Introduction to the Small Development Movement

Jim Kumon – Executive Director and Founding Member of the Incremental Development Alliance

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Small Scale Real Estate Developer Training and Capacity Program Provided by:

In Partnership with:

The Virginia Housing Development Authority
Upcoming Small Scale Development Lectures

Monday, March 18 | 4:00 PM-6:00 PM
Harrisonburg, VA
incrementaldevelopment.org/events/harrisonburg

Tuesday, March 19 | 9:00 AM-11:00 AM
Wytheville, VA
incrementaldevelopment.org/events/wytheville

Tuesday, March 19 | 5:00 PM-7:00 PM
Petersburg, VA
incrementaldevelopment.org/events/petersburg
May 16, 2019

Small Scale Development Workshop

Early Bird $169
Regular $199
Last Minute $229

Staunton, VA

IncrementalDevelopment.org/Events/Virginia
Cultivating 1000 small developers and cities that support them
IncDev Mission:
We Teach and Nurture Implementers

Train small business owners, neighborhood advocates, design/real estate professionals, builders and others to become small developers

Coach civic groups and government agencies on how to create a thriving ecosystem for small developers and entrepreneurs

Connect a continent of neighborhood level doers to celebrate success and share field notes through opportunistic alliances
Zero to Three Stories, In Your Neighborhood
Constantly Evolving, Regenerating
Understanding The City as a Corporation
The Story of Your Neighborhood
The Story of Development Patterns
Stewards of public resources need to be able to measure

**value generated by land use**

versus

**the infrastructure cost serving that land**

Approximately 75% of local revenue to Virginia cities comes from property taxes
Connecting Humans, Buildings and Wealth
Building of Intergenerational Wealth

**Families**
- Leverage Building as Income Source
- Provide Lifecycle Housing Choice

**Communities**
- Flexible and Adaptable Buildings
- Anti-Fragile Tax Base
Building Wealth Through Real Estate

One Story Mixed Use
Commercial Front, Residential Back

New storefronts taking cues from the old
Historic Downtown Midlothian
Value of Small Buildings

Downtown Midlothian

1.4 Acres / 19 Small Bldgs
71,076 sf
$2,860,632 Assessed Value
$2,058,000 per acre

MidTowne Neighborhood Retail

0.55 Acres / 5 Small Bldgs
7,886 sf
$710,570 Assessed Value
$1,291,000 per acre
ROI on Auto-Scaled Development

27+ Acres / 220k+sf Bldg
$13,018,170 Assessed Value
$469,800 per acre
Creating a Job vs Building Wealth

Need $500,000 To Start Wealth Leaves
Job: Store Manager

Builds $500,000 Over Lifetime Wealth Stays
Wealth: Business and Building Owner
Struggling to Build Wealth

Low Homeownership Rates

Retirement Savings
(If you make enough income to save much of anything)

Student Debt
(A factor largely preventing young people of all races from entering the ownership market)
Are you getting the kinds of real estate projects you want to see?
Why Not??

I’ll Give You Three Reasons
Overcoming Challenges to Small Scale Projects
Reason #1

Habit of Extractive Land Development

We Don’t Regenerate Like We Used To....

Culture of Throwaway Buildings

Land Held in Hands of Few

Deteriorating Municipal Tax Base

Tyranny of Amortization
Reason #2

Current State of the Development Industry

- Chronic Specialization
- Patchwork Quilt of Arcane Regulation
- Neighborhood Opposition and NIMBY's
- Dire Construction Labor Shortage
- NEW! Tariffs on Materials!
And if that wasn’t enough...
62% of US housing stock is single-family detached homes as of 2015 (HUD, 2017)
83% of households in the US will have no children by 2030

According to Arthur C. Nelson, *Reshaping Metropolitan America*
Reason #3

Mismatch of Buildings to People

What we have and what we need don’t fit well

Goldilocks Problem: Don’t have enough of the ‘just right’ buildings

National demographics shifting to smaller units for single person households

Overheated real estate markets walkable neighborhoods due to lack of supply of them
75% of new housing delivered between now and 2030 should be rental to meet demand.

According to Arthur C. Nelson, *Reshaping Metropolitan America*
Simple, Rectangular, Lovable
A study of migrating households seeking Missing Middle Housing formats.

The City of Grayling
Net Annual Market Potential for New-Builds

5 Cottage House
4 Fourplex Townhouse
2 Above Retail
4 Lofts Flats
Entrepreneurial and bootstrapped

Small and incremental

Corporate and institutional

Large and master planned

Mismatches of objectives

Industry focus

Mismatches of operating requirements

Local opportunities
Not Enough Small Developers to Fill The Needs

Who Know How to Work at the Lot by Lot Level
Who We Need

Potential Small Developers
Known as Operating Partners, the people doing the work full time or on the side

Potential Investment Partners
Known as Money Partners Through Land Ownership or Financial Equity/Debt

Small Development Champions
Folks who care about their city/neighborhood and are going to support change happening so the two groups above can do their jobs right
Small Developers

- Real Estate Development Professional (perhaps working at a larger scale entity) or Non-Profit Organization Developer
- Real Estate Agent, Broker, or Property Manager
- Architect, Urban Designer, Engineers, Landscape Architect, Urban Planner, Attorney
- Construction Contractor, Home Builder or Tradesperson
- Small Business Owner (in a related or unrelated industry to those above)
Small Investors

- Local Community Banker or Loan Originators (For Profit or Non Profit)
- Property owners of any size or type
- Retired individuals from high net worth industry or position
- Private equity, angel or local investment/wealth management professionals
- Professionals from land banks/trusts, redevelopment agencies
- Program Officer or Executives from local Foundations
Small Development Champions

• City Management, City Planning, Housing, Community or Economic Development Professionals

• Elected Officials, Aides to City Official, Manager or Legislator, Planning Commissioners

• County, Regional or State Government/Agency in Housing or Economic Development

• Non-Profit Organization Professional, Neighborhood Leader/Volunteer/Professional, College or University Leader

• Business Association, Chamber or Trade Group Leader
What Do We Have to Know to Make These Happen?
Key Thresholds For Small Buildings
A note on Existing Buildings versus New Construction
# Small Building Thresholds

<table>
<thead>
<tr>
<th>Building Code</th>
<th>Financing Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Residential Code (IRC)</td>
<td>Residential Mortgage (10 Year Term)</td>
</tr>
<tr>
<td>International Building Code (IBC)</td>
<td>Commercial Loan (3-10 Year Term)</td>
</tr>
</tbody>
</table>
Financing Product Order of Magnitude

- Personal debt

- More complexity

- “Residential” mortgages

- Even more complexity 1-4 units with some non-residential SF allowed

- “Commercial” mortgages
Rehabbing a ‘House’
Examples of 100’ Lot Configurations with 4 Units
Removing Barriers
Marlette, MI
Population 1,875

Quickly examining common code issues

Trying to provide small amount of housing diversity

Looking for ways to reduce regulatory burden on existing buildings, especially commercial buildings
A One Map View
Ways to Help as a Champion

• Fix Any Outdating Zoning Rules
• Do the Math on Municipal Return on Investment
• Stop Guessing How Much Parking to Require
• Rally Your Neighbors to Get Behind Small
• Look at your Building and Stormwater Codes
Q: How Do We Find Small Developers?
A: You Don’t. You Grow Them
What Will I Learn at a 1 Day Workshop?

Open to ALL
Public Sector
Private Sector
Non-Profit Sector

The Project Formation Process
Conventional Financing Thresholds
Building Types and Site Planning
Financial Pro Forma
Asking for Money
Acquisition and Closing
Practice Project
Learn How a Building Makes Money 
Via a Financial Proforma
Make a Basic Project Work on Paper
Asking for Money
Small Building Investment Package

OVERVIEW

PRODUCT:

The quadplex has two units on each floor, four units total, and a small rear garage for two vehicles. Each 729 sq ft unit has two bedrooms, one bathroom, and direct access to the outdoor via a two-story porch. The first floor units have their own front and rear doors and the second floor units are accessible from a central staircase at the front of the building. Four parking spaces are provided off the alley, one per unit.

LOCATION MAP:  

PRECEDENT IMAGE:

PLANS + ELEVATIONS

PRO FORMA

Assumptions:

- New construction building (2024-2025)
- 40% Occupancy
- 12% Meeple
- 15% Variance
- 12% Vacancy

- Average rent: $1,350
- Total units: 8
- Total square footage: 5,832
- Total rent: $10,800
- Total expenses: $6,500
- Total net operating income: $4,300

- Cap rate: 8%
- Debt service: 6%
- Loan term: 30 years
- Interest rate: 4.5%

- Debt to income: 50%
- NOI to debt ratio: 85%

- Project costs:
  - Land: $1,000
  - Building: $5,000
  - Soft costs: $1,000
  - Total: $7,000

- Project cost breakdown:
  - Land: 15%
  - Building: 75%
  - Soft costs: 10%

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IncDev Alumni Projects
“Houses I bought that cost LESS than the student loan debt I acquired via my B.S. Degree"

Bernice Radle – Buffalo/Niagara Falls, New York
Capt. Ryan Terry USMC
Bryan, Texas

New Construction Quadplexes With Non-Residential Space

“Won” City RFP to Develop Downtown Block into Mixed Use/Residential

First New Construction Residential Buildings in Downtown in 40+ years

Negotiated Incremental Approach to Lot Purchase
Phase 1 – 500 North Bryan Ave

Towards Downtown
Buildings Leased in Q1 2018
Each Lot Eligible for VA Permanent Mortgage
The Call to Action

Cultivate Small Developers
Through Training, Mentoring and Small Business Support

Gather Investment Partners/Facilitators
Leverage Land Ownership and Pre-Arrange Access to Financial Capital

Collaborate with Small Development Champions
Work out the projects you want on paper, re-legalize the built environment through regulatory reform and pioneer first projects so small operators can follow
Monte Anderson
Midlothian, Texas
Duncanville, Texas
IncDev Founding Member

Started trying to build 18,000 sf strip shopping center, recession hit

Fee simple lots with buildings rented or sold

Purchased by local entrepreneurs
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