

# Modeling a Ground-Up Development Opportunity Using the A.CRE Apartment Development Model

## [HOLD SCENARIO]

### Assumptions (This is a hypothetical deal used for demonstration purposes only)

#### Investment Description Assumptions

- Crawford Apartments
- 555 Main Street, Any Town, Any County Any State, 00000, USA
- Analysis begin – 1/1/2021
- Land area – 2.3 acres
- Buildings – 1
- Avg. # of Stories – 5
- Gross buildable area – 298,500 SF
- Structured parking spaces – 310
- Surface parking spaces – 35

#### Development Period Cash Flow Assumptions

- **Timing assumptions**
  - o Land costs in month 0
  - o Hard costs s-curve with start in month 1 and end in month 21; FF&E start in 18 and end in 21
  - o Soft costs straight-line with start in month 1 and end in month 21
- **Land Costs**
  - o Land costs – TBD
  - o Closing costs – 1.5% of land cost
  - o Demolition and grading - \$500,000
- **Hard Costs**
  - o Direct building cost - \$130/GSF
  - o FF&E - \$750,000
  - o GC Fee – 3.5% of direct building costs
  - o Hard cost contingency – 5%
- **Soft Costs**
  - o Architecture & Engineering - \$1,750,000
  - o Surveys & Studies/Predevelopment - \$200,000
  - o Insurance, Bonds & Misc. Taxes - \$625,000
  - o Marketing - \$565,000
  - o Municipal Fees & Permits - \$530,000
  - o Developer Fee - 3% of Total Project Cost
  - o CM Fee - 0.25% of Total Hard Costs
  - o Developer Pre-Construction Cost - \$80,000

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- General & Administrative - \$325,000
- Capitalized Real Estate Taxes - \$1,090,000
- Soft Cost Contingency - 5%
- **Carry Costs**
  - Loan, equity placement, and lender fees - \$850,000
- **Debt**
  - LTC – 60%
  - Avg. construction loan interest rate – 5.25%

### Operating Period Cash Flow Assumptions

- Operation begin – month 22
- Annual income growth rate – 2.5% (Begin month 1)
- Annual expense growth rate – 2.0% (Begin month 1)
- Property tax phase in – 50% year 1, 100% year 2
- % Pre-leased – 15%
- Lease-up Pace – 22 units/mo
- Lease contract length – 12 months
- Unit Mix

| Unit Type           | Units    | % of Total | Sq. Ft. | Rent    | Per Sq. Ft. | Total Sq. Ft. | Total Rent |
|---------------------|----------|------------|---------|---------|-------------|---------------|------------|
| S1 - Studio         | 20 units | 7.0%       | 580     | \$1,425 | \$2.46      | 11,600        | \$28,500   |
| A1 - 1 Bed/1 Bath   | 23 units | 8.0%       | 652     | \$1,445 | \$2.22      | 14,996        | \$33,235   |
| A2 - 1 Bed/1 Bath   | 58 units | 20.2%      | 694     | \$1,595 | \$2.30      | 40,252        | \$92,510   |
| A3 - 1 Bed/1 Bath   | 44 units | 15.3%      | 775     | \$1,695 | \$2.19      | 34,100        | \$74,580   |
| A4 - 1 Bed/1 Bath   | 12 units | 4.2%       | 814     | \$1,750 | \$2.15      | 9,768         | \$21,000   |
| A5 - 1 Bed/1 Bath   | 17 units | 5.9%       | 850     | \$1,810 | \$2.13      | 14,450        | \$30,770   |
| A6 - 1 Bed/1 Bath   | 15 units | 5.2%       | 878     | \$1,895 | \$2.16      | 13,170        | \$28,425   |
| B1 - 2 Bed/2 Bath   | 15 units | 5.2%       | 1,170   | \$2,250 | \$1.92      | 17,550        | \$33,750   |
| B2 - 2 Bed/2 Bath   | 30 units | 10.5%      | 1,258   | \$2,395 | \$1.90      | 37,740        | \$71,850   |
| B3 - 2 Bed/2 Bath   | 15 units | 5.2%       | 1,315   | \$2,625 | \$2.00      | 19,725        | \$39,375   |
| B4 - 2 Bed/2 Bath   | 10 units | 3.5%       | 1,446   | \$2,890 | \$2.00      | 14,460        | \$28,900   |
| B5 - 2 Bed/2 Bath   | 5 units  | 1.7%       | 1,493   | \$3,040 | \$2.04      | 7,465         | \$15,200   |
| B6 - 2 Bed/2 Bath   | 5 units  | 1.7%       | 1,560   | \$3,295 | \$2.11      | 7,800         | \$16,475   |
| B7 - 2 Bed/2 Bath   | 6 units  | 2.1%       | 1,655   | \$3,500 | \$2.11      | 9,930         | \$21,000   |
| C1 - 3 Bed/2 Bath   | 5 units  | 1.7%       | 1,725   | \$3,640 | \$2.11      | 8,625         | \$18,200   |
| C2 - 3 Bed/2.5 Bath | 7 units  | 2.4%       | 1,945   | \$4,120 | \$2.12      | 13,615        | \$28,840   |

- **Other Income**
  - RUBS - \$50/unit/mo
  - Other Income - \$75/unit/mo
  - Cable Income (Net of Expenses) - \$30/unit/mo
  - Parking Income - \$100/structured parking space/mo
  - Storage Income - \$40/month x 80 storage units
- No model units or free rent
- General Vacancy – 5%
- **Expenses**
  - Payroll - \$1,200/unit/yr
  - Marketing - \$250/unit/yr

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- General & Administrative - \$200/unit/yr
- Repairs & Maintenance - \$550/unit/yr
- Contract Services - \$150/unit/yr
- Utilities - \$900/unit/yr
- Make Ready (Turnover) Cost - \$250/unit/yr
- Property Management Fee – 3% of EGR
- Real Estate Taxes – 2.00% of stabilized value (Untrended)
- Insurance - \$225/unit/yr
- Capital Reserves - \$200/unit/yr

### **Refinance of Construction Financing**

- Refinance month: Upon stabilization
- Interest rate: Fixed, 3.5%
- LTV: 70%
- Amortization: 30 years

### **Reversion (Sale) Cash Flow Assumptions**

- Sale month – 120
- Market cap rate today – 5.00%
- Cap rate at sale – 5.50%
- Selling costs – 1.5%

### **Partnership (Waterfall) Cash Flow Assumptions**

- Include Dev. Fee in Returns? – Yes
- Model GP Catch Up? - Yes
- GP Name – A.CRE Advisors
- LP Name – Pension 4 Life
- GP share of equity – 5%
- Promote structure
  - 100/0 to an 8% IRR
  - 20% GP promote to a 12% IRR
  - 30% GP promote to a 15% IRR
  - 40% GP promote thereafter