

PN - ABZ-76/
92619

MAKING A PROFIT IN DEVELOPMENT: CONSTRUCTION LOAN APPLICATIONS

Instructor's Manual

Prepared by

**PADCO, Inc. and Polis-3 under Subcontract with
the Urban Institute with Participation from
the Cooperative Housing Foundation**

Funded by USAID/Russia

Housing Sector Reform Project II

Contract No.: PE-0008-0-00-5120-00

August, 1996

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INTRODUCTION

PREFACE

The course, **How To Procure Capital For A Successful Housing Project**, is designed to explain the development process and enable participants to produce a business plan for developing a specific property. The course provides some of the skills and experience needed to seed the growth of the private housing market in new market economies.

During previous course offerings, students have had difficulty with two concepts: the purpose and nature of a business plan, and the concept of “the market.” These concepts are especially difficult to grasp during the transition toward a market economy. During such times, capital is scarce, interest rates and inflation are high, and corruption is widespread. Sufficient information may not be available to assemble a complete business plan, and sources of capital are only beginning to emerge. These factors combine to give the impression that housing development cannot be profitable and that the business plan is impractical. Students must understand the following at the outset:

As the transition toward a market economy proceeds, the day will come when more banks will risk lending capital for development, but only to developers who can produce a credible business plan. This course is preparation for producing a business plan that will convince banks to make the loan.

The business plan must account for all of the steps and all of the risks in developing a property. The risks are all related to a single question regarding timely recovery of the investment: will enough people buy the proposed dwellings at a price sufficiently above the developer’s cost of land and construction, and at the right time? Taking the guesswork out of this question is at the heart of the business plan. In a market economy, lenders will not risk their capital without this assurance.

To provide this assurance, business plans must convincingly analyze “the market.” In a given location, the size of the housing market is the total demand for all types of dwelling. Analyzing the market answers the question: how many people would pay how much for what? The “what” is a specific type and quality of dwelling, considering all characteristics from location to room sizes. The purpose of the business plan is to convince the bank that its investment will be returned because the proposed project will be profitable. To produce a business plan, students will need to look hard for information, and in some cases rely on incomplete information about the market. As more information becomes available in the future, they will need to incorporate it.

COURSE GOALS, OBJECTIVES, AND REQUIREMENTS

Goal: Students will be able to draft a business plan for a housing development project that accurately and completely accounts for all of the elements required by a reputable lending institution. In drafting such a comprehensive business plan, students will achieve the following course objectives:

To conduct a market and feasibility analysis
To select a site in accord with market and feasibility analysis
To select financial sources and arrangements appropriate to the project
To design a product in accord with market analysis
To account for all the variables necessary to successfully market, sell, and operate the project
To receive certification for the course, students will be required to attend all five instructional days and satisfactorily complete the business plan for the case study.

ORGANIZATION OF THE COURSE

The Lecture/Discussion Week

The course begins with the five days of lecture and discussion about housing development and creating business plans. Each day is divided into morning lecture/discussion, one or more afternoon business plan case studies, and one or more afternoon field trips to development sites. On the morning of the first day, the instructor will invite several bankers who review business plans to address the class. They will explain that they loan money on the basis of business plans, and summarize the criteria for these plans in the loan application process.

During the first four afternoons, participants will apply the concepts and techniques taught in the morning's lecture to business plan case studies. Information for this work will come from participants' own properties or from sample information supplied in course packets. Students will fill out business plan sheets provided and use local information gathered by the Resident Advisor's team. During one or more afternoons, the class will visit a development site to observe applications of concepts taught in the course. On day five, participants' business plans will be judged by their peers and the instructor.

THE COURSE MATERIALS

The teaching package for this course consists of:

- Instructor's Manual
- A set of projectable overhead transparencies
- Student course materials masters (developed for each concrete seminar)
- Developers Handbook

The following sections detail the course materials for the instructor and students.

INSTRUCTOR'S MANUAL

The Instructor's Manual is divided by tabs into an **Introduction**, this section on **Using the Course Materials**, the **Course Topics Outline**, a section for **DAY 1**, **DAY 2**, etc. of the course, and an **Appendix**.

The five daily sections each contain the following in English:

1. The daily teaching schedule, with approximate times for each section of the lecture
2. Student work, discussion periods
3. Suggested teaching activities

4. Field trips, etc.

The appropriate overhead transparency for each part of the lecture is indicated by number:

1. English text of overhead transparencies with numbers matching Russian transparencies to be projected.
2. Exhibits from A-C pertaining to the day's content
3. Copies of student analysis worksheets: Market Analysis, Site Analysis, Financial Analysis
4. Copies of student business plan worksheets pertaining to the case study

The appendix contains a glossary of Real Estate Terms for student's use.

The Developers Handbook is to be distributed to students after Section I, Introduction, and before Section II, Marketing Analysis. Students are to use the Handbook to assist them in formulating their specific development proposals, cash flows and requests for financing.

OVERHEAD TRANSPARENCIES

Overhead transparencies follow each day's lecture. These are numbered to correspond to each day's lecture (e.g. 2-1 is the first overhead to be projected on day 2). The text for each day's overhead transparencies is located in the Instructor's Manual immediately following each day's agenda. The daily schedule indicates when each overhead should be projected.

STUDENT COURSE MATERIALS MASTERS

Will be developed for each concrete seminar.

The Student's Course materials include the following, in Russian:

- The day's schedule
- Exhibits A-C
- Analysis worksheets: Market Analysis (for Day 1), Site Analysis (for Day 2), Financial Analysis (for Day 3)
- A business plan worksheet for each day
- A Glossary of Real Estate Terms.

Each item in the Student Course Materials Master in Russian is to be photocopied for students before the course begins - one complete copy each, to be put into notebooks or folders that the students can keep for reference.

COURSE TOPIC OUTLINE

DAY 1. PART 1: INTRODUCTION TO THE HOUSING DEVELOPMENT INDUSTRY

- A. The importance of the housing development industry
- B. The development team:
 1. Developer

2. Land Planner
3. Engineer
4. Attorney
5. Accountant
6. Architect
7. Market Researcher
8. Financier
9. Contractor/Subcontractor
10. Sales Manager
11. Landscaper

C. The Profit and Loss Statement

D. The cash flow feasibility projection:

1. Assumptions/definitions
2. Cost Component Percentages

DAY 1. PART 2: MARKET ANALYSIS AND FEASIBILITY

A. The purposes of market analysis

1. Understanding supply, demand, absorption rate in a given area
2. Choosing a market and providing specific development and homes for it
3. Market characteristics: regional preferences, lifestyle for targeted buyers
4. Information for selling a project to investors and lenders

B. Types of market studies

1. General: nature of marketplace, competition, economic influences
2. Demand based studies
 - a. target market (existing and future)
 - b. % of market that can be attracted
 - c. constraints: regulatory, physical, economic
3. Supply- based studies
 - a. activity and trends in the marketplace
 - b. competitive and potentially competitive developments

C. The Market Analysis Checklist

D. Sources of market information

1. Local government
2. Professional associations
3. Local "in-house" door-to-door questioning

E. When to Study the Market

1. To determine feasibility for targeted buyer before land purchase or product design
2. During build-out and sales to solve problems or enhance absorption
3. After completion to refine future decisions

F. The importance of market analysis: essential to the development process

1. The development plan is based on the relationship between market information and physical, financial, and political conditions.
2. Investors and lenders require a formal market study as a basis for assessing risk
3. Builders use it to decide whether to pursue a project
4. It reduces the risk of development

DAY 2: SITE SELECTION AND ANALYSIS

I. Two approaches to site selection

- A. A development idea in search of a site
- B. A site in search of a master plan concept

II. Three types of Site Characteristics

A. Physical factors

- 1. geotechnical
- 2. topographical
- 3. site features
- 4. hazards
- 5. improvements
- 6. site history.

B. Legal and political factors

- 1. zoning
- 2. growth management
- 3. comprehensive land use plan
- 4. subdivision ordinances
- 5. contiguous property
- 6. overlapping regulations
- 7. political factors

C. Off-site factors, positive and negative

III. Site analysis

A. gathering additional data

- 1. project design
- 2. project costs

B. site analysis tools

- 1. current maps
- 2. drawings and tests
- 3. land surveys

C. physical factors

- 1. topography
- 2. soils and subsurface conditions
- 3. hydrology and drainage requirements
- 4. stormwater

D. site features

- 1. project opportunities
- 2. project constraints

E. regulatory requirements

- 1. zoning
- 2. subdivision review process
- 3. building codes

F. off-site features

- 1. streets and sidewalks
- 2. utilities

- G. applying site analysis to the master plan
 - 1. producing multiple solutions
 - 2. selecting a final concept
- IV. Site Analysis Checklist

DAY 3: FINANCIAL SOURCES AND FEASIBILITY

- I. Organization for Acquisition and Sale
 - A. Sole Proprietorship
 - B. General Proprietorship
 - C. Corporation
- II. Methods of Acquisition
 - A. Standard Land Purchase Contract
 - B. Contingency Contract
 - C. Option of Option Contract
 - D. Land Installment Contract
 - E. Phased Land Purchase Contract
- III. Private Sector Financing Alternatives
 - A. Financing Phases
 - B. Financing Land Acquisition
 - 1. Purchase Money Mortgage
 - 2. Purchase Option
 - 3. Long Term Lease plus Option
 - 4. Joint Venture
 - 5. Interim Land Loans
 - C. Land Development Financing
 - D. Construction Financing
 - 1. Sources of Construction Financing
 - 2. Characteristics of Construction Financing
 - 3. Risks of Construction Lending
 - 4. Loan Disbursements
 - E. The Take-Out Commitment
 - 1. Commitment Duration
 - 2. Commitment Rate
 - 3. Commitment Cost
 - 4. Special Commitment Terms
 - 5. Sources of Commitment Funds
 - F. Interim Financing
 - G. Sale and Leaseback Transactions
 - 1. Advantages
 - 2. Disadvantages
 - 3. Equity Financing
 - a. Joint Ventures

- b. Syndications
- IV. Public Financing Alternatives (Optional)
 - A. Revenue Bonds
 - B. Housing Finance Agencies
 - C. Tax Increment Financing
 - D. Tax Abatement Financing
- V. Selecting a Lender and Preparing a Loan Application
 - A. Selecting a Lender
 - B. Types of Lending Institutions
 - 1. Commercial Banks
 - 2. Other
 - C. Packaging the Loan Submission
 - 1. Cover Letter
 - 2. Loan Summary
 - 3. The Borrower
 - 4. Market Data
 - 5. Project Data
 - 6. Financial Proformas
- VI. Financial Analysis Checklist

DAY 4: PRODUCT TYPES AND RELATION TO MARKET MARKETING, SELLING, AND OPERATING THE PROJECT

- I. What the Buyer Wants
- II. General Design Issues to Decide
 - A. Density of Units
 - B. Attached or Detached
 - C. Form of Ownership
 - D. Square Footage
 - E. Single or Multiple Stories
 - F. Architectural Style
 - G. Number and type of Interior Spaces
 - H. Amount of Private Outdoor Space
 - I. Maintenance Requirements for Outdoor Space
- III. Density and Pattern
 - A. Single Family Detached, large lot
 - B. Single Family Detached, small lot
 - 1. Modified Grid
 - 2. Garden or Patio Homes
 - 3. Zero Lot Line Plan
 - 4. Clustering

5. Special Design Consideration for all above

C. Attached

1. Duplex, Triplex, Fourplex
2. Townhouses
3. Midrises and Highrises
4. Special Design Characteristics for All Above

D. Matching the Target Market's Demands to Housing Types

1. Style Preferences
2. Regional Preferences
3. Site Characteristics
4. Climate
5. Solar Orientation
6. Home buyers' Identity

IV. Planning as the Key to Success

V. Use market research to determine the position of the subject property within the competitive market area

VI. Realistically project absorption based on analysis of region's demand for and supply of housing

VII. Staff up for projected activity level

VIII. Market Strategy

- A. Overall concept of the community
- B. Target Markets and the best way to reach them
- C. Exact sizes, prices, mix of units
- D. Merchandising, advertising, promotion
- E. Budget all costs

IX. Merchandising

- A. Sales office
- B. Model - furnished?
- C. Finished landscaping
- D. Entrance to project
- E. Completed environment

X. Promotion

- A. Public Relations
 1. Press
 2. Community
 3. Direct Mail
 4. Events - Grand Opening

XI. Advertising

- A. Purpose: to deliver prospects
- B. Theme
- C. Media
 1. Newspapers

- 2. Radio
- 3. Television
- 4. Signs
- XII. Sales Management
 - A. In-house
 - B. Brokers
 - C. Training of salespersons
 - D. Motivation of salespersons
 - E. Follow-up procedures
- XIII. Marketing Budget
 - A. Predict sales - closings
 - B. Estimate costs
 - 1. Merchandising
 - 2. Promotion
 - 3. Advertising
 - 4. Management
 - C. Monitoring Results
- XIV. Construction Guarantees
 - A. Important present and future marketing tool
 - B. Voluntary
 - C. Insurance
 - D. Warranty laws
- XV. Construction Management
 - A. Employee Relations
 - B. Subcontractor relations
 - C. Quality control
 - D. Method of payment
 - E. Team building
- XVI. Summary of Development Process

DAY 5: PREPARING LOAN APPLICATIONS

- I. Selecting a lender.
 - A. Main Criteria for selecting a lender.
 - B. Documents that should be provided to a lender
- II. Loan Application Outline
 - A. Key project information
 - 1. Project overview
 - 2. Proposed loan
 - B. Borrower
 - 1. Summary
 - 2. Overview of the company
 - 3. Development experience

4. Financial position

C. Project

1. Summary
2. Total costs
3. Description
4. Summary market analysis
5. Management

D. Financing

1. Cash-Flow
2. Ratio analysis
3. Sources of Financing
4. Sensitivity Analysis

E. Attachments

1. Site plans
2. Legal documents
 - a) Project
 - b) Company
3. Others

III. Loan Negotiation Process

A. Banks' Approach to reduce risks

1. Deposit in the bank lender
2. Disbursement of the Loan through payments to subcontractors
3. Collateral
4. Bank's control on the construction process
5. Others

B. Developer's approach to reduce interest rate

C. Special requirements of lender to the loan application and additional documents

DAY 1 SCHEDULE

INTRODUCTION TO THE COURSE and MARKET ANALYSIS/ FEASIBILITY

I. INTRODUCTION TO THE COURSE

100 MINUTES

Student Introductions

10 minutes

Welcome students and ask each one to say briefly who they are (position), describe their housing development experience, and explain why they are taking the course. Also welcome the bankers and ask them to introduce themselves.

OH 1-1

Overview, Objectives, and Requirements

30 minutes

1. **Overview** the course as follows. Briefly define housing development and explain the purpose of business plans (as a background to the local bankers' coming up). Paraphrase from the student course materials:

During the transition toward a market economy, the scarcity of capital, high interest rates, high inflation, and widespread corruption make it difficult to develop land profitably. As the transition proceeds, the day will come when more banks will risk lending capital, but only to those who can produce a credible business plan. This course is preparation for producing a business plan that will convince banks to make the loan.

Course Goal: When the course is complete, each student will be able to draft a business plan and a credible loan application for a housing development project. The plan will accurately and completely account for all of the elements required by most lending institutions.

OH 1-2

Course Objectives - the course will enable students to:

- conduct competent market and feasibility analyses.
- select sites in accord with market and feasibility analyses.
- select financial sources and arrange appropriate financing for projects.
- design housing in accord with market analyses.
- account for all the variables necessary to successfully market, sell, and operate projects.

Course Requirements: For course certification, students are

required to attend all five instructional days, pass the quizzes on terms with 80% success, and satisfactorily complete the business plan for the case study.

Take time to discuss requirements. Invite questions and answer all of them.

Course Schedule: the course consists of five days of lecture .

1. The 5 days of the lecture course include:

- morning lecture
- activities (e.g role plays)
- filling in the business plan in the afternoons.
- case studies
- field trips.

Logistics:

- start and end times
- breaks and location of coffee
- lunch start and end times
- transportation to and from field trips
- bathroom location
- telephones and messages.

Invite and answer questions

The Importance of the Construction and Development Industry *25 minutes*

OH 1-3

Local bankers address the class about business plans *25 minutes*

Local banker(s) to explain the purpose of business plans and Loan Application, and the criteria by which business plans are judged in the loan application process.

Invite discussion between the bankers and the class. Ask one of the bankers to return on the afternoon of Day 5 for the Mock Loan Committee activity.

OH 1-4

Describe the development team *10 minutes*

Outline the skills each member of the team contributes in the context of developing a business plan for a housing development.

Developer: Distinguish between a construction manager, with whom students are familiar, and a developer, which is new to students. Students often confuse these. Define a developer as: *a catalyst, a conductor, a leader, a decision maker. He discovers and identifies a market need and gets control of a site. He then recruits, organizes, and manages the*

necessary professionals, materials, labor, and money to meet the market need.

Team: Briefly define each of the skills in the developer's professional team, including:

- market research
- land planning
- engineering
- legal
- accounting
- architecture
- financial
- construction
- interior design selling

OH 1-5, 1-6

Introduce the Model Cash Flow

15 minutes

Describe the Model Cash flows in the context of the business plan: (Profit And Loss Statement and Cash Flow Feasibility Projection). Explain exhibits' purpose, including underlying assumptions. Hand out Developer Handbook. Note that the Cash Flow model consists of a trial **Profit and Loss Statement**, a detailed statement of **Revenues**, a detailed statement of **Costs** and a **Cash Flow** that compares revenues with costs to determine profitability. The **Cash Flow Analysis** assesses borrowing needs of the project based on assumptions about the developer's equity.

*****10 minute Break *****

II. MARKET ANALYSIS/FEASIBILITY

140 minutes

Typically participants are new to the concept of markets. The instructor should explain that a market represents competitive demand for a product at a particular price. The course materials are designed to describe the types of markets, how a developer assesses them and how this assessment can be used to design, market and sell his product. At this point the instructor should stress that market analysis starts when the project is first conceived, continues through design phases, is used to modify construction and then is used to sell the product to potential buyers. Once the project is complete, market analysis then should focus on successes and failures of the marketing effort so past mistakes are not repeated. Finally, the instructor should stress that markets exist for a point in time and are always changing. Market analysis must be up-to-date to be of any use to the developer.

OH 1-7

The purposes of market analysis

20 minutes

OH 1-8

Types of market studies

30 minutes

OH 1-9 OH 1-13

Describe the Market Analysis Worksheet and ask students to fill in a few of the "Actions Taken" blanks in the right hand column. Get volunteers from the class to explain what they have filled in.

OH 1-14

Sources of market information

10 minutes

The instructor should refer to the Developers Handbook for sources of market information.

OH 1-15

When to study the market

10 minutes

The Instructor should stress that market analysis is an ongoing process that continues throughout the project. It only ends when the next project starts.

OH 1-16

The importance of market analysis

10 minutes

******1 hour Lunch******

III. CASE STUDY/BUSINESS PLAN WORK

3 hours

Materials Needed

Market Analysis Worksheet
Day 1 Business Plan Worksheet
Developer Handbook

Present and discuss Model Cash Flow information

30 minutes

The Instructor should use the examples found in the Developers Handbook, noting that these were developed for a city outside Moscow. As appropriate, the examples in the Handbook should be updated to represent selling prices and costs in the locality where the course is being taught.

Information Treasure Hunt for Case Study*30 minutes*

Pose a market study question, and ask students to find sources on Market Analysis Worksheet and data on Factsheets. Explain that “actions taken” can be any step along the way toward finding the answer to a question under Analysis Items, and does not have to end with the information required. Ask students to fill in as many Actions Taken as possible on the Market Analysis Worksheet.

Work on 1st day’s business plans*2 hours*

OVERHEAD TRANSPARENCIES

INTRODUCTION TO THE COURSE and MARKET ANALYSIS /FEASIBILITY

1-1

Course Overview

- Why are we here? What are we going to do?
- Homeownership Development Course: 1 week (5 days)
- Instructor will remain 2 more weeks and will be available to assist students
- Instructor will continue to help students after that if they are still working on their projects

1-2

Course Topics

- Day 1 • Introduction
 - Market Analysis and Feasibility
- Day 2 • Site Selection and Analysis
- Day 3 • Financing Sources and Feasibility
- Day 4 • Product Types and Relation to Market
- Day 5 • Marketing, Selling and Operating the Project

1-3

Importance of Homeownership Industry

Example: USA

- Huge industry made up of small independent enterprises.
- Market value of private housing = 40% of *all* privately owned capital.
- Market value of private housing is 1.8 times annual disposable income.
- Private housing construction contributes 5% of GNP plus ramifications throughout economy.

1-4

The Development Team

- Developer
- Architect
- Land Planner
- Market Researcher
- Engineer
- Financier
- Attorney
- Contractor/subcontractor
- Accountant
- Sales Manager
- Landscaper

1-5

Cash Flow Statement for a Proposed Development

- Type of Home: Multi-family 3 storey building
- Number of Units: 19
- Overall Development Size: 0.4 Hectares
- Range of apartment Size: 80 - 120 sq. m.
- Average Price per sq. m.: \$700

- Number of Garages: 19
- Price per garage: \$8,100

1-6

Profit & Loss Statement for Pushkin Gardens

	Items		Totals (in \$'000)
I.	Revenues		
	Gross Sales Revenues	1,617.44	
	Less VAT	(269.63)	
	Gross Sales Revenues after VAT		1,347.81
II.	Project Costs		
	Land plus off-site infrastructure	224.00	
	Design	19.00	
	Direct construction plus on-site infrastructure	770.00	
	Administrative Overhead	77.00	
	Insurance	7.70	
	Marketing	15.40	
	Taxes (property, etc.)	30.38	
	Total Project Costs		1,143.48
	Provision for inflation		51.10
	Total Project Costs Plus Inflation		1,194.58
III.	Net Cash Flow before Financing		153.23
	Less Financing Costs		(49.46)
IV.	Net Profits after Financing		103.77

1-7

**Market analysis and feasibility:
Why do them?**

- to understand housing supply, demand, absorption rate in a given geographical area
- to determine both a chosen target market and what kind of development and home to provide
- to acquire a specialized knowledge of the market, e.g. regional preferences and lifestyle characteristics of targeted buyers
- to provide information that helps sell the project to investors and lenders

20

1-8

**Market analysis and feasibility:
Types of market studies**

- **general:** nature of the marketplace, competition, economic influences
- **demand based:** *target market*, existing, future, what percent can be attracted, price range, etc., and *constraints*, e.g. regulatory, physical, economic, etc.
- **supply based:** activity and trends in the marketplace, competitive and potentially competitive developments.

1-9

**Market Analysis Checklist:
(1) Description of Market Area**

- Size (total population)
- Topographical features
- Transportation arteries, ease of access
- Direction of recent growth
- Special features, characteristics and considerations
- Community developments planned or in process
- Map of area

1-10

**Market Analysis Checklist:
(2) Economics of Market Area**

- Brief history of growth and development
- Analysis of office and retail markets, strengths and weaknesses
- Employment: types and trends
- Principal employers
- Unemployment: current levels and trends
- Average family income: current levels and trends

1-11

**Market Analysis Checklist:
(3) Demographics of Market Area**

- Distribution by age
- Distribution by education
- Distribution by household size
- Special features, for example, military-connected households
- Current estimate and future trends

1-12

**Market Analysis Checklist:
(4) Conditions of Market Area**

- Housing supply: characteristics by type and condition
- Residential building activity: current and planned
- Description of comparable competitive projects: number of units, size, rents
- Absorption of comparable projects (by month, by year)
- Tenure of occupancy: current estimate, past trends
- Vacancy rates: owners and renters
- Mortgage market: activity and source of funds
- Sales market: volume, prices, inventory, and outlook
- Rental market: existing/new, prices and outlook, volume

1-13

**Market Analysis Checklist:
(5) Demand for Housing**

- Projected increase in types of households
- Locations favorable for market absorption
- Occupancy potential for subsidized/nonsubsidized single-family units
- Occupancy potential for subsidized/nonsubsidized multifamily units

1-14

**Market analysis and feasibility:
Sources of market information**

- Local government
- Professional associations
- Professional local periodicals and publications
- Local "in-house" door-to-door questioning

1-15

**Market analysis and feasibility:
When to study the market**

- **Before** purchase land, or before design product to determine feasibility, to identify best type of buyer to target.
- **During** build-out and sales to solve problems or enhance absorption.
- **After** project completion to evaluate effectiveness and refine future decisions.

-16

**Market analysis and feasibility:
Why is it important?**

- Knowing your market is essential to the development process
- **Development plan** is based on market information and its relationship to physical, financial, and political conditions.
 - **Investors and lenders** generally require a formal market study as a basis for assessing risk.
 - **Builders** need to perform preliminary analysis to decide whether they should pursue a project.
 - **Market research** can reduce the risk inherent in real estate development.

Market Analysis Worksheet

Analysis Items	Information Source	Action Taken
1. Description of Market Area		
Size (total population)		
Topographical features		
Transportation arteries, ease of access		
Direction of recent growth		
Special features, characteristics and considerations		
Community developments planned or in process		
Map of area		
2. Economics of Market Area		
Brief history of growth and development		
Analysis of office and retail markets, strengths and weaknesses		
Employment: types and trends		
Principal employers		
Unemployment: current levels and trends		
Average family income		
3. Demographics of Market Area		
Distribution by age		
Distribution by education		
Distribution by household size		
Special features (military-connected etc) households		
Current estimate and future trends		
4. Conditions of Market Area		
Housing supply: characteristics		
Residential building activity		
Description of competitive projects		
Absorption of comparable projects		
Tenure of occupancy		
Consumer Loan (mortgage) market		
Sales market: volume, prices		
Rental market: prices, volume		
5. Demand for Housing		
Trends of types of households		
Favorable location		
Occupancy potential (single-family units)		
Occupancy potential (multifamily units)		

Business Plan Worksheet

MARKET ANALYSIS AND FEASIBILITY

A property development plan is feasible if enough people will be willing and able to pay the price needed to sustain the project. The information below will help you determine how many people will be willing and able to pay how much. From these data, you can set the size and scope for your plans at a realistic and sustainable level.

A. Professionals Needed for Market Analysis and Feasibility:

- Developer (name and roles)
- Market Researcher (name and roles)
- Financier (name and roles)

B. Local Housing Supply and Demand

1. Name the geographic area where your property is located
(include a map and pinpoint your property)
2. Fill in the information in the columns at the right to indicate supply of local housing.

of households

Housing Supply Category	Information Source	< 2 km. from develop-ment	2-5 km. from develop-ment	5-10 km. from develop-ment
# of Households In 1993				
# of Households In 1994				
# of households projected 1996				
# building permits issued 1993				
# building permits issued 1994				
# building permits projected 1996				
# of single family homes owned by occupants 1993				
# of single family homes owned by occupants 1994				
# of unoccupied single-family dwellings 1993				
# of unoccupied single-family dwellings 1994				

- a. average # of people per household _____ information source:
- b. average# of rooms per house _____ information source:
- c. average# of people per apartment _____ information source:
- d. average# of rooms per apartment _____ information source:

3. Fill in the table below to determine demand for single-family dwellings (including apartments) in your area.

Housing Demand Category	Information Source	< 2 km. from develop-ment	2-5 km. from develop-ment	5-10 km. from develop-ment
# households seeking dwellings 1993				
# households seeking dwellings 1994				
estimated total market absorption rate (see glossary) for 1994				
estimated demand for single-family dwellings 1995				

- a. average annual income range of people seeking homes _____ inf.
source: _____
- b. estimated monthly payment the majority of home seekers could pay
- c. estimated # households < 10 km. from your development who could afford a low-cost single family dwelling _____
- d. estimated sources and availability of capital to purchase a single family dwelling
% of home seekers who can obtain a loan _____ loan sources
- e. estimated % of total market absorption rate your development will get:

C. Describe the type of dwelling for which you estimate greatest demand:

1. #of rooms. _____ house_size (sq. m.) _____ types of rooms (list)
2. amenities (list) _____
3. construction type (brick, panel, puor-in-place, # of storeys etc.)
4. On what do you base your information?

D. Market Trends

1. The distribution by size of occupied apartment in my geographic area is as follows:
50-75 sq. m. _____ %, 75 - 100 sq m. _____ % >100 sq m. _____ %
2. # homes of type you want to build built and sold during past year _____
3. # homes of type you want to build unsold during past year _____
4. # of homes of type you want to build other developers plan to build this year _____
5. list planned roads, employment, transportation systems, or other factors in your geographic area that affect demand and price of dwelling

DAY 2 Schedule

SITE SELECTION AND ANALYSIS

I. SITE SELECTION AND ANALYSIS

4 hours

OH 2-1

Two approaches to site selection

5 minutes

A development searching for a target market

A target market idea searching for a site

Three types of site characteristics

25 minutes

OH 2-2

Physical factors

OH 2-3

Legal and political factors

Depending on the audience, the Instructor should note that land reform in Russia has resulted in new forms of tenure: short- and long-term lease rights and ownership rights. These are in addition to development rights that should be known to the audience. The Developers Handbook covers different rights in some detail and should be used as a reference.

OH 2-4

Off-site factors, positive and negative

Site analysis

90 minutes

OH 2-5

Gathering additional data: sources and methods

OH 2-6

Site analysis tools

*****10 minute Break *****

OH 2-7

Physical factors

OH 2-8

Site features

OH 2-9

Regulatory requirements

OH 2-10

Off-site features

OH 2-11

Applying site analysis to the master plan

OH 2-12 、 OH 2-22

Lecture: Using the Site Selection Checklist

30 minutes

Before lecturing, explain that students will use what is explained here in the activity immediately following.

Role Play Investor/Lender and Developer

80 minutes

Students use the **Site Analysis Worksheet** and data on **Factsheets** to present a "foolproof" siting plan to the investor. The Lender/Investor's job is to doubt the plan. Structure the activity as follows:

1. Students break into groups of four, and each group of four breaks into two pairs of students.
2. During 1st 20 minutes, both pairs use the Site Analysis Worksheet and Factsheets to make an airtight case (proposal) for siting a particular imaginary development. The pairs must describe the basic characteristics of the imaginary development in terms of target market and use information from the Site Analysis Worksheet and Factsheets to back up their proposals regarding suitability of the site.

3. During the next hour the two groups take turns (20 minutes each) presenting their case for siting to the other pair who plays a lender/investor. Lender/investors should be skeptical but reasonable, and be able to defend their reasons for accepting or rejecting a proposal.
4. Each group takes less than 5 minutes to tell the whole class the results and high points of the exchange. Both developers and lenders are required to summarize and defend their positions.

*****1 hour Lunch*****

II. CASE STUDY/BUSINESS PLAN WORK

90 minutes

Student Materials Needed

Site Analysis Worksheet
Developer Handbook
Day 2 Business Plan Worksheet

Present and discuss case study information

15 minutes

Work on 2nd day's business plans

1 hour

III. FIELD TRIP

2 1/2 hours (optional)

Arrange for the trip, including transportation and parking, before you finalizing schedule. Call to confirm arrangements on the day you arrive.

Student Preparation

15 minutes

After you wrap up the 90 minutes' work on business plans before this trip, describe the site and ask students to view it as though they were lenders. Ask them to consider all of the marketing and site selection items they have learned about so far. Give them 10 minutes to list questions to ask and points to cover on site. Tell them to record anything they see on site that is pertinent to their questions.

Trip

2 hours

Wrapup

15 minutes

Ask students to discuss their questions and recorded observations.

DAY 2 Overhead Transparencies

SITE SELECTION AND ANALYSIS

2-1

Site selection and analysis: 2 approaches

- Develop idea in search of a site
- Site in search of a master plan concept

2-2

Site selection: Physical factors

- geotechnical conditions
- topographical conditions
- site features
- hazards
- improvements
- site history

2-3

Site selection: Legal and political factors

- zoning regulations
- growth management
- comprehensive land use plan
- contiguous property
- overlapping regulations
- political factors

2-3a (alternative)

Site selection: Types of Land Tenure in Russia

- Development rights (existing system)
- Lease rights (short term during project, but transferable)
- Lease rights (25, 49, 99 years)
- Ownership rights (full title)

2-4

Site selection: Off-site factors

- Negative off-site factors

2-5

Site analysis: Gathering additional data

- project design
- project costs

2-6

**Site analysis:
Site analysis tools**

- current maps
- drawings and tests
- land survey

2-7

**Site analysis:
Physical factors**

- Topography
- Soils and subsurface conditions
- Hydrology and drainage requirements
- Stormwater runoff

2-8

**Site analysis:
Site features**

- Project opportunities
- Project constraints

2-9

**Site analysis:
Regulatory requirements**

- Zoning Regulations
- Requirements of Chief Architect's Office
- Subdivision review process
- Building codes

2-10

**Site analysis:
Off-site features**

- Streets and sidewalks
- Utilities

2-11

**Applying site analysis to the Master
Plan**

- Producing multiple solutions
- Selecting a final concept

2-12

**Sample Site Analysis Checklist:
(1) Mapping**

- Boundary survey
- Legal description
- Patterns of ownership
- Easements (by type and location)
- Rights-of-way
- Topography
- Aerial photography
- Regional/site location

2-13

**Sample Site Analysis Checklist:
(2) Topography**

- Slopes (mapped by percentage categories)
- Elevations (high and low points)
- Ridges
- Drainageways
- Special features (e.g., rock outcroppings)
- Views (on- and off-site)

2-14

**Sample Site Analysis Checklist:
(3) Soils**

- Types and characteristics
- Depth of topsoil
- Subsoil conditions
- Potential "borrow" sites for construction materials
- Depth to bedrock/groundwater

2-15

**Sample Site Analysis Checklist:
(4) Drainage**

- Surface drainage features
- Groundwater table
- Floodplain boundaries
- Wetlands/marshes
- Location of wells
- Depth to groundwater
- Sources of on- and off-site pollution
- Tide data

2-16

**Sample Site Analysis Checklist:
(5) Vegetation**

- Species present on site
- Woodlands/fencerows/vegetation masses
- Location/size of specimen trees
- Special features/habitats

2-17

**Sample Site Analysis Checklist:
(6) Land Use**

- Existing on-site uses (structures and activities)
- Historical site uses (potential for contamination)
- Surrounding uses (note any objectionable uses or activities)
- Adjacent plats
- Open space/vacant land
- Qualitative assessment of neighborhood
- Growth/development patterns in area

2-18

**Sample Site Analysis Checklist:
(7) Regulations**

- Governmental authorities (city,oblast,district, other)
- Master/general plan policies
- Existing zoning (for site and adjacent parcels)
- Applicable development/impact fees
- Special assessments
- Other applicable municipal, regional, and state regulations affecting the site

2-19

**Sample Site Analysis Checklist:
(8) Transportation/Circulation**

- Existing traffic patterns
- Access points/entries
- Proximity to regional transportation system
- Planned/proposed transportation system improvements
- Trails/paths (existing and planned)
- Accessibility to transit

2-20

**Sample Site Analysis Checklist:
(9) Utilities**

Note location, design, purveyor, availability, tie-in distance from site, costs borne by utility company, developer fee structures, potential for delay or prohibition of development.

- Sanitary sewer
- Water
- Stormwater
- Electricity
- Natural gas
- Cable television
- Telephone

2-21

**Sample Site Analysis Checklist:
(10) Public Services/Conveniences**

- Schools
 - Location/proximity to site

- Capacity
- Reputation of school district
- Parks and recreational facilities
- Emergency services
 - Fire
 - Police
 - Ambulance/paramedic
- Public transportation/transit
- Commercial services/shopping
- Employment services

2-22

**Sample Site Analysis Checklist:
(11) Other Features**

- Prevailing wind direction
- Climatic conditions
- Archeological sites
- Wildlife (species and habitats)
- Sources of noise
- Aesthetic quality of site and environs

Site Analysis Worksheet

Analysis Items	Information Source	Action Taken
1. Mapping		
Boundary survey/acreage		
Legal description		
Patterns of ownership		
Easements (by type and location)		
Rights-of-way		
Topography		
Aerial photography		
Regional/site location		
2. Topography		
Slopes (mapped by percentage)		
Elevations (high and low points)		
Ridges		
Drainageways		
Special features (e.g., rock outcroppings)		
Views (on- and off-site)		
3. Soils		
Types and characteristics		
Depth of topsoil		
Subsoil conditions		
Potential "borrow" sites for construction		
Depth to bedrock/groundwater		
4. Drainage		
Surface drainage features		
Groundwater table		
Floodplain boundaries		
Wetlands/marshes		
Location of wells		
Depth to groundwater		
Sources of on- and off-site pollution		
Tide data		

Site Analysis Worksheet (Continued)

Analysis Items	Information Source	Action Taken
5. Vegetation		
Species present on site		
Woodlands/fencerows/vegetation masses		
Location/size of specimen trees		
Special features/habitats		
6. Land Use		
Existing on-site uses (structures and activities)		
Historical site uses (potential for contamination)		
Surrounding uses (note any objectionable uses or activities)		
Adjacent plats		
Open space/vacant land		
Qualitative assessment of neighborhood		
Growth/development patterns in area		
7. Regulations		
Local Administration (Oblast/Krai, City, District)		
Master/general plan policies		
Existing zoning (for site and adjacent parcels)		
Subdivision ordinance		
Applicable development/ impact fees (relocation costs)		
Special assessments		
Other applicable regulations affecting the site		
8. Transportation/Circulation		
Existing traffic patterns		
Access points/entries		
Proximity to transportation system		
Planned/proposed transportation improvements		
Trails/paths (existing and planned)		
Accessibility to transit		

Site Analysis Worksheet (Continued)

Analysis Items	Information Source	Action Taken
9. Utilities		
For each, describe location, design, purveyor, availability, tie-in distance from site, costs borne by utility company, and		
Sanitary sewer		
Water		
Stormwater		
Electricity		
Natural gas		
Cable television		
Telephone		
10. Public Services/Conveniences		
Schools * Location/proximity to site * Capacity * Reputation of school district		
Parks and recreational facilities		
Emergency services * Fire * Police * Ambulance/paramedic		
Public transportation/transit		
Commercial services/shopping		
Employment services		
11. Other Features		
Prevailing wind direction		
Climatic conditions		
Archeological sites		
Wildlife (species and habitats)		
Sources of noise		
Aesthetic quality of site and environs		

Financial Site Analysis Worksheet

DAY 2 Business Plan Worksheet

SITE SELECTION AND ANALYSIS

The following physical, legal, regulatory, infrastructure, and other information are necessary to determine if the site chosen is feasible for development.

A. Site Selection Professionals Needed

Developer (name and roles)

Land Planner (name and roles)

Engineer (name and roles)

Architect (name and roles)

Landscaper (name and roles)

B. Location and Topography

If your land has been surveyed, include the survey in the folder. If your land has not been surveyed, draw a rough map and indicate a surveyor:

1. size (hectares? other units?):
2. draw any easement(s) on your map, and describe here:
3. draw any right(s) of way on your map, and describe here:
4. if available, include an aerial photo and topographic map of your land in the folder. If none are available, draw a rough topographic map, and describe significant topographic features including views, slopes, elevations, ridges, drainageways, rock outcroppings or others

C. Soils, Vegetation, and Drainage

1. Describe geologic soil type and label variations on the site map in the folder.
 - a. indigenous soil and rock type _____
 - b. topsoil depth _____
 - c. subsoil condition and description _____
 - e. depth to bedrock _____ depth to groundwater
 - f. potential to obtain construction materials from site
2. Describe vegetation on site. Locate and label variations on the site map in your folder.
 - a. List plant species, and describe any special trees (with size if significant) and habitats plants on the site. Locate and label them on the map
 - b. Describe woodlands, fencerows, or other vegetation masses. Label them on map:

3. Describe the site's drainage characteristics and sketch drainage areas on the topographic map in the folder

- a. average depth of groundwater table: _____ (note variations on map)
- b. locate and label wetlands and floodplain boundaries on the map
- c. locate and label wells on the map
- d. locate and label on the map any existing on-site pollution, and any sources of on- and off-site pollution

D. Regulations and Land Use

1. Regulations

- a. list all governmental authorities whose jurisdiction includes your land (city, oblast, district, etc.)
- b. For the governmental authorities above, list all master plans, general policies, and municipal, or oblast regulations (not including zoning) that might affect your development plans. Include with each listing the name or office you would contact to determine these policies or plans
- c. Describe the existing zoning and subdivision ordinances for the site and adjacent parcels. Include with descriptions the name or office you would contact to determine these policies or plans
- d. List any applicable development fees, impact fees, or other assessments that apply to your plans, and the name or office you would contact to determine and pay the fees (be sure to include relocation costs, requirements to provide units to the local administration, and other types of payments to local authorities other than land payments)

2. Land Use

- a. Locate and label on a map in your folder all existing on-site land uses, including structures and activities (i.e. sheep grazing, parking lot, power station, etc.)
- b. Locate and label on a map in your folder all uses of lands adjacent to your property, including open space, vacant land, and any possibly objectionable uses or activities. Include in the folder any plats of adjacent land that you can obtain.
- c. Assess the quality of the neighboring area for the purposes of your development plans, including future growth and development in the area

E. Transportation and Utilities

1. Transportation

- a. Using maps in your folder, label trails and paths, chart existing and planned traffic patterns, label access points to roads (indicate whether roads are paved, # of lanes, improved, or unimproved), and show access points to the regional transportation systems. Describe roads and transportation systems serving your property:
- b. Describe planned or proposed transportation system improvements

2. Utilities: describe location, design

- a. Using maps in your folder, label sanitary sewer and storm drain routes. Describe the design, purveyor, availability, tie-in distance, and capacity of both sanitary sewer and storm drains serving your property:
- b. Using maps in your folder, label the water supply routes serving your property, and describe design, purveyor, availability, tie-in distance, and capacity:
- c. Using maps in your folder, label electricity, natural gas, telephone, and cable television line routes serving your property, and describe design, purveyor, availability, tie-in distance, and capacity for each:

F. Public Services and Conveniences

1. Public Services: Schools and Emergency

- a. Using a map in your folder, label the schools serving your area, indicating distance from site, and the unfilled capacity in each school.
- b. Describe the reputation of each of the schools in the school district serving your property.
- c. List and describe emergency services serving your area, including police, fire, ambulance and paramedic, etc. Indicate the quality of these services.

2. Commercial Services and Conveniences: Shopping, Parks, and Recreation

- a. List and describe shopping and commercial services near your property, including distance from your property, reputation, and services and goods offered:
- b. Using a map in your folder, label parks and other recreational facilities near your property. Describe these, and any other nearby attractions too distant to be included in your map.

G. Other Features

1. Environment: Describe the climate, wildlife, and aesthetic quality of the site and its surroundings
2. Special Considerations: Describe any unusual sources of noise, archaeological sites, or other unusual factors that might affect your plans.

DAY 3 Schedule

FINANCIAL SOURCES AND FEASIBILITY

FINANCIAL SOURCES AND FEASIBILITY LECTURE *4 hours*

The Three Needs for Capital

15 minutes

- Money to purchase land at the start of the development
- Money with which purchasers pay for the home (cash or mortgage)
- Money to pay expenses and construction costs

OH 3-1

Organization for Acquisition and Sale

15 minutes

Instructor should note that new joint stock companies or trusts are sometimes established for large projects to limit the liability of the investors. Such legal entities may also have tax advantages, but these need to be evaluated prior to forming the limited function company. Several drawbacks exist in forming a separate company, among them are problems getting finance since the new company will have no credit rating. Also potential buyers may question the feasibility of buying units from a company that may not exist after the project is completed.

OH 3-2

Methods of Acquisition

15 minutes

As a general rule, the developer should seek to get the highest level of legal rights to the site as possible to ensure ease of financing and to protect his and investors' investments in the project.

OH 3-3 - OH 3-6

Private Sector Financing Alternatives

30 minutes

OH 3-7

Public Financing Alternatives

30 minutes

(optional depends on audience)

OH 3-8 - OH 3-9

Types of The Credit Institutes and A Loan Application

60 minutes

Terms and conditions of financing packages are the main criteria for selecting lenders. The financing package that offers the most flexibility in interest rates, disbursement schedules and repayment schedules is likely to be the most advantageous to a developer. Developers should use the **Cash Flow Analysis** found in the Developers Handbook to evaluate different financing packages.

The instructor should refer participants to the loan application check list found in Attachment 1 of the Developers Handbook. The check list was developed for use by banks in reviewing a loan request, therefore is invaluable to a developer in ensuring that a loan application is complete. In detail explanation of the loan application preparation will be given on Day 5.

*****10 minute Break*****

OH 3-10 - 3-15

Financial Analysis Worksheet (have pencils ready)

90 minutes

Material in this section was derived from practice in the West and is only becoming applicable in Russia as the number of means of land acquisition expands. Depending on the expected audience, overheads OH 3-10 to 3-11 are optional and may be dropped if not appropriate. OH 3-12 through OH 3-15 should be used together with the Financial Analysis Worksheet. Again the case study found in OH 3-16 through OH 3-23 may be used to explain the worksheets.

OH 3-16 OH 3-23

Case Study - Pushkin Gardens

60 minutes

The following set of overheads come from the case study found in Chapter 4 of the Developers Handbook. Case study material is based on several projects reviewed in mid-1996. Depending on the audience, this material could be used to supplement the Financial Analysis Worksheet.

Before beginning this section, explain that later this afternoon, students will generate financing plans for an imaginary project. Take five minutes now for students to sketch out the basics of the imaginary project in a few paragraphs on a blank sheet. With sketches complete, use overheads to walk students through filling out the Action Taken column on the Financial Analysis Worksheet with hypothetical numbers and actions in pencil. Use the Factsheets for real numbers where possible.

*****1 hour Lunch*****

II. BUSINESS PLAN ACTIVITY:

TROUBLESHOOTING FINANCIAL PLANS 2 hours

In this activity, students will generate financing plans for an imaginary project, and see how those plans fare under imaginary hardships. They will also report to the whole class on how their plans would do.

Student Materials Needed

- Brief sketch of a development project (from the morning)
- Financial Analysis Worksheet (from the morning)
- An extra blank Financing Sources and Feasibility Plan Worksheet
- An extra blank Development Plan Cash Flow Statement

During the first hour, each student will use this morning's brief description of their hypothetical project and the completed Financial Analysis Worksheet to fill out an extra blank Development Plan Cash Flow Statement (Exhibit B) and an extra copy of the Financing Sources and Feasibility Plan Worksheet in the course package. This is a quick practice session, not for course certification. However, ask students to be realistic. The Financial Analysis Worksheet was written in pencil this morning so that it can be erased if need be. Use the Factsheets for real numbers wherever possible. After students complete their project descriptions and cash flow statements (after 1 hour), structure the activity as follows:

1. Ask students to pair off.
2. During the next 30 minutes, both members of each pair to draw from their cash flow statement and feasibility plan to write a financing plan that accounts for the following:
 - how they will organize (e.g. sole proprietor, corporation, etc.)
 - what kind of contract they will use to acquire land
 - what public and private financing alternatives they will use
 - what lender they will use
 - loan structure and disbursement.
3. During the next 30 minutes, partners will take turns (15 minutes each) presenting their financing plan to the other. The person hearing the plan is responsible to come up with three plausible uncontrollable financial disasters (i.e. inflation rate doubles, interest rates triples, a timber shortage quadruples lumber costs, a competing development is completed nearby, etc.). The person with the plan explains what would happen in each circumstance.
4. Each group takes a few minutes minutes to tell the whole class the results.

III. WORK ON DAY 3 BUSINESS PLANS 1 hour

Student Materials Needed

- The Financing Sources and Feasibility Plan Worksheet from the Course Package
- Development Plan Cash Flow Statement from the Course Package
- Factsheets: Relevant Current Local Housing Development Data

Activity

With the “dry run” complete on the business plan, it should be easy for students to complete the two pages of the Financing Sources and Feasibility Plan section of their business plan. If students finish before an hour is up, start a discussion about the availability of capital, or about avoiding corruption in lending.

DAY 3 Overhead Transparencies

FINANCING SOURCES AND FEASIBILITY

3-1

Financing sources and feasibility: Organization for acquisition and sale

- Sole proprietorship
- General partnership
- Corporation

3-2

Financing sources and feasibility: Methods for acquisition

- Standard land purchase contract
- Contingency contract
- Option or option contract
- Land installment contract
- Phased land purchase contract

3-3

Financing sources and feasibility: Private sector financing alternatives

- Financing phases
- Financing land acquisition
- Purchase money mortgage
- Purchase option
- Long-term lease plus option
- Joint venture
- Interim land loans

3-4

Financing sources and feasibility: Private sector financing alternatives

- Land development financing
- Construction financing
- Sources
- Characteristics
- Risks
- Loan disbursements

3-5

Financing sources and feasibility: Private sector financing alternatives

- The take-out commitment
 - duration
 - rate
 - cost
 - special commitment terms

- sources of commitment funds

3-6

**Financing sources and feasibility:
Private sector financing alternatives**

- Interim financing
- Sale and leaseback transactions
 - Advantages
 - Disadvantages
- Equity financing
 - Joint ventures
 - Syndications

3-7

**Financing sources and feasibility:
Public financing alternatives
(optional)**

- Revenue bonds
- Housing finance agencies
- Tax increment financing
- Tax abatement financing

3-8

**Financing sources and feasibility:
Types of the Credit Institutes**

- Commercial banks
- Investment companies
- Investment funds

3-9

**Financing sources and feasibility:
A Loan application**

- Cover letter
- Loan summary
- The borrower
- Market data
- Project data
- Financial Proformas

3-10

**Financial analysis:
(1) Land acquisition**

- Amount of equity available for first payment
- Method of financing reminder
- Seeking both land acquisition and development loan

45

3-11

**Financial analysis:
(1) Land acquisition (cont'd)**

- Comparison of estimated land, development and construction costs with estimated sales rates, prices, and profit to determine if land is fairly priced
- If relevant, adequate cash flow to cover balloon payment when due
- Any financing offered by land owners
- Land as equity in project from other landowners

3-12

**Financial analysis:
(2) Loan Structure and Disbursement**

- Type of personal and company documents required by lender for loan approval
- Type of documents, tests, studies, and reports required by lender to support project feasibility
- Cost and payment method for providing Lender-requested documentation
- Best loan-to-value ratio available? Based on most accurate appraisal
- Effect on company's creditworthiness on Loan-to-value ratio

3-13

**Financial analysis:
Loan Structure and Disbursement (cont'd)**

- Method for financing required equity (personal or company funds, partnerships, joint ventures, investors)
- Eligibility for line of credit
- Commitment for permanent financing
- Loan disbursements based on (progress inspectors, completion of specified work items)
- Draw request verified by whom

3-14

**Financial analysis:
(3) Pro Forma Analysis And Cash Flow**

- Effect of hard and soft costs and schedule on cash flow requirements
- Effect of changes in labor and material costs over projects's life
- Effect of changes in proforma variables on cash flow requirements for all reasonable scenarios

3-15

**Financial analysis:
(3) Pro Forma Analysis
And Cash Flow (cont'd)**

- Pro forma analysis based on reasonable sales rates under varied conditions
- Changes in interest rates considered throughout life of loan, effect on cost of borrowing money
- Methods for measuring profit
- Required rate of return on investment

3-16

**Financing sources and feasibility:
Revenue Assumptions for Pushkin Gardens**

- Initial prices: Unit type 1 9 units 120 sq. m. at \$650
Unit type 2 10 units 80 sq. m. at \$650
- Initial garage price \$8,100 with a 40% advance payment, balance is paid overtime
- Prices increase at 1% per month

3-17

**Financing sources feasibility:
Projecting revenue streams**

Project Name: Psuhkin Gardens

Revenues (in \$,000's)

o.	Item	Project months															Total	
		Previous Revenue	1	2	3	4	5	6	7	8	9	10	11	12	13	14		15
1)	Sq. meters sold. Unit type 1					46.4	46.4	58	81.2	104.4	127.6	127.6	116	116	116	81.2	69.6	1090.40
2)	Sq. meters sold. Unit type 2					33.6	33.6	42	58.8	75.6	92.4	92.4	84	84	84	58.8	50.4	789.60
3)	Total area sold (sq.m.)					80.00	80.00	100.00	140.00	180.00	220.00	220.00	200.00	200.00	200.00	140.00	120.00	1880.00
4)	Price per square meter		0.700	0.707	0.714	0.721	0.728	0.736	0.743	0.750	0.758	0.766	0.773	0.781	0.789	0.797	0.805	
5)	Sales Revenue					57.70	58.27	73.57	104.03	135.09	166.76	168.43	154.65	156.19	157.76	111.53	96.56	1440.53
6)	Garages					3		2	1	1	1	2	2	4	1	1	1	19
7)	Price per unit		8.10	8.18	8.26	8.35	8.43	8.51	8.60	8.68	8.77	8.86	8.95	9.04	9.13	9.22	9.31	
8)	Advance payment (40%)					10.01	0.00	6.81	3.44	3.47	3.51	7.09	7.16	14.46	3.65	3.69	3.72	67.01
9)	Schedule of balance payment						1.37	1.37	2.50	3.15	3.89	4.77	6.89	9.58	16.81	19.55	40.03	109.89
10)	Total, sales of garage					10.01	1.37	8.18	5.94	6.62	7.40	11.85	14.05	24.04	20.46	23.23	43.76	176.90
11)	Total revenues from all sales		0.00	0.00	0.00	67.71	59.64	81.75	109.97	141.71	174.16	180.28	168.70	180.23	178.21	134.77	140.31	1617.44
12)	VAT		0.00	0.00	0.00	11.29	9.94	13.63	18.33	23.62	29.03	30.05	28.12	30.04	29.71	22.47	23.39	269.63
13)	Revenue after tax		0.00	0.00	0.00	56.42	49.70	68.12	91.64	118.09	145.13	150.23	140.58	150.19	148.51	112.30	116.92	1347.81

assumptions:

- Initial prices: Unit Typ 9 units@120sq.m.@\$650=\$88,000=\$892,000=\$792,000
Unit Type 2 10 units@80 sq.m.@\$650=\$64,000=\$640,000
- Initial garage price \$8,100 with a 40% advance payment, the balance is paid over time.
- Prices increase at 1%.

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3-18

**Projection of the cost stream
through the duration of the project**

Project Name: Psuhkin Gardens

Project Costs (in \$,000's)

No / No	Type of cost	Project months												Total	
		Previous costs	1	2	3	4	5	6	7	8	9	10	11		12
	Acquisition costs:														
(1)	Land/development rights	3.00				2.00				1.00			1.00		7.00
(2)	Off-site infrastructure	30.00				5.00	10.00	10.00	10.00	5.00	5.00	5.00			80.00
(3)	Payment to city	28.00				3.00				3.00			3.00		37.00
(4)	Removal & relocation	75.00			15.00										90.00
(5)	Special works (archeological, etc.)	10.00													10.00
(6)	Other														0.00
	Total	146.00	0.00	0.00	15.00	10.00	10.00	10.00	10.00	9.00	5.00	5.00	4.00	0.00	224.00
(7)	Design		5.00	5.00	5.00										15.00
(8)	Direct construction costs	65.00	50.00	50.00	55.00	70.00	55.00	65.00	65.00	70.00	80.00	75.00	70.00		770.00
(9)	Overhead (10% of direct cost)	6.50	5.00	5.00	5.50	7.00	5.50	6.50	6.50	7.00	8.00	7.50	7.00	0.00	77.00
(10)	Marketing (2-5% of direct cost)	1.30	1.00	1.00	1.10	1.40	1.10	1.30	1.30	1.40	1.60	1.50	1.40	0.00	15.40
(11)	Insurance	0.65	0.50	0.50	0.55	0.70	0.55	0.65	0.65	0.70	0.80	0.75	0.70	0.00	7.70
(12)	Taxes (property, etc.)				3.30			6.15			9.38			11.55	30.38
(13)	Total project cost	219.45	61.50	61.50	85.45	89.10	72.15	89.60	83.45	88.10	104.78	89.75	83.10	11.55	1139.48
(14)	Monthly rate of cost increase		1.00	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.12	
(15)	Total project cost including inflation	219.45	61.50	62.12	87.17	91.80	75.08	94.17	88.58	94.46	113.46	98.16	91.79	12.89	1190.62

Assumptions:

1. Monthly rate of cost increase 1%

49

3-19

The Cash-Flow Model for Pushkin Garden Project

Project Name: Pushkin Gardens
CASH FLOW ANALYSIS

Unit: \$ 000's

#	Item	Previous	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	Total
(1)	Sales revenue		0.00	0.00	0.00	56.42	49.70	68.12	91.64	118.09	145.13	150.23	140.58	150.19	148.51	112.30	116.92	1347.81
(2)	Costs	219.45	61.50	62.12	87.17	91.80	75.08	94.17	88.58	94.46	113.46	98.16	91.79	12.89				1190.62
(3)	Cash flow before financing	(219.45)	(61.50)	(62.12)	(87.17)	(35.38)	(25.38)	(26.05)	3.05	23.63	31.67	52.07	48.78	137.30	148.51	112.30	116.92	157.19
(4)	Financing expense (interest)		3.50	1.14	2.24	3.81	4.49	5.02	5.56	5.61	5.29	4.83	4.00	3.22	0.87	-	-	49.58
(5)	Developer's Own Funds	219.45																219.45
(6)	Loan		65.00	63.25	89.41	39.19	29.88	31.07	2.51	-	-	-	-	-	-	-	-	320.30
(7)	Repayment		-	-	-	-	-	-	-	(18.03)	(26.38)	(47.24)	(44.78)	(134.08)	(49.79)	-	-	-320.30
(8)	Cumulative debt		65.00	128.25	217.66	256.85	286.73	317.79	320.30	320.30	302.28	275.90	228.66	183.88	49.79	-	-	
(9)	Outstanding debt		65.00	128.25	217.66	256.85	286.73	317.79	320.30	302.28	275.90	228.66	183.88	49.79	-	-	-	
(10)	Cash flow after financing	(219.45)	-	-	-	-	-	-	-	-	-	-	-	-	97.84	112.30	116.92	107.61
(11)	Loan to value ratio		23%	37%	50%	54%	57%	59%	59%	59%	58%	56%	51%	46%	18%	0%	0%	

(12)	Profit	107.6	
(13)	Revenues	1347.8	
(14)	Cost	1190.6	
(15)	Profit as % of sales	8.0%	
(16)	Profit as % of cost	9.0%	
		annual	monthly
(17)	discount rate	21%	1.60%
(18)	interest rate	21%	1.75%
(19)	NPV	\$42.18	
(20)	Total cost of the project	1,347.81	100.00%
(21)	Less developer's investment	219.45	16.28%
(22)	Balance to be finance	1,128.36	83.72%
(23)	Return on Investment		49.04%

Loan repayment assumptions:

If the cash flow is positive the payments will be done in next order:

1. Repayment of the loan.
2. Interest rate payment.
3. Equity.

25

3-20

**Financing sources and feasibility:
Loan Repayment Assumptions**

Loan Repayment Priorities & Revenue Distribution

1. Pay-back principal
2. Pay interest to the lender
3. Reimburse developer's equity in the project

3-21

**Financing sources and feasibility:
Commonly used Pricing Systems in Russia**

- | | |
|----------------------------|----------------------|
| • Open type price | Purchaser is at risk |
| • Conditionally open price | Risks are split |
| • Closed type price | Developer is at risk |

3-22

**Financing sources and feasibility:
Commonly used Pricing Systems in Russia**

- Return on Investment
- Return on Sales
- Net Present Value
- Internal Rate of Return

**Financing Sources and feasibility:
Sensitivity Tests of Pushkin Gardens**

	Test	Base Scenario	Test 1: Prices do not Increase	Test 2: Costs increase to 2% per Month	Test 3: Sales start on Month 10 instead of Month 4	Test 4: Interest Rates are 5% higher (26%)
I.	Project Revenues	1,347.80	1,244.00	1,347.80	1,380.30	1,347.80
II.	Project Costs	1,190.60	1,190.60	1,245.00	1,190.60	1,190.60
III.	Financing Costs	49.60	53.80	54.30	103.10	61.90
IV.	Net Profits	107.60	(0.40)	48.50	86.60	95.30
V.	Net Present Value	42.18	(45.25)	(5.90)	21.88	32.14
VI.	Loan Amount	320.30	331.81	339.09	778.21	325.82

Note: All scenarios use the same discount rate of 21%.

Financial Analysis Worksheet

Analysis Items	Information Source	Action Taken
1. Land Acquisition		
Amount of equity available for land purchase?		
Method of financing remainder?		
Possible to option part of land?		
Seeking both land acquisition and development loan?		
Comparison of estimated land, development, and construction costs with estimated sales rates, prices and profit to determine if land is fairly priced?		
If relevant, adequate cash flow to cover balloon payment when due?		
Any financing offered by land owners?		
Land as equity in project from other land owners?		
2. Loan Structure and Disbursement		
Type of personal and company documents required by lender for loan approval?		
Type of documents, tests, studies, and reports required by lender to support project feasibility?		
Cost and payment method for providing lender-requested documentation?		
Best loan-to-value ratio available? Based on most accurate appraisal?		
Effect of company's creditworthiness on loan-to-value ratio?		
Method for financing required equity? (personal or company funds, partnerships, joint ventures, investors)		
Eligibility for line of credit?		

Financial Analysis Worksheet (Continued)

Analysis Items	Information Source	Action Taken
2. Loan Structure and Disbursement (Continued)		
Commitment for permanent financing?		
Loan disbursements based on? (progress inspections, completion of specified work items)		
Draw request verified by whom?		
3. Pro Forma Analysis and Cash Flow		
<i>Effect of hard and soft costs and schedule on cash flow requirements?</i>		
Effect of changes in labor and material costs over project's life?		
Effect of changes in proforma variables on cash flow requirement for all reasonable scenarios?		
Pro forma analysis based on reasonable sales rates under varied conditions?		
Changes in interest rates considered throughout life of loan? Effect on cost of borrowing money?		
Methods for measuring profit?		
Required rate of return on investment?		

DAY 3 Business Plan Worksheet

FINANCING SOURCES AND FEASIBILITY

A financing plan describes how to finance all parts of the development, including acquiring the land, developing it, and construction of homes. It also accounts for the varying demand for cash throughout the process. It is particularly important to plan for times large scale cash needs before funds begin coming in.

A. Financing Professionals Needed:

Developer (name and roles)

Attorney (name and roles)

Accountant (name and roles)

Financier (name and roles)

B. Financing

1. General Financing

- a. Circle the elements of development you plan to finance: land purchase, land development, construction.
- b. Indicate the competitive cost estimates you have obtained in each area:
 - land cost/unit: High estimate: _____ Low estimate _____ Your cost _____
 - development cost/unit: High: _____ Low _____ Your cost _____
 - construction cost/unit: High: _____ Low _____ Your cost _____
- c. Refer to the Development Plan Cash Flow Statement to determine the maximum amount of money that the project could require during a single month (worst case). What source(s) of cash will cover payment when due?
- d. List all company and personal documents, as well as tests, studies, and reports that lenders require to approve a loan.
- e. Estimated cost of providing the above documentation:
Describe how you will pay this cost:
- f. # of appraisals on property: _____ Your estimate of best appraisal value _____
- g. Based upon best appraisal value, what is best loan-to-value ratio?
- h. How does company's creditworthiness affect loan-to-value ratio?
- i. Do you have a commitment for permanent financing? (circle one: yes no) Circle your method(s) for financing required equity: personal funds, company funds, partnerships, joint ventures, investors

- j. Circle the basis for loan disbursements your lender will use: progress inspections, completion of specified work, specify any others
- k. Who will verify draw requests?
- 2. Land Purchase Financing
 - a. How much equity was (will be) required to purchase your land?
 - b. Describe the method you will use to finance the remainder
 - c. Circle the type of contract you have used (or will use) for acquiring your land: (Standard Land Purchase, Contingency, Option, Land Installment, Phased Land Purchase). In the space below and explain your reasons for your choice of contract type:
 - d. Describe any agreements with land owners to assist financing (including land as equity for this project from other landowners)
- 3. Land Development Financing
 - a. How much of your own money will you invest to develop the land for construction?
 - b. Where will you get the rest of the money?
- 4. Construction Financing
 - a. How much of your own money will you invest to complete construction?
 - b. Where will you get the rest of the money?

DAY 4 SCHEDULE

PRODUCT TYPES AND RELATION TO MARKET; MARKETING, SELLING, AND OPERATING THE PROJECT

I. PRODUCT TYPES / RELATION TO MARKET LECTURE *2 hours*

Quiz on Terms *30 minutes*

Explain that you're going to give a brief quiz on the terms used so far in the course that are in the glossary. Keep the feeling somewhat informal. Ask the class to take out a sheet of paper, date and sign it, and write the numbers 1-12 down the left hand column. Choose 12 terms from the glossary and ask students to define them. Do this orally, through the translator. Rely for the most part on terms you used most yesterday.

Following the quiz (after about 15 minutes), when you have all of the tests in hand, discuss terms with the class for about 15 minutes.

OH 4-1

General design issues *30 minutes*

OH 4-2 , OH 4-3 , Floor Plans

Density and pattern *30 minutes*

OH 4-4

Matching target market to housing types *30 minutes*

If time is short, emphasis should be placed on the concepts illustrated in this slide. For many participants, captive markets allowed placing almost any type of product on the market. As buying power increases, and buyers become more sophisticated, developers must be more careful in ensuring that the product they put on the market meets demand. Emphasis that delays in selling often result in significantly reduced profits in aggressive markets since buyers may be purchasing competitor's products.

*****10 minute Break *****

II. LECTURE: MARKETING, SELLING, AND OPERATING

1 hour

OH 5-1

Marketing, Selling & Operating Projects

10 minutes

OH 5-2

Market Strategy

10 minutes

OH 5-3'5-4

Merchandising and Promotion

10 minutes

OH 5-5

Advertising

10 minutes

OH 5-6

Sales Management

10 minutes

OH 5-7

Marketing Budget

10 minutes

OH 5-8'5-9

Construction Guarantees and Management

10 minutes

***** *1 hour Lunch* *****

III. WORK ON DAY 4 BUSINESS PLAN

3 hours

Materials Needed

- Day 4 Business Plan Worksheet
- the completed Day 1 Business Plan WorksheetSheet
- Market Analysis Worksheet

Activity: Completing the Business Plan Sheet

Ask students to look at their completed Day 1 business plan worksheets and guess what kinds of homes would be most likely to sell. Ask them to include as many characteristics of the homes as possible. If home designs do not match the results of the market study, be sure reasons are recorded.

DAY 4 Overhead Transparencies

PRODUCT TYPES AND RELATION TO MARKET

4-1

Product types and relation to market: General design issues

- Density of units
- Attached or Detached
- Form of ownership
- Size - square meters
- Single or multiple stories
- Architectural style
- Number and type of interior spaces
- Amount of private outdoor space
- Maintenance requirements for outdoor space

4-2

Product types and relation to market: Density and pattern

- Single family detached, large lot
- Single family detached, small lot
- Modified grid
- Garden or Patio homes
- Zero Lot Line Plan
- Clustering
- Special design considerations for all above

4-3

Product types and relation to market: Density and pattern (Cont'd)

- Attached
 - Duplex, triplex, fourplex
 - Townhouses
 - Midrisers and Highrisers
 - Special design considerations for all above

4-4

Product types and relation to market: Matching target market to housing types

- Style preferences
- Regional preferences
- Site characteristics
- Climate
- Solar orientation
- Homebuyer's identity

MARKETING, SELLING, AND OPERATING THE PROJECT

5-1

Marketing, selling & operating the project:

- Use the market research
- Realistically project absorption based on analysis of region's demand for a supply of housing
- Staff up for projected activity level

5-2

Marketing, selling & operating the project: Market strategy

- Overall concept of the community
- Target markets and best way to reach them
- Exact sizes, prices, mix of units

5-3

Marketing, selling & operating the project: Merchandising

- Sales office
- Model furnished (?)
- Finished landscaping
- Entrance to project
- Completed environment

5-4

Marketing, selling & operating the project: Promotion

- Public relations
- Press
 - Community
 - Direct Mail
 - Events - Grand Opening

5-5

Marketing, selling & operating the project: Advertising

- Purpose: to deliver prospects
- Theme
- Media
 - Newspapers
 - Radio
 - Television
 - Signs

5-6

**Marketing, selling & operating the
project:
Sales Management**

- In-house
- Brokers
- Training of salespersons
- Motivation of salespersons
- Follow-up procedures

5-7

**Marketing, selling & operating the
project:
Marketing Budget**

- Predict sales - closings
- Estimate costs
 - merchandising
 - promotion
 - advertising
 - management
- Monitoring results

5-8

**Marketing, selling & operating the
project:
Construction Guarantees**

- Important present and future marketing tool
- Voluntary
- Insurance
- Warranty laws

5-9

**Marketing, selling & operating the
project:
Construction Management**

- Employee relations
- Subcontractor relations
- Quality control
- Method of payment
- Team building

DAY 4 Business Plan Worksheet

PRODUCT TYPES AND RELATION TO MARKET

Different people want different homes, and it is important that your development match the needs of households. The market study will help you do this, and the information you gather here will help to apply what you learn from the market study.

A. Development Professionals Needed:

- Developer (name and roles)
- Architect (name and roles)
- Market Researcher (name and roles)
- Sales Manager (name and roles)

B. Market Study Results

1. Based upon the market study, describe the lot and single-family home buyers are most likely to want. Refer to the market study to include lot size, location, land characteristics, setting, utilities, house size, # of stories, architectural style, room number and types, amenities, outdoor space, etc.
2. Describe the following characteristics of your planned development:
 - a. Density
 - b. Attached or Detached (explain)
 - c. Form of Ownership (explain)
 - d. House size (sq meters)
 - e. # of stories
 - f. Architectural style (describe)
 - g. type of construction (i.e. brick, concrete panel, wood frame, metal frame, panelized modular or prefabricated?)
 - h.. Number and type of interior spaces
 - i. Amount and description of private outdoor space (including maintenance requirements)
3. Density and Pattern
 - a. On the map in your folder, draw the lot boundaries as you have planned them, labeling house types and sizes. In the space below, state a rationale for the pattern and density of your design, including any special design considerations such as solar orientation:
 - b. If you are planning multiple attached homes, circle the type: duplex, triplex, fourplex, townhouse, midrise, highrise. Describe any special design considerations:
4. Differences between market study results and your plan: specify the following for both the

market study and your plan:

a. homebuyer's identity:

market study

your plan

b. style preference:

market study

your plan

c. regional preference:

market study

your plan

d. site characteristics:

market study

your plan

Below, note any other discrepancies between the Market Study results and your planned development, and explain your reasons for these:

MARKETING, SELLING AND OPERATING THE PROJECT

When the project is financed and under way, the business plan must account for how you will operate. This includes your cash flow from customers and expenditure to your contractors and their subcontractors, project managers, and sales people. The plan should include as many expenses required to market the project as possible.

A. Development Professionals Needed

Developer (name and roles)

Market Researcher (name and roles)

Sales Manager (name and roles)

B. How Will Your Buyers Pay?

1. If most buyers will pay cash, what % of the total cost will buyers pay at what times?
2. If buyers obtain loans, what payment schedule will you require?
3. If you finance buyers, what are your terms?

C. Construction Management

1. Who will build for you (i.e. your own building crew, a general contractor, you will act as contractor and hire subcontractor, etc.)?
2. List contractors, their tasks, and subcontractors and their tasks
 - a. contractor and task

subcontractor(s) and task(s) _____

b. contractor and task

subcontractor(s) and task(s)

c. contractor and task

subcontractor(s) and task(s)

d. contractor and task

subcontractor(s) and task(s)

3. Describe your method of payment for contractors

4. Describe the measures you would take to control quality:

D. Project Management

1. List all the staff positions (beyond the marketing and sales team), dates of their employment, and salary requirements to complete the project:

position _____ hiring date _____ completion date _____ salary _____

position _____ hiring date _____ completion date _____ salary _____

position _____ hiring date _____ completion date _____ salary _____

position _____ hiring date _____ completion date _____ salary _____

position _____ hiring date _____ completion date _____ salary _____

Total Salaries

2. List all other management costs (supplies, rental of office space, etc.)

type of cost _____ Cost

Total other costs:

3. List all merchandising, promotion, and advertising you plan to do and estimate cost:

merchandising initiatives:

sales office _____ estimated cost:

model (furnished?) _____ estimated cost:

Finished landscaping _____ estimated cost:

entrance to project _____ estimated cost:

completed environment _____ estimated cost:

promotion initiatives:

press _____ estimated cost:

community _____ estimated cost:

direct mail _____ estimated cost:

grand opening event _____ estimated cost:

advertising initiatives:

newspapers _____ estimated cost:

radio _____ estimated cost:

television _____ estimated cost:

signs _____ estimated cost:

Total merchandising, promotion, and advertising cost: _____

Total salaries, other merchandising, promotion, and advertising:

DAY 5 SCHEDULE

LOAN APPLICATION PREPARATION

I. PREPARING A LOAN APPLICATION AND SUBMITTING IT TO A LENDER 2 hours

Stages of loan preparation 5 minutes

OH 5-1

Selecting a lender 25 minutes

OH 5-2, 5-3

Explain the students main criteria for choosing the lender and provide documents that should be provided by lender.

Loan application outline 30 minutes

OH 5-4

Explain in details main positions of the loan application and differences between Business plan and Loan application.

Negotiations with the lender 30 minutes

OH 5-5

Briefly explain the main directions of negotiations. Explain the connection between risks and interest rate as key topic for negotiations.

Loan management requirements 30 minutes

OH 5-6

II. WORK ON DAY 5 WORKSHEETS 1 hour

Students materials needed.

- Day 5 worksheets

Activity

Fill in the daily worksheets reflecting the existing situation with project loans in the area.

*****1 hour Lunch*****

III. ACTIVITY: MOCK LOAN COMMITTEE 4 hours

After lunch, give students 15 minutes to compile all 5 days of their business plans to present to a mock loan committee made up of five of their peers and the instructor. Each student has 10 minutes to sell the plan, and the committee has 5 minutes to deliberate with the student. Ask a banker to return to review criteria for granting a loan. Committee membership rotates with each applicant. Applications may be turned down by a simple majority. The instructor may override the decision and advise the applicant on revisions.

Loan Committee Meetings 15 students @ 15 minutes each 3 1/2 hours

Test

During the Loan Committee Meetings period, you may administer a test. Students can work on it when not serving on the committee or presenting their business plans. During the 3 1/2 hours of the Loan Committee Meetings, there should be ample time for students to take the following 90-minute test which can be translated by the Resident Advisor's staff before the course is given:

1. Refer to Market Analysis Worksheet and describe in a paragraph each, how you would accomplish the following items:
 - 1, a, c, d, f
 - 2, a, c, e, f
 - 3, b, c, e
 - 4, a, d, g
 - 5, b, c

2. Refer to the Financial Analysis Worksheet and explain in several paragraphs each how you would
 - finance land acquisition
 - get working capital to pay expenses
 - research the market for mortgages
 - change your plan in response to changes in line items

3. Define the following:

absorption rate	collateral
appraisal, bond	contract
broker	title
capital expenses	mortgage
cash flow	net operating income
closing	warranty
rate of return	soft costs

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III. DISCUSSION/PREPARATION FOR FOLLOW-UP *30 minutes*

Discuss with students what help the advisor/instructor is offering, and to whom (contingent upon course certification). Schedule appointments.

DAY 5

OVERHEAD TRANSPARENCIES

5-1

Stages of loan preparation

- Selecting a lender
- Preparation of a loan application
- Negotiations

5-2

Criteria of selecting the lender

- Lender experience in similar projects
- Financial stability
- Rating of lender
- Previous relation

5-3

Documents provided by lender

- Licence
- List of the founders
- Annual reports
- Last year's balance

5-4

Loan application outline

- Key project information
 - Project overview $\frac{1}{2}$ page
 - Proposed loan $\frac{1}{2}$ page
- Borrower
 - Summary
 - Overview of the company
 - Development experience
 - Financial position
- Project
 - Summary
 - Total costs
 - Description
 - Summary market analysis
 - Management
- Financing
 - Cash-Flow
 - Ratio analysis

- Sources of Financing
- Sensitivity Analysis

- Attachments
 - Site plans
 - Legal documents
 - Project
 - Company
 - Other

5-5

Negotiations with the lender

- Instruments to reduce risks
- Principles to reduce interest rate
- Special lender requirements for documents and content of application

5-6

Loan management requirements

- Account in lending bank
- Buyers pays through lending bank
- Control on construction process
- Disbursement of the loan through payments to subcontractors
collateral

**ADVANCED HOUSING SEMINAR
School of Public Affairs
University of Maryland**

**GLOSSARY OF FREQUENTLY
USED HOUSING
AND
REAL ESTATE TERMS**

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**ANNA MASLENNIKOVA
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ABSORPTION RATE: The rate at which housing units held for sale or rental in a development can be sold or rented (i.e. X number of units per month).

AGREEMENT: Has the same meaning as **CONTRACT**.

AMENITIES: Special features about a housing development that make it more pleasant to live in and therefore more valuable in the market. Examples of amenities include balconies, fireplaces, modern equipped kitchens, and recreation rooms in the units, and equipped playgrounds, open space, tennis courts and swimming pools on the property.

AMORTIZATION: The schedule for repaying principal on a loan on a regular basis, including the due dates and the amount of each payment.

APARTMENT: A complete and separate living unit designed for a single individual or a single family (generally a couple or parents and children), which includes a private bathroom and private kitchen facilities.

APARTMENT HOUSE: A building of two or more stories containing separate apartments. An apartment house may have stairs only (a "walk-up apartment house") or an elevator.

APPRAISAL: A document, prepared by a professional appraiser, containing an estimate of the current market value of a parcel of real property (land and buildings) if it were sold.

APPRAISER: The professional person who prepares appraisals of real property.

APPRAISED VALUE: The estimated market value of a parcel of real property (land and buildings) prepared by a professional appraiser in an appraisal.

APPRECIATION: An increase in the market value of the assets being referred to.

ARCHITECT: A person or enterprise that specializes in designing buildings. An architect generally prepares schematic designs initially and then detailed construction documents. An architect may also supervise construction. All states require architects to be licensed.

ASSESSED VALUE: The value of a property (land and buildings) set by the local government for purposes of calculating the property tax due on that property. The assessed value may be the market value of the property (but never more) or a stated percentage of the market value that is the same percentage for all properties in the area.

ASSET: Any kind of real property or personal property that can be owned and has market value.

ASSISTED HOUSING: Generally refers to privately owned rental housing where the government (federal, state or local) provides some form of financial assistance that enables tenants with lower incomes to pay less rent for their housing than the full

market-value rent. May also refer to privately owned housing where the financial assistance from the government enables buyers with lower incomes to purchase their housing. The financial assistance from the government may be provided in many different ways. See SUBSIDY.

ATTACHED HOUSING: Two or more housing units in a single structure with shared walls.

ATTORNEY: Has the same meaning as **LAWYER**.

BID: An offer, usually in writing, to undertake work or provide services at a specified price, to be completed by a specified date. A bid that is accepted becomes a legally binding and enforceable contract between the parties.

BOND: (1) As used in the context of construction, a written guarantee provided by a third party (usually an insurance company) to the owner of the property on which the construction is to occur, that the contractor will complete all work under the construction contract for the price and by the completion date specified in the construction contract. If the contractor does not meet the terms of the construction contract, the third party providing the bond will either pay the owner the amount specified in the bond or will arrange for the work to be completed at its own expense.

(2) As used in the context of finance, a legal document issued by a government or enterprise which evidences receipt of a long-term loan and promises to pay interest on the loan, usually in annual or semi-annual payments, at a specified rate over a specified number of years, generally with principal of the loan being repaid at the end of the term.

BROKER: As used in the context of real estate, a person who acts as agent for another in buying, selling, or leasing real property in exchange for payment of a fee (sometimes referred to as a "commission"), generally calculated as a fixed percentage of the dollar amount of the transaction. All states require real estate brokers to be licensed.

BUILDER: Generally refers to a person or enterprise that constructs new housing.

BUILDING CODES: The laws and regulations adopted by state and local governments that establish minimum health and safety standards for the design, materials and construction of all newly constructed and rehabilitated buildings, including their structural elements, their electrical, plumbing, heating and ventilating systems, and their fire safety features. Different building codes are applicable to single family housing of different kinds (walk-up apartments, elevator apartments, nursing homes, etc.), and commercial buildings.

BUILDING INSPECTOR: A public official, usually employed by a local government, who is responsible for ensuring that new or rehabilitated structures comply with the requirements of the applicable building codes and zoning laws. Building inspectors review construction documents, issue building permits, inspect the construction work during construction, and issue occupancy permits when construction is completed.

BUILDING PERMIT: A document issued by a building inspector that authorizes an owner of land to begin construction on the owner's land in accordance with the construction documents previously approved by the building inspector.

BUILDING TRADES: Any of the skill groups used in construction, including plumbers, electricians, brick layers, iron workers, and carpenters.

CAPITAL: Money invested in a development or enterprise for the purpose of creating wealth. See RISK CAPITAL.

CAPITAL EXPENSES: In the context of real estate, payments made for the purchase or improvement of real property, such as land, buildings, infrastructure, and equipment with a useful life of at least five years.

CAPITAL GAINS TAX: A tax on the profit made on an investment, to be paid in the year of sale. In the context of real estate, in general, the profit on which a capital gains tax is paid is the price for which the property was sold, reduced by the sum of (1) the cost of buying and/or improving the property and (2) the cost incurred in selling the property.

CASH FLOW: (1) In the context of real estate, cash flow is the total revenue from an income-producing property any period, reduced by all operating expenses (including payments to reserves) and required loan payments relating to the same period. See NEGATIVE CASH FLOW and NET OPERATING INCOME.

(2) Cash flow is sometimes used to refer just to the total revenue from income-producing property, before payment of any expenses.

CERTIFICATE OF OCCUPANCY: Has the same meaning as OCCUPANCY PERMIT.

CITY COUNCIL or COUNTY COUNCIL: The elected legislative body of the city or county government. Generally the city or county council enacts the zoning laws and building codes applicable to its area, approves the sale of property owned by the city or county government, and approves any large-scale development within its area.

CLOSING: Depending on the context, the formal process that concludes the sale and transfer of ownership of real property, or the making of a loan, or both. The following occurs at a typical closing at approximately the same time: the deed transferring ownership of the land is delivered by the seller to the buyer; the first installment of loan proceeds is paid by the lender to the buyer; the purchase price for the land is paid by the buyer to the seller from the loan proceeds; a mortgage is delivered by the buyer to the lender as collateral for the loan; and the deed and the mortgage are recorded in the public recording office.

CLOSING COSTS: Charges and fees incurred in buying and transferring real property that must be paid at the time of closing, including: real estate broker fees, lawyer fees, title examination and title insurance fees, appraisal fees, fees for the lender, and real estate transfer taxes and other governmental fees.

COLLATERAL: As used in the context of a loan, collateral is a limited right of ownership in specified assets of the borrower which the borrower provides to the lender

to guarantee repayment of the loan. If the borrower fails to repay the loan as required by the loan agreement or defaults in its obligations under the loan agreement in some other respect, the lender may take possession of the collateral through a process called "foreclosure".

CONDEMNATION: The process by which a government (federal, state or local) exercises its power of eminent domain to obtain ownership of a privately owned parcel of land. See EMINENT DOMAIN.

CONDOMINIUM: A form of property ownership where a person owns a complete and separate housing unit in a multi-unit building and shares the ownership of the common areas with the owners of the other housing units in the building. The common areas include the hallways, elevators, lobbies, basement areas, and outside spaces, including lawns, landscaping, walkways and driveways.

CONDOMINIUM ASSOCIATION: The association of all the owners of condominiums in a single building, or in a cluster of adjacent buildings, through which decisions are made with respect to the management and maintenance of the commonly owned areas and the establishment of rules governing the uses of the privately owned condominium.

CONSTRUCTION COSTS: The total cost for the physical construction or rehabilitation of buildings and related infrastructure that is paid to the general contractor, including the costs of all labour and materials, all payments to sub-contractors, and the contractor's profit.

CONSTRUCTION DOCUMENTS: The plans, drawings and specifications that contain the precise details from which buildings and the related infrastructure will be constructed.

CONSTRUCTION LOAN: A short-term loan from a bank or other lender to an owner of real property used to finance the construction of buildings on the property, and frequently also the purchase of the property, to be repaid upon the completion of construction from money received either (1) from the sale of the housing built on the property or (2) from a permanent loan.

CONTRACT: An agreement between two or more persons or enterprises, voluntarily entered into, which sets forth the rights and obligations of each party for a particular purpose. A contract is enforceable in the courts, which can compel a non-performing party to meet its obligations under the contract or pay to the other party an amount of money equal to the profit the party would have made if the parties had carried out their obligations under the contract.

COOPERATIVE: As applied to housing, a cooperative is a corporation, whose principal asset is an apartment house and all of whose shareholders are the occupants of all of the apartments in the apartment house. The occupants of the apartments, as members of the housing cooperative, make decisions with respect to the management and maintenance of the common areas of the apartment house and the establishment of rules governing the uses of the apartments. Although similar in operation to condominiums, cooperatives are less frequently found in the United States.

DEBT: An amount of money owed by one person or enterprise to another person or enterprise.

DEBT SERVICE: The amount of money required to make scheduled periodic payments of interest and repayment of principal in a loan. Compare **AMORTIZATION**

DEED: A document that transfers ownership of real property from one person to another.

DEED OF TRUST: For practical purposes, has the same meaning as **MORTGAGE**. A Deed of Trust differs from a Mortgage in its legal structure, but a Deed of Trust and a Mortgage provide the lender of a construction loan or a permanent loan with equivalent collateral in the borrower's real property. See **MORTGAGE**.

DEFAULT: The failure of one party to a contract to meet one of more of its obligations specified in the contract.

DEPRECIATION: (1) The loss in market value of buildings and other durable assets from age, physical deterioration, or obsolescence.

(2) In an accounting and tax context, the spreading out of the total cost of purchasing or constructing buildings over a number of years equal to the estimated useful lives of the buildings, in accordance with generally accepted accounting principles or the regulations under the federal tax law, as applicable.

DEVELOPER: A person or enterprise that produces residential, commercial, or industrial property for sale or rent to other persons or enterprises. The developer typically directs and coordinates the activities of all the other persons and enterprises who work to produce the property (other than government officials), and provides part or all of the risk capital for the development. Activities typically undertaken by a developer include: (1) purchasing land to prepare it for building sites, or (2) purchasing land and constructing new buildings on the land, or (3) purchasing existing buildings and the land on which it stands in order to rehabilitate the buildings or in order to demolish the buildings persons or enterprises intending to make a profit from their development activities, or, less frequently, not-for-profit enterprises or government agencies that produce property for social purposes.

DEVELOPMENT: In a real estate context, a parcel of land and the buildings that have been or will be constructed on it.

DOWN PAYMENT: The amount of money that a purchaser of real property pays for the property at closing, calculated by subtracting the amount of the mortgage loan from the total purchase price of the property.

DRAW: The payment of money from a construction loan by the construction lender to the borrower at the times stated in the loan agreement. The first draw is made when the construction loan is closed. The amount of each subsequent draw is usually related to the amount of construction work that has been completed.

EASEMENT: The right granted by an owner of land to another to use the land for a specific purpose. Easements are typically granted to a utility company for the right

to install and maintain an utility line across the property, or to an adjacent landowner to use a private road across the property.

EMINENT DOMAIN: The power of a government (federal, state or local) to take ownership of real property from a private owner if (1) the government is to use the property for a public purpose, and (2) the owner is paid the market value of the property.

GARDEN APARTMENTS: A development of two or more apartment buildings of two-to-four stories in height, with sizeable amounts of open space around the buildings and on-site parking.

GENERAL CONTRACTOR: In the context of real estate, a person or enterprise that contracts with the owner or developer of property to undertake and complete construction on the property in accordance with the construction documents. General contractors typically sub-contract part of the work to other persons or enterprises that specialize in specific tasks, such as electrical wiring, plumbing, excavation, landscaping, painting, etc. See **SUBCONTRACTOR**.

GROUND LEASE: A long-term lease, generally between 50 and 99 years, for the rental of land. The length of the lease is generally sufficient for the tenant to construct a building and recover the costs of construction with a profit. When the lease ends, the landowner becomes owner of all improvements to the land. Ground leases are common in some parts of the United States.

HIGH RISE: A multistory building of more than seven stories. See **LOW RISE** and **MID RISE**.

HOUSING: Shelter for an individual, or family other than transient housing. Examples of transient housing are hotels for tourists and other short-term visitors to the area and refugee camps.

HOUSING UNIT: See **UNIT**.

HOUSING CODES: The laws and regulations adopted by state and local governments that establish minimum health and safety standards for rental housing, concerned particularly with minimum levels of maintenance and repair, minimum bathroom and kitchen facilities, and maximum number of people who may occupy an apartment in relation to its size and number of rooms.

HVAC: Refers to the heating, ventilation, and air conditioning systems in a building.

IMPACT FEES: A one-time tax or fee paid to the local government by the owner of land undergoing development to pay for all or part of the anticipated increased use by the new residents of the development of the infrastructure in the area, such as public schools, parks, roads and sewers.

IMPROVEMENT: A physical alteration to land that increases its value, including landscaping or the construction of infrastructure or buildings.

INFRASTRUCTURE: As applied to real estate development, the improvements necessary to make land suitable for constructing buildings, generally including streets and sidewalks, sewers, storm drains, street lights, and gas, electrical, water and telephone utilities. Sometimes infrastructure also refers to the social infrastructure of the neighbourhood to support living in the development, including public schools, streets and highways, public transportation, food stores and other shops, and police protection.

INSTITUTIONAL LENDER: Generally refers to lenders of permanent loans, such as insurance companies, pension funds, and endowment funds, that possess large amounts of money available for long-term lending.

INSURANCE: In the context of real estate, a contract which is purchased from an insurance company for an annual fee under which the insurance company will pay the amount of damages, up to a specified maximum, in the event of (1) losses in value to the property from unexpected events, such as fire or flood damage, or (2) injuries to third parties incurred on the property for which the owner is legally liable. Only certain specified risks may be insured against. See **INSURANCE**.

INTEREST: In the context of financing, payment by a borrower to a lender for the use of the lender's money. Interest is generally paid on fixed dates (monthly, semi-annually, etc.) and is calculated by multiplying the unpaid principal balance of the loan, by the agreed-upon interest rate.

INTEREST RATE: An agreed-upon percentage, which, when multiplied by the unpaid principal amount of a loan, determines the amount of interest a borrower must pay to the lender.

JOINT VENTURE: An agreement between two or more persons or enterprises to share the risks and rewards of a development. A joint venture is a legal partnership, and the rights and responsibilities of the joint venture parties are generally detailed in a written agreement amount them.

LAND ASSEMBLY: The process of purchasing adjacent parcels of land from different owners in order to form a single parcel of land of a size suitable for development.

LAND DEVELOPMENT: The process of preparing land for construction, including clearing, grading, erosion and sediment controls, construction of infrastructure, and sometimes the delineation of individual building lots, including subdivision. See **SUBDIVISION**.

LANDLORD: The person or enterprise that owns real property which is rents to another person or enterprise through a written lease.

LANDSCAPE ARCHITECT: A person or enterprise that specializes in designing the land on which construction or rehabilitation is to take place, including grading, landscaping, and environmental measures. Most landscape architects are licensed by the state.

LAWYER: A person who advises on the requirements of federal, state and local laws and prepares the legal documents and agreements entered into in a real estate

transaction. Each party to a real estate transaction usually has a lawyer to advise him and represent and protect his point-of-view in the transaction. All states require lawyers to be licensed.

LEASE: A written contract between a landlord and a tenant establishing the terms under which the tenant may occupy and use the property, the rent to be paid, and other rights and responsibilities of the landlord and tenant with respect to that property. Leases are made for fixed periods of time, and are renewed only by the mutual agreement of the landlord and tenant.

LICENSE: An authorization issued by a government which allows a person or enterprise to engage in a particular profession or occupation. The person or enterprise must in most instances establish minimum competency in the skills needed for the profession or occupation, and in some occupations, a minimum financial worth. Individuals must generally pass examinations. Professionals engaged in the real estate field who are required to be licensed include architects, engineers, lawyers, contractors, and real estate brokers.

LIEN: A legal right one person has in the property of another person to secure a debt.

LOAN: Money provided by a bank or other lender to a borrower for a specified period of time in exchange for the borrower's obligation to pay interest at stated times and at a stated interest rate and to repay the principal at stated times.

LOAN AGREEMENT: The legally binding agreement between a bank or other lender and a borrower which states all of the agreements between the two parties relating to the loan. A loan agreement for a construction loan or a permanent loan will include (1) the obligation of the lender to make payments to the borrower under the loan; (2) the conditions that the borrower must first satisfy before the lender is obligated to make its payments; (3) the obligations of the borrower to repay the loan, with interest, and (4) the obligations of the borrower regarding the ownership and maintenance of the property with respect to which the loan is made.

LOAN COMMITMENT: A legally binding written agreement by a bank or other lender to make a loan in a specified amount, for a specified purpose, and by a specified date, if the conditions set forth in the loan commitment are satisfied by a specified date.

LOAN ORIGINATION: The process by which a lender receives a loan application, underwrites the loan, and takes other actions which result in making the loan to the borrower. See Underwriting.

LOAN-TO-VALUE RATIO: The amount of the loan divided by the appraised value of the property being used as collateral for the loan. Example: the loan-to-value ratio of a loan of \$5,000,000 secured by a mortgage on an apartment building with an appraised value of \$5,500,000, is $0.909 [5,000,000/5,500,000]$, or 90.9%.

LOT: A contiguous area of land of any size with legally defined boundaries. Usually the term lot refers to a parcel of land on which a single building may be built under the applicable zoning law or subdivision regulation.

LOW RISE: A building of one or two stories. See **MID RISE** and **HIGH RISE**.

MARKET STUDY: In the context of housing, a study of the market demand for a specific type of housing in a specific geographic location.

MARKET VALUE: As applied to real estate, the price at which a willing buyer would purchase a property from a willing seller.

MATURITY: The date when a loan is scheduled to be repaid in full.

MECHANIC'S LIEN: A lien that attaches to real property as security for payment to a contractor or subcontractor for construction work completed on the property.

METROPOLITAN STATISTICAL AREA (MSA): A contiguous area of land that is deemed by the United States Bureau of the Census to constitute a single urban area. A MSA may include a number of local governments and frequently portions of more than one state.

MID-RISE: A multistory building of three to seven stories. See **HIGH RISE** and **LOW RISE**.

MORATORIUM: As applied to real estate, a suspension of the right to begin new construction of housing or other new buildings in a designated geographical area which is ordered by government, generally because of environmental hazards, inadequate infrastructure or pending adoption of a new master plan or zoning law.

MORTGAGE: A legal document by which a borrower of money provides the lender a limited right of ownership in the borrower's real property to guarantee repayment of the loan. The borrower's real property is the collateral for the loan. See **COLLATERAL** and **DEED OF TRUST**.

MORTGAGE BANKER: The lender that originates mortgage loans on real property and then generally sells the loans to institutional lenders and other investors.

MORTGAGE INSURANCE: In the context of a mortgage loan, a contract which the borrower purchases from an insurance company, or under certain circumstances from the federal Department of Housing and Urban Development, for an annual fee, under which the insurance company guarantees repayment to the lender of part or all of the loan. In most cases, the lender requires that the borrower purchase the mortgage insurance as a condition to making the mortgage loan.

MORTGAGE LOAN: Generally refers to a loan for the purchase, construction or renovation of real property in which the collateral that guarantees repayment of the loan is a mortgage on the same real property.

MORTGAGEE: The lender who makes a mortgage loan.

MORTGAGOR: The borrower who receives a mortgage loan.

MULTIFAMILY HOUSING: A residential building with more than one housing unit. It may be an apartment house or a structure with two or more townhouses.

NEGATIVE CASH FLOW: In the context of real estate ownership negative cash flow is when there is insufficient cash income from income-producing property in any period to pay all operating expenses and required loan payments relating to the same period. See CASH FLOW. Compare OPERATING DEFICIT.

NET OPERATING INCOME (NOI): The cash income from an income-producing property that remains in any period after paying all operating expenses of the property relating to the same period, but before paying required loan payments.

NONRECOURSE LOAN: A construction loan or a permanent loan for real property development that is secured primarily by a mortgage on the property, there being no right to obtain the personal assets of the owner of the property as a source of money for repaying the loan. Compare RECOURSE LOAN.

OCCUPANCY PERMIT: A document issued by a building inspector to the owner of a building upon completion of construction or rehabilitation, which certifies that the structure was constructed or rehabilitated in accordance with the requirements of all applicable building codes and zoning laws and authorizes the building to be used for the purpose for which it was built or rehabilitated.

OPEN SPACE: Any area in a parcel of land not covered by structures. Includes lawns(?), landscaped areas, woods and other natural areas, walkways, driveways, and uncovered parking areas.

OPERATING BUDGET: In the context of a housing property, an estimate for the current year and for one or more future years of the revenues derived from the property, by source (i.e. principally rents), and the expenses, by use, expected to be incurred over the same period in operating the property.

OPERATING DEFICIT: When in any period there is insufficient cash income from an income-producing property to pay the operating expenses of the property relating to the same period (not including any required loan payments for the period). Compare NEGATIVE CASH FLOW.

OPERATING DEFICIT GUARANTEE: An undertaking by a developer to a construction lender, permanent lender, or investors in the development that the developer will provide additional money if needed to pay for any operating deficit incurred(?) by the development. An operating deficit guarantee is usually limited in time and in amount, and is often secured by an escrow of money or by a letter-of-credit from a bank.

OPERATING EXPENSES: Payments made to operate and maintain a property on an ongoing basis, including insurance fees, property taxes, utilities (water, sewer, electricity, etc.), cleaning and minor repairs to the building, upkeep of landscaping, and custodial and administrative staff for the building.

OPERATING RESERVES: In the context of operating a property, funds regularly set aside from revenues and maintained in a segregated bank account, to be

used for non-routine expenses (such as replacing structural features or mechanical systems) and unanticipated emergencies (such as an unexpected failure of the heating system).

OPTION: In the context of real property, the legal right given by an owner of property (the "optionor") to another person (the "optionee") to purchase or lease the property for a specific price. The option is given for a specific period of time, and the optionor may not sell or lease the property to another person during that period. The optionee generally pays for the option, but has the right to decide whether or not to buy or lease the property within the time allowed by the option.

PARCEL OF LAND (or PARCEL OF REAL PROPERTY): A contiguous area of land of any size with legally defined boundaries.

PERMANENT FINANCING: Capital invested in a development for a period, generally, of not less than ten years. See **PERMANENT LOAN**.

PERMANENT LOAN: Generally, a long-term loan from a bank or other lender to an owner of property, used to repay the construction loan at the completion of construction. The long-term loan is repaid periodically in accordance with an agreed-on schedule from the revenues generated from the operation of the property, and is secured by the land and improvements as collateral. The term of a permanent loan is generally not less than ten years.

PERT (Program Evaluation and Review Technique): A technique for managing construction that involves preparing a flow chart showing all the construction activities that need to be carried out, with a critical path that indicates the times by which certain activities must be completed so as not to delay the other work and the completion of construction on time.

PLANNING BOARD or PLANNING COMMISSION: The agency in local government that prepares and adopts land use plans, regulates subdivisions, and reviews applications for development permission. In many places, the decisions by the planning board or planning commission may be reviewed and either affirmed, modified or rejected by the elected city council or county council.

PLAT: A map of a parcel of land that has been subdivided into lots that shows the boundaries of the lots, the streets; the utilities, and certain other features of the land.

POINT: As used in real estate finance, an amount equal to 1% of the principal amount of a mortgage loan. For example, two points on a mortgage loan of \$8,000,000 is \$160,000 ($8,000,000 \times .02$).

PRINCIPAL: The amount of money loaned by a lender to the borrower.

PRIVATIZATION: As applied to housing, the process of transferring housing owned by a government to private ownership.

PRO FORMA FINANCIAL STATEMENTS: A financial statement for a development that estimates its future income and expenses based on an expressed set of assumptions.

PROJECT: (1) Has the same meaning as “development”. (2) Depending on the context, may refer to a public housing development for low-income tenants who pay reduced rents. See PUBLIC HOUSING.

PROPERTY MANAGER: A person or enterprise that is responsible for the operation of real property on which buildings have been constructed. Usually the property manager works under a contract with the owner of the real property.

PROPERTY TAX: An annual tax on real property, generally levied by the local government to provide operating funds for the local government, including for schools. The property tax in any parcel of land is calculated by multiplying the assessed value of the property by the tax rate established annually by the local government at a uniform rate for each classification of property (i.e. residential, commercial, industrial). See ASSESSED VALUE.

PUBLIC HEARING: A meeting held by a government body that is announced in advance and is open to the public which provides an opportunity for members of the public to express their views on the matter about which the government body is to make a decision.

PUBLIC HOUSING: Housing units owned by a government and rented to low-income persons and families at below-market rents.

PLANNED UNIT DEVELOPMENT or PUD: A classification in a zoning law that allows a development to include mixed uses, varied housing types or unique special configurations of lots.

RATE OF RETURN: The percentage calculated by dividing the amount of money earned, or estimated to be earned, on an investment, by the total amount invested, or expected to be invested.

REAL PROPERTY: Land and objects permanently attached to the land, such as buildings, fences, tennis courts, landscaping and other infrastructure, and fixtures. Real property contrasts with (1) “personal property” which are moveable items, such as automobiles and furniture, and (2) “intangible assets”, which are not physical objects, such as corporate stock and bank accounts.

REAL ESTATE: Has the same meaning as “real property”.

RECORDING: The process by which a legal document affecting private property rights in real property (such as a deed or a mortgage) is copied into and made a part of the records of the local government. These records are indexed and open to the public so that any person or enterprise may obtain knowledge of the ownership of any parcel of land within the area of the local government.

RECOURSE LOAN: A construction loan or a permanent loan for real property development that is secured both by a mortgage on the property and by the personal assets of the owner of the property. Compare NONRECOURSE LOAN.

REHABILITATION: The process of restoring a building to a condition of good repair, including complying with all applicable building codes.

RENT: The amount of money paid periodically (usually monthly) by a tenant to an owner in exchange for the right to use or occupy all or part of a property.

RENTAL HOUSING: A housing unit (single-family house, townhouse or apartment) for which a tenant pays rent for the right of occupancy over a fixed period of time in accordance with the provisions of a written lease.

RENT-UP PERIOD: In a newly constructed or rehabilitated rental housing development, the period of time which it takes, or is estimated to take, to rent the number of the units needed to achieve profitability.

RESERVES: In the context of real estate finance, an amount of money set aside in a special account for a designated future use. For example, in a rental housing development, a reserve for replacements is funded from monthly rental payments and used to replace building fixtures and elements, such as carpeting or a roof, as they become worn out with use and age.

RETAINAGE: A portion of each payment due to a contractor under the construction contract that the owner retains until the construction work is completed in conformity with the construction documents at which time the retainage is paid to the contractor. The owner may use the retainage to repair defective construction work. The retainage is generally a fixed percentage of each payment.

REZONING: The process by which a zoning law is amended to change the existing permitted uses and requirements relating to a designated area of land.

RISK CAPITAL: In the context of estate, the money of a developer and other investors that is invested in a development, with the expectation of making a profit if the development is successful, but with the likelihood of loss of the development if not successful.

ROW HOUSES: Has the same meaning as "townhouse", except that row houses generally refer to townhouse structures in older urban areas.

SECONDARY MORTGAGE MARKET: The financial market in which mortgage loans are bought and sold.

SECURITY: (1) A document that evidences private ownership of certain kinds of "intangible assets". Examples include stock certificate, evidencing ownership of part of a corporation, or a bond, evidencing ownership of part issued by a corporation or government.

(2) In a real estate financing context, the act of providing collateral to guarantee repayment of a loan. An example is a mortgage which secures repayment to the lender of a mortgage loan.

(3) Can also refer to precautionary measures taken to prevent illegal entry into a building or property. These precautionary measures can be embodied in the architectural design of the building, or can be provided by technology, such as an automatic alarm system, or can be provided by guards.

SETBACK: The minimum distance that the outer edges of a building must be from the outer boundaries of the parcel of land on which it is being built, as specified in the applicable zoning law.

SETTLEMENT: Has the same meaning as CLOSING.

SINGLE-FAMILY HOUSING: A detached house on a single lot, designed for one family.

SITE: Generally refers to a parcel of land where a building has been or will be built.

SITE DEVELOPMENT: The improvements made to a site, such as clearing, grading, and the construction of infrastructure, before the construction of any building.

SITE PLANNING: The process of preparing a plan for the utilization of a parcel of land, including the identification of the locations of all elements to be constructed on the land, including buildings, infrastructure and landscaping. Site planning takes into consideration the size and natural features of the parcel of land and all applicable zoning and other governmental regulations affecting development on the land.

SOFT COSTS: The expenses of developing a parcel of land other than expenses of purchasing the land and constructing the infrastructure and buildings on the land. Soft costs include fees for architectural, engineering, appraisal and legal services, and costs for obtaining governmental permits and loan commitments.

SPECIAL USE PERMIT: Permission from a zoning board to use land for purposes other than the purposes allowed in the zoning law.

SPECULATIVE BUILDING: The construction on land begun when the owner has no prior commitments for sales or leases of the building when it is completed.

SUBCONTRACTOR: A person or enterprise that performs construction work, usually of a specialized nature, under contract with a general contractor.

SUBDIVISION: The result when a parcel of land has been divided into smaller lots, each suitable for a separate building, which meet the requirements of the subdivision regulation enacted by the local government. See SUBDIVISION REGULATION.

SUBDIVISION REGULATION: The law enacted by a local government regulating the process of subdividing larger parcels of land into smaller, buildable lots. The subdivision regulation establishes minimum sizes and other standards for the lots, and for the location and quality of the streets, utility lines, parks and other public facilities within the subdivided parcel of land. See SUBDIVISION.

SUBSIDY: The financial assistance provided by a government (federal, state or local) to the owner or tenant of housing to enable persons with less income to buy or rent the housing at a cost that is below its market value.

SURVEY: A document prepared by a professional land surveyor that shows the boundaries of a parcel or parcels of land and the locations of all buildings, utilities, and roads in the land.

TENANCY: The right to use and possess a designated property for a specified period of time in exchange for the payment of rent. Rights and responsibilities are normally specified in a written lease between landlord and tenant.

TENANT: A person or enterprise that obtains the right to possess and use property by entering into a written lease with the owner. The lease is usually for a fixed period of time and in exchange for the periodic (often monthly) payment of rent.

TERM: Depending in the context, (1) any provision of a contract, or (2) the period of time specified in a contract from the day when the contract begins to the day when it terminates.

TITLE: Legal proof of ownership of property by a person or enterprise.

TITLE EXAMINATION: The process of searching through the public records to determine the ownership of a parcel of land.

TITLE INSURANCE: A contract in favour of an owner of a parcel of land or a mortgage lender for that parcel, purchased from an insurance company for a one-time fee, under which the insurance company guarantees that the stated owner is the owner of the parcel of land.

TOWNHOUSE: A residential unit of 2 to 4 stories designed to house a single family, which is attached to one or more similar units in a single structure. Adjacent townhouses share walls and other structural elements, but generally have separate plumbing, heating and mechanical systems. See ROW HOUSE.

TRANSFER TAX: A tax paid to the local government when the ownership of real property is transferred from one person or enterprise to another person or enterprise. The transfer tax is generally a fixed percentage of the market value of the property transferred.

UNDERWRITING: (1) In connection with making a mortgage loan, the analysis made by the lender of the risks involved, including an evaluation of the value of the property and the borrower's ability to repay the loan.

(2) On connection with the sales of securities (stocks or bonds), the agreement by the investment banking firm to buy the securities from the seller at an agreed upon price, with the expectation of making a profit by reselling the securities to investors at a higher price.

UNIT: Generally refers to a complete and separate living unit, designed for a single individual or single family (usually a couple, or parents and children) and which includes a private bathroom and private kitchen facilities. A unit can be a detached single family house, a townhouse, or an apartment in an apartment house.

USER FEES: A charge by government for its services, generally based on the actual amount of services used. Typical user fees are for the amount of water supplied or for the weekly garbage collections.

UTILITIES: Basic services provided to housing in all developed areas by local governments and private utility companies including electricity, water, gas, telephone, and sometimes cable television.

VACANCY RATE: In the context of rental housing, the number of rental units in a geographic area that are not occupied by rent-paying tenants, stated as a percentage of all rental units in that area.

WARRANTY;(1) A legally binding written assurance that a product meets certain described quality standards. Certain warranties on certain products may be required by law.

(2) As applied to the sale of land, a warranty is a written assurance that the seller is the owner of the land being sold. There are different types if warranties of varying strengths.

ZONING: A law adopted by the local government that regulates the use of land as well as establishes procedures for amendment and appeal. Under a zoning law, the land is mapped into zones that describe the allowable uses for the land, and typically regulate such other matters as maximum heights and bulk of buildings, the proportion of the lot that may be covered by buildings, minimum setbacks, minimum parking facilities and open space, and the density of population in the zone.

ZONING BOARD: The agency in local government that (1) hears and decides appeals from decisions of local officials who interpret and enforce the zoning law, and (2) decides on applications for variances, special exemptions and special use permits under the zoning law.

ZONING VARIANCE: Permission to use land or buildings for purposes other than those allowed by the zoning law.