

Thompsonville, MI
April 23, 2009

Using the Spaces in Our Places

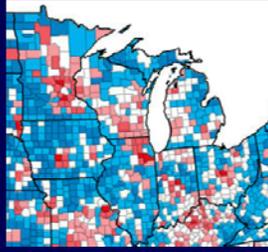
Strategies for increasing density on Main Street



Dan Carmody
President
Eastern Market Corporation
Detroit, Michigan

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Midwestern Trends



- Growth in big city regions
- Growth in knowledge centers
- Growth in natural recreation areas
- Shrinkage in non-metro
- Recommended reading
Caught in the Middle: America's Heartland in the Age of Globalism
Richard C. Longworth

Population change since 2000
USA Today, March 2009

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WORLD MAP OF SHRINKING CITIES / MAPPAMENTO DELLE CITTÀ IN CONTRAZIONE
Cities with more than 100,000 inhabitants / Città con più di 100,000 abitanti
Summary of international population data of World Bank City of Economic Agglomerations & population statistics of UN



Shrinking Cities

Shrinking cities is a project (2002-2005) of the [Federal Cultural Foundation](#), under the direction of Philipp Oswalt (Berlin) in co-operation with the Leipzig Gallery of Contemporary Art, the Bauhaus Dessau Foundation and the magazine archplus.

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The money shot from Detroit

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If 80% of job creation comes from existing business what do you do if there isn't much left of your economic base?

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Shoe Store?

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We lose density and population
when we lose our reason to exist



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Mechanization, urbanization, globalization, and specialization have depleted the world's rural areas of its people



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Economic Dyslexia:
It's a long way from IH to HI




IH is short for our industrial heritage

HI is short for the newer economic pillars of high tech, higher education, and the hi how you doin' of hospitality and tourism



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Floridian Economics

It's all about creative people



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Education is one way to improve the local talent pool



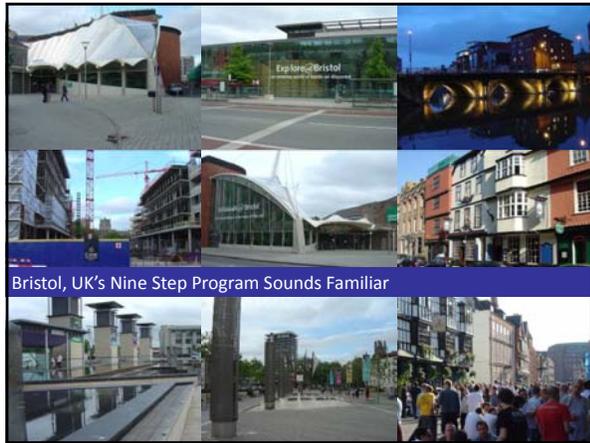
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Placemaking is a way to increase the local talent pool by attracting more talented people



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You are here

We are going thru unprecedented globalization without a good idea of where it ends just as another unmapable journey has begun. . .

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Expensive oil
Will change the next fifty years
As much as inexpensive oil
Did the last fifty

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Floridian Economics,
Globalization and their
handmaidens of mechanization,
specialization, and urbanization

All are based upon the assumption of
low cost energy

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Sometimes there are clear choices to make.

Building towns in a more dense and compact form that supports transport diversity is critical to long term sustainability.

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Rethinking Housing

Each square foot represents 8 to 10 gallons of petroleum equivalents.

The embodied energy of existing buildings

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Norway

Other affluent places have remained compact and built new housing in places where each household member doesn't need a car to pursue a vigorous life.

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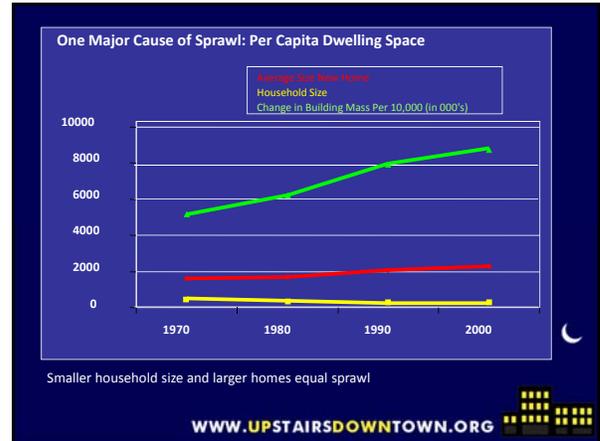
ARE YOU SUB-PRIME YET?

P+I+T+I+C+U



Long term affordability means adding the cost to commute and utility costs to principle, interest, taxes, and insurance.

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In 2000 it took a bit more the 4 million square feet of space to house 10,000 people than it did in 1970.



More blended and multi-generational households in times of economic stress??

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Demographics Drives Urban Housing
The most common household type in the United States according to the 2000 Census:

Couples with no kids

Second most common household type in the United States according to the 2000 Census:

The Single Person

Nationally, only 23% of households have school-age children



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Changes in consumer preferences
From the family centric 1950's & 60's to a wider variety of households



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Today's canary in the coal mine



Housing has driven downtown revitalization for the past fifteen years

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Urban housing plays to downtown strengths: building aesthetics, access to cultural amenities, proximity to adult learning, and energy efficiency.



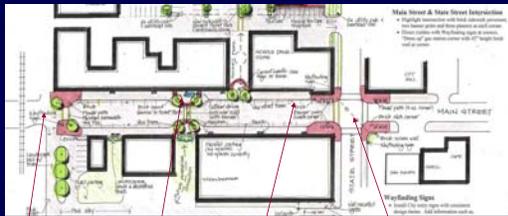
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In towns and cities of all sizes and in all regions



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Streetscape Concept Plan



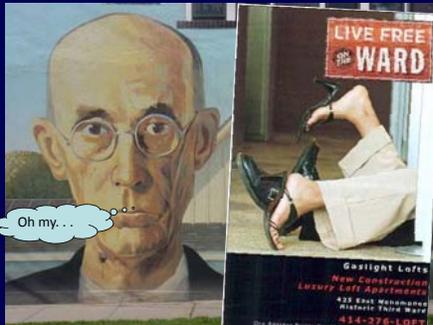
- Bump-outs
- Arch, bump-out
- Parallel parking (58 spaces existing, 34 spaces proposed)
- Brick, banner poles, planters

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Infill is just as important as renovation and good infill requires careful consideration of site and building details

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The world is upside down. Upstairs has more value than downstairs.

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Big Boxes are not content with global domination. . .

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Some Ag Facts*

- In 1950 an average US household spent 20% vs 10% in 2000
- Agriculture currently accounts for 17% of all the energy consumed in the US
- 350 gallons of petroleum equivalents are needed annually to feed each citizen
- 10 calories of energy are needed to produce each calorie of food

Industrial Agriculture has served us well but can it be sustained without cheap, plentiful petroleum and natural gas?

* Source Richard Heinberg, Fifty Million Farmers
John Miranowski, Energy Consumption in US Agriculture, 2004

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Corn belt farming has been problematic for years. The 8,500 farms in the eight-county Black Hawk County (IA) area lost \$62 million in 2002 growing corn and beans while receiving federal crop subsidies of \$173 million**

Except that we are still dependent on federal subsidies

Ethanol has changed everything!

Congressional Research Service **Economist Ken Meter has assembled data from Agricultural Census and the Bureau of Economic Analysis, from River City Reader, June 2005

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Food grown by many producers reaches many consumers by passing thru very few processors and retailers.

Top four firms in each category:

Pork Production	49%
Pork Packing	64%
Beef Packing	83%
Flour Processing	63%
Wet Corn Milling	74%

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More than 25% of US health care costs are related to physical inactivity, overweight, and obesity*

Physically inactive workers don't just create higher costs for themselves but also for their employers

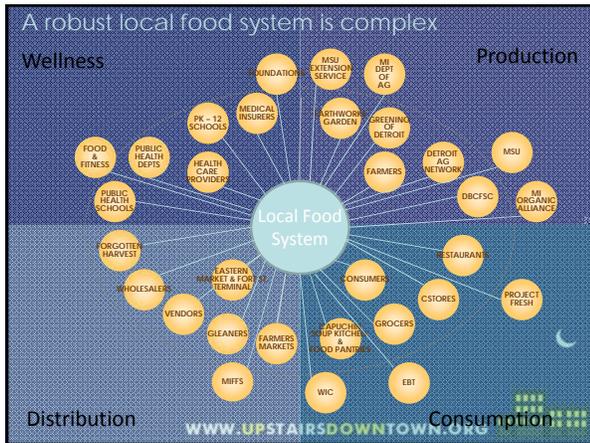
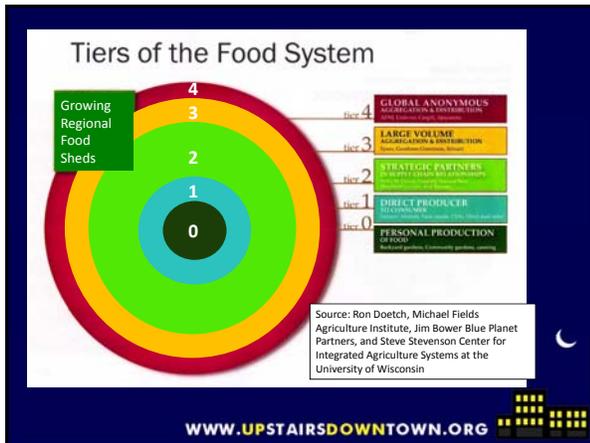
*Lk Anderson et al., "Health Care Charges Associated With Physical Inactivity, Overweight, and Obesity," Preventing Chronic Disease 2, No. 4, (October 2005)

Bad lifestyle choices put many of us at high risk

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In the United States sales at farmers markets have been growing at double digits rates for the last ten years.

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- ### Redevelop the Scottville local food system
- Map regional food system assets
 - Improve partnerships with regional farmers and grow hobby farms
 - Strengthen Scottville Farmer Market
 - Develop a niche food market or co-op
 - Fill Steve's vacant space with a restaurant featuring locally grown food and beverages
 - Convert City Hall to a banquet hall in collaboration with the community college culinary arts program
 - Develop youth gardens with MSUE on vacant lots
- WWW.UPSTAIRSDOWNTOWN.ORG



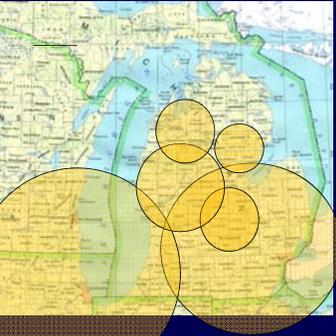
The economics of re-localizing food production are enormous for cities of all sizes. A study by the Fair Food Foundation studied the impact of obtaining 20% of food from local sources on the City of Detroit:

New Jobs	4,719
Business Taxes	\$ 19,632,494
Increase earnings	\$124,754,720

For More Info:
 Rural Policy Research Institute: www.rprri.org
 Center for Rural Strategies: www.ruralstrategies.org
 Rural Opportunities, Inc.: www.ruralinc.org

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Michigan: Food Sheds ??



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There is no question that people are moving at an unprecedented scale to improve their lot



Do higher energy costs and instability lead to re-ruralization and re-localization ?

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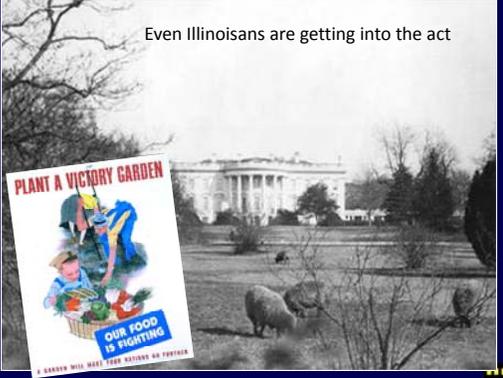
Immigrant energy still powers the American dream



Ethiopian, Korean, Jamaican, and Jordanian food

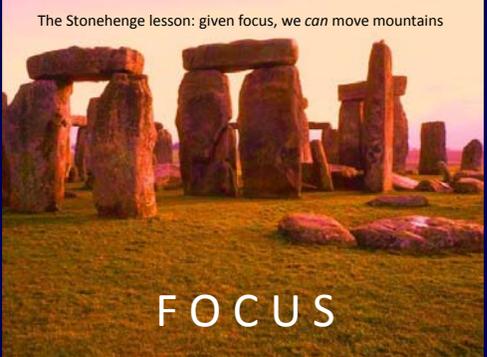
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Even Illinoisans are getting into the act



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The Stonehenge lesson: given focus, we *can* move mountains



FOCUS

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Density is critical because it makes our towns more viable and more sustainable

A successful Main Street or downtown is a leading indicator of civic engagement

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Rock Island, IL



Your don't get from here. . .

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One block
Eleven projects
Five years



To here without partnership, collaboration, and team building

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Why Grow Out , Grow Up

Partnership between Carmody Consulting and the Illinois State Preservation Office

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ARCHITECTURAL ASSESSMENT



- There are hundreds of thousands of vacant upper story spaces in our downtowns. Putting these spaces back to use starts with an architectural assessment.

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ECONOMIC FEASIBILITY



Architectural and regulatory variables that affect real estate development of smaller commercial buildings.

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FEASIBILITY FACTORS

Cost is directly related to complexity:

- Storage
- Residential – 1 or 2 units
- Multi-family residential
- Office
- Retail
- Assembly (restaurant)



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VALUE JUDGMENTS

- Land value
- Building value (current market)
- Depreciated value (**adjusted basis**)*
 - Increases with improvements
 - Decreases with depreciation
 - Trigger value for tax credit eligibility
- Insured value (replacement?)
- Assessed value (property tax basis)
- Eco value – embodied energy



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LOCATION CHARACTERISTICS

Topography

Seismic

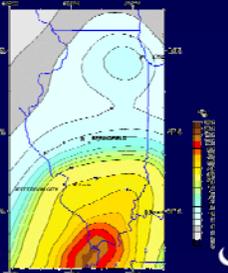
High seismic zone will trigger additional structural costs for renovation

Flood Hazard Classification

City, county, state, township

Street address

Lot size & setbacks (survey?)



Seismic Hazard Map

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UTILITIES & SERVICES

- Electric
- Gas
- Water (size and pressure)
- Sewer
- Telephone
- Cable
- High speed Internet
- Trash pick up



Adequate water to the building

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ZONING REGULATIONS

- Zoning Land Use
 - Parking requirement
 - **No on-site requirement** in most downtowns
 - Zero lot line
 - Rear yard



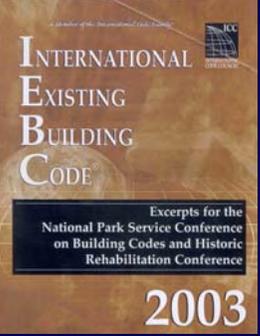
- **Issue:** The lack of a zoning requirement for on-site parking does not make the demand for parking disappear.

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BUILDING CODE

- International Existing Building Code *IEBC*

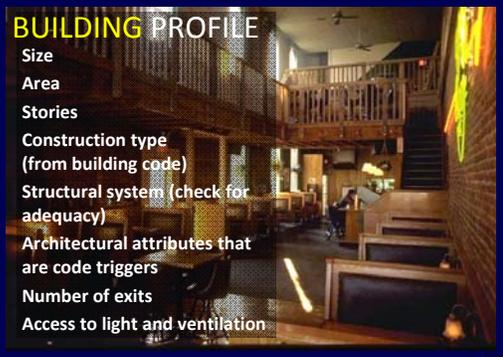
Get your town to adopt this building code, which is the first model building code written for building renovation



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BUILDING PROFILE

- Size
- Area
- Stories
- Construction type (from building code)
- Structural system (check for adequacy)
- Architectural attributes that are code triggers
- Number of exits
- Access to light and ventilation



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BUILDING PROFILE

- **Structural loading** (IBC 2000)
 - Residential **40 psf**
 - Stairs and exits **100 psf**
 - One & two family dwelling **40 psf**
 - Office **50 psf**
 - Corridor above 1st fl **80 psf***
 - Lobbies and first floor corridor **100 psf**
- Original design (archaic materials)
- Condition assessment



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HISTORIC USE

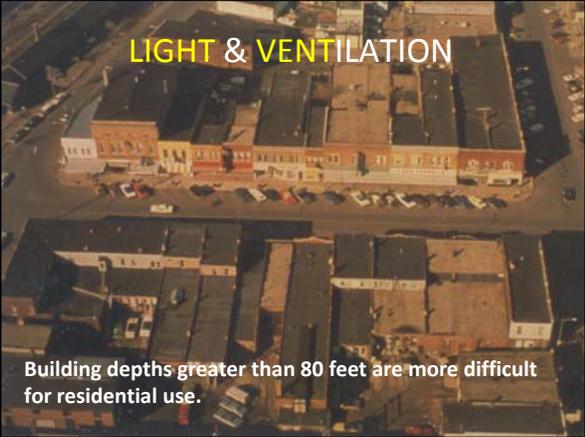
Sanborn fire insurance maps are a valuable tool to evaluate a building's original fire safety and historic use.

City directories



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LIGHT & VENTILATION



Building depths greater than 80 feet are more difficult for residential use.

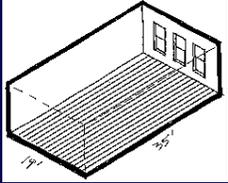
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LIGHT & VENTILATION

requirements for habitable spaces

Natural light requirement – 8% of floor area
 Natural ventilation requirement – 4% of floor area

EXAMPLE
 WINDOW AREA
 3' X 6' = 18 sq. ft. per window
 x 3 windows
 54 sq. ft. of window glazing
 27 sq. ft. of vent opening
 MAXIMUM ROOM SIZE
 54 sq. ft. is 8% of
 675 sq. ft.
 ROOM DIMENSION
 19' wide x 35' long



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Corner buildings are easier to convert to residential than mid-block buildings

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LIGHT & VENTILATION



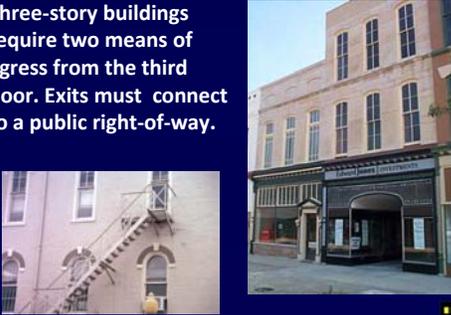
Mid-Block Building
 4 One-Bedroom Duplex Units, 1600 Sq. Ft. Typ.

Kitchen and baths do not require natural light and ventilation

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EGRESS REQUIREMENTS

Three-story buildings require two means of egress from the third floor. Exits must connect to a public right-of-way.



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ENVIRONMENTAL ASSESSMENT

- Underground storage tanks
- Asbestos
- Lead Paint
- Mold
- Other

Prior industrial use (Sanborn map, history)

Bird droppings



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ENVIRONMENTAL ASSESSMENT

ASBESTOS – “trigger” points

- Friable and non-friable materials
- Minimum quantities of materials

USEPA – does not apply to:

- Residential buildings with 4 or fewer units

Survey when demolition or renovation is planned

Abatement

Critical issue: Asbestos in plaster



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ENVIRONMENTAL ASSESSMENT

LEAD PAINT Regulatory Agencies

- Dept. of Public Health
- Residential units
- Environmental Protection Agency
- Disposal
- OSHA
- Worker protection (Commercial)
- HUD
- When HUD funding is involved

Who is in charge here?

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ENVIRONMENTAL ASSESSMENT

MOLD

- This is a new relatively new topic of environmental concern, for which rules and regulations are currently being developed.
- Controversy over the definition
- Confusing market place

Technical note:
Plaster has a high lime content and is not a likely host for mold. Drywall, with its cellulose (paper) surface is a very good host for mold.

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HISTORIC DESIGN

- Secretary of the Interior’s Standards for Rehabilitation
- Local commission review of exterior
- MISHPO review if project has state/federal funding, permits or licensing
- SHPO review of entire building



Exposing brick does
Not meet historic standards

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ARCHITECTURAL FEATURES

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FEASIBILITY FACTORS

- Elevators are not required for most residential use conversions under four units
- The issue is primarily one of market forces
- Elevators are needed for condo conversions aimed at empty nesters
- Usually needed for any building over three stories.

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ARCHITECTURAL ASSESSMENT

- Characteristics of the Property
- Public Zoning and Building Tools
- Test Market Need for Uses
- Examine those uses for the spaces
 - Who does this?
 - Architect/Engineer
 - Environmental Consultant
 - Contractor/cost estimating

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OPPORTUNITY AWAITS

Not all will take advantage of this opportunity

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Cities also have traits that can be deadly

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Virtues	Vices
• Industrious	• Complacent
• Transparent	• Nepotistic
• Patient	• Impulsive
• Confident	• Myopic
• Fair	• Arrogance
• Trust	• Distrust
• Convivial	• Inhospitable
• Faithful	• Parsimonious

Civic virtues are the hand maidens of success

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Downtown Development Authorities and Main Street programs:

Civic engagement organizations that serve as an engine to power success by focusing on the small game of economic development.



1 + 1 = 6

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Importance of patient capital
Cost of demolition in ten years

Demo Costs	\$8,000
Utility Cuts	\$1,500
Initial costs	\$9,500
Holding costs	
Maintenance	
10 @ \$250	2,250
Insurance	
10 @ \$50	500
Total 10 yr cost	\$12,250



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Importance of patient capital
Cost of renovation in ten years

Cost to Renovate	164,900
Sale Price	134,900
Initial Cost	\$30,000
Property taxes	
10 yrs @ \$2,250	22,500
Water, sewer Fees	
10 yrs @ \$400	4,000
Utility tax	
10 yrs @ \$150	1,500
Total 10 yr cost	\$2,000



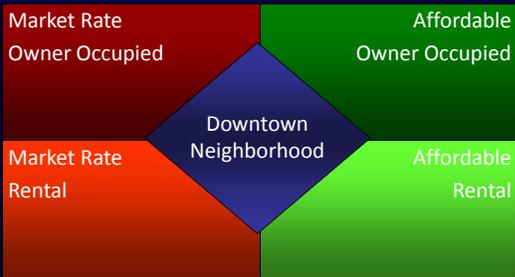
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Market and financial feasibility of upper floor development



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Downtown is *everybody's neighborhood!*



All four types of housing can work downtown

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Proving Market Feasibility

Problem of Market Studies in markets that have not added units in decades:

"If there were a market for downtown housing the market would build it."

Housing production follows the path of least resistance. Green field sites have benefited from a conspiracy of good intentions from the Euclid zoning case to the ADA act and from low cost energy and unparalleled prosperity.

Specialization in the development industry and the evolution of secondary finance markets has encouraged product standardization.

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Proving Market Feasibility

Housing Market Potential Studies

Methodology

Study Migration patterns (16-20% of households move every year)

Use IRS data to determine where people move from in order to better understand draw areas.

Market segmentation data helps assess which of those new residents will have an interest in urban housing.

Proprietary Housing Potential analysis developed by:
Zimmerman / Volk Associates, Inc. / Clinton, New Jersey

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Segmentation Analysis

Disaggregated data needed to develop niche housing

Segmentation systems classify of all US neighborhoods into one of segments. (i.e. 65 for Tapestry* or 66 for PRIZM**)

More than 60 attributes including income, age, employment, home value, housing, household composition, and other key aspects of consumer behavior are analyzed to determine household buying patterns.

*ESRI, Business Information Systems
**Claritas

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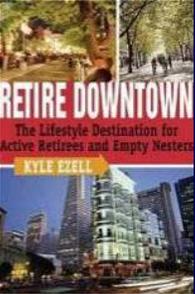
08 Laptops and Lattes

“Most of the population in Laptop and Lattes lives in multistory apartment buildings with more than 20 units, the neighborhoods are older, and virtually untouched by urban renewal.”

“Being typical city dwellers, many residents in Laptops and Lattes do not own a car.”

“They listen to classical, all-news, and public radio and read airline, travel, and women’s fashion magazines.”

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Kyle Ezell and Rupees

Being connected to a community-- a vivacious, eclectic community, filled with different people, exciting places, and myriad opportunities for activity, entertainment, and growth-- is the key to staying young.

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Study Other Markets



The Brookings Institution

CITIES AND SUBURBS

DOWNTOWN HOUSING

- Charting a Course for Downtown Living: Denver by Alan Berlus (Special: Downtown Denver Partnership) 5/18/2008
- Who Lives Downtown? by Eugene L. Birch (Special: November 2005)
- Keep SCORE (7) Alive by Henry Cisneros, Bruce Katz (The City: Atlanta Journal-Constitution) 3/17/2004
- Vacant Land in Cities: An Urban Resource by Michael A. Pagano, Ann O'M. Bowman (Special: January 2001)
- Ten Steps to a Living Downtown by Jennifer Moulton (Special: October 1999)
- A Rise In Downtown Living by Carter on Urban and Metropolitan Policy, the Fannie Mae Foundation (Special: November 1996)

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Collect Your Own Market Data



DOWNTOWN HOUSING SURVEY

Help the 200+ active Downtowns better plan to live by getting an idea you need and of Downtown housing. We need this survey to help, but it will be necessary to help in planning to determine the best course of action in our Downtown housing programs.

Name: _____

Age: _____

Sex: Male Female

Your Current Residence: New None

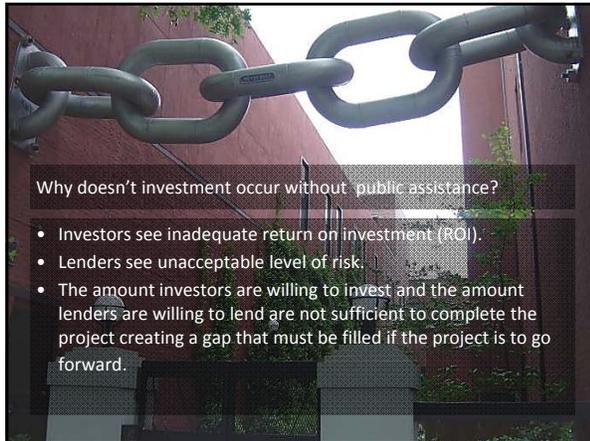
Live by myself

Live with other members of your family

Live with other unrelated individuals

Other

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Why doesn't investment occur without public assistance?

- Investors see inadequate return on investment (ROI).
- Lenders see unacceptable level of risk.
- The amount investors are willing to invest and the amount lenders are willing to lend are not sufficient to complete the project creating a gap that must be filled if the project is to go forward.

Development is really three different businesses.



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Development starts with a good business plan.

<p>Construction Costs</p> <ul style="list-style-type: none"> ✓ Develop a well thought out plan that adds value to your building by taking full advantage of the great details available. ✓ Carefully estimate construction costs and provide a minimum of 10% contingency. 	<p>Operating Costs</p> <ul style="list-style-type: none"> ✓ On the income side make a conservative assessment of what rents you can expect and how long it will take to re-lease the property when tenants move out. ✓ On the expense side carefully research various costs of rental property management
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Error on the side of **QUALITY**

Invest time and money on the front end to develop a realistic budget and include a generous contingency!

Which of you wishing to construct a tower does not first sit down and calculate the cost to see if there is enough for its completion? Otherwise, after laying the foundation and finding himself unable to finish the work the onlookers should laugh at him and say, 'This one began to build but did not have the resources to finish'.

Luke 14: 27-30

It's in the Bible

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Investor's Perspective

- Investors are seeking to maximize economic benefits and minimize equity investment
- They invest in projects yielding the highest ROI



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Economic development projects appear riskier

- Pioneering project
- Past failures
- Unproven product
- Questions about rents and vacancy rates
- Uncertain overall property market (i.e. high foreclosure)
- Unfamiliar locations – rural, deteriorated neighborhoods



Economic development professional's job - make deals happen in distressed areas

- Get lender to lend by reducing risk
- Encourage developers and investors to invest by increasing return on investment to acceptable level
- Fair return on investment but no undue enrichment



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Three Benefits Of Owning Real Estate

1. Cash Flow
2. Tax Benefits
3. Appreciation

To most investors, cash flow is the most important because it is the most tangible and most immediate.



Location, location, location. . .

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Major actors in the development process

- Developer
- Lender
- ED Official
- Appraiser
- Specialized legal and accounting



Other times not so much. . .

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Developer

- Obtains site control
- Finds use for site
- Finds tenants
- Secures financing
- Oversees construction
- Manages property
- Takes risks
- Desired benefit
 - market ROI or better



The image of developers shifts over time

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Lender

- Provides bulk of financing
 - construction lender
 - permanent lender
- Risk averse
- **Desired benefit:** adequate return with minimal risk



Sometimes the villain, sometimes the hero. . .

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Appraiser

- Establishes value for lender
- Verifies developer's assumptions
- Confirms market feasibility
- Part scientist/part artist



Not an easy job thinking about the value of things 10, 15, 20, or 30 years from now. . .

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Case Study A

- Mr. W. Right owns a bakery in downtown Biggsville and decides to build out two gourmet residences in the dormant upper floors of his building which he owns free and clear of debt.



The Mayor of Biggsville

- The cost to complete the project is \$150,000

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Case Study A - assumptions:

- No acquisition cost – W already owns the building
- W is a pioneer – there's no loft style housing nearby
- W will be undertaking the project without additional investors
- W wants to improve his financial situation from the project but is willing to accept lower returns on investment than real estate developers
- W will need bank financing and/or financial assistance from a public or quasi-public source to complete the project
- W will manage the property yourself upon completion

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Annual Operating Pro Forma

Income	Gross Rent Tenant Contributions	Rent Collected at 100% Occupancy Tenant Contributions towards operating expenses
Gross Income	(Vacancy Rate)	Total Income at 100% Occupancy
Effective Gross Income		Adjustment for Vacancy and Collections Loss
Expenses	Taxes Insurance Maintenance Utilities Management Reserves	Anticipated Cash Actually Collected
Net Operating Income		Research and negotiate with assessor Discuss your project with your provider Snow removal, window washing, common area Are utility expenses paid as part of rent? Are you going to manage the project or pay someone? Appliances need to be replaced, Units need repainting
Debt Service		Cash generated by the project
Cash Flow		Interest, principal payments to lender Return to owner

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What bankers want. . .

- Acceptable level of risk
- Reduced risk of default and/or foreclosure
- Lenders want to limit their risk rather than maximize their profits
- Lenders are in a high volume – low margin business
- There is no upside for traditional lenders

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How Much Will a Lender Lend?

- The primary method to repay the loan is cash flow that comes from the project. Lenders really lend to a project's cash flow rather than to bricks and mortar.
- The analytical tool used by bankers to assess a project's ability to repay the loan from project cash flow is the debt coverage ratio (DCR).

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Case Study A - net operating income (NOI)

Due Diligence

- Accurately estimating NOI is the single most important number in a real estate project.
- Mr. W. Right projects that each loft will generate a monthly rent of \$800.
- W evaluated the costs to separate utilities and has decided to meter each unit for gas and electric.
- W will provide water for his tenants.
- Parking will be on-street at no cost to either Tom or the tenants.
- W discussed with his local assessor what impact his loft improvements will have on his property tax bill and has budgeted accordingly.

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Case Study A - net operating income (NOI)

Gross Rent	800 X 2 X 12 =	19,200
Less Vacancy Rate 10%		(1,920)
Less Expenses		
Utilities		1,200
Taxes		2,400
Insurance	1,200	
Maintenance		1,000
Total Expenses		(5,800)
Net Operating Income		11,480

In this example vacancy and operating expenses are 30% of income.

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Case Study A - Debt Coverage Ratio (DCR)

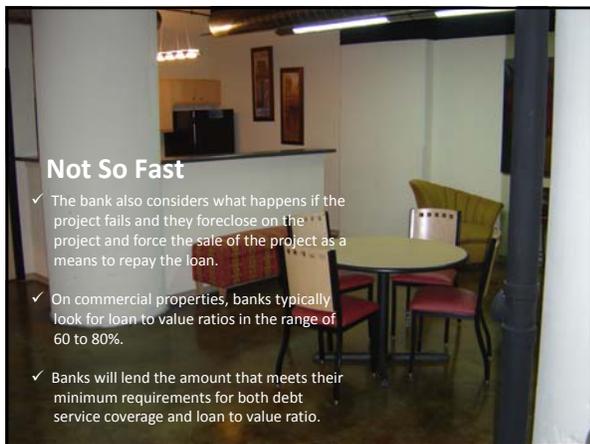
- W has \$20,000 to invest in the project and would like to borrow \$130,000 from his local bank.
- The bank is offering loans at 7% and with a 25 year amortization.
- How much will the bank loan W based upon net operating income of \$11,480?
- The debt service for a loan of \$130,000 with 7% interest and a 25 year amortization is: $\$130,000 \times .0849 = 11,037$
- The net operating income of \$11,480 just barely covers the annual debt service of \$11,037.
- Will the bank make a loan to the project of \$130,000?

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Case Study A Debt Coverage Ratio (DCR)

- Recalling our debt coverage ratio formula:
 $DCR = \frac{\text{Net Operating Income (NOI)}}{\text{Debt Service (D/S)}}$
- For W's project: $DCR = \frac{11,480}{11,037} = 1.04$
- This lender, typical of many, requires a DCR of 1.2
- The largest loan this bank would make given NOI of \$11,480 can be determined in the following manner:
- $D/S = \frac{NOI}{DCR} = \frac{11,480}{1.20} = \$9,567$
- $\text{Loan } \$ = \frac{D/S}{c} = \frac{9,567}{.0849} = \$112,685$

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Not So Fast

- ✓ The bank also considers what happens if the project fails and they foreclose on the project and force the sale of the project as a means to repay the loan.
- ✓ On commercial properties, banks typically look for loan to value ratios in the range of 60 to 80%.
- ✓ Banks will lend the amount that meets their minimum requirements for both debt service coverage and loan to value ratio.

Case Study A Loan To Value ratio (LTV)

- The appraisal establishes a market cap rate reflecting the perceived risk of a project. Fair Market Value (FMV) is the cap rate divided by net operating income.
- In W's case the fair market value is based on a cap rate of .085:
- $FMR = \frac{\$11,480}{.085} = \$135,058$
- The bank's policy is to loan to 80% of fair market value.
- $\$135,058 \times 80\% = \$108,000$
- Based on this policy the bank agrees to make Tom a loan of \$108,000 which is the amount that meets their minimum requirements for both DCR and LTV.

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Case Study A - Determining The Gap

Sources and Uses		Ways to Fill the Gap:	
Use of funds		• Additional owner equity	
Acquisition	0	• Cut project costs	
Arch / Engineer	10,000	• Sell or save taxes via historic or old building tax credit	
Permits	500	• Subordinated loan or grant	
Hard Construction	119,500	• Reduce the scope of the project	
Appliances	5,000		
Contingency	15,000		
Total	150,000		
Sources of funds			
Owner Equity	20,000		
Bank Financing	108,000		
Total Sources	128,000		
Gap	22,000		

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Case Study A - debt service revisited

- W's \$20,000 equity and the banks \$108,000 loan leaves a shortfall of \$22,000 in funding the project.
- W's city has a revolving loan fund that provides up to \$25,000 per project at 5% interest with 20 year amortization.
- W's debt service will be based on a first mortgage of \$105,000 at 7% for 25 years and \$25,000 at 5% for 20 years.

Revised Debt Service

\$105,000 X .0849	=	8,914
\$ 25,000 X .0792	=	1,980
Total Debt Service	=	10,895
Total DCR	=	$\frac{11,480}{10,895} = 1.05$
Bank's DCR	=	$\frac{11,480}{8,914} = 1.29$

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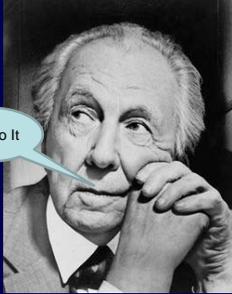
Case Study A - Return on Investment

- One of the most widely used way to measure return on investment:
- $e = \frac{\text{cash flow}}{\text{owner equity}}$
- In W's case $e = \frac{585}{20,000} = 3\%$
- This is not a strong rate of return, should W do the project?
- There are other financial benefits to owning real estate than cash flow such as tax benefits and appreciation.
- An upstairs project provides unique benefits such as improving the value of the retail business and lowering first floor utility expenses.

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Decision time - go or no go?

- W wants to improve his financial position but project income just barely covers project expenses.
- The other non-cash benefits to the project encourage him to proceed.



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How Much Debt Can You Service At Different Rents?

Monthly Rent per unit	Allocation to Expenses	Monthly Net Operating Expenses (NOI)	Loan @ 7% 20 Yr Amort 5 Yr Balloon (c = .0931)
350	40%	210	27,068
400	40%	240	30,934
450	40%	270	34,801
500	40%	300	38,668
550	40%	330	42,535
600	35%	390	50,268
650	35%	422	54,458
700	35%	456	58,646
750	35%	490	62,836
800	35%	524	67,025
850	35%	552	71,214
900	35%	585	75,403
950	35%	617	79,592
1000	30%	700	90,225
1050	30%	735	94,737
1100	30%	770	99,248
1150	30%	805	103,759
1200	30%	840	108,270

Rule of Thumb

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Live Work Projects



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Live Work projects work at all price points

\$300,000 – 500,000 per unit



\$300 – 500 rent per month

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Upper floor office space



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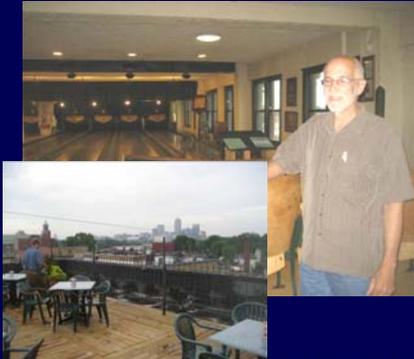
Lodging Industry Upstairs



Alton, IL

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Food and Beverage Industry Upstairs



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Storage



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More complicated gap financing is layered on deals much like a good lasagna.

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Incentives to fill upper floor project gaps

<p>State</p> <ul style="list-style-type: none"> Historic Tax Credits Tax Abatement HOME Section 42 Tax Credits Targeted Investment Tax Credits Preservation Design Services 	<p>Local</p> <ul style="list-style-type: none"> Tax Increment Financing Tax Abatement Façade Programs Revolving Loan Funds Façade Easements
<p>Federal</p> <ul style="list-style-type: none"> Historic Tax Credits New Markets Tax Credits CDBG Section 108 loans EDA 	<p>Private</p> <ul style="list-style-type: none"> CRA activity FHLB Property Donations Intermediaries

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Typical Lasagna Financing



Layered financing increases costs and take longer to assemble.

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Somebody must take responsibility and apply generous amounts of sweat and passion while applying gumption and both humor and humility for a community to build the capacity needed to sustain itself

$$R \times (45 + P)(Gh^2) = C$$

CAPACITY PROPELS KNOWLEDGE INTO SUCCESSFUL ACTION

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Exceptional Leadership?

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Outstanding leadership is the product of knowledge times capacity

$$K \times C = L^3$$

KNOWLEDGE TIMES CAPACITY EQUALS EXCEPTIONAL LEADERSHIP

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Knowledge often comes from asking simple questions and questioning underlying assumptions

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Knowledge is the product of information, wisdom and faith

$$I + 2W \times F = K$$

KNOWLEDGE IS THE FOUNDATION UPON WHICH LEADERSHIP IS BUILT



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Even affluent societies cannot afford to think sequentially, wisdom is systemic.

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$$S = OL^3$$

SUCCESSFUL COMMUNITIES LEVERAGE OPPORTUNITY WITH STRONG LEADERSHIP

Communities without strong leadership are just sol

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Organizational Composting
Turning waste into nutrients



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FURGENT

Furious urgency
(aka git r' done)

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