

# Development 101



**Presented By**



**Urban Land  
Institute**

**Idaho**

**AMERICAN PLANNING ASSOCIATION IDAHO CHAPTER  
OCTOBER 14, 2010**

# Presenters

- **JoAnn Butler, Partner, Spink Butler, LLP**
- **Bruce Chatterton, Director, City of Boise Development Services**
- **Diane Kushlan, Principal, Planning & Management Services**
- **Robert Taunton, Principal, Taunton Consulting, LLC and Chair, ULI Idaho**

**JoAnn C. Butler** concentrates her practice in the areas of land use, real estate and commercial law. She has extensive experience representing clients in real estate transactions and in real estate-related business matters, including commercial and residential real estate development, real estate financing, acquisitions, sales and leasing. Her land use experience includes work with both developers and local governments to guide commercial and mixed-use developments through planning, annexation, zoning, development agreement and environmental procedures through final build-out. Ms. Butler has represented both non-profit and for-profit developers in numerous affordable housing tax credit transactions. Her work also includes facilitating historic rehabilitation tax credit applications.

**Bruce Chatterton** has over twenty-five years of experience as a developer, planning consultant and local government official. He is currently the Planning and Development Services Director for the City of Boise, overseeing planning and zoning, building and housing. Before coming to Boise, Mr. Chatterton was the Planning Director of Fort Lauderdale, Florida and vice-president with the Bank of America, Corporate Real Estate. As a developer, he managed the completion of dozens of banking facilities ranging from stand-alone branches to high-rise buildings. He has worked with three major A&E consulting firms on projects such as Florida's High Speed Rail system and the American Airlines Arena in Miami. He often confuses Lucky Peak reservoir with Miami Beach.

**Diane Kushlan, AICP** is a professional planner in Boise, Idaho with her own practice, Planning and Management Services. Diane has over thirty years of experience working as a planner in California, Washington State and Idaho, including serving as Planning Director in Carmel, California and Mercer Island, Washington. Since founding her practice in 2002, Diane has focused her attention on Idaho communities. Diane holds a masters degree in City Planning and is a member of the American Institute of Certified Planners (AICP). She is currently on the board of the American Planning Association Idaho Chapter where she serves as the professional development officer; coordinator for the Urban Land Institute Idaho District Council; and an adjunct professor at Boise State University.

**Robert G. Taunton** possesses broad experience in real estate development in Canada and the United States, plus additional years as a national park planner, a recreation planning consultant, and a senior city planner. During his development career, Mr. Taunton has managed and entitled over 40,000 acres planned for 25,000 homes and home sites. He was the Idaho President for Suncor Development Company and managed the company's 23,000 acre planned community in the foothills north of Eagle ID.

Mr. Taunton formed Taunton Consulting, LLC in 2007 to provide real estate and strategic planning services to the public and private sector. He serves as General Manager of the Elmore-Ada Water Project, a \$400 million water delivery project planned to provide a sustainable water source from the Snake River to the Boise metro area and adjacent Elmore County. He also directed the planning and development of Polo Cove, a 1,350 acre resort and lifestyle community to be developed in the wine country southwest of Boise.

Mr. Taunton holds a Bachelors Degree in Environmental Studies (Architecture) from the University of Manitoba and a Masters Degree in Environmental Studies (Planning) from York University (Toronto). He is a member of the Urban Land Institute and has served on the national Sustainable Development and Community Development Councils. He is a founder of the ULI Idaho District Council and is the current Chair. Mr. Taunton serves on the Gowan /Orchard Training Area Joint Land Use Technical Committee, and previously represented ULI on the Ada County Blueprint for Good Growth Steering Committee.

# Presentation Topics

- **Steps in the development process**
- **An integrated approach to real estate development**
- **What current conditions mean for cities**
- **The real estate cycle**
- **Factors that impact the development process**
- **What's wanted in the development process**
- **The public side of the development process**

# PRIVATE PROCESS

# PUBLIC PROCESS

Comprehensive plan

Zoning entitlement

Subdivision plat

Infrastructure

Building plan review

Inspections

Certificate of  
Occupancy

# PRIVATE PROCESS

Business Concept

Site Selection /Market Study

Secure Financing

Due Diligence/real estate  
purchase

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# PRIVATE PROCESS

Business Concept

Site Selection /Market Study

Secure Financing

Due Diligence/real estate purchase

Site engineering

Architectural design

Pre-sales/leasing

Construction Management

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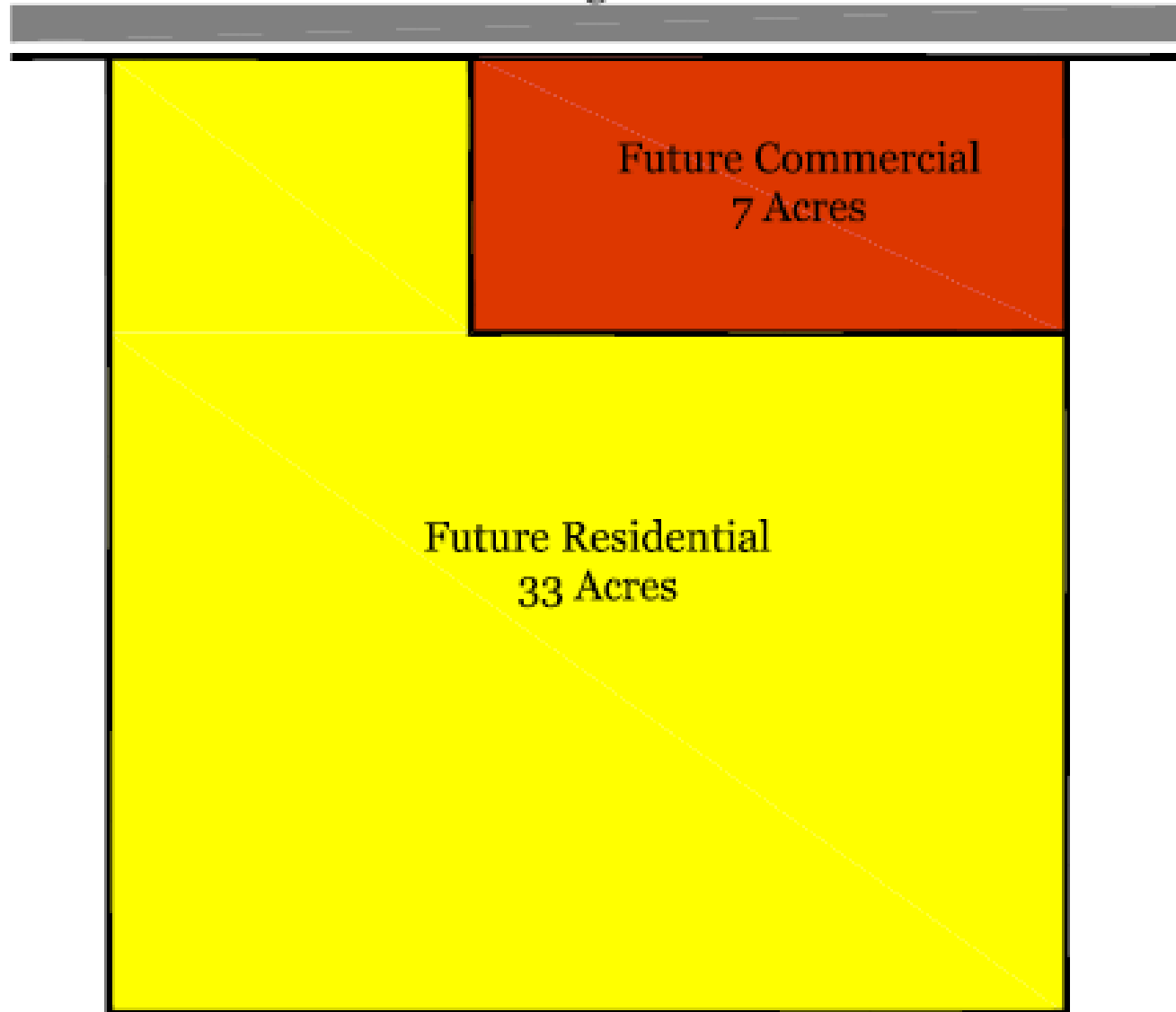
Certificate of  
Occupancy

**And now Bob's back of  
the napkin analysis.  
More artfully known  
as....**

**“the real estate deal”**

# Conceptual Development

Frontage Road



# Project Assumptions

- Property                      40 acres
- Price                              \$40,000 per acre
- Development Assumptions
  - 7 acre commercial corner
  - 115 home lots **(3.5 du/ac)**
- Price Assumptions
  - Home Price = **\$250,000**
  - Lot Sales Price = 25% of home price (\$62,500)
  - Commercial Land = \$5.00/sf

# Project Cost Assumptions

- Planning & Entitlement Costs = **\$1,500/lot**
- Site Development Costs = **\$32,500/lot**
- Offsite Development Costs = **\$350,000**
- Development Company Operating Expenses
  - General & Admin: \$100,000 first year, 6% of revenues after
  - Marketing: \$75,000 first year, 1% of revenues after
  - Closing Costs: 5% on revenues
  - Legal Costs: \$75,000 spread across project
  - Taxes: \$15,000 first year, 0.5% of revenues after

# Base Scenario Proforma

in Thousands

	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Total
Lot Sales	-	17	46	46	6		115
Commercial Pad						7 ac	7 ac
<b>Total Revenue</b>	<b>-</b>	<b>\$1,147</b>	<b>\$3,105</b>	<b>\$3,105</b>	<b>\$405</b>	<b>\$1,525</b>	<b>\$9,287</b>

Entitlement Costs	\$173						\$173
Site Development	-	\$2,803	\$934	-	-		\$3,738
Offsite Costs	-	\$350					\$350
Land Acquisition	\$1,600						\$1,600
Operating Costs	\$220	\$153	\$398	\$398	\$61	\$196	\$1,426
<b>Total Costs</b>	<b>\$1,993</b>	<b>\$3,306</b>	<b>\$1,332</b>	<b>\$398</b>	<b>\$61</b>	<b>\$196</b>	<b>\$7,287</b>

<b>Net Cash Flow</b>	<b>(\$1,993)</b>	<b>(\$2,159)</b>	<b>\$1,773</b>	<b>\$2,707</b>	<b>\$344</b>	<b>\$1,329</b>	<b>\$2,001</b>
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Internal Rate of Return = 16.24%

# Analyzing Returns

- **Internal Rates of Return (IRR)**

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

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

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

- Time is one of the biggest factors impacting returns
- Up-Front Costs also have big impacts

# What is the “Right” Return?

- **HIGHER RISK = HIGHER IRR Required**
  - Real Estate Development is the HIGHEST RISK investment class
- 10-Year Treasury Bills are paying ~3.25%
  - Virtually NO risk (Backed by the US Government)
- Home Mortgage Rates ~6%
- Development of Raw Land Requires 15%+
  - The difference between 15% and 3.25% is **RISK**
  - Each developer will require a different return depending on the risk associated with the project
- ***Because prices and costs can't be controlled – reducing risk is the focus of developers***

# Impacts on Returns

Project Analysis: Requires 15% IRR to go forward

- Base Scenario IRR = 16.24% (Passed)
- Reduce Lot Density from 3.5 du/ac to 3.0 du/ac
  - New IRR = 13.38% (FAILED)
- Increase Offsite Costs from \$350,000 to \$700,000
  - New IRR = 11.75% (FAILED)
- Increase Site Development Costs by 10%
  - New IRR = 12.70% (FAILED)
- Reduce Finished Home Prices by 10%
  - New IRR = 11.02% (FAILED)
- Add 1 Year of Entitlement (No Extra Entitlement Costs)
  - New IRR = 11.45% (FAILED)

# Overall Risks

Absorption Period

Entitlements

Rate Environment

Construction Process

Market Conditions/Demand

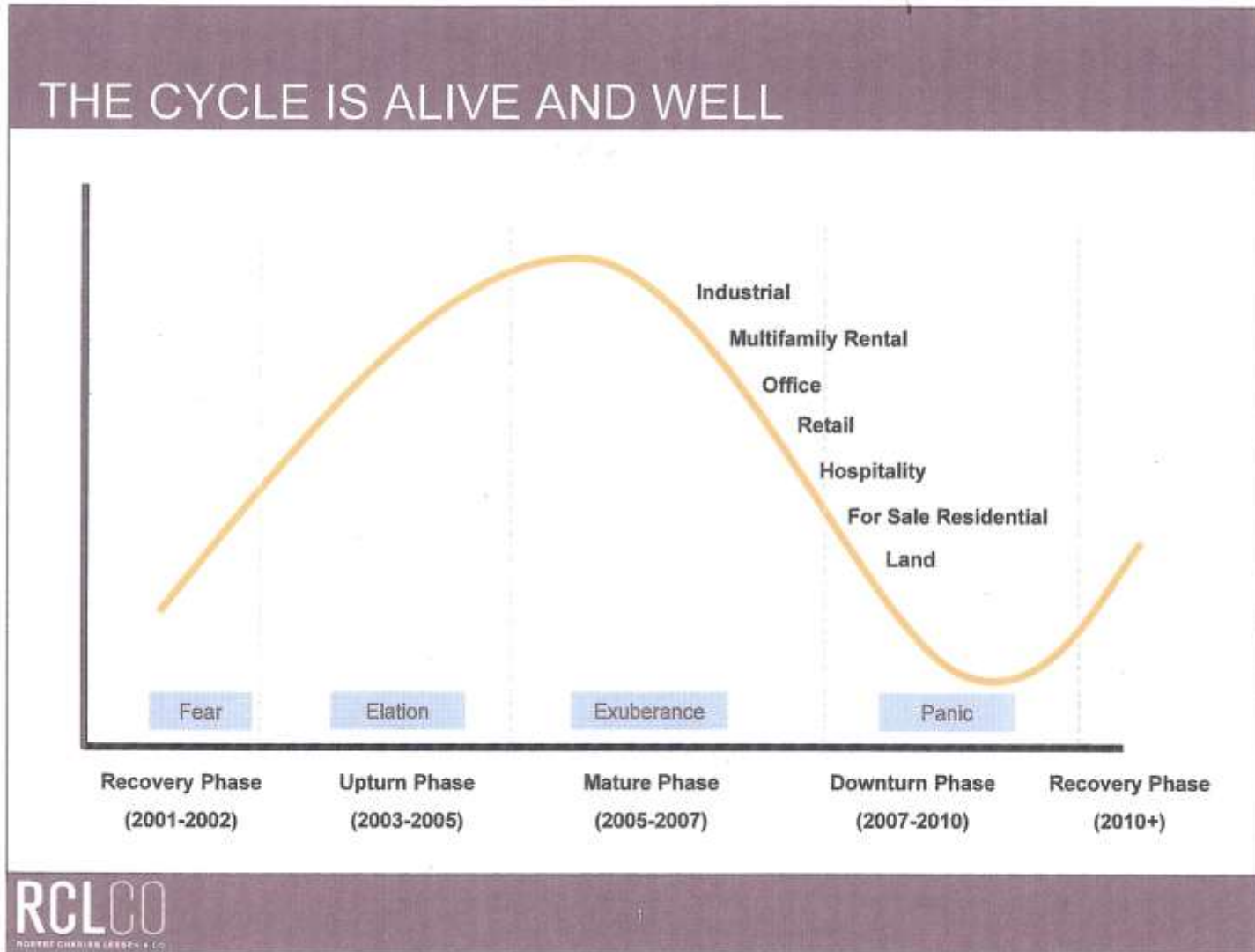
# Such a risky business requires...

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

# What does current market mean for Cities?

- **Risk management will play a larger role**
  - **Once marketable plat is no longer**
  - **Letters of Credit are suspect and you should plan to draw**
  - **May become part-time/full time subdivision general contractors**
  - **Everything from weeds to taxes**
- **Realization that the developer is broke and the buck literally stops here**

# The Real Estate Cycle



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

Controlled  
by the public  
agency

- Process timing
- Application fees
- Public agency resources
- Policies and regulations

Other  
factors

- Local and national economy
- Market for development
- Financing
- Labor

THESE ARE JUST THE  
PRELIMINARY PLANS WE ARE  
ASKING YOU TO APPROVE.  
CHANGES CAN STILL BE  
MADE



HEDMAN  
76 ©

(A)

ANY DEVIATION FROM THE PLANS  
YOU APPROVED LAST WEEK WILL  
MEAN AT LEAST ONE YEAR  
DELAY AND MUCH HIGHER COSTS



49

(B)

# The Development Process

## What Public Agencies Want

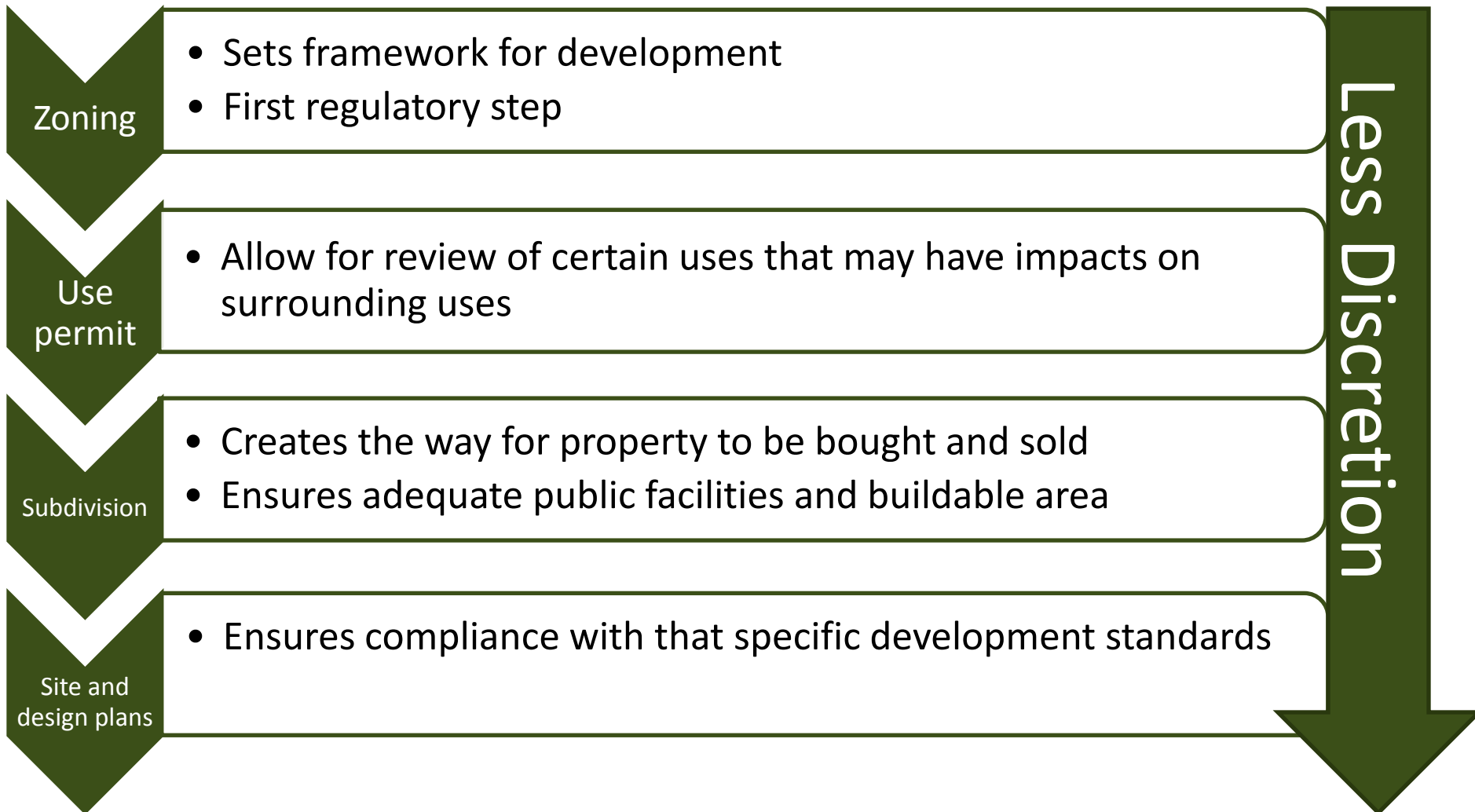
- Certainty
- No surprises
- Honesty
- Openness
- Fairness
- Feasibility
- Policies, regulations and staff resources that support good development
- Cost effectiveness
- No public controversy

## What Developers Want

- Certainty
- No surprises
- Predictability
- Simplicity
- Fairness
- Policies, regulations and staff resources that support good development
- Flexibility
- Efficiency
- No public controversy



# Steps in the Development Process



# Zoning

## Issues decided at previous step

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

## Issues on the table

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

# Subdivision

## Issues decided at previous step

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

## Issues on the Table

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

# Special Use Permits

## Issues decided at previous step

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

## Issues on the table

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

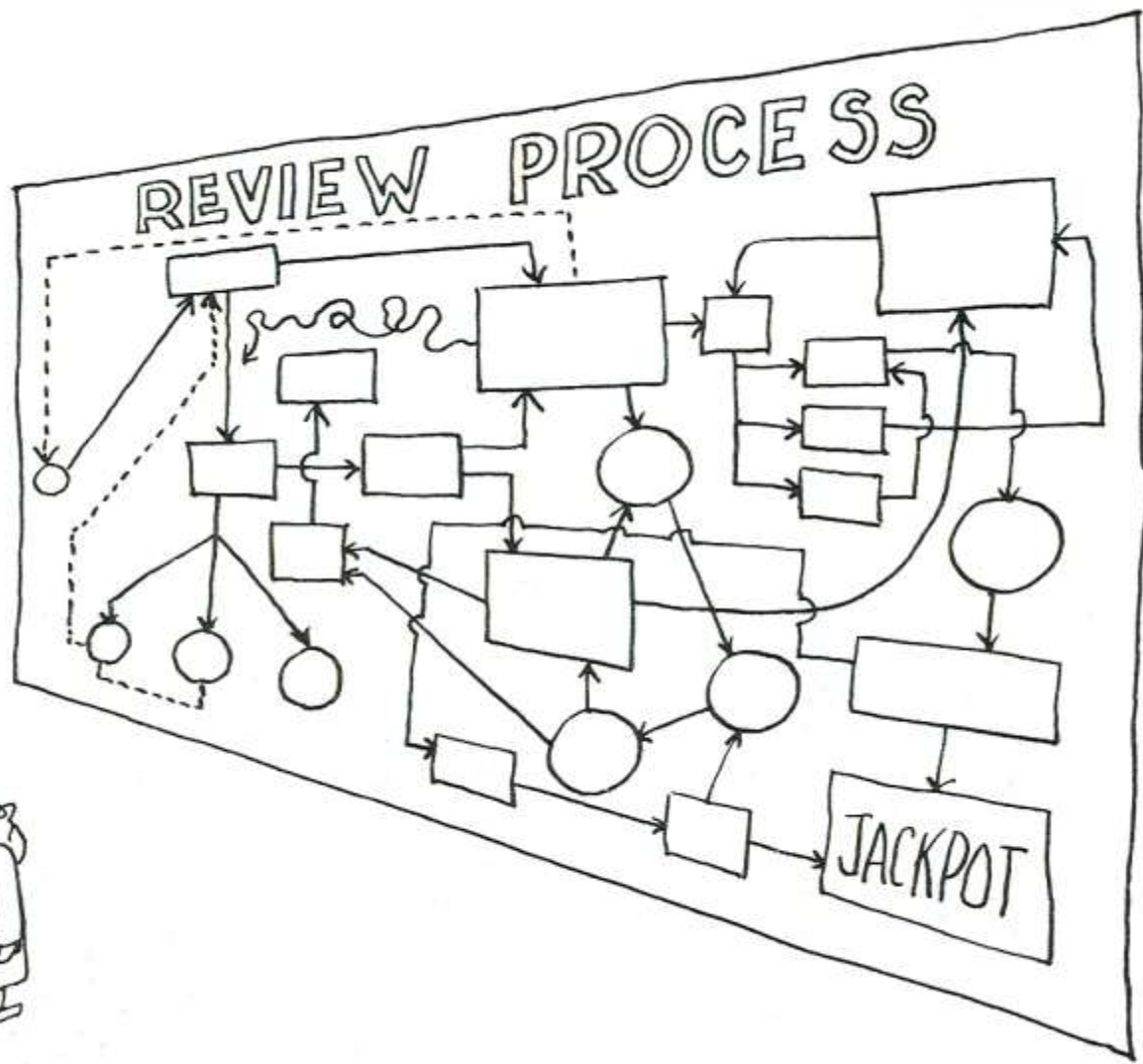
# Site and Design Plans

## Issues decided at previous step

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

## Issues on the table

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



IT DOESN'T WORK  
BUT IT SURE IS  
IMPRESSIVE



# About ULI



Urban Land  
Institute

ULI—the Urban Land Institute is a 501(c) (3) nonprofit research and education organization supported by its members. Founded in 1936, the institute now has more than 30,000 members in over 90 countries representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service.

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

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

**ULI IDAHO** is the Idaho District Council of ULI. District Councils are ULI at the local level and are now organized in over 62 regions worldwide. From less than 100 members when the district council was formed in 2004, membership in ULI Idaho is 165 in 2010. ULI Idaho membership is diversified and attracts professionals involved in all aspects of the real estate and land use industry: developers, lawyers, financiers, academics, elected officials, regulators, builders, marketers, environmentalists, planners, architects and realtors. In 2010, 15% of the ULI Idaho members belong to the public and non-profit sector.

Since inception 2004, the ULI Idaho District Council has organized over 30 programs featuring experts and leaders in the field from throughout the nation. These program topics have included: Higher Density Development, Housing, Design, Property Rights, Transportation, Infrastructure Funding, Sustainable Development, Economic Reality Check, and a Mayors' Forum. Programs have been held in both Boise and Coeur d'Alene.

Tapping into the diversity and breadth of the ULI Idaho membership, the District Council also provides community outreach in a number of other ways- beyond programs. The district council has partnered with Idaho Smart Growth in sponsorship of two studies on in-fill development, and has provided scholarships to university students pursuing degrees in the public and private development industry. Currently, the district council is participating in an analysis of planning statewide with BSU and the University of Idaho, and other organizations. In the past year, ULI members taught a class on real estate development in the Boise State University's MBA program. Finally, nineteen ULI Idaho members participated in a Task Force in response to the 2009 Treasure Valley Mayors Forum. The Task Force released a 65 page report in May with recommendations on how cities can create more sustainable downtowns.

The district council also has the capability to provide Technical Advisory Panels (TAP). These one day panels consist of an objective team of seasoned professionals who provide direction on a specific community issue. Examples of a TAP include determining a catalyst to spur revitalization, managing future growth, viability of a specific project, and revitalizing ideas for a downtown.

The ULI Idaho Young Leader Group of professionals under the age of 35 has emerged in past year as a dynamic subset of the district council membership. They have run a highly successful series of programs on legacy projects in the Treasure Valley and currently are sponsoring a similar "Moving Forward" series on emerging developments. Young leaders have also organized a Mentoring Program which links younger and older professionals.

For further information about ULI: [www.uli.org](http://www.uli.org) or contact Diane Kushlan, ULI Idaho Coordinator, PO Box 8463, Boise, ID 83707; 208.4339352; [Diane.Kushlan@uli.org](mailto:Diane.Kushlan@uli.org).