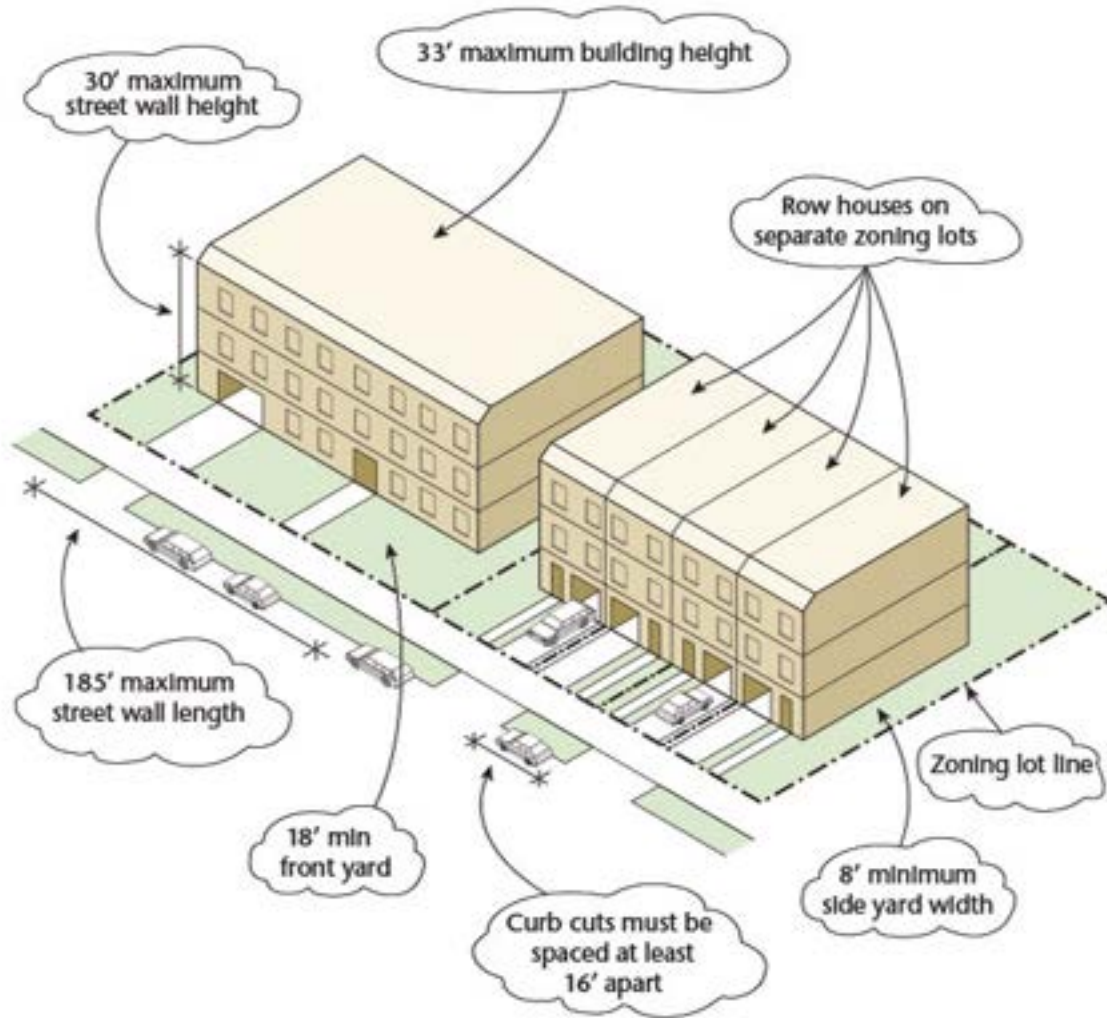
Primary Zoning:
This is a Corridor Mixed Use zoning district.
The CM2 Corridor Mixed-Use District allows small, moderate, and large-scale commercial uses. Mixed-use multistory development is encouraged.
For more information on what uses are allowed in this district, consult the Uses Allowed table here: [Uses Allowed](#)

Built Form:
This is a Transit 10 built form district.
The Transit 10 district is typically applied along high frequency transit routes, adjacent to METRO stations, in neighborhoods near downtown, and in downtown.
View more information about the Transit 10 district here: [moca information](#)

The map shows a grid of streets with various colored zoning districts. A red dashed line highlights the area around 705 West Broadway. A "Clear search location" button is visible in the top right of the map area. On the right side, a list of zoning districts is shown, including: Goods and Services Corridor, Primary Zoning, Built Form, Overlay District - Airport, Overlay Districts - Downtown Height, Overlay District - Downtown Housing, Overlay District - Downtown Parking, Overlay District - Downtown Shelter, Overlay District - Hamson Area, Overlay District - Linden Hills, and Overlay District - Mississippi.

Cub Foods – West Broadway

Zoning: Built Form



Min/Max Lot Size (Width, Area)

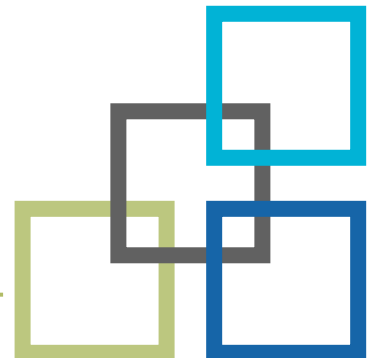
Height Limits

Floor Area Ratio

Setbacks (Yard Requirements)

Lot & Impervious Coverage

Parking (Vehicles, Bikes)



Zoning: Built Form - FAR

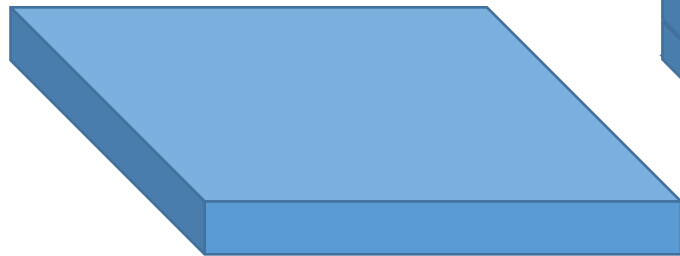
Floor Area Ratio (FAR) = Floor Area of Building / Area of Property

Example: FAR = 0.5, Property = 10,000 SF

FAR = Floor GSF / Property SF

0.5 = Floor GSF / 10,000 SF

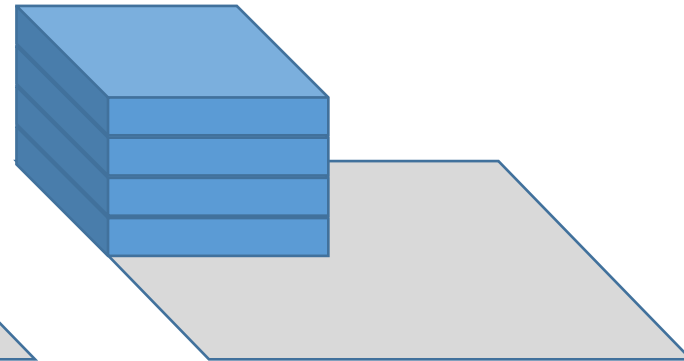
Floor (max) = 5,000 SF



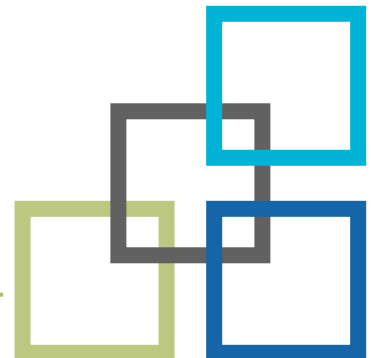
1 story
(100% lot coverage)



2 stories
(50% lot coverage)



4 stories
(25% lot coverage)



Zoning: Built Form

https://library.municode.com/mn/minneapolis/codes/code_of_ordinances

ARTICLE V. HEIGHT OF PRINCIPAL BUILDINGS

540.400. Purpose.

Maximum height regulations are established to govern the overall height of principal buildings to align with the planned building height of each built form overlay district. These regulations work in conjunction with other built form regulations to govern the scale of buildings. Minimum height regulations are established to prevent the underutilization of property, particularly in areas near substantial public transit investments.

540.410. Maximum height for principal structures.

(a) In general. The maximum height requirements of principal buildings located in the built form overlay districts shall be as set forth within Table 540-6, Maximum Height by District, and Table 540-7, Other Maximum Height Requirements by Use.

(b) Exemptions. Except in the SH Shoreland Overlay District and when not allowed in the MR Mississippi River Corridor Critical Area Overlay District, the following may be exempt from the maximum height requirements of principal structures as set forth within each built form overlay district:

- (1) Communication antennas, wind energy conversion systems, and solar energy systems otherwise allowed by administrative review in Chapter 550, Development Standards.
- (2) Parapets not exceeding three (3) feet, except where located on single-, two-, or three-family dwellings or cluster developments.
- (3) Railings up to four (4) feet in height as measured from the roof, and not more than sixty (60) percent opaque.
- (4) Rooftop features used exclusively for mechanical equipment, elevators, or stairways, provided all of the following conditions are met:
 - a. Such building features are not located on single-, two-, or three-family dwellings.
 - b. The combined coverage of such building features shall not occupy more than thirty (30) percent of the roof area of the floor below.
 - c. Such building features may extend up to sixteen (16) feet above the roof of the floor below.
 - d. Where located within fifteen (15) feet of the wall of the floor below, such building features shall not exceed twenty (20) feet in width as measured parallel to the adjacent wall.
- (5) Rooftop features used exclusively for mechanical equipment, elevators, or stairways on single-, two-, or three-family dwellings, provided all of the following conditions are met:
 - a. Such building features may extend up to ten (10) feet above the roof of the floor below.
 - b. The combined coverage of such building features shall not occupy more than one hundred fifty (150) square feet of the roof area.

(c) Existing buildings. Principal buildings existing on the effective date of this ordinance, that exceed the maximum height requirements shall be considered legally conforming, except that additions to such buildings or other redevelopment shall be subject to the standards of this chapter.

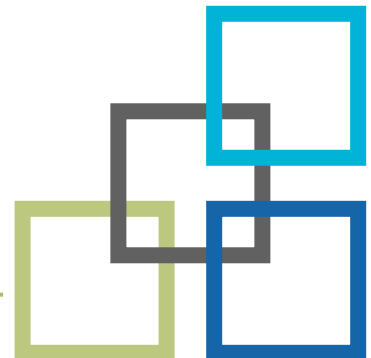
Minneapolis, Minnesota, Code of Ordinances
(Supp. No. 69, Update 1)

Ordinance: 2009-07-03 10:46:49 [107]

Minneapolis Code of Ordinances: Title 20

Table 540-6 Maximum Height by District

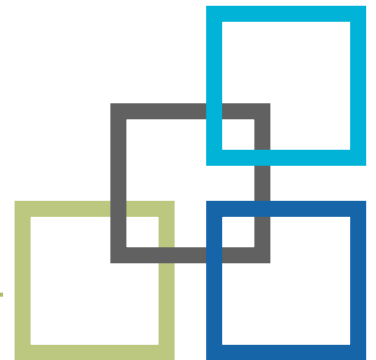
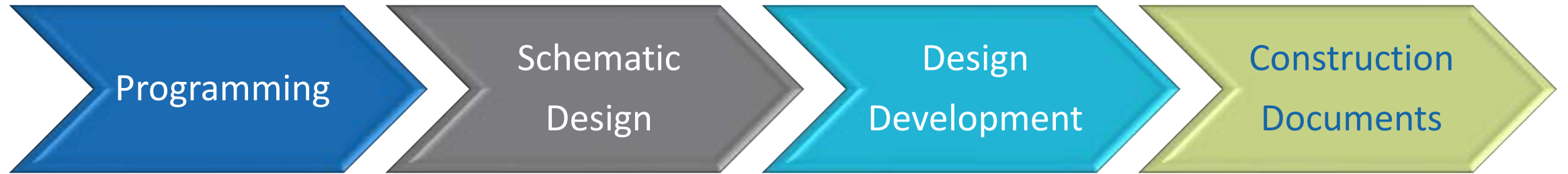
<i>Built Form Overlay District</i>	<i>Maximum Height, except as otherwise required in Table 540-7</i>
Interior 1	2.5 stories, 35 feet
Interior 2	2.5 stories, 35 feet
Interior 3	3 stories, 42 feet
Corridor 3	3 stories, 42 feet
Corridor 4	4 stories, 56 feet
Corridor 6	6 stories, 84 feet
Transit 10	10 stories, 140 feet
Transit 15	15 stories, 210 feet
Transit 20	20 stories, 280 feet
Transit 30	30 stories, 420 feet
Core 50	No limit
Parks	2.5 stories, 35 feet
Production	10 stories, 140 feet



Design



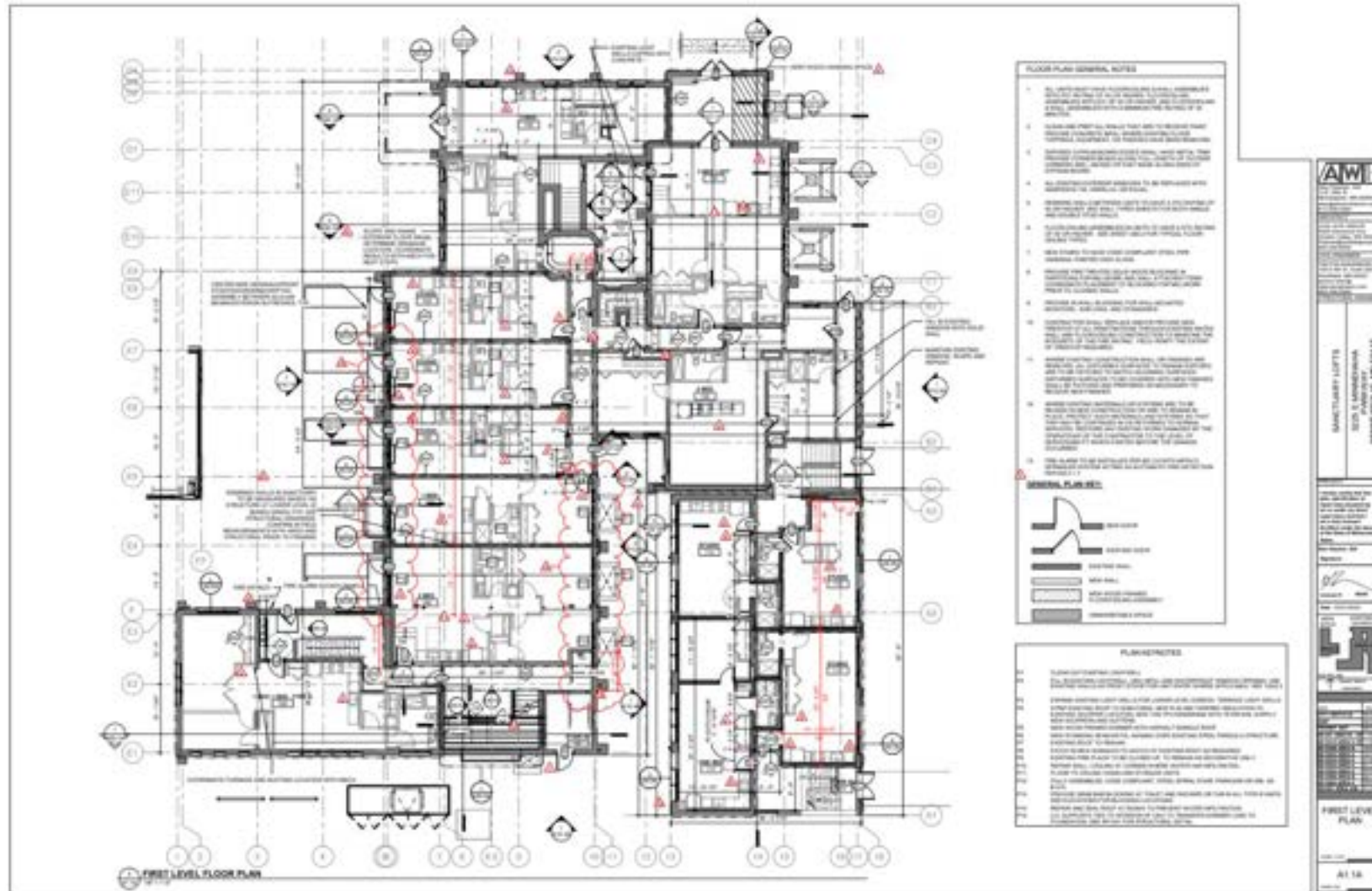
Design Process



Design Process – Schematic Design



Design Process – Construction Documents



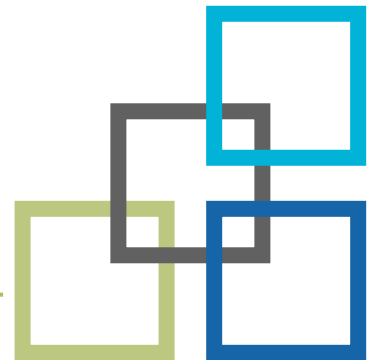
Design Process – Construction Documents



Principles of Good Design



- **Repeatable** – Cost, time, and space efficiency
- **Mechanical, Electric, & Plumbing locations** – stackable, centralized, short runs
- **Cost considerations** – Corners, balconies, materials, etc.
- **Functionality** – Input from property managers, etc.
- **Flexibility** – Adaptable for future needs & uses
- **Sustainability** – materials, design

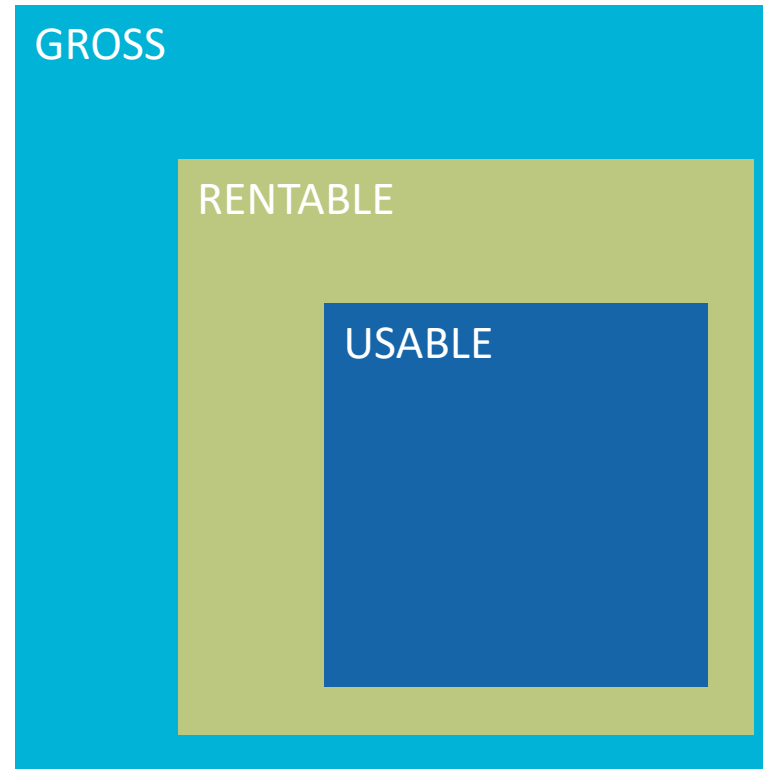


Building Square Feet - Gross, Rentable, & Usable

Residential (SF)



Commercial (SF)

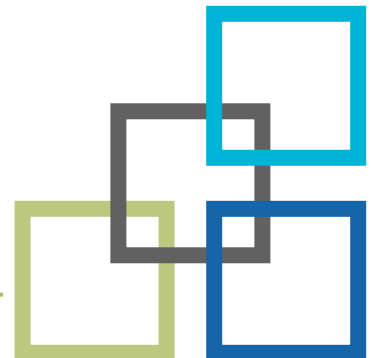


Gross SF is the entire building from outside wall to outside wall

Rentable SF typically excludes exterior walls, vertical circulation, mechanical (Tenants pay their “pro rata” share of shared space to determine their total RSF)

Usable SF typically excludes shared common areas that cannot be exclusively used by an individual tenant

RU Factor = Rentable SF / Usable SF
measures the building efficiency



Activity D: Zoning Research



Activity D: Zoning Research

Directions:

Using the City of Minneapolis Zoning Code (see textbook appendix) or the Minneapolis Code of Ordinances - Title 20 (internet search “Minneapolis Municode”) look up the zoning requirements for the property listed based on the planned use noted.

Property	3801 17th Ave S, Minneapolis SE corner of East 38th St and 17th Ave S	
Planned Use	Multi-Family Apartment building (4+ dwelling units)	
	Site Detail	Source
Zoning Classification	BFC4 / RM1	City of Mpls Property Info (Lot Info)
Lot size	0.26 acres; 11,310 SF	Hennepin County Property Information Search
Lot dimensions	92.30 ft x 122.40 ft	Hennepin County Property Information Search
	Zoning Requirement (min & max)	Source Minneapolis Zoning Code (Section & Table)
FAR (max, min)	Max = 2.0, no min 2.0 x 11,310 SF = 22,620 SF	Sect 540.110, Table 540-2 Sect 540.130, Table 540-4
Height Limits (max, min)	Max: 4 stories or 56' Min: none	Sect 540.410, Table 540-6 Sect 540.420, Table 540-8
Lot Area (max, min)	Max=28,000 SF Min=5,000 SF	Sect 540.720, Table 540-15, Table 540-16, & Table 540-17
Lot Width (min)	Min=40 ft	
Yard (Setback) - Front (min)	15 ft	Sect 540.8500, Table 540-18
Yard (Setback) - Corner (min)	8ft if <42 ft (height) 10 ft if <53 ft 12 ft if <64 ft, etc.	Sect 540.860, Table 540-19
Yard (Setback) - Rear/Side (min)	5ft if <42 ft (height) 7 ft if <53 ft 9 ft if <64 ft, etc.	Sect 540.870, Table 540-20
Maximum Lot Coverage (max)	70% (7,917 SF)	Sect 540.910, Table 540-23
Impervious Surface Coverage (max)	85% (9,614 SF)	Sect 540.920, Table 540-24
Vehicle Parking (max)	Max=2 per Dwelling Unit Min=None	Sect 540.220, Table 555-1
Bicycle Parking (min)	Min=1 per Dwelling Unit	Sect 540.230, Table 555-2

Entitlements

(Minneapolis Development Review)



Entitlements



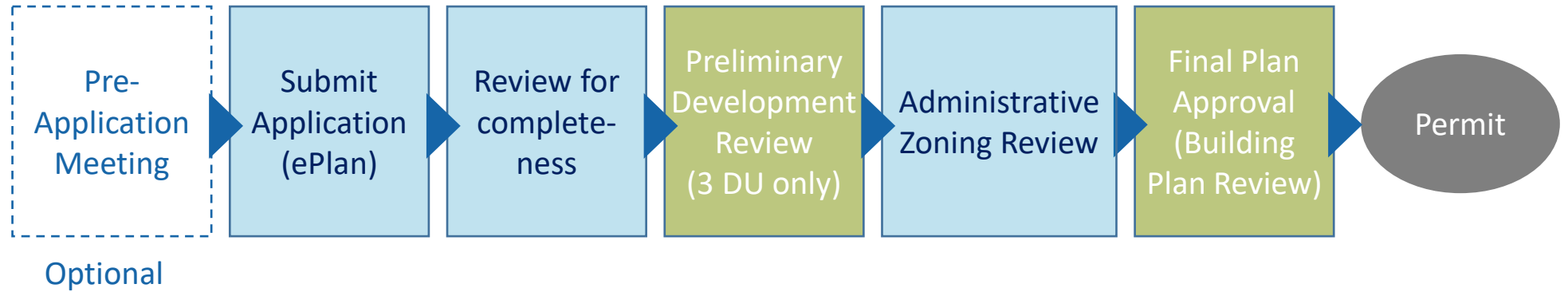
"We were gonna build a tree house, but with the cost, noise issues and zoning concerns, can you just take us to the mall?"



Entitlements



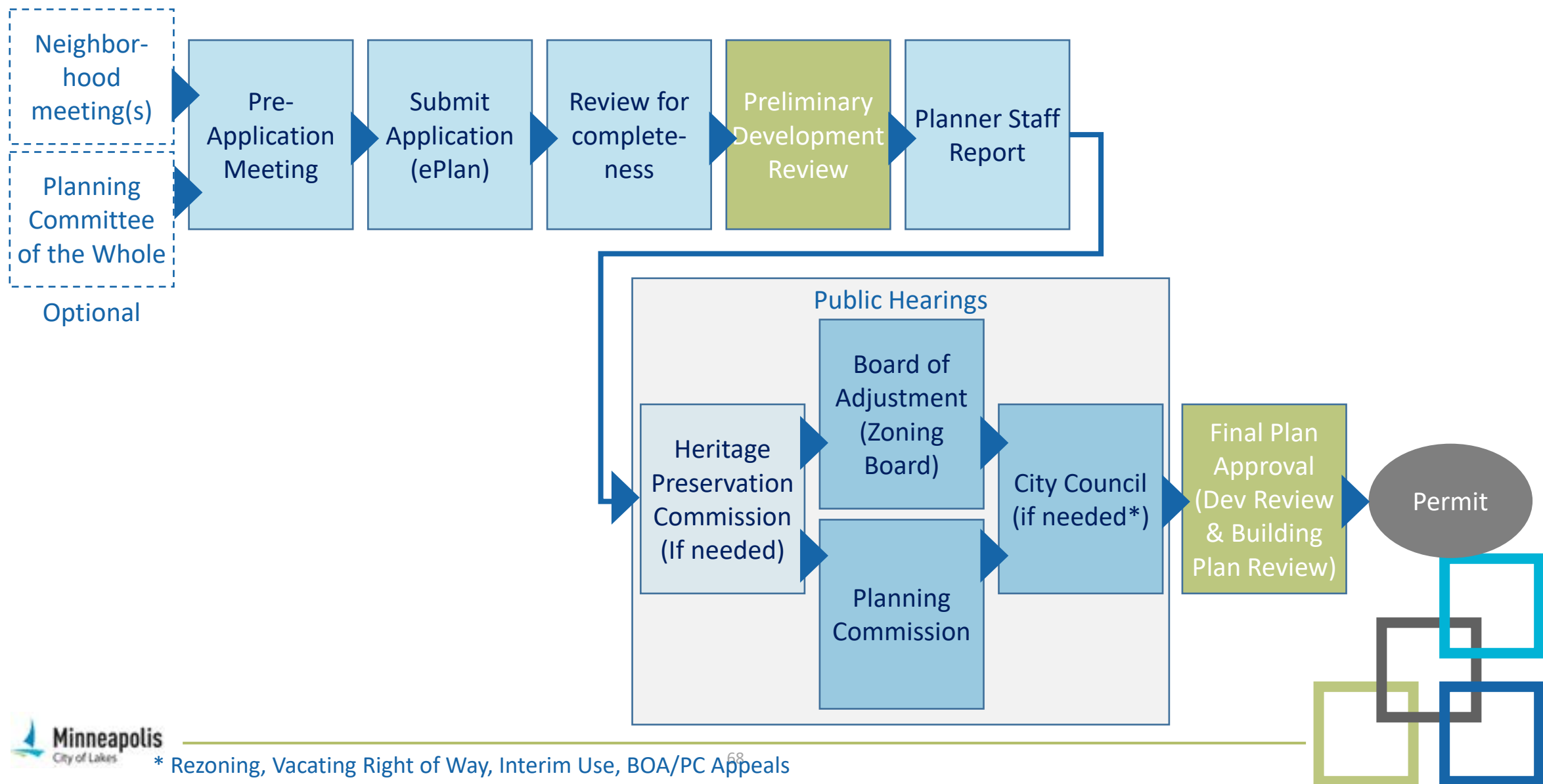
Minneapolis Land Use Process – Administrative Review



1-3 Dwelling Units
Accessory Units

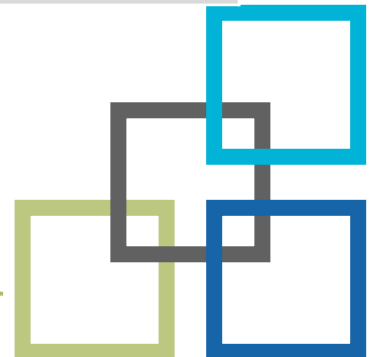


Minneapolis Land Use Process – Public Hearings



Minneapolis Land Use Process – Public Hearings

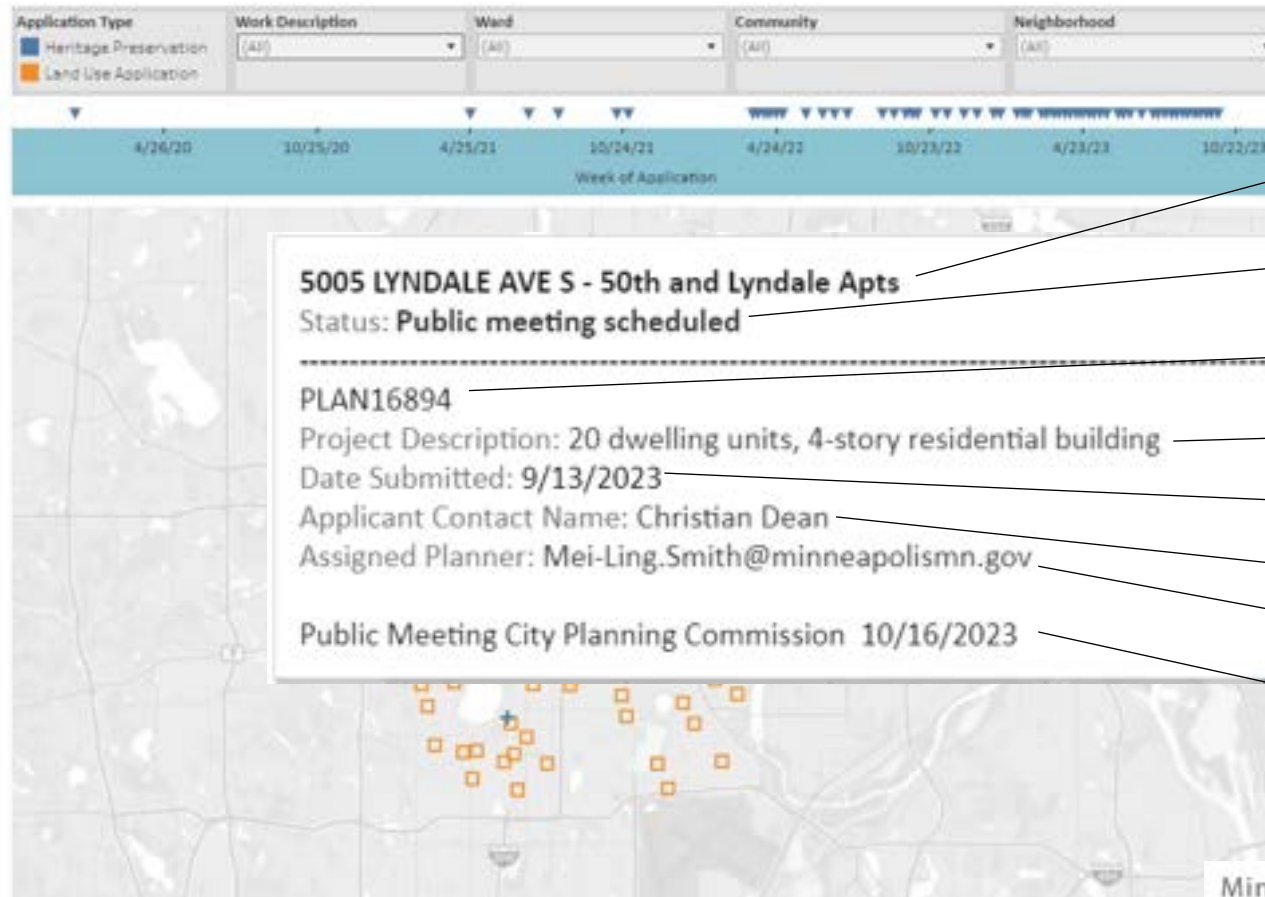
Board of Adjustment	Planning Commission	City Council
<p>Approval</p> <ul style="list-style-type: none"> • Variance • Non-conforming use • Appeal of Staff Approval 	<p>Approval</p> <ul style="list-style-type: none"> • Site Plan Review • Conditional Use Permit (CUP) • Non-conforming use (expansion or change) • Appeal of Staff Approval <p>Recommendation</p> <ul style="list-style-type: none"> • Rezoning • Comp Plan amendment • Vacation of Right of Way 	<p>Approval</p> <ul style="list-style-type: none"> • Rezoning • Comp Plan amendment • Vacation of Right of Way • Interim Use • Appeal of Board of Adjustment or Planning Commission



Minneapolis Planning Applications Dashboard

www.minneapolismn.gov/government/government-data/datasource/planning-applications-dashboard

Planning Applications



Project address/name

Status

File number

Project description

Date application submitted

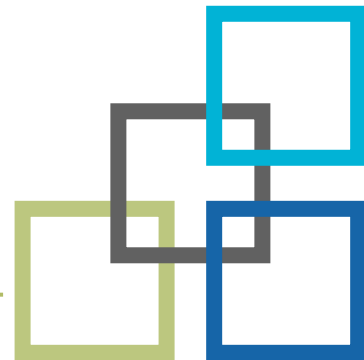
Applicant contact name

Assigned planner

Hearing date



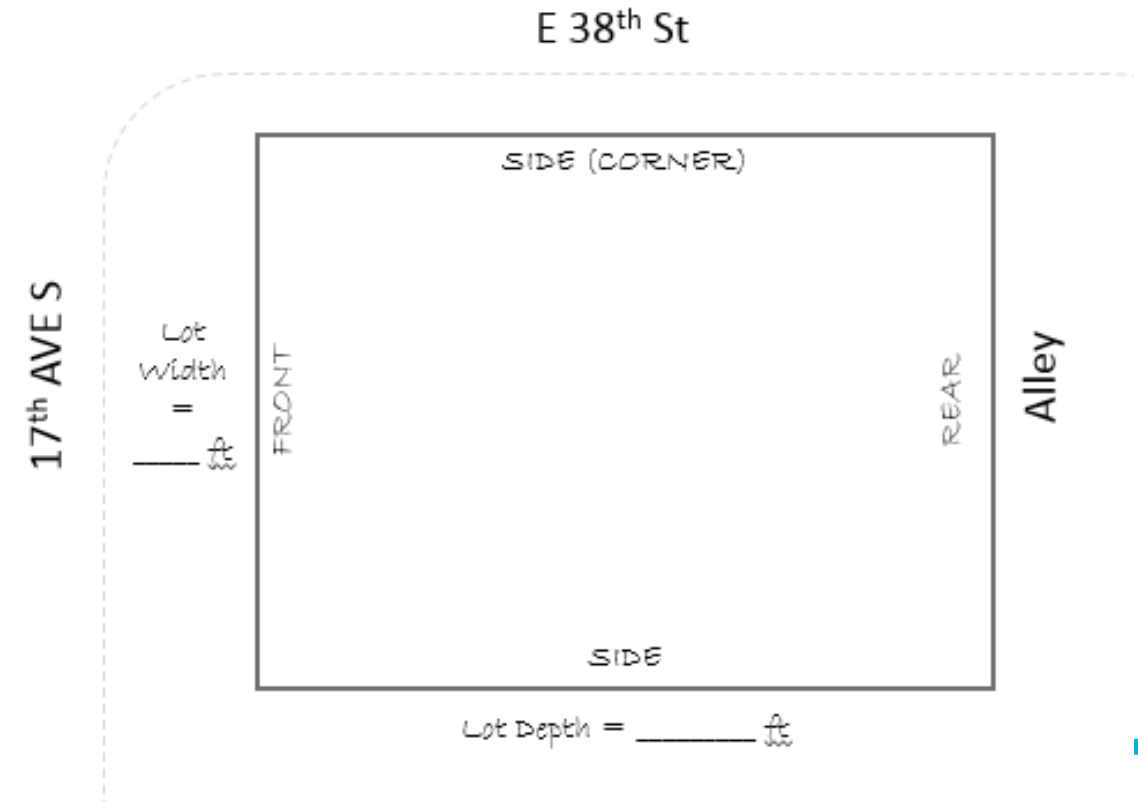
Activity E: Buildable Area Analysis



Activity E: Buildable Area

Using the results of your research from Activity D and the steps below, determine a basic design for your development (number and size of units, floors, parking count, and total gross area.)

1. Using the image below, sketch out the yard requirements (front, side, and rear setbacks) and determine the remaining buildable area. (Assume your building will not exceed 42 ft in height for yard calculations.)
2. Calculate the maximum building size (GSF) you can build based on the site size and maximum FAR.
3. What is your average unit size (Rentable SF)? (There is no right answer, but this should be based on your target customer, the market, etc.) Multiply the unit size (RSF) x 1.10 to estimate an average Gross SF (GSF) per unit to account for circulation, common area, exterior walls, etc.
4. Based on what you know about max building height, max floor area, and average unit GSF how might your building be designed (i.e., how many floors, units per floor, and total units)? Assume all floors are the same size and assume 10-11 feet per floor for height.
5. Calculate your building footprint by dividing your total building area (GSF) by the number of floors. Adjust your design if your footprint does not fit within the max buildable area from Step #1.
6. Calculate the maximum lot coverage requirement. Adjust your design if your footprint exceeds this.
7. Based on zoning and the market, determine how much parking is needed and the total SF of parking. Assume all parking is surface parking and requires 350 SF per stall, including circulation/drive aisles.
8. Calculate the impervious surface coverage and compare that against the zoning requirement.
9. Adjust your design as necessary to optimize the site and meet all zoning requirements.



Activity D Reminder

Property	3801 17th Ave S, Minneapolis <i>SE corner of East 38th St and 17th Ave S</i>	
Planned Use	Multi-Family Apartment building (4+ dwelling units)	
	Site Detail	Source
Zoning Classification	BFC4 / RM1	City of Mpls Property Info (Lot Info)
Lot size	0.26 acres; 11,310 SF	Hennepin County Property Information Search
Lot dimensions	92.30 ft x 122.40 ft	Hennepin County Property Information Search
	Zoning Requirement (min & max)	Source Minneapolis Zoning Code (Section & Table)
FAR (max, min)	Max = 2.0, no min 2.0 x 11,310 SF = 22,620 SF	Sect 540.110, Table 540-2 Sect 540.130, Table 540-4
Height Limits (max, min)	Max: 4 stories or 56' Min: none	Sect 540.410, Table 540-6 Sect 540.420, Table 540-8
Lot Area (max, min)	Max=28,000 SF Min=5,000 SF	Sect 540.720, Table 540-15, Table 540-16, & Table 540-17
Lot Width (min)	Min=40 ft	
Yard (Setback) - Front (min)	15 ft	Sect 540.8500, Table 540-18
Yard (Setback) - Corner (min)	8ft if <42 ft (height) 10 ft if <53 ft 12 ft if <64 ft, etc.	Sect 540.860, Table 540-19
Yard (Setback) - Rear/Side (min)	5ft if <42 ft (height) 7 ft if <53 ft 9 ft if <64 ft, etc.	Sect 540.870, Table 540-20
Maximum Lot Coverage (max)	70% (7,917 SF)	Sect 540.910, Table 540-23
Impervious Surface Coverage (max)	85% (9,614 SF)	Sect 540.920, Table 540-24
Vehicle Parking (max)	Max=2 per Dwelling Unit Min=None	Sect 540.220, Table 555-1
Bicycle Parking (min)	Min=1 per Dwelling Unit	Sect 540.230, Table 555-2

Activity E: Buildable Area

$$122.4' - 15' - 5' = 102.4'$$

$$92.3' - 8' - 5' = 79.3'$$

Maximum Buildable based on setbacks:

$$102.4' \times 79.3' = \mathbf{8,120\ SF}$$

FAR = 2.0

$$2.0 \times 11,310\ \text{SF} = \mathbf{22,620\ GSF}$$

Assume unit size = **750 RSF** (x 1.10 = **825 GSF**)

Max Height = **4 stories**

Assume 4 stories x 5 units per floor = **20 units**

$$20\ \text{units} \times 750\ \text{RSF} = \mathbf{15,000\ RSF}$$

$$20\ \text{units} \times 825\ \text{GSF} = \mathbf{16,500\ GSF}$$

Building Footprint = 16,500 GSF / 4 = **4,125 SF**

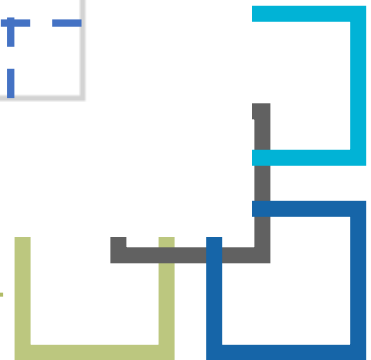
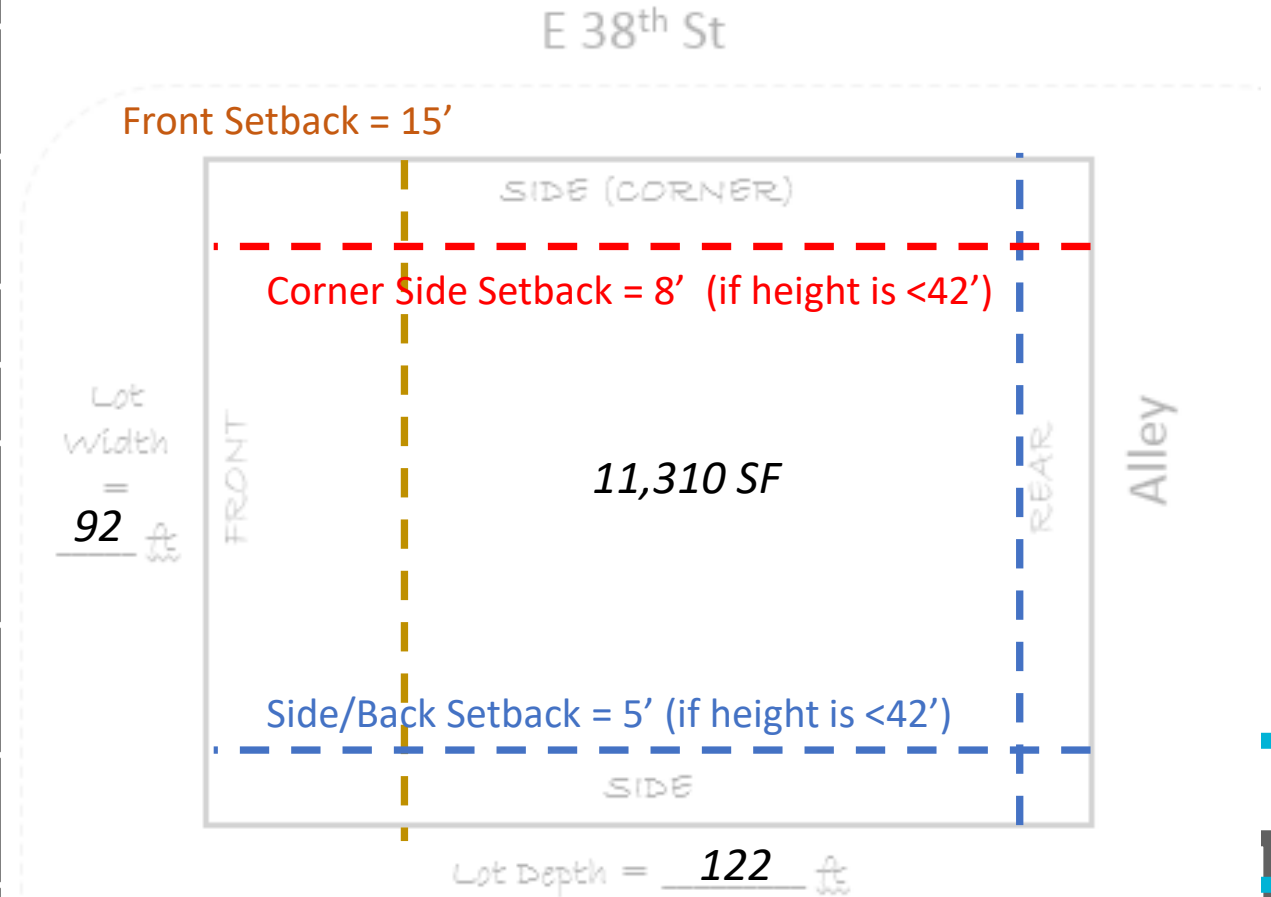
Maximum Lot Coverage: 70% x 11,310 SF = **7,917 SF**

Assume 0.75 stalls per unit = 15 stalls

$$15\ \text{stalls} \times 350\ \text{SF/stall} = \mathbf{5,250\ SF}$$

Planned Impervious = 4,125 SF + 5,250 SF = **9,375 SF**

Maximum Impervious: 85% x 11,310 SF = **9,614 SF**



Construction



Do It Yourself v. Hiring Expertise

Key Partners

- Architect **or** Designer
- General Contractor
- Structural Engineer
- Surveyor
- Energy rater
- Civil Engineer

How to find (*qualified, affordable, available, trustworthy*) key partners?

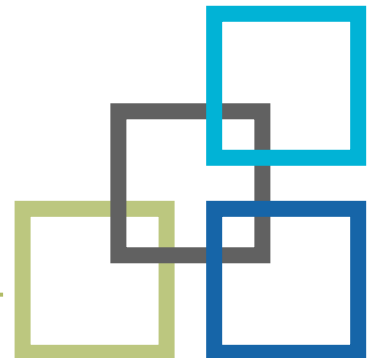


Photo Credit: www.freepik.com



Evaluating a Building

- Roof
- Insulation
- Foundation and structure
- Mechanical systems
- Electrical systems
- Plumbing
- Doors and windows
- Environmental/Asbestos
- Soils



Building Code

Single and 2-family homes

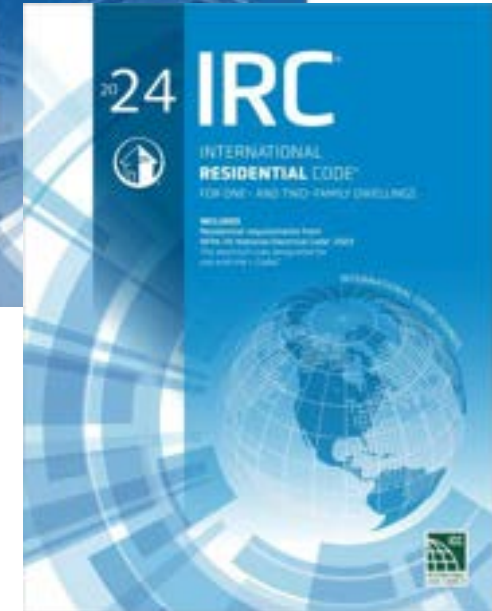
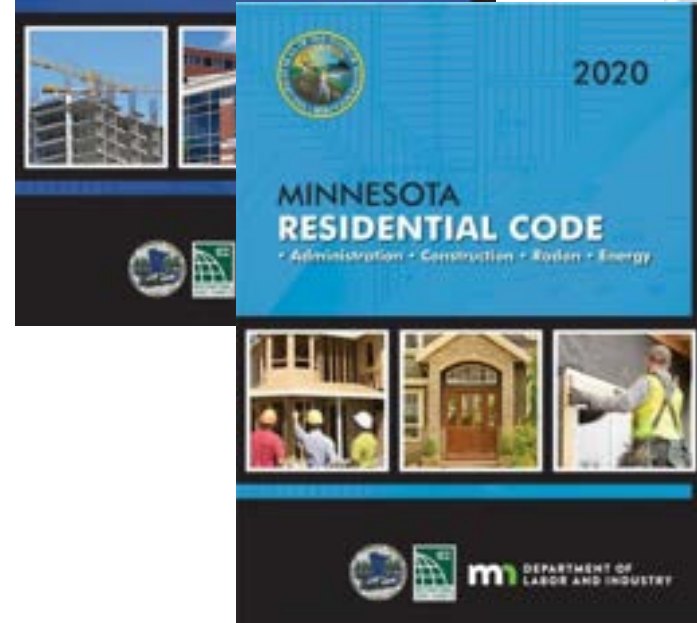
- International Residential Code
- **Minnesota Residential Code**

Other residential & commercial

- International Building Code
- **Minnesota Building Code**

Other Code & Requirements

- Electric – NEC/NFPA 70
- Fire/Safety – IFC/MSFC
- Fair Housing Act & ADA



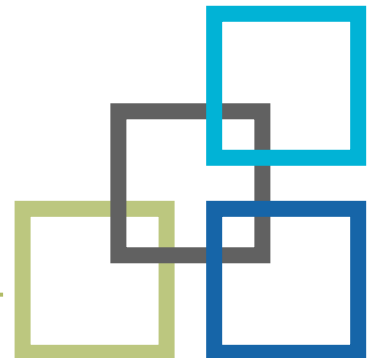
International Code Council
codes.iccsafe.org

Sustainable Building



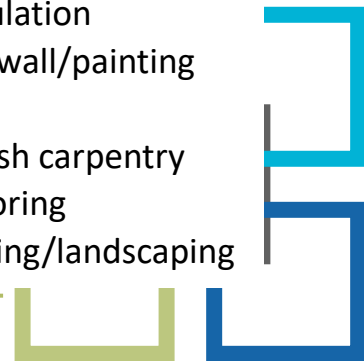
*Firefly Apartments, 2716 Grand Ave
Developer: Kaleidoscope
Architect: A W A K E N Architecture*

- Energy efficiency
- Waste reduction
- Low-impact materials
- Quality and durability
- Design for reuse and recycling
- Water conservation
- Indoor air quality



6 Stages of Construction

	Pre-construction	Sitework/ foundation	Rough framing	Exterior Construction	MEP (Mechanical, Electrical, Plumbing)	Finishes/ fixtures
Major Risks	<ul style="list-style-type: none"> Changing specs and drawings 	<ul style="list-style-type: none"> Retainage (long) Differing site conditions Weather delays 	<ul style="list-style-type: none"> Retainage (long) Weather delays Material prices 	<ul style="list-style-type: none"> Retainage (long) Weather Schedule delays Changing specs Fund shortage Material prices 	<ul style="list-style-type: none"> Schedule delays Retainage (short) Fund shortage Changing specs Material prices 	<ul style="list-style-type: none"> Schedule delays Communications Changing specs Retainage (short) Fund shortage Material prices
Type of Contractor	<ul style="list-style-type: none"> GC Architect/design Engineering Surveyor 	<ul style="list-style-type: none"> GC Architect/design Engineering Surveyor Excavator Drilling Earthwork Utilities Concrete/Cement Framing/structural Scaffolding 	<ul style="list-style-type: none"> GC Framing/structural Scaffolding Metal 	<ul style="list-style-type: none"> GC Scaffolding Metal Roofing Siding Glass/glazing Doors & windows Masonry/brick Plastering 	<ul style="list-style-type: none"> GC Fire Suppression Electrician Plumbing HVAC Elevator 	<ul style="list-style-type: none"> GC Glass/glazing Doors & windows Masonry/brick Plastering Elevator Insulation Drywall/painting Tile Finish carpentry Flooring Paving/landscaping



Building Life Cycle Cost



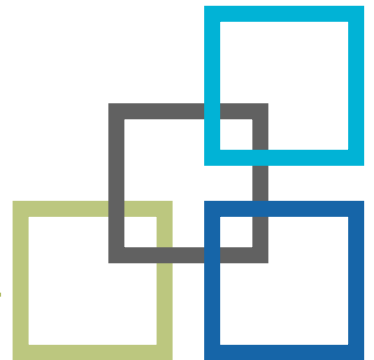
Initial Costs Planning, Design, Acquisition,
Financing, Construction

Future Costs Utilities, Energy & Water, Staffing
& Operations, Insurance, Maintenance, Repairs,
Replacement, Disposition



Contracts – Key Components

- Scope
- Schedule
- Budget
- Terms of Payment
- Insurance and Bonding
- Liens
- Disputes

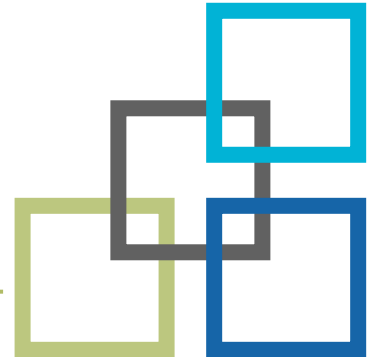


Contracts – Fee Structure

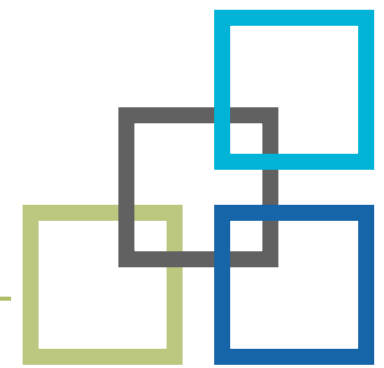
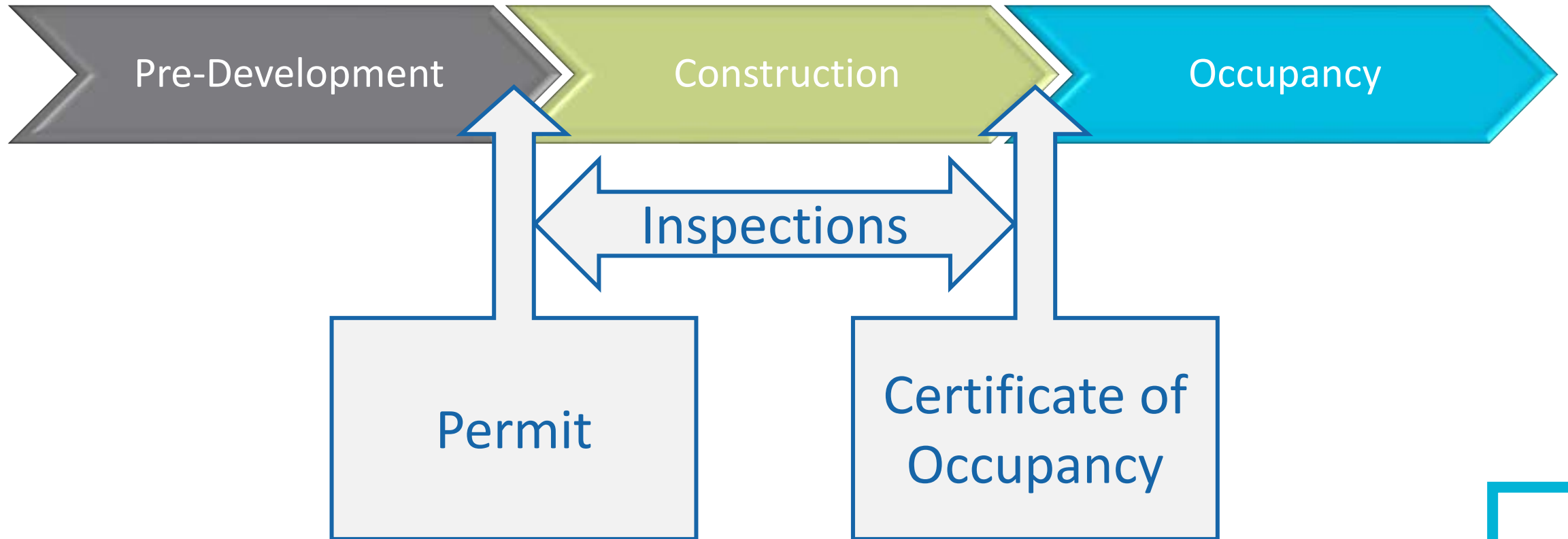
Fixed Price (Lump Sum)	Fixed total price for entire project. Usually for straightforward projects with clear scope of work
Guaranteed Maximum Price (GMP)	Establishes an upper limit on the cost of construction. Contractor absorbs any costs above the cap.
Time & Materials	Contractor reimbursed for cost of materials and labor at a set rate. Usually used for projects without a well-defined scope of work
Cost-plus	Owner pays for costs (materials, labor, overhead) plus an agreed upon preset profit margin
Unit price	Work divided into separate units and billed separately

Most common for small projects

Incentives and Fees at Risk



Permitting & Inspections

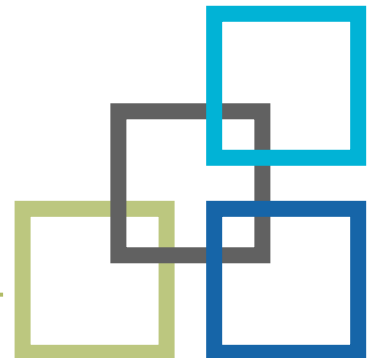


Additional Construction Considerations

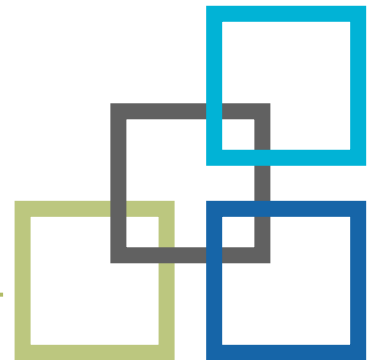
- Loan Draws
- Working Capital
- Prevailing Wage
- Living Wage



Twin Home, 3229 4th Street N, Minneapolis. Developed in 2024 by Alex Frank, Magnolia Homes



Wrap Up and Final Questions





D-TAP

Real Estate Development Basics

Workshop 2 – Day 2

Course Instructors



Andy Babula

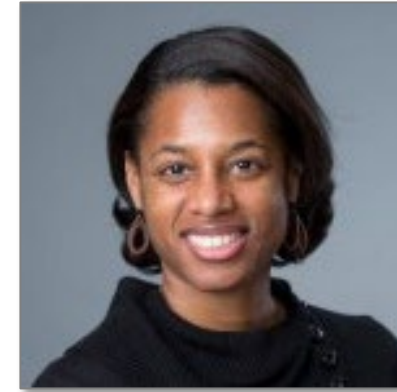
University of St. Thomas

Varro Real Estate



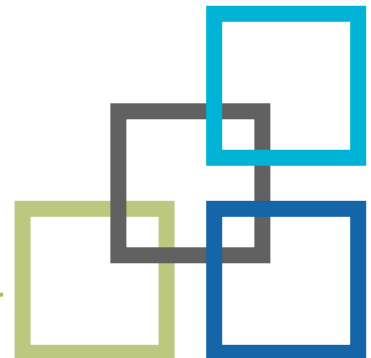
Alex Frank

Magnolia Homes

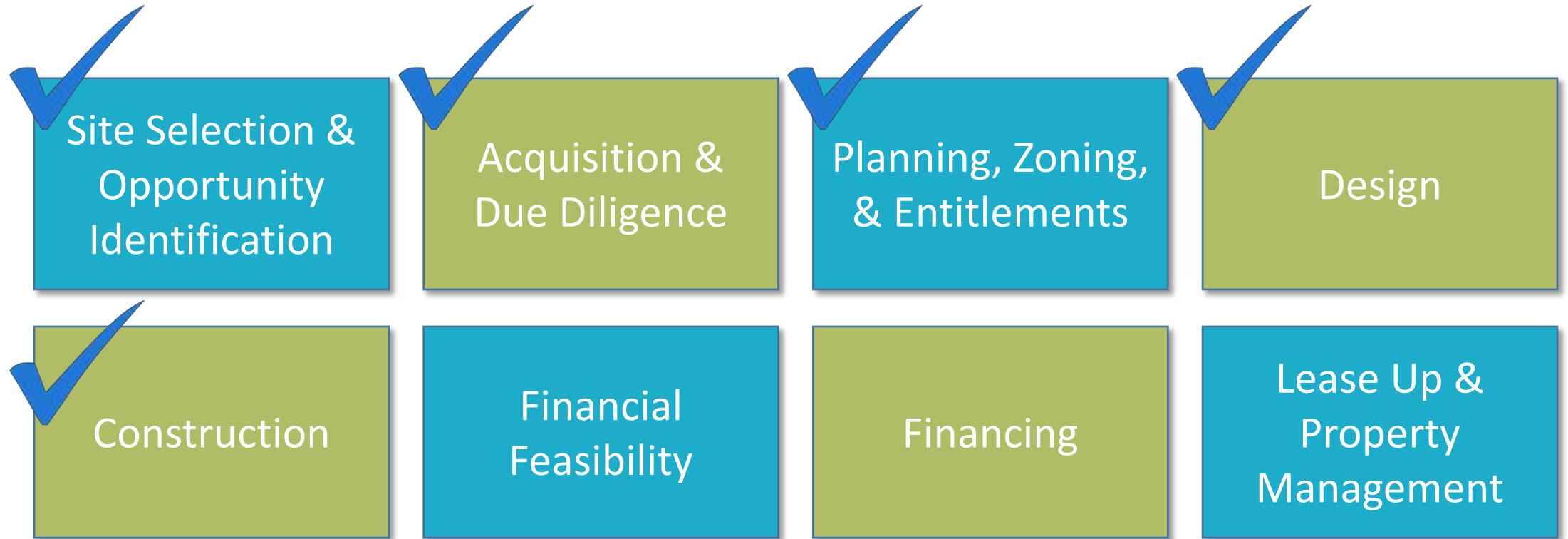


Miranda Walker

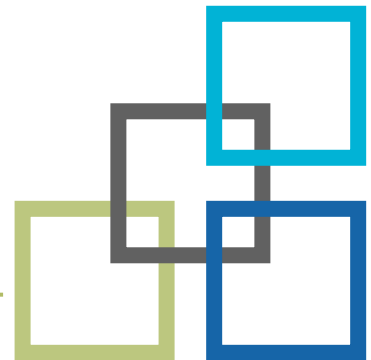
U. S. Bank



Critical Elements of Development – Day 1 Recap

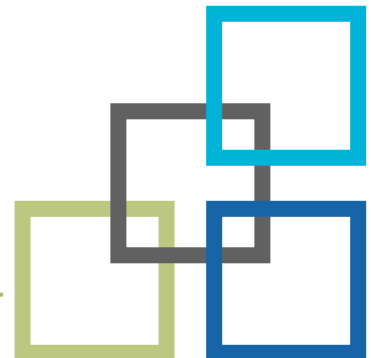


Financial Feasibility (Develop and Sell)



Ways to Make Money in Real Estate

- Cash Flows
- Appreciation
 - Market (Organic)
 - Forced
- Leverage
- Tax Savings
- Fees



Real Estate is a Business

Developed Value

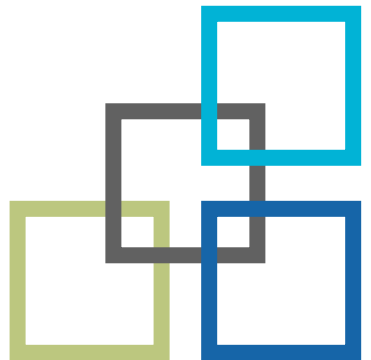
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Development Cost
(including profit)



Real Estate is a Business

$$\text{Profit} = \text{Revenue} - \text{Cost}$$



Return on Investment

$$\text{ROI} = \frac{\text{Investment Return}}{\text{Total Investment}} = \frac{\$80,000}{\$320,000} = 25\%$$

<i>Acquisition</i>	<i>\$250,000</i>
<i>Construction</i>	<i>\$ 70,000</i>
<i>Total Investment</i>	<i>\$320,000</i>

<i>Value after completion</i>	<i>\$400,000</i>
<i>Less Total Investment</i>	<i>-\$320,000</i>
<i>Investment Return</i>	<i>\$ 80,000</i>



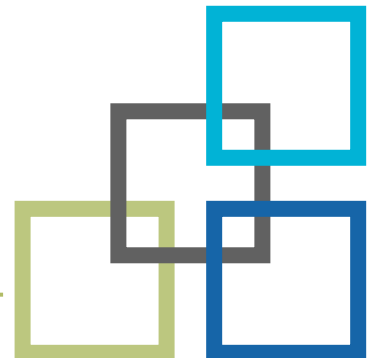
Return on Cash (Equity)

$$\text{ROC} = \frac{\text{Equity (Cash) Return}}{\text{Equity (Cash) Investment}} = \frac{\$72,000}{\$200,000} = 36\%$$

<i>Acquisition</i>	\$250,000
<i>Construction</i>	\$ 70,000
<i>Total Investment</i>	\$320,000
<i>Debt</i>	\$120,000
<i>Equity Investment</i>	\$200,000

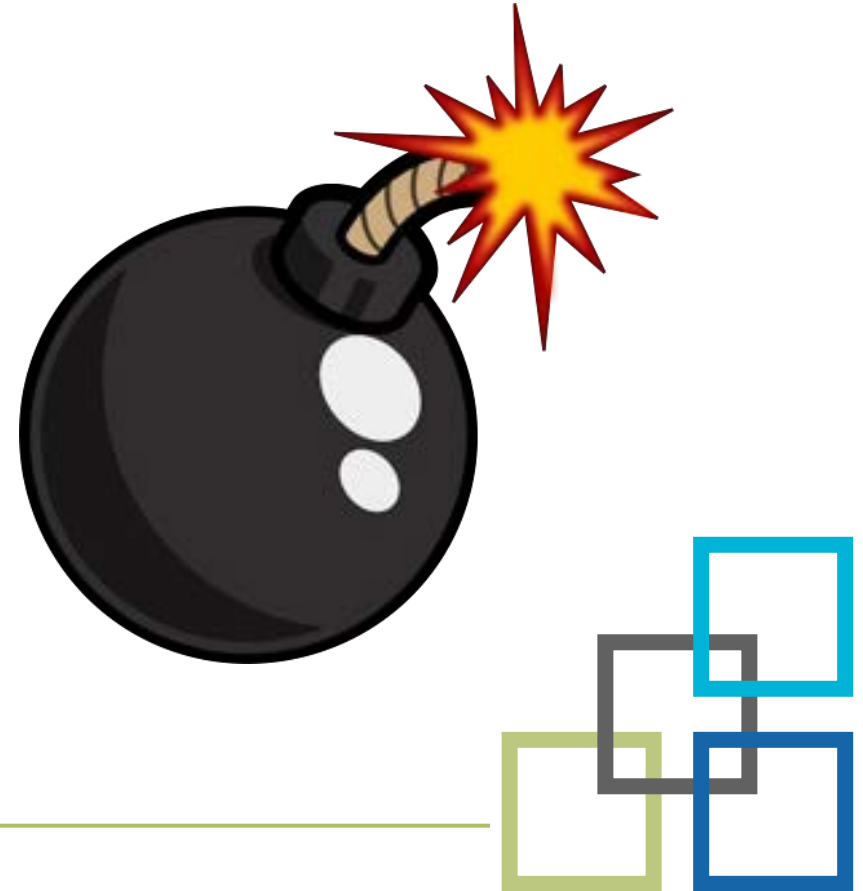
<i>Value (Net Sale Price)</i>	\$400,000
<i>Less Debt Payoff</i>	-\$120,000
<i>Less Interest</i>	-\$ 8,000
<i>Equity from Sale</i>	\$272,000
<i>Less Equity Investment</i>	-\$200,000
<i>Equity Return</i>	\$ 72,000

$$\text{Equity Multiplier} = \frac{\text{Equity from Sale}}{\text{Equity Investment}} = \frac{\$272,000}{\$200,000} = 1.36$$



Merchant Builder (Build & Sell) Risk

- Carrying Costs (Taxes, Utilities, etc.)
- Loan Interest
- Loan payoff



Activity F: Develop & Sell Feasibility



Activity F: Develop & Sell Feasibility

You are looking to develop a twin home property on a small lot in Minneapolis. You have engaged a designer who drew up plans to build a 2-unit building. Each unit would be 1,770 SF for a total building size of 3,540 SF. You can purchase the vacant property for \$115,000 (including all acquisition fees.) You estimate that you can sell each unit upon completion for \$495,000. Your cost of sale (broker, attorney fees, etc.) will be 6% of the total sale price.

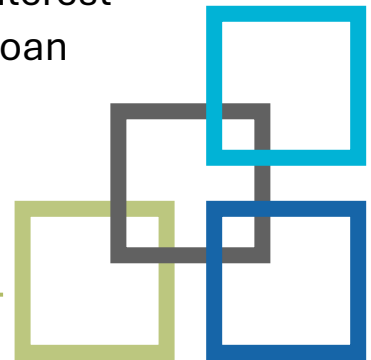


You speak with a general contractor who estimates hard costs will be \$190 per SF and your design costs will be \$47,000. You will also incur \$13,000 in other soft costs for site investigations, carrying costs, and other fees.

You speak with a local bank and can get a \$625,000 interest-only loan with a 7.2% interest rate. Because it is interest-only, you won't pay down any principal. You will pay only interest on the loan each month and then you will pay off the full loan amount when you sell the property. (Since it is interest only your loan constant will be the same as your interest rate, 7.2%.)

You anticipate that the project will take 15 months, so you will need to include 15 months of debt service (interest payments) in your soft cost (Debt Service during Development). (Hint: Calculate your annual debt service (loan constant x loan amount), then monthly debt service, then total debt service for the full 15 months period.)

Using the template provided, calculate the ROI, Return on Cash, and Equity Multiplier for this project.



Activity F: Develop & Sell Feasibility

PROPERTY DETAILS

Unit 1 SF	1,770
Unit 2 SF	1,770
Total SF	3,540

USES

Acquisition Cost	\$115,000
Hard Costs	<i>\$190/SF</i> \$672,600
Soft Costs - Design	\$ 47,000
Soft Costs - Debt Service during Development	\$ 56,250
Soft Costs - Other (Investigations, Fees, Carrying)	\$ 13,000
TOTAL USES: Total Development Cost (TDC)	\$903,850

DEBT SERVICE

Loan Amount	\$625,000
Loan Constant	7.20%
Debt Service (annual)	<i>7.2% x \$625,000</i> \$ 45,000
Debt Service (monthly)	\$ 3,750
<i>Development Period (months)</i>	15
Debt Service During Construction	<i>15 x \$3,750</i> \$ 56,250

SOURCES

Debt	\$625,000
Equity Investment	<i>TDC - Debt</i> \$278,850
TOTAL SOURCES (Total Investment)	\$903,850

DEVELOPER PROFIT FROM SALE

Sale Price per Unit	\$495,000
Number of Units	2
Total Sale Price	\$990,000
less Cost of Sale	<i>6% x Sale Price</i> -\$59,400
Investment Returned from Sale	\$930,600
less Loan Payoff	<i>Orig Loan Amt</i> -\$625,000
Equity Returned from Sale	\$305,600

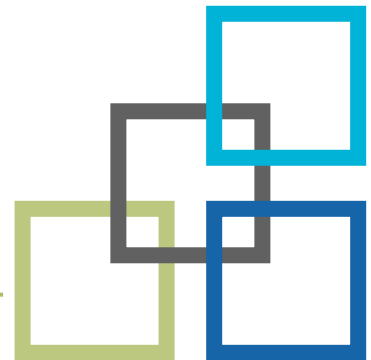
Investment Return (Profit after Sale)	<i>\$930,600 - \$903,850</i> \$26,750
Equity Return (Profit after Loan Payoff)	\$26,750

	<i>\$305,600 - \$278,850</i>
--	------------------------------

DEVELOPER PROFITABILITY

Return on Investment (ROI)	<i>\$26,750 / \$892,600</i> 3.0%
Return on Cash (Equity)	<i>\$26,750 / \$267,600</i> 9.6%
Equity Multiplier	<i>\$305,600 / \$278,850</i> 1.10

Financial Feasibility (Develop and Hold)



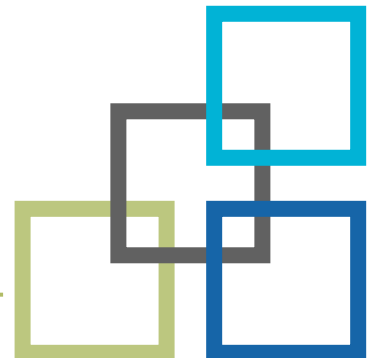
Real Estate is a Business

Developed Value?

≥

Development Cost
(including profit)

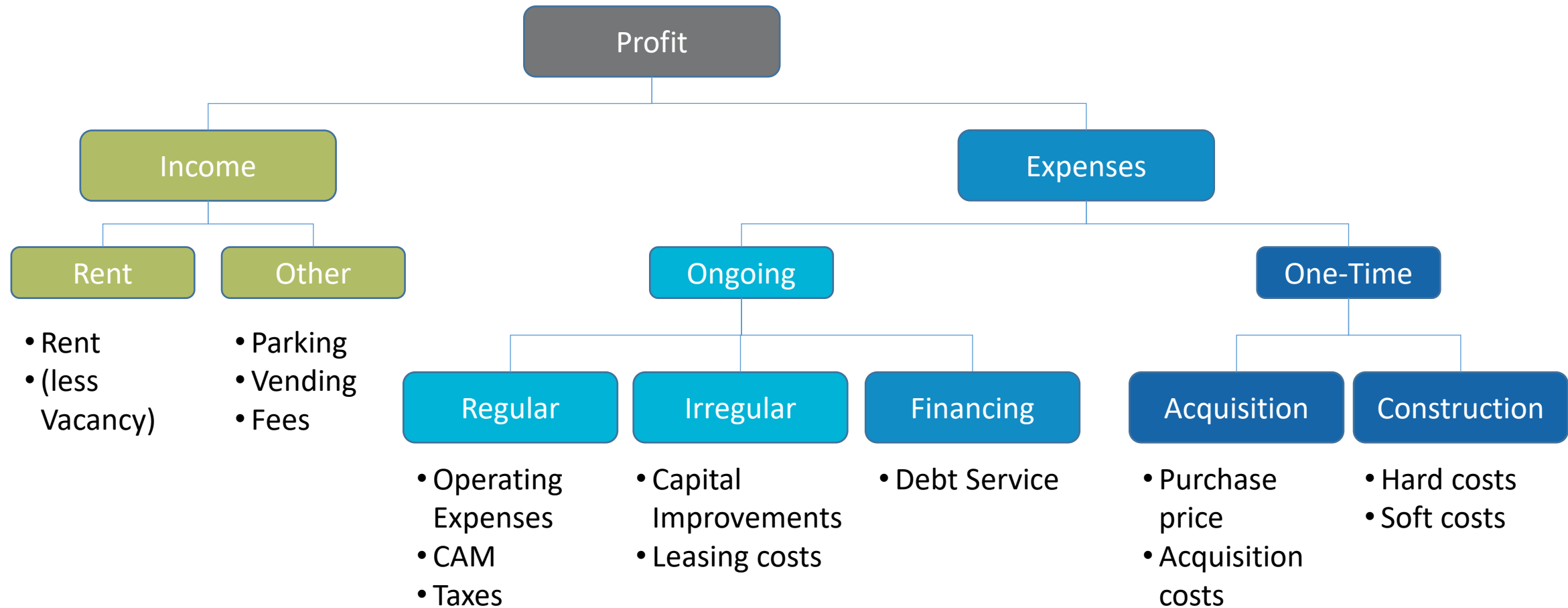
Still!



Real Estate is a Business



Real Estate is a Business



Single Year Financial Analysis

Income

- Tenant Revenue
- + Other Revenue (e.g., parking, laundry, fees)
- + Reimbursed Expenses (Commercial only)

Potential Gross Income

- Vacancy

Effective Gross Income

Expenses

Regular

- Operating Expenses (RE Tax, Insurance, Maintenance, Utilities, Reserves)

Irregular

- Leasing & Capital Costs

← Note: Some analysts place leasing & capital costs after NOI and calculate Cash Flow before Financing)

Net Operating Income (NOI)

Financing

- Debt Service

Cash Flow after Financing



Operating Expenses



- Property taxes
- Property insurance
- Water and sewer
- Utilities
- Garbage collection
- Landscaping
- Snow removal
- Property management
- Maintenance and repairs
- Administrative and accounting
- Janitorial service
- Pest control
- Advertising



Annual Return on Investment

$$\text{Annual ROI} = \frac{\text{NOI}}{\text{Total Investment}} = \frac{\$30,000}{\$320,000} = 9.4\%$$



Capitalization (Cap) Rate

3 Properties...Same NOI...Same Price?



NOI = \$100,000

High Risk

Cap Rate = 10%

Value = \$1.00 million



NOI = \$100,000

Medium Risk

Cap Rate = 8%

Value = \$1.25 million



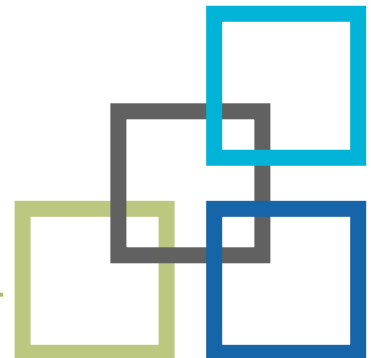
NOI = \$100,000

Low Risk

Cap Rate = 6%

Value = \$1.67 million

$$\text{Value} = \text{NOI} / \text{Capitalization Rate}$$



Cap Rate

$$\text{Property Value} = \frac{\text{NOI}}{\text{Cap Rate}}$$

$$\text{Cap Rate} = \frac{\text{NOI}}{\text{Property Value}}$$



Direct Capitalization

Developed Value?

≥

Development Cost
(including profit)



Single Year Financial Analysis

Income

Tenant Revenue
+ Other Revenue (e.g., parking, laundry, fees)
+ Reimbursed Expenses (Commercial only)

Potential Gross Income

- Vacancy

Effective Gross Income

Expenses

Regular

- Operating Expenses (RE Tax, Insurance, Maintenance, Utilities, Reserves)

Irregular

- Leasing & Capital Costs

Net Operating Income (NOI)

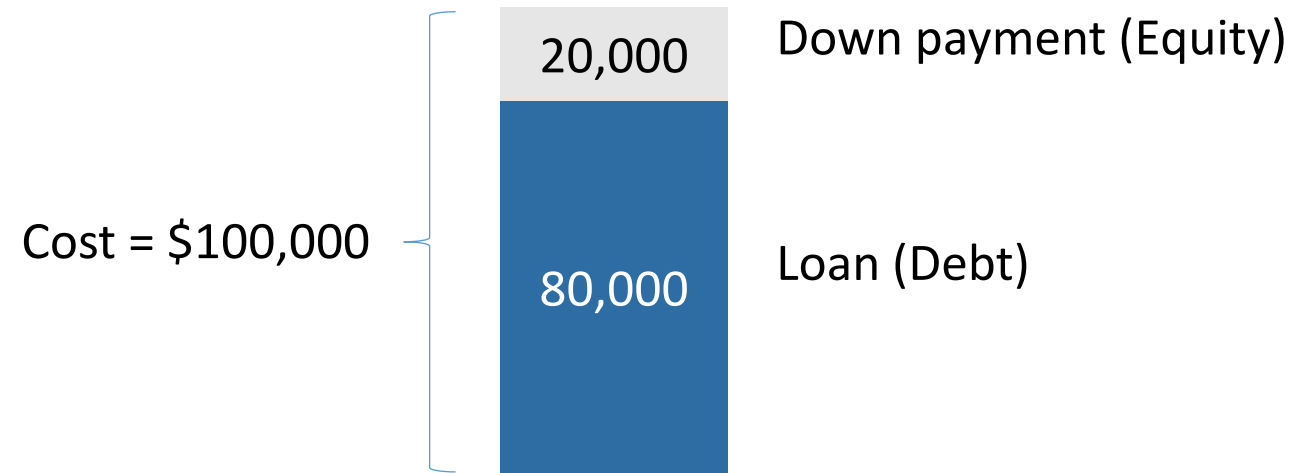
Financing

- Debt Service

Cash Flow after Financing

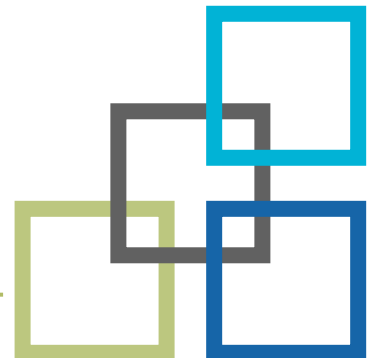


Debt: Loan-to-Cost (LTC)



$$\text{Loan-to-Cost (LTC)} = \frac{\text{Loan}}{\text{Cost}}$$

$$\text{Loan-to-Cost (LTC)} = \frac{\$80,000}{\$100,000} = 80\%$$



Calculating Debt Service

Debt Service (Principal + Interest) depends on:

- Loan Amount
 - Interest Rate
 - Loan Amortization (How much time you have to pay off principal)
- } Loan Constant

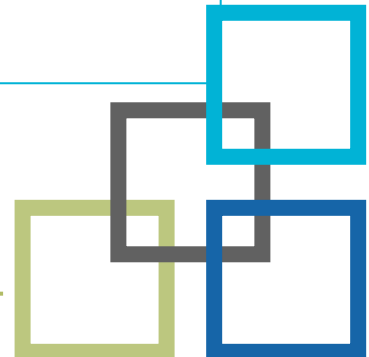
How to calculate Debt Service:

- **Annual Debt Service = Loan Constant x Loan Amount**
- Excel: =PMT(rate,nper,pv) ...where
 - rate = interest rate ($\div 12$) such as 5.5%/12
 - nper = amortization period (x12) such as 30x12
 - pv = loan amount
 - For example: =PMT(5.5%/12,30x12,100000)
- Internet calculators
- Financial Calculator

Google “mortgage calculator”

www.bankrate.com/mortgages/mortgage-calculator/

www.mortgagecalculator.org/



Leverage – Debt Service Coverage Ratio (DSCR)

Gross Potential Income

- Vacancy

Effective Gross Income

- Operating Expenses (RE Tax, Insurance, Maintenance, Utilities, etc.)

- Capital Costs and Reserves

Net Operating Income (NOI)

- Debt Service (Principal + Interest Payment)

Levered Cash Flow (CF after Financing)

$$DCR = \frac{NOI}{Debt\ Service}$$

Example:

NOI = \$100,000

Debt Service = \$80,000

$$\begin{aligned} DCR &= \$100,000 / \$80,000 \\ &= 1.25 \end{aligned}$$

Lenders typically want a DCR of 1.20-1.25 or higher

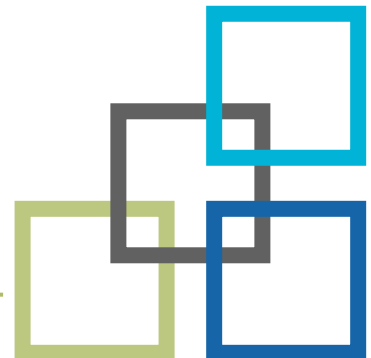


Example – Debt Coverage Ratio

<i># Units</i>	4
<i>Rent (Unit/Month)</i>	1,000
Rent (\$, Annual)	48,000
Laundry Income	1,000
Potential Gross Income	49,000
less Vacancy (5%)	2,450
Effective Gross Income	46,550
RE Taxes	6,500
Insurance	1,500
Operating Expenses	11,000
Capital Reserves	1,000
less Total Expenses	20,000
Net Operating Income (NOI)	26,550
less Debt Service	18,000
Levered Cash Flow	8,550

$$\text{DCR} = \frac{\text{NOI}}{\text{Debt Service}}$$

$$\text{DCR} = \frac{26,550}{18,000} = 1.48$$



Annual Return on Cash (Cash on Cash, Equity Yield)

$$\text{Return on Cash} = \frac{\text{Cash Flow after Financing}}{\text{Equity Investment}} = \frac{\$22,000}{\$200,000} = 11\%$$

(Annual)



Example – Small Mixed-Use Redevelopment



Mixed Use Building

- 2 residential units (1,000 RSF each)
- 1 commercial retail space (1,000 RSF)
- 3,150 gross SF total (105% RU factor)
- 2 parking stalls for residential tenants

Income Assumptions

- Residential Rent = \$2,650/unit/month*
- Residential Parking = \$50/stall/month
- Commercial Rent = \$26/RSF/year*
- Commercial Opex Reimbursement = 100%*
- Vacancy: 5% Residential, 7% Commercial

Expense Assumptions

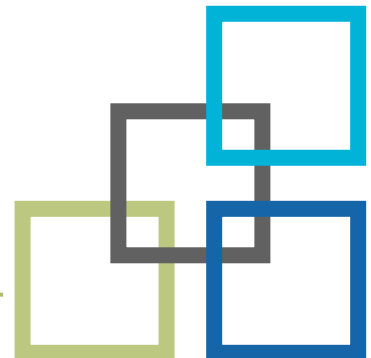
- Residential Opex = \$20,000/year
- Residential Capex = \$250/unit/year
- Commercial Opex = \$10/commercial RSF/year
- Commercial Leasing & Capex = \$1,000/year

Development Cost Assumptions

- Acquisition price = \$365,000
- Hard costs (rehab) = \$140/GSF
- Soft costs = 20% of hard costs

Loan Assumptions

- LTV = 65%
- Interest Rate = 6.5%
- Amortization = 30 years
- Loan Constant = 7.58%



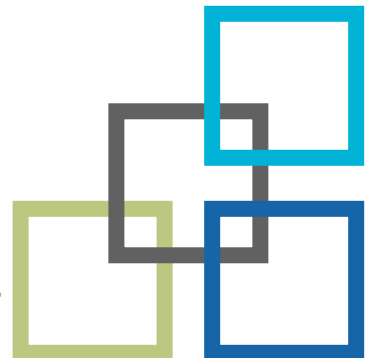
Example – EGI and NOI

RESIDENTIAL CASH FLOW

Rent (\$/unit per month)	2,650	
Number of Units	2	
Rent (\$, Annual)	63,600	Monthly Rent per unit x # units x 12 months
Other Income	1,200	\$50/stall/month
Expense Reimbursement	-	
Potential Gross Income (PGI)	64,800	
Vacancy	(3,240)	5.00%
Effective Gross Income (EGI)	61,560	
Operating Expense	(20,000)	
Leasing & Capital Costs	(500)	
Net Operating Income (NOI)	41,060	

COMMERCIAL CASH FLOW

Rent (\$, Annual per RSF)	26.00	
Commercial RSF	1,000	
Rent (\$, Annual)	26,000	Annual Rent/RSF x Commercial RSF
Other Income	-	
Expense Reimbursement	10,000	
Potential Gross Income (PGI)	36,000	
Vacancy	(2,520)	7.00%
Effective Gross Income (EGI)	33,480	
Operating Expense	(10,000)	\$10/Commercial RSF
Leasing & Capital Costs	(1,000)	
Net Operating Income (NOI)	22,480	



Example – NOI and ROI

TOTAL CASH FLOWS

NOI Residential	41,060
NOI Commercial	22,480
Net Operating Income	63,540

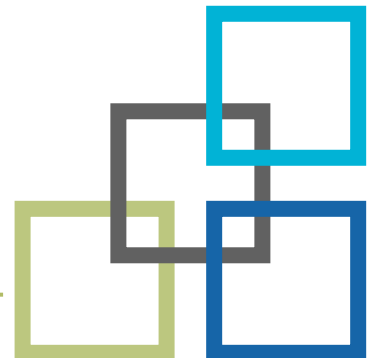
$$\text{ROI} = \frac{\$63,540}{\$894,200} = 7.1\%$$

USES

Acquisition Cost (\$)	365,000	
Hard Costs, Building (\$)	441,000	\$140.00/GSF x 3,150 GSF
Soft Costs (\$)	88,200	20% of total Hard Costs
Total Uses	894,200	
<i>Total Cost per Unit</i>	298,067	2 residential and 1 commercial

SOURCES

Debt	581,230	65% Loan-to-Cost Ratio
Equity	312,970	= Total Uses - Debt
Total Sources	894,200	



Example – CFAF and ROC

TOTAL CASH FLOWS

NOI Residential	41,060
NOI Commercial	22,480
Net Operating Income	63,540

Debt Service	(44,085) <i>See Financing Section</i>
Cash Flow after Financing (CFAF)	19,455

$$\text{ROC} = \frac{\$19,455}{\$312,970} = 6.2\%$$

SOURCES

Debt	581,230	65% Loan-to-Cost Ratio
Equity	312,970	= Total Uses - Debt
Total Sources	894,200	

FINANCING

Debt	581,230
Interest Rate	6.50%
Amortization Period (yrs)	30
Loan Constant	7.58% <i>From Excel, online calculator, table, etc.</i>
Debt Service (Principal + Interest)	44,085 = Loan Constant x Debt
<i>Debt Coverage Ratio</i>	<i>1.44 = NOI / Debt Service</i>



Activity G:

Single-Year Financial Analysis



Solution – Single-Year Financial Analysis

CASH FLOW

Number of Units	20	
Rent (\$, Monthly per unit)	1,950	
Rent (\$, Monthly per RSF)	2.60	1,950 / 750 RSF
Rent (\$, Annual)	468,000	1,950 x 12 x 20 units
Expense Reimbursement	-	None in residential
Potential Gross Income (PGI)	468,000	
Vacancy Factor	(23,400)	5% x 468,000
Effective Gross Income (EGI)	444,600	
Operating Expense	(153,000)	\$0.85/RSF x 12 x 15,000 RSF
Leasing & Capital Costs	(5,000)	\$250/unit x 20 units
Net Operating Income (NOI)	286,600	
Debt Service	(186,676)	
Cash Flow after Financing (CFAF)	99,924	

INVESTMENT COST

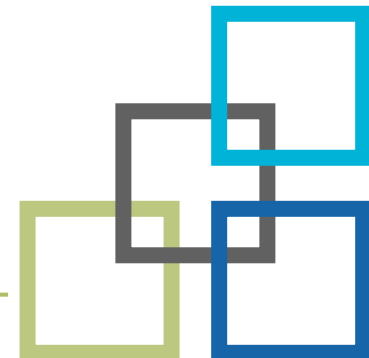
Acquisition Cost (\$)	280,000	
Hard Costs (\$)	3,217,500	\$195/GSF x 16,500 GSF
Soft Costs (\$)	643,500	20% of Hard Costs
Total Cost (\$)	4,141,000	
Cost per Unit (\$)	207,050	Total Cost / 20 units

DEBT INPUTS

Loan to Cost	70%	
Debt (\$)	2,898,700	70% x Total Cost
Equity (\$)	1,242,300	Total Cost - Debt
Interest	5.00%	
Amortization (yrs)	30	
Loan Constant	6.44%	
Debt Service (\$)	(186,676)	Loan Const x Debt
DSCR	1.54	NOI / Debt Service

RETURN CALCULATIONS

Return on Investment (ROI)	6.9%	NOI / Total Cost = 286,600 / 4,141,000
Return on Cash (ROC)	8.0%	CFAF / Equity = 99,924 / 1,242,300

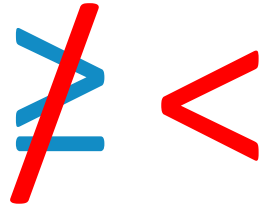


Financial Feasibility (Gap Financing)



Gap Financing – Why Needed?

Developed Value



Development Cost
(including profit)



Gap Financing – Why needed?

because **Value < Cost + Required Profit**

Example 1: Single Family Home

Land Cost	\$ 10,000
Construction	\$ 290,000
<u>10% Profit</u>	<u>\$ 30,000</u>
Total Cost + Required Profit	\$ 330,000

Value based on Sales Comparison
\$295,000

✗ \$295,000 < \$330,000
Developer would lose \$5,000!

What if value = \$320,000?

Example 2: 4-Unit Apartment Building

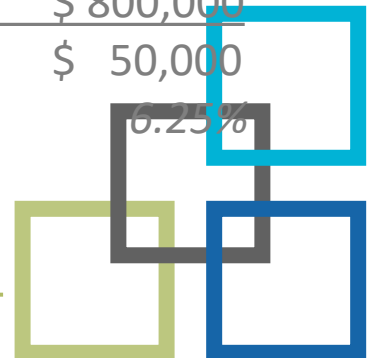
Land Cost	\$ 40,000
Construction (\$190k/unit)	\$ 760,000
<u>12.5% Profit (12.5% x \$800k)</u>	<u>\$ 100,000</u>
Total Cost + Required Profit	\$ 900,000

Value based on Direct Capitalization
NOI \$51,000/yr
Cap Rate 6%
Value (= \$51k/6%) \$850,000

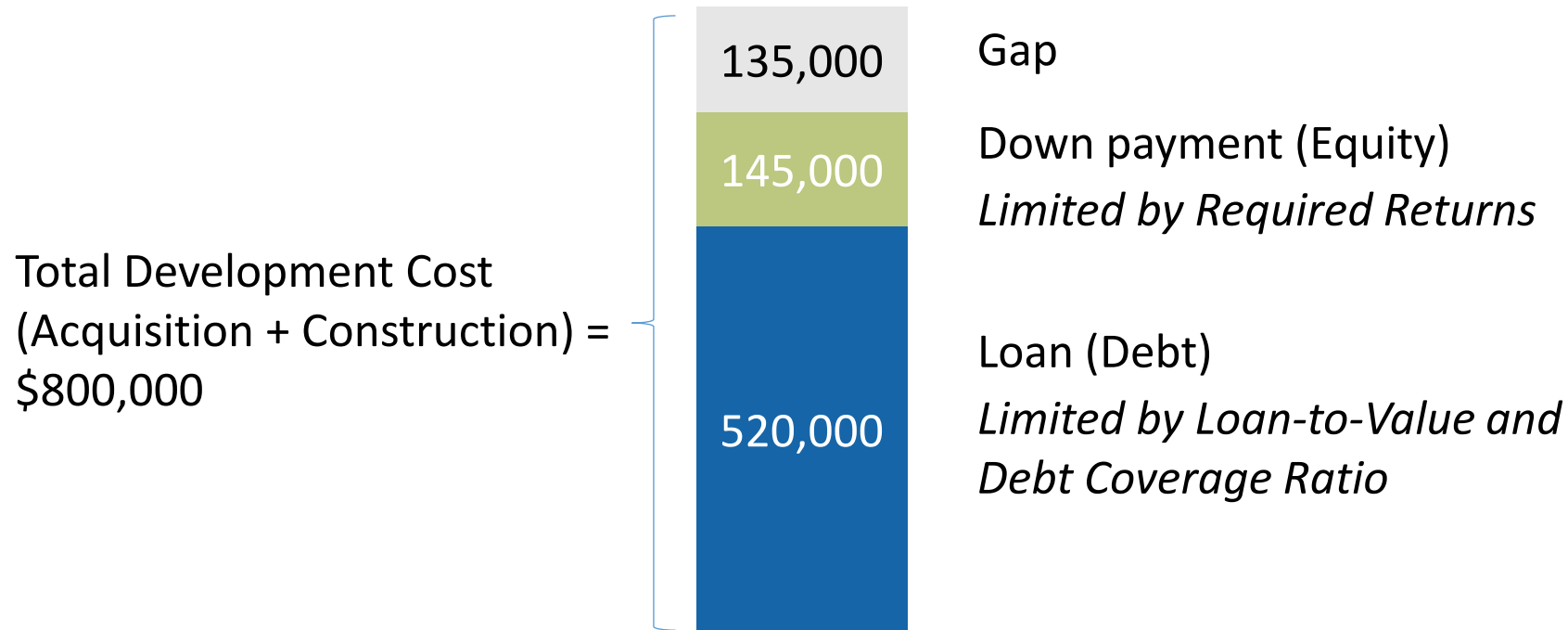
✗ \$850,000 < \$900,000

Value	\$ 850,000
Cost w/o profit	\$ 800,000
<u>Profit</u>	<u>\$ 50,000</u>

6.25%



Gap Financing – Why needed?



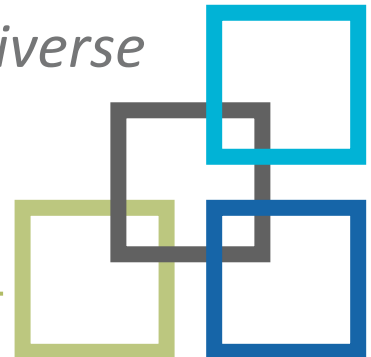
Assumptions: Value = \$800k, NOI=\$48k, Loan Const=7%, LTV=65%, Unlevered CF = \$11.6k, Min ROE=8%



Gap Financing – Common Types/Sources

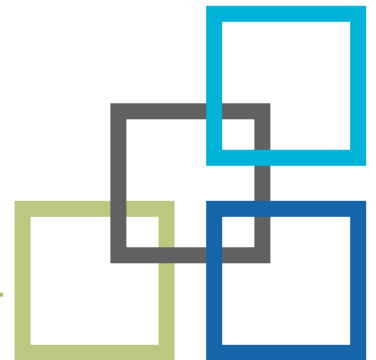
- Predevelopment v. Development
- Grants
- Tax Abatement, Tax Increment Financing (TIF)
- Tax Credits (Low Income Housing, New Market, etc.)
- Loans (low interest, interest only, forgivable, etc.)
- Fees waived
- Rebates (energy, etc.)

Financing often has business, development, and/or operational requirements such as affordable housing, energy savings, economic development, emerging/diverse business, non-profit, etc.



Minneapolis Economic Development Financing

- MN Brownfields
- 2% loan Program
- Ownership and Opportunity Fund
- Façade Improvement Grants
- 4D Affordable Housing
- NOAH Preservation Fund
- Minneapolis Homes
- Minneapolis Green Cost Share



Financing



Financing Options

Debt

- Banks
- Credit Union
- Mortgage Brokers
- Private Lenders
- Real Estate Funds

Equity

- You
- Family & Friends
- Private Investors
- Real Estate Funds
- Pension Funds



Debt Financing



Advantages

- Easier to obtain
- Range of options
- Control

Disadvantages

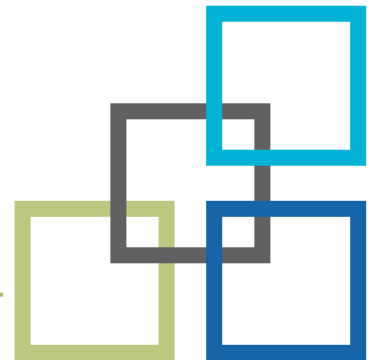
- Collateral
- Guaranty
- Limited Amount
- Payback Requirement



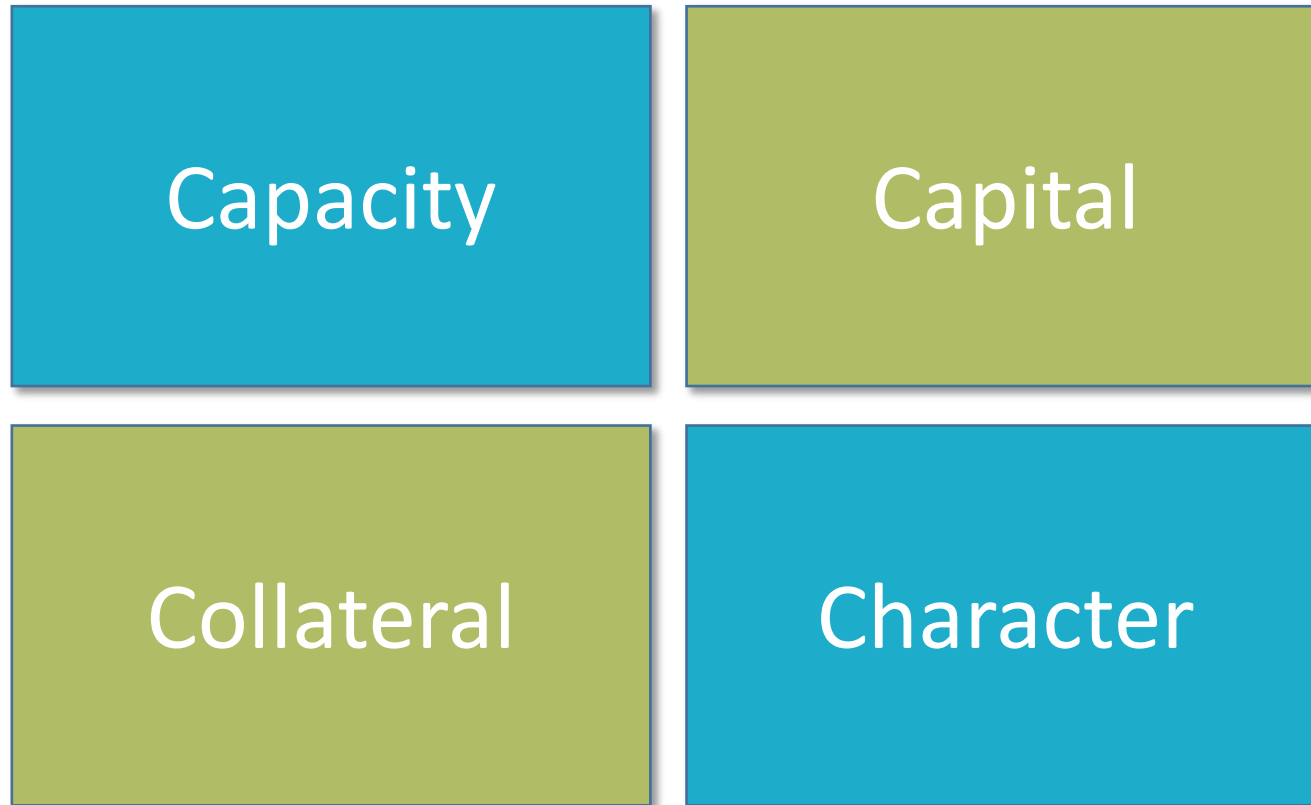
Commercial Lending Terms



- Interest Rates
- Term
- Amortization Period
- Debt Coverage Ratio (DCR)



Additional Lender Considerations



How to Start



1. Get in contact with several banks
2. Meet with the lender in person
3. Be prepared to ask questions
4. Keep your description simple
5. Know your deal



Commercial Lending Process



Sample Loan Application

- Proforma with timing assumptions
- Developer resume and company bio
- 2 years of financials (personal and organizational)
- Real estate schedule
- Contingent liability schedule
- Third-party reports
- Entitlement update
- Other contracts
- Terms from other funders
- Org chart
- Team resume and bios
- Photo/rendering



Lending for Small Scale Development



- Financing Tools
- Lending before Value Exists
- Starting with a “house”
- Options for Residential
 - Fannie Mae/Freddie Mac
 - Loan to Value
 - # of properties
 - Term/Amortization (Same)



Additional Tips for Securing Debt Financing

- Select an expert team
- Remember that you set expectation for responsiveness
- Read fully and review the loan package



Financial Feasibility (Multi-year)



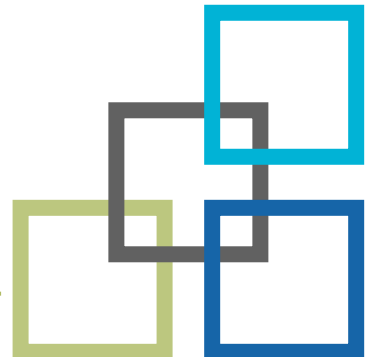
Sources & Uses

SOURCES

	\$ Budget	% of Total
Debt		
Primary Loan	366,065	70.0%
Secondary Loan	-	0.0%
	-	0.0%
	-	0.0%
Subtotal Debt	366,065	70.0%
Equity		
General Partner	126,885	24.3%
Limited Partner 1	-	0.0%
Limited Partner 2	-	0.0%
	-	0.0%
Subtotal Equity	126,885	24.3%
Gap Financing		
Grant	30,000	5.7%
Government loan	-	0.0%
	-	0.0%
	-	0.0%
Subtotal Gap Financing	30,000	5.7%
TOTAL SOURCES	522,950	100.0%
Difference (Uses - Sources)	-	
Number of Units	3	
Total Gross SF	2,400	

USES

	\$ Budget	\$/Unit	\$/GSF	% of Total
Site Acquisition Cost				
Land Cost	50,000	16,667	20.83	9.6%
Acquisition Fees	5,000	1,667	2.08	1.0%
Subtotal Site Acquisition Costs	55,000	18,333	22.92	10.5%
Hard Costs				
Labor & Materials - Building	360,000	120,000	150.00	68.8%
Labor & Materials - Parking	-	-	-	0.0%
Contractor Fee	14,400	4,800	6.00	2.8%
Subtotal Hard Costs	374,400	124,800	156.00	71.6%
Soft Costs				
Architecture & Engineering	25,000	8,333	10.42	4.8%
Investigations (Enviro, Soils, Market)	3,000	1,000	1.25	0.6%
Debt & Equity Financing Fees	4,500	1,500	1.88	0.9%
Legal Fees	6,000	2,000	2.50	1.1%
Marketing	500	167	0.21	0.1%
Furniture, Fixtures, & Equipment	1,000	333	0.42	0.2%
SAC/WAC Charges	3,000	1,000	1.25	0.6%
Permits	1,750	583	0.73	0.3%
Property Taxes during Construction	3,300	1,100	1.38	0.6%
Interest during Construction	12,000	4,000	5.00	2.3%
Insurance during Construction	2,500	833	1.04	0.5%
Reserve Funding	5,000	1,667	2.08	1.0%
Contingency	5,000	1,667	2.08	1.0%
Developer Fee	20,000	6,667	8.33	3.8%
Other	1,000	333	0.42	0.2%
Subtotal Soft Costs	93,550	31,183	38.98	17.9%
TOTAL USES	522,950	174,317	217.90	100.0%



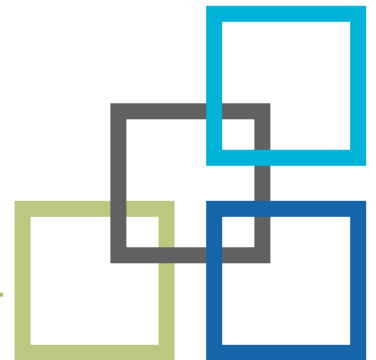
Pro Forma – Multi-Year Financial Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Tenant Revenue										
+ Other Revenue										
+ Reimbursed Expenses										
Potential Gross Income										
- Vacancy										
Effective Gross Income										
- Operating Expenses										
- Capital and Leasing Costs										
Net Operating Income (NOI)										
- Debt Service										
Cash Flow after Financing										



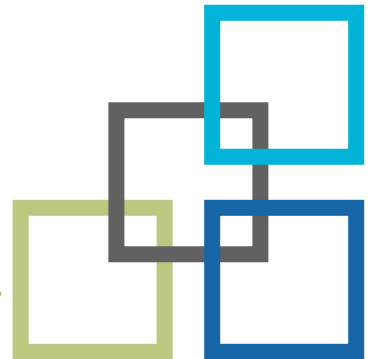
Additional Considerations for Multi-year Analysis

- Rental rates
- Tenant turnover
- Operating expenses
- Tenant improvements and leasing commissions
- Capital improvements
- Construction
- Lease up period
- Debt service



Other Pro Forma Considerations

- Property Stabilization
- Time-value of Money
- Resale value



Key Metrics

- Return on Cash (ROC), Cash on Cash Return, Cash Yield, Equity Yield
- Return on Investment (ROI)
- Internal Rate of Return (IRR)
- Cash Flow



Sample Pro Forma: Residential

PRO FORMA



Property Address

Example Residential
1234 Main Street, Anytown, MN 00000

USD unless otherwise indicated

DEVELOPER SOURCES & USES

Acquisition Cost	396,000
Hard Costs	1,946,880
Soft Costs	486,460
Total Uses	2,829,340
Debt	1,980,538
Equity	748,802
Gap Financing	100,000
Total Sources	2,829,340

DEVELOPER DEBT FINANCING

Interest Rate	6.00%
Amortization (yrs)	30
Loan Constant	7.19%
Payment (annual)	142,492
Payment (monthly)	11,874

DEVELOPER PROFIT FROM SALE

Year of Resale	10
NOI at Resale	296,100
Exit Cap Rate	8.00%
Value at Resale	3,701,250
Cost of Sale (%)	4.00%
less Cost of Sale	(148,050)
Profit from Sale	3,553,200
less Loan Payoff	(1,657,428)
Equity Returned from Sale	1,895,773

	Lease Up	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	For Resale
	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10	YR 11		
1 Bed/1 Bath	3.0%	94,080	96,902	99,809	102,804	105,888	109,065	112,336	115,707	119,178	122,753	126,436	
2 Bed/1 Bath	3.0%	101,760	104,813	107,957	111,196	114,532	117,968	121,507	125,152	128,907	132,774	136,757	
2 Bed/2 Bath	3.0%	110,160	113,465	116,869	120,375	123,986	127,706	131,537	135,483	139,547	143,734	148,046	
	0.0%												
	0.0%												
Rental Revenue	306,000	315,180	324,635	334,374	344,406	354,738	365,380	376,341	387,632	399,261	411,238		
Expense Reimbursement (commercial)													
Other Income	1,200	1,230	1,261	1,292	1,325	1,358	1,392	1,426	1,462	1,499	1,536		
Potential Gross Income	307,200	316,410	325,896	335,667	345,730	356,096	366,772	377,768	389,094	400,759	412,775		
Vacancy	5.00%	153,600	15,821	16,295	16,783	17,287	17,805	18,339	18,888	19,455	20,038	20,639	
Effective Gross Income	153,600	300,590	309,601	318,883	328,444	338,291	348,433	358,879	369,639	380,721	392,136		
Property Taxes	0.0%	39,024	39,024	39,024	39,024	39,024	39,024	39,024	39,024	39,024	39,024	39,024	
Property Insurance	0.0%	15,484	15,484	15,484	15,484	15,484	15,484	15,484	15,484	15,484	15,484	15,484	
Utilities	0.0%	8,310	8,310	8,310	8,310	8,310	8,310	8,310	8,310	8,310	8,310	8,310	
Maintenance & Repairs	0.0%	7,038	7,038	7,038	7,038	7,038	7,038	7,038	7,038	7,038	7,038	7,038	
Landscaping/Snow	0.0%	4,927	4,927	4,927	4,927	4,927	4,927	4,927	4,927	4,927	4,927	4,927	
Trash	0.0%	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	
Property Management	0.0%	9,853	9,853	9,853	9,853	9,853	9,853	9,853	9,853	9,853	9,853	9,853	
Reserves	0.0%	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	
Other	0.0%												
Operating Expenses	96,036	96,036	96,036	96,036	96,036	96,036	96,036	96,036	96,036	96,036	96,036	96,036	
Leasing & Capital Costs			4,000			2,000	8,000		10,000				
Net Operating Income	57,564	204,554	209,566	222,848	232,408	240,255	244,397	262,844	263,603	284,685	296,100		
Debt Service	142,492	142,492	142,492	142,492	142,492	142,492	142,492	142,492	142,492	142,492	142,492		
Debt Service Coverage Ratio	0.40	1.44	1.47	1.56	1.63	1.69	1.72	1.84	1.85	2.00			
Cash Flow After Financing	(84,928)	62,062	67,074	80,356	89,916	97,763	101,905	120,352	121,111	142,194			
Return on Investment	2.0%	7.2%	7.4%	7.9%	8.2%	8.5%	8.6%	9.3%	9.3%	10.1%			
Return on Cash	-11.3%	8.3%	9.0%	10.7%	12.0%	13.1%	13.6%	16.1%	16.2%	19.0%			
	YR 0	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10		
Cash Flow after Financing		(84,928)	62,062	67,074	80,356	89,916	97,763	101,905	120,352	121,111	142,194		
Equity In/Out	(748,802)											1,895,773	
Cash Flow from Operations & Sale	(748,802)	(84,928)	62,062	67,074	80,356	89,916	97,763	101,905	120,352	121,111	2,037,966		
Levered Internal Rate of Return (IRR)	15.3%												
Discount Rate							10.00%						
Net Present Value (NPV)												387,101	



Sample Pro Forma: Commercial

PRO FORMA



Property Address

Example Commercial
1234 Main Street, Anytown, MN 00000

USD unless otherwise indicated

DEVELOPER SOURCES & USES

Acquisition Cost	550,000
Hard Costs	375,000
Soft Costs	50,000
Total Uses	975,000
Debt	731,250
Equity	243,750
Gap Financing	-
Total Sources	975,000

DEVELOPER DEBT FINANCING

Interest Rate	6.50%
Amortization (yrs)	30
Loan Constant	7.58%
Payment (annual)	55,464
Payment (monthly)	4,622

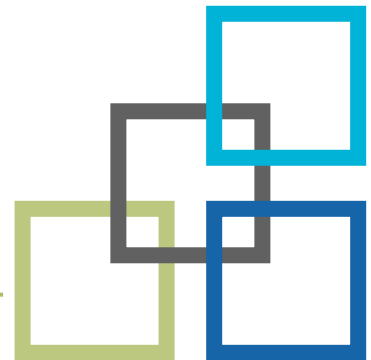
DEVELOPER PROFIT FROM SALE

Year of Resale	10
NOI at Resale	103,614
Exit Cap Rate	7.50%
Value at Resale	1,381,521
Cost of Sale (%)	4.00%
less Cost of Sale	(55,261)
Profit from Sale	1,326,261
less Loan Payoff	(619,925)
Equity Returned from Sale	706,335

		Lease Up	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	Stabilized	For Resale
		YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10	YR 10	YR 11	
Tenant 1 - 3,200 SF	3.0%	40,000	41,200	42,436	43,709	45,020	46,371	47,762	49,195	50,671	52,191	53,757		
Tenant 2 - 2,100 SF	3.0%	24,000	24,720	25,462	26,225	27,012	27,823	28,657	29,517	30,402	31,315	32,254		
Tenant 3 - 1,700 SF	3.0%	21,000	21,630	22,279	22,947	23,636	24,345	25,075	25,827	26,602	27,400	28,222		
7,000 SF total	0.0%													
Rental Revenue		85,000	87,550	90,177	92,882	95,668	98,538	101,494	104,539	107,675	110,906	114,233		
Expense Reimbursement (commercial)		35,578	36,645	37,744	38,876	40,043	41,244	42,481	43,756	45,069	46,421	47,813		
Other Income		-	-	-	-	-	-	-	-	-	-	-		
Potential Gross Income		120,578	124,195	127,921	131,758	135,711	139,782	143,976	148,295	152,744	157,326	162,046		
Vacancy	5.00%	6,029	6,210	6,396	6,588	6,786	6,989	7,199	7,415	7,637	7,866	8,102		
Effective Gross Income		114,549	117,985	121,525	125,170	128,925	132,793	136,777	140,880	145,107	149,460	153,944		
Property Taxes	3.0%	13,000	13,390	13,792	14,205	14,632	15,071	15,523	15,988	16,468	16,962	17,471		
Property Insurance	3.0%	4,000	4,120	4,244	4,371	4,502	4,637	4,776	4,919	5,067	5,219	5,376		
Utilities	3.0%	6,000	6,180	6,365	6,556	6,753	6,956	7,164	7,379	7,601	7,829	8,063		
Maintenance & Repairs	3.0%	4,450	4,584	4,721	4,863	5,009	5,159	5,314	5,473	5,637	5,806	5,980		
Landscaping/Snow	3.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032		
Trash	3.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032		
Property Management	3.0%	2,500	2,575	2,652	2,732	2,814	2,898	2,985	3,075	3,167	3,262	3,360		
Reserves	3.0%	1,500	1,545	1,591	1,639	1,688	1,739	1,791	1,845	1,900	1,957	2,016		
Other	0.0%													
Operating Expenses		37,450	38,574	39,731	40,923	42,150	43,415	44,717	46,059	47,441	48,864	50,330		
Leasing & Capital Costs		-	5,000	-	-	12,000	6,000	-	8,000	-	5,000	-		
Net Operating Income		77,099	74,412	81,794	84,248	74,775	83,378	92,060	86,822	97,666	95,596	103,614		
Debt Service		55,464	55,464	55,464	55,464	55,464	55,464	55,464	55,464	55,464	55,464	55,464		
Debt Service Coverage Ratio		1.39	1.34	1.47	1.52	1.35	1.50	1.66	1.57	1.76	1.72			
Cash Flow After Financing		21,635	18,948	26,330	28,784	19,311	27,914	36,596	31,358	42,202	40,132			
Return on Investment		7.9%	7.6%	8.4%	8.6%	7.7%	8.6%	9.4%	8.9%	10.0%	9.8%			
Return on Cash		8.9%	7.8%	10.8%	11.8%	7.9%	11.5%	15.0%	12.9%	17.3%	16.5%			
		YR 0	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10		
Cash Flow after Financing			21,635	18,948	26,330	28,784	19,311	27,914	36,596	31,358	42,202	40,132		
Equity In/Out		(243,750)												706,335
Cash Flow from Operations & Sale		(243,750)	21,635	18,948	26,330	28,784	19,311	27,914	36,596	31,358	42,202	746,467		
Levered Internal Rate of Return (IRR)		18.6%												
Discount Rate								10.00%						
Net Present Value (NPV)													197,868	



Lease Up and Property Management



Residential Rental License

www2.minneapolismn.gov/business-services/licenses-permits-inspections/rental-licenses

Application Form RILC

Inspections Services Regulatory Services
305 South 4th Avenue, Room 310A
Minneapolis, MN 55425
Office 612-673-3000 or 311
TTY 612-673-2157
www.minneapolismn.gov/inspections

Minneapolis City of Lakes

OFFICE USE ONLY
RILC # _____
Amount _____
Flight# _____
CIR Initials _____ Date _____

APPLICATION FOR A RENTAL DWELLING LICENSE
New Application Update to Existing Application

RENTAL PROPERTY ADDRESS (INCLUDE ADDRESS, STREET NAME, & DIRECTIONAL) Apt/Unit

APPLICANT (all fields required)
When a property is owned by a corporation or LLC, an associated natural person must be listed in this section, and a copy of the Articles of Incorporation listing the shareholders of the corporation or LLC must be submitted with the application.

OWNER OR SHAREHOLDER NATURAL NAME

CORPORATION, LLC, OR ORGANIZATION (if applicable) **DATE OF BIRTH**

OWNER ADDRESS (cannot be PO Box or commercial mailing service) **CITY** **STATE** **ZIP**

COUNTY **MOBILE PHONE** **EMAIL**

Any changes to the name, address, and other information concerning the person on this application must be provided in writing to the Department of Regulatory Services within ten days.

OWNER SIGNATURE **DATE**

AGENT/CONTACT (if different from owner)
If local agent or contact is required if the applicant lives further than 60 miles driving distance from the property and/or outside the counties of Anoka, Carver, Chisago, Dakota, Goodhue, Hennepin, Scott, Lincoln, Mitchell, Ramsey, Rice, Scott, Sherburne, Stearns, Washington, or Wright.

NAME OF AGENT/CONTACT **DATE OF BIRTH**

ADDRESS (cannot be PO Box or commercial mailing service) **CITY** **STATE** **ZIP**

COUNTY **MOBILE PHONE** **EMAIL**

If office for my signature below that I am in compliance with all rental licensing standards outlined in Minneapolis Code of Ordinances, Title 12, Chapter 120. I understand that failure to comply with any of these standards and/or conditions shall be adequate grounds for the denial, refusal to issue, revocation or suspension of my rental dwelling license. I acknowledge that the Department of Regulatory Services will hold me responsible for the maintenance, management and any legal action that may occur for the above listed rental property. I agree that all correspondence sent from the Department of Regulatory Services will be mailed to me or the appointed agent/contact person or listed in this section.

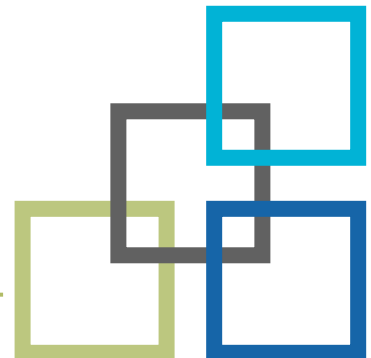
AGENT/CONTACT SIGNATURE **DATE**

NOTARY STAMP (required for agent/contact)
Subscribed and sworn to before me on this _____ day of _____, 20____.
Notary Public, _____ of _____.

Space Reserved for Notary Stamp

Page - 1 - of 5

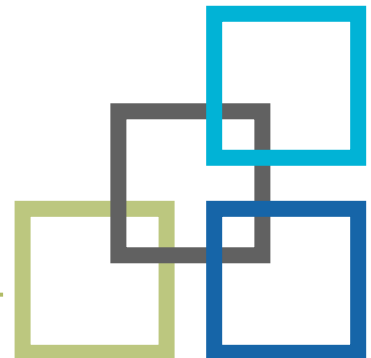
- Minneapolis – Rental license required for any dwelling unit where the owner is not occupying the unit even if:
 - no rent is paid
 - if the occupant is a relative
 - if the unit is vacant but being advertised as for rent
- Purpose: To protect the safety, health, and welfare of the public and to help ensure that rental properties are well-maintained and meet standards.
- Information including applications and fees are available in the Rental Licenses section of the city’s website.



Lease Up

- Finding a Tenant
 - Digital
 - Physical
 - Word of Mouth

- Tenant Improvements / Allowances (Commercial)



Typical Lease Structure



- Basic Terms
- Obligations & Rights
 - Landlord
 - Tenant
- Defaults and Remedies

MINNESOTA STANDARD LEASE AGREEMENT

TOTAL MONTHLY RENT: \$ _____

I. THE PARTIES. This Residential Lease Agreement ("Agreement") made this _____, 20____ is between:

Landlord: _____ with a mailing address of _____, City of _____, State of _____ ("Landlord"), AND

Tenant(s): _____ ("Tenant").

Landlord and Tenant are each referred to herein as a "Party" and, collectively, as the "Parties."

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises and agreements contained herein, the Tenant agrees to lease the Premises from the Landlord under the following terms and conditions:

II. LEASE TYPE. This Agreement shall be considered a fixed lease. The Tenant shall be allowed to occupy the Premises starting on _____, 20____ and end on _____, 20____ ("Lease Term"). At the end of the Lease Term and no renewal is made, the Tenant: (check one)

- May continue to lease the Premises under the same terms of this Agreement under a month-to-month arrangement.
- Must vacate the Premises.

III. OCCUPANT(S). The Premises is to be occupied strictly as a residential dwelling with the following individual(s) in addition to the Tenant: (check one)

- _____ ("Occupant(s)")
- There are no Occupant(s).

IV. THE PROPERTY. The Landlord agrees to lease the described property below to the Tenant: (enter the property information)

a.) Mailing Address: _____, City of _____, State of _____

b.) Residence Type: Apartment House Condo Other: _____

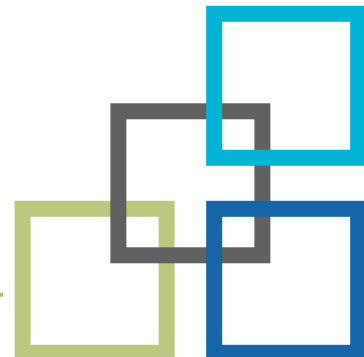
c.) Bedroom(s): _____

d.) Bathroom(s): _____

The aforementioned property shall be leased wholly by the Tenant ("Premises").

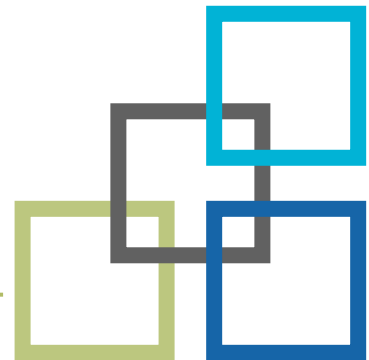
V. PURPOSE. The Tenant and Occupant(s) may only use the Premises as: (check one)

- A residential dwelling only.



Property Management

- Tenants = customers
- DIY v. Hiring It Out
- Residential v. Commercial



Wrap Up and Final Questions

