Urban Land Institute

Development for Nondevelopers

About

Urban Land Institute

The Urban Land Institute is a global, member-driven organization comprising more than 48,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide. ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 84 countries.

This Report

This report was informed by ULI members and partners—including both developers and nondevelopers—to provide an overview of essential information about the real estate development process. It aims to outline the basics of real estate development to help community members and public-sector leaders engage effectively in the real estate development process.

ULI Randall Lewis Center for Sustainability in Real Estate

The ULI Randall Lewis Center for Sustainability in Real Estate envisions a net zero, resilient, healthy, and inclusive world where every person, community, and business thrives. To achieve our vision, the Center accelerates action for sustainability in real estate and cities by cultivating leadership and knowledge, catalyzing adoption of sustainability practices across the real estate value chain, helping solve land use and real estate challenges, and advancing policy solutions.

The Center pursues these goals through its four main programs—Decarbonization, Urban Resilience, Healthy Places, and Greenprint—working closely with ULI members and partners to produce publications on cutting-edge issues, host global convenings, provide community technical assistance, and organize leadership networks.

Discover transformative practices for real estate and land use at uli.org/sustainability. Connect with the Center at sustainability@uli.org.

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OVERVIEW

The business of real estate—from permitting to design, finance, construction, and operations or sale—is multifaceted and financially risky. Real estate development decision-making also directly affects communities. A deeper understanding of the development process can help people engage constructively in the planning and implementation of development projects, improving the likelihood that those projects will advance local priorities and contribute to thriving communities.

This resource was informed by ULI members and partners—including both developers and nondevelopers—to provide an overview of essential information about the real estate development process. It aims to outline the basics of real estate development to help community members and public-sector leaders engage effectively in the real estate development process.

> "The real estate development process is not clear to most of the population.
>
> Understanding the basics can help ensure people can effectively and efficiently engage in conversations about development in their communities."
>
> **– Rico Quirindongo, director, Office of Planning and Community Development, City of Seattle**

The real estate development process affects every community.

Nearly everyone in the United States lives in a home that was, at one time, built by a developer, shops in stores built by a developer, or otherwise uses spaces created as part of a real estate development process—a process that plays a major role in determining the mix of stores, homes, employment opportunities, and other features present in a community.

A more complete understanding of the real estate development process can make it easier for community members and elected officials to share local priorities with developers at key stages. This collaboration can make it more likely that projects will meet community goals.

With a deeper understanding of the development process, community members and elected officials can be sure that what they want to see in their neighborhoods—from new housing to grocery stores to parks with new playground equipment—gets built. Mutual understanding of key stages of the development process can make collaboration between developers and community stakeholders more effective and productive.

Real estate development has great potential to create benefits for people and communities—but this is not guaranteed.

Development can play a positive role in generating economic prosperity, increasing community well-being, and helping fund the infrastructure and services that support quality of life. Development may directly provide community infrastructure and amenities—including green space and affordable housing—or the taxes and fees developers pay to local governments can help fund essential infrastructure and services, such as schools and transit.

However, development can also create negative outcomes. During much of the 20th century, real estate practices and local policies used race and other factors to segregate communities. Even after explicit policies that advanced segregation were no longer legal, zoning policies, investment decisions, and even the threat of violence continued to enforce these patterns. Because Black families were often excluded from opportunities for homeownership, they were not afforded opportunities to accumulate equity in their homes, the greatest source of generational wealth in this country.

In many communities, power and decision-making structures have, for decades, failed to prioritize the voices of those living in communities that have been subject to racist policies and disinvestment—leading to distrust in the development process among members of such communities.

Everyone has a role to play.

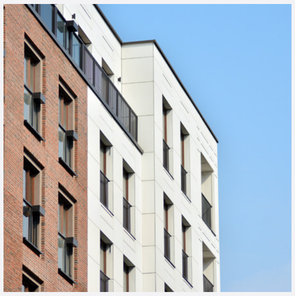
Although real estate industry leaders have the greatest responsibility in ensuring their projects contribute positively to neighborhoods—including by providing desired community amenities and addressing past harms—everyone can play a role.

Collaboration throughout the development process among community stakeholders and developers that is underpinned by an understanding of development basics can make it more likely that real estate projects will benefit people and communities.

DEVELOPMENT BASICS

What do developers do?

Developers coordinate activities including the following:



Creating, leasing, operating, and/or selling buildings

Navigating zoning and building regulations

Securing funding for development projects

Working with local stakeholders to understand community needs

Coordinating among architects, designers, construction companies, and others to see projects to fruition

Supporting investments in community amenities and infrastructure

Real estate development is the process of "bringing built space to fruition."[1]

The development process requires developers to understand land use and building regulations to scope what is possible. Developers also line up capital to invest in projects, and they collaborate with community groups, residents, the public sector, and other partners to identify ideas to fulfill needs in a specific area. The process ends when tenants or owner-occupants "occupy the physical space put in place by the development team."[2] Managing properties can also be thought of as part of the development process.

Transforming a development idea into reality is complex and differs by project. Yet, developers generally follow a standard sequence of steps from project conception through sale or asset management.

The timeline, details, stakeholders, and project requirements differ based on development type, economic conditions, regulations, and other factors.

Real estate development is all about risk management.

Development projects are subject to multiple factors including market conditions, the regulatory environment, construction costs, and the growing impacts of climate change. Managing these and other risks can mean the difference between success and failure.

Real estate development includes a range of product types.

Developers may focus on one or more of these types, including:

Multifamily Residential

Including urban and suburban apartments, affordable housing, high-rise, walk-up, and student housing

Single-Family Homes

Including planned communities, age-restricted housing, and resorts

Mixed Use

Including projects that combine residential, commercial, retail, office, and other uses

Office

Including downtown and suburban offices

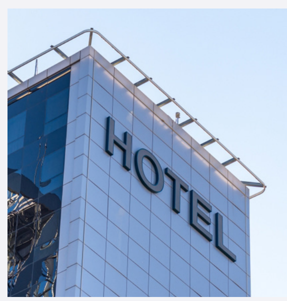
Industrial

Including distribution centers, warehouses, port facilities, storage buildings, and data centers

Retail

Including malls, restaurants, gas stations, gyms, salons, and grocery stores

Hotel



Including urban, suburban, and resort properties

Medical

Including medical facilities and offices and pharmacies

Motivations for development

Private-sector developers often seek the maximum financial return while minimizing development risk. Components of “the return” may include direct compensation (i.e., the “development fee”), proceeds on sales to long-term investors, or a long-term “equity position”—partial ownership of the development. Other rewards include professional satisfaction at improving the urban environment and enhanced professional reputations, which may lead to future opportunities.

Nonprofit developers include community development corporations (CDCs)—organizations that serve neighborhoods by developing affordable housing, advancing economic development initiatives, and more. CDCs and other nonprofit developers are motivated by goals including addressing the housing affordability crisis, providing opportunities for long-time residents to own homes, stimulating local community investment, and promoting equity and local wealth-building opportunities.

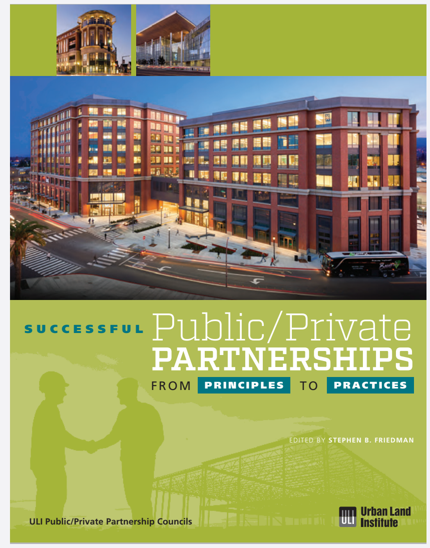
Public/private partnerships

Public/private partnerships for real estate development can advance a common vision.

Public/private partnerships for real estate development aim to achieve public objectives—including downtown revitalization, transit-oriented development, affordable housing, and more—while also providing opportunities for private-sector developers to make a return on their investments.

Public entities often collaborate to improve project feasibility by assisting with site assembly, environmental remediation, building infrastructure, updating zoning, and more.[3]

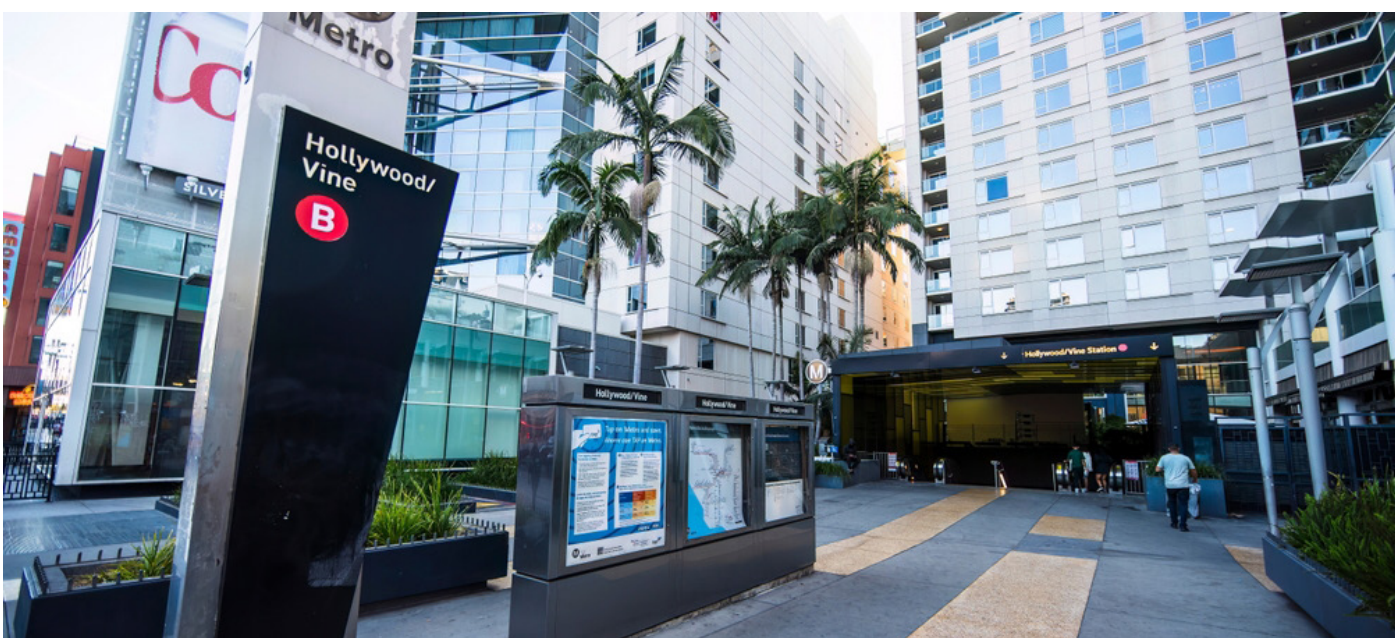
For more about the role of public/private partnerships in development, see ULI's report *Successful Public/Private Partnerships: From Principles to Practices*.



Public participation. All successful projects advance goals shared among key stakeholders—including elected officials, developers, neighborhoods, and civic, philanthropic, and business leadership. Public participation processes are crucial in shaping and advancing shared visions.

Community outreach, public presentations, and workshops with neighbors and constituent groups are often required before government entities consider and approve projects.[4]

Neisen Kasdin, co-office managing partner at Akerman LLP, shares that "public participation can be used both to help shape a shared vision and to educate stakeholders and interested parties, to dispel myths and present facts supporting the proposed project."[5]



Common drivers of development activity include the following:[6]

1. A use in search of a site, including businesses looking for physical space, market analyses showing the need for additional housing units, and more.
2. A site in search of a use, including empty lots in neighborhoods well-served by infrastructure, buildings in need of renovation, and more.
3. Resources (capital) in search of an opportunity, including lenders looking for opportunities to make a return on potential investments.

Major Stages of the Private-Sector Development Process (Simplified)[7]

Forming the Development Concept

Developer uses market analysis and professional expertise to form development concept to meet market demand.

Community engagement opportunity: Participating in early community engagement, before project design has begun, can identify opportunities to address community needs through future project features and development decisions.

Feasibility Study

Developer finds project site; understands land use regulations and explores physical feasibility; creates and refines designs; estimates the project's expected rate of sales or leases; assesses financial feasibility by comparing estimated project value and costs; discusses project with potential tenants, owners and lenders; seeks approvals through government agencies.

Community engagement opportunity: Community stakeholders can provide feedback on development plans to increase likelihood plans will advance locally defined goals; community members have opportunity to share views about project plans at public hearings required for project approvals.

Deal Making: Planning and Financing

Developer negotiates contracts with partners; gets loan commitment; chooses general contractor; finalizes sales and/or rent requirements; secures permits from local government.

Developer has contracts signed—including joint venture agreements, construction loans and contracts, land purchase options, insurance, and prelease agreements.

Project Construction

Developer works to keep costs within budget; collaborates with marketing and development teams to approve any changes to project; keeps construction on schedule and provides updates to community stakeholders.

Community engagement opportunity: Regular engagement can help ensure developer shares any necessary project changes with community stakeholders—allowing stakeholders to provide feedback on proposed changes.

Exit: Operation or Sale

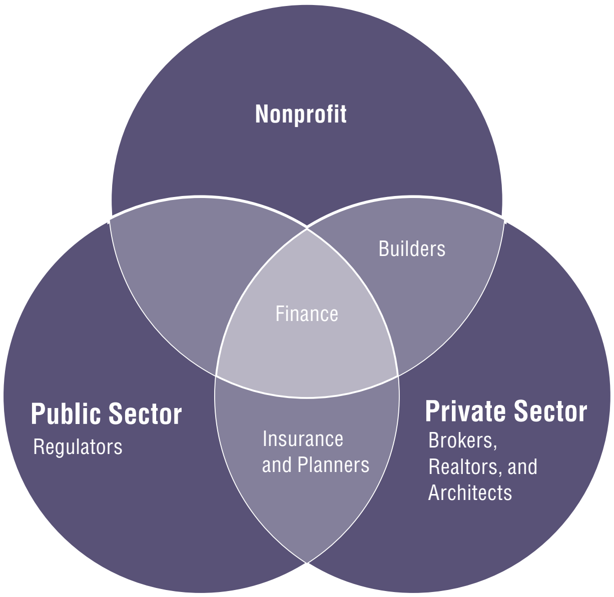
Developer implements exit strategy, for example, by holding and renting out the property, selling to end-users, selling to investors, and more. Owners generally hire a property management company to oversee property operations—high-quality property management is essential for tenant satisfaction and supporting community goals.

Property management plays a key role in the success of real estate projects.

After completion and formal opening of a project, developers decide to either continue to own or sell the property. The owner generally hires a property management company to oversee property operations—including leasing of units, collecting rent, property maintenance, complying with landlord/tenant regulations, and more.[8]

The quality of property management has a direct impact on tenants—especially of residential buildings—because they are responsible for items that affect the quality of daily life, including ensuring the water is running, performing maintenance and reports, and finding tenants.

Who Makes Up the Real Estate Industry?



Adapted from "The Great Real Estate Reset." (Christopher Coes, Tracy Hadden Loh, and Tola Myczkowska, The Brookings Institution, 2020)

> "How the community experiences working with a developer the first time sets their reputation and whether they will embrace the developer on other projects in the future. Including project features, stores, and amenities that the community actually wants will improve quality of life and will also support the project's bottom line. It's good business."
>
> **– Treasure Sheppard, strategic initiatives project manager, Housing Authority of the City of Los Angeles**

Stakeholder groups that influence development projects include the following:

Land-Use Professionals

Architects
Landscape Architects
Builders
Construction Companies
Engineers
Consultants

Investors and Lenders

Investors
Banks/Lenders
Community Development Financial Institutions (CDFIs)

Community

Community Members
Local Businesses
Advocacy Groups
Landowners
Nonprofit Developers

Future Tenants

Residents of Future Housing
Future Commercial Tenants
Future Owner-Occupiers

Public Sector

Elected Officials
Local Government Employees
State/Federal Government Employees
Utility Companies

Land-use professionals are hired by developers to design buildings and landscapes, build projects, provide market data, and more. Their professional expertise influences the design, materials, features, and amenities included in developments.

Investors and lenders are crucial to ensuring developers can access funds to plan projects, seek approvals, advance construction, and operate buildings. Developers only put up only a fraction of the cost of development, with the majority coming from lenders and investors—who may influence project features or amenities to attempt to maximize profitability.

Community members and groups play a major role in influencing projects because they will be affected by the design and features of nearby developments. They have valuable information to share regarding the needs of the local area—both inside and outside buildings.

Future tenants influence development because developers try to anticipate the mix of tenants for projects based on macroeconomic data and market demand. Developers may secure tenants before breaking ground, which may influence specific spaces or amenities.

The public sector affects development through regulations such as zoning or by offering financial incentives. Zoning policies may dictate the size, character, density, and allowed uses for projects in specific areas, and can constrain certain types of new development. Zoning incentives may offset all or part of the cost of providing certain project features or public benefits—making including such features or benefits more attractive.

Selected Factors That Influence Development Outcomes

ECONOMIC CONSIDERATIONS	
	Availability of developable sites and cost of land
	Ability to secure financing
	Cost of capital (the return a company expects on an investment to justify the expenditure of resources)
	Market conditions
	Role of project timeline on budget
	Extent of infrastructure development
	Availability of incentives (i.e., expedited permitting for including certain project components—like affordable housing units)
	Availability and cost of materials and labor
	Competition
	Costs associated with impacts of extreme weather
COMMUNITY ENGAGEMENT	
	Level of community support
	Level of political support
	Necessary changes due to stakeholder feedback
	Level of community benefit and impact
REGULATORY FACTORS	
	Zoning and land use regulations
	Building codes
	Environmental regulations
	Taxation

DEVELOPMENT POTENTIAL

Development can play a role in advancing community priorities.

Thoughtful collaboration among community stakeholders and developers can make it more likely projects will advance locally defined objectives while mitigating concerns about development.

In historically disinvested communities, there are concerns that development can be associated with rising housing costs and commercial rents—potentially resulting in residential and commercial displacement and a loss of culture and community cohesion. Partnerships that include voices that have traditionally been excluded in decision-making processes can provide opportunities to address such concerns and prioritize equitable development.

When people and organizations embedded in a community partner with development project teams, there is a greater likelihood that all parties will have an expanded set of tools and a more holistic understanding of local needs and of the features and outcomes that will make a project successful.

Collaboration can be challenging, but it is necessary.

In some communities, concerns may be raised about changes to “neighborhood character”—which can be a euphemism for anticipated shifts in the racial, ethnic, or socioeconomic status of residents. In these discussions, the loudest voices are frequently the ones resisting development, and pushback can serve to uphold existing racial and economic segregation.

Other common concerns voiced about new development frequently include:

- **Density.** Residents may fear that increased density will lead to more traffic, decreased home values, and a greater burden on local public schools.
- **Traffic and parking.** Stakeholders may be worried that new development will create or add to roadway congestion. Residents and business owners may also worry that new development will make it more difficult to find automobile parking in the immediate vicinity—especially when a proposed development does not include off-street parking.
- **Burden on schools.** Adding new residential development can increase the number of students enrolling in local schools—sometimes causing crowding or the need for expansion.
- **Pollution.** Depending on uses, stakeholders may be concerned that their communities will be burdened by various forms of pollution—including increased noise and air pollution.

Reconciling competing priorities is hard work.

Successful strategies to advance healthy, sustainable, and more racially equitable development include advancing efforts to understand, share, and address the current and historical context with developers and community stakeholders.

It can also be useful to engage in cross-sector collaboration to update zoning codes so they allow a mix of home types and uses in more areas by right—meaning projects can obtain approvals and building permits through relatively simple administrative processes.

For more on the role of zoning in real estate development, see Regulatory Factors.

Neighborhoods are healthier and more equitable when community voices are centered in development decisions.[9]

Survey research published in the *Journal of Social Science and Medicine* exploring “ownership of change—the sense of control that community members experience over what is built, how it is built, and whom it benefits”—found that, while 60 percent of residents notice changes in housing in their neighborhoods, only 20 percent feel that they and people like them have a voice in those changes—and think those changes will benefit them.

Increased neighborhood investment in communities that have historically experienced a lack of investment—including Black and Brown communities—has often benefited new, white residents while leading to displacement of longer-term residents and widening economic inequality. This pattern can take a toll on people’s health.[10]

Research from the Healthy Neighborhoods Study,[11] a resident-drive, participatory action research project about neighborhood changes processes, finds that increasing community ownership over change is an important component of community health. This requires that everyone from real estate developers, investors, elected officials, and urban planners take action to center community voices—including by ensuring practices do not perpetuate anti-Black racism.

Specific suggestions on strategies to center community voices in the development process include the following:[12]

- Invest in and advocate for more community control over neighborhood development plans and decisions;
- Invest in and advocate for policies, programs, and processes that increase ownership of change for long-standing residents; and
- Raise awareness of how and why structural racism shapes ownership of change, and that histories of exclusion must be repaired to increase levels of ownership of change.

Urban Renewal, Development, and Displacement

The federal policy of "urban renewal" provided federal funding to cities for "slum clearance," which involved seizing properties and forcing redevelopment in areas classified as "blighted."[13] Urban renewal programs were formally established by the Housing Act of 1949 and, alongside highway construction and the development of public housing, they aimed to improve property values. In practice, these policies led to residential and commercial displacement in cities throughout the country, and they separated people from communities and social ties.

Toward the end of the 20th century, inequitable revitalization efforts, highway expansion, and disinvestment often continued to lead to displacement and exclusion. A generation later, the lasting effects include de facto segregation by race and income, which is closely related to disparities in health, economic mobility, and educational opportunities. Even today, biased appraisals and the devaluation of Black property perpetuate these place-based inequities.

Redlining—a practice starting in the late 1930s by which real estate and public sector leaders developed and adopted color-coded maps to identify an area's "riskiness" for housing investment and mortgage lending—was informed by racist assumptions. For decades, redlining blocked Black households and other households of color from homeownership based on race, ethnicity, and religion.[14] The negative impacts of redlining and other related policies are numerous, including disparities in exposure to extreme heat, children's long-term outcomes, and wealth based on where people and families live.[15]

Opportunities for Development to Benefit Communities

Support for Infrastructure

Real estate development can support new and upgraded infrastructure—including transportation and transit networks, utilities, and recreational facilities.

Resilience, Sustainability, and Health

New development can incorporate features such as local food production, renewable energy, stormwater management, and more.

Housing Affordability

Increasing the local housing supply can support affordability and allow people and families of various incomes to live in neighborhoods of their choosing.

Increased Tax Revenue

New residents and businesses increase the tax base, growing municipal revenues and increasing funding for infrastructure and services—including schools, transportation, and green space.

Investment in Parks

Developer support can help bridge the gap between community needs and available public resources for parks and community spaces.

Job Creation

Real estate development creates jobs through opportunities related to construction, commercial spaces, and residential property management.

New Shops and Destinations

Projects can create spaces for desired stores and restaurants—including grocery stores, places for socialization, and businesses that support local culture. Nearby residential development may also increase access to employment opportunities and can provide customers to support area businesses.

Preservation of History and Culture

Intentional, equitable community engagement can lead to projects that aid in preserving and celebrating community history and culture.

> “Real estate development plays an essential role in funding, building, and rehabilitating critical infrastructure—parks, transportation systems, schools, and more. This is generally not well understood—the fact that development can support the creation of valuable public assets that improve quality of life.”

– Jenni Morejon, president and CEO, Fort Lauderdale Downtown Development Authority

ECONOMIC CONSIDERATIONS

Private development is a business. A variety of economic considerations determine whether a development "pencils."

"Pencil" is a colloquial term used by developers. If a project "pencils," it is financially viable. Since development is a "value-added" process, making a project pencil means that funds are spent at each stage to add economic value.

Developers aim to capture the spread between what they spend and the "added value" they create.[16] If the spread allows them to recoup their debt and make an acceptable return on their investment, the project pencils. In addition to private-sector capital providers—entities that provide financial investment in projects—the availability of public funding sources, such as government grants and public/private partnerships, can play a significant role in whether a project pencils.

Development can be risky for all parties.

Developers generally invest a lot of time and borrowed money into projects before they start seeing financial returns. This is a financially risky position because of the possibility of failure. Developers are subject to outside forces—including changing economic and regulatory environments—even more than many other businesses due to the high number of stakeholders involved and the long timeframe from project idea to completion.

New development can also be risky for neighborhoods and community members. Without community collaboration and intentionality from policymakers and developers, risks for communities include:

- **Displacement** in communities experiencing increased investment that lack sufficient affordable and attainable housing and affordable commercial spaces;
- **Financial risks**, including rising taxes for property owners;
- **Loss of culture**, including historic and cultural assets like gallery spaces, community meeting spaces, and music venues; and
- **Loss of community cohesion**, when people and businesses are forced to leave due to changing economic conditions.

> "It is helpful for community groups and residents to have a basic understanding of project financing. Whether we're talking about affordable housing or market-rate development, the complex web of funding sources and the difficulty of managing multiple funding partners has an impact on the project features and amenities that are included."
>
> **– Leroy Moore, senior vice president and chief operating officer, Tampa Housing Authority**

Selected Development Project Risks[17]

Major risks include, but are not limited to:

Financial Risks

Development projects require significant outlays of capital over multiyear periods before they generate revenue. Managing multiple lenders and investors, potential cost overruns, and changes in market conditions creates risk.

Market Risks

Changing market conditions can affect property values and the desirability of residential units and commercial and other spaces. For example, a recession can cause a downturn in the housing market due to lower demand caused by job losses or more rigid lending standards.

Regulatory Risks

Zoning and other regulations play a major role in determining what type of development gets built in certain places and how long it takes. More complex approval processes take longer and generally result in high project costs. (See more information in the Regulatory Factors section.)

Location Risks

Since buildings are fixed in place, their financial success is greatly influenced by the demand for their mix of units and features in a specific location. Changes in commuting patterns, the local business investment, a city's population, and/or the quality of infrastructure can affect the desirability of projects.

Construction Delays

Difficulties in sourcing materials, hiring contractors, settling labor disputes, and more can both slow down the development process and add to project costs—ultimately reducing the potential for profitability.

Physical Asset Risks

Older buildings may face costly maintenance issues or features designs or a mix of uses that are obsolete in a certain location. The threat of extreme weather cause by climate change can also damage properties or increase operations costs.

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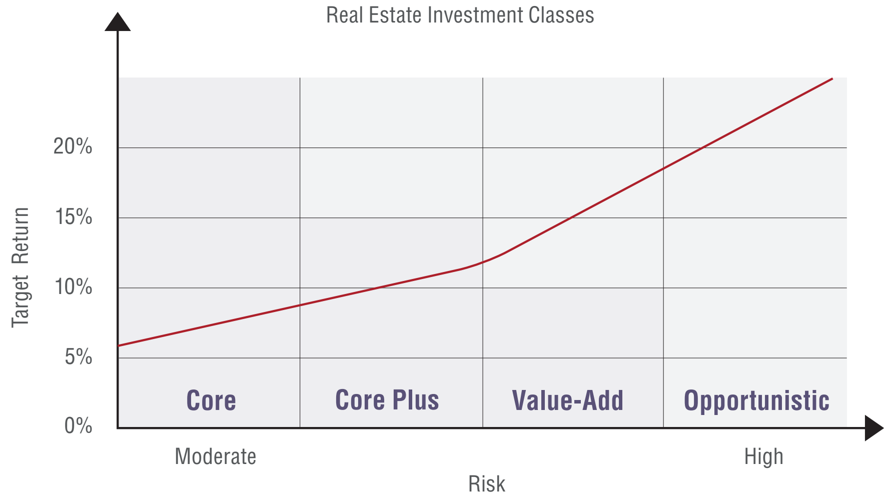
The higher the risk involved in a development project, the more potential for profit an investor will typically demand.

Creating Profit in Real Estate: Types of Plays



Adapted from *Introduction to the Real Estate Development Process*. (Alan Razak, Weitzman School of Design, University of Pennsylvania, and AR Spruce)

Investment Classes

Core: Low-risk properties in prime locations such as central business districts or established residential areas

Core Plus: Properties with similar characteristics to core properties that may benefit from minor improvements and/or enhanced management

Value-Add: Properties that require more significant improvements and/or efforts to increase cash flow

Opportunistic: Properties that need significant investment or rehabilitation to reach their potential

> “Having too-rigid plans can be problematic if market demand changes during the development process—you start to build and then realize no one wants to go into the office anymore, or retail consumption has altered, or the footprints have changed.”
>
> **– Katie Bucklew, vice president of mixed-use, AvalonBay (quoted in “Outlook for Mixed-Use Development: How Can Urban Mixed-Use Developments Succeed in the Post-Pandemic Era?”, *Urban Land* magazine)**

Every location and project is unique. Developers collect market data to determine if a project is feasible before moving forward.[18]

Developers commit to learning markets and designing and delivering building projects to meet local demand. Any changes in the market have major effects on price and value. Decisions about the location, size, mix of uses, and design of projects are subject to market conditions, availability of financing, and many other factors.

A project is considered feasible if its estimated value exceeds its estimated costs. Developers "look for indications of the kind of space that will satisfy the market's needs over a project's expected life . . . which may last 50 to 100 years."[19]

Market Factors That Drive Demand, by Product Type

Product Type	Factors That Drive Demand
Retail	• Net population growth • Median household income and growth • Disposable income growth • Retail sales per capital
Office	• Job growth • Legal environment • Economic trends
Industrial	• Net population growth • Disposable income growth • Gross domestic product (national and regional) • Online retail sales • International growth trends
Residential	• Net population growth • New household growth • Median household income • Age distribution • Disposable income growth • Interest rates and affordability • Employment growth by industry

Adapted from "Introduction to Commercial Real Estate." (Tamela Thornton, *A Brief Intro to Real Estate Development*, 2024 [PowerPoint slides])

See the appendixes on pages 28–31 for more information on the following:

1. Real estate market analysis steps
2. Financial feasibility analysis
3. Estimating project costs
4. The capital stack—a model that shows how a property is financed

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Development projects have a multiyear time horizon.

There is no "average time" to complete a development project. The time required varies widely depending on the type of project and its scale, design, and location, as well as zoning rules, the regulatory environment, required permits, the availability of materials and contractors, financing, economic conditions, and more.

Projects often span across market cycles, which are unpredictable—meaning that the longer the timeline, the riskier the project.

The 2021 Survey of Construction from the Census Bureau[20] showed that the average length of time to complete construction of a multifamily building, after obtaining authorization, was 17.5 months. Buildings with more than 20 units generally took over 19 months to complete.

More complex projects may take significantly longer—up to five to 10 years. For example, it could take:[21]

- Two years to conduct a feasibility analysis, acquire a site, and put together a pro forma—a projection of a property's income and expenses that predicts the financial return of a proposed development
- One to two years to secure necessary regulatory approvals
- Two to three years from the time of construction to receiving a certificate of occupancy

Rule of Thumb Allocations: 3-Year/156-Week Project

	% of Total Time	Duration	% of Costs
Concept	5%–20%	8–31 weeks	0%–5%
Feasibility study	10%–20%	16–31 weeks	5%–15%
Planning/financing	15%–25%	23–39 weeks	15%–30%
Construction	30%–60%	47–94 weeks	40%–75%
Sales/rent-up (operations)	5%–15%	8–23 weeks	5%–10%

Source: U.S. Department of Housing and Urban Development's Office of Policy Development and Research, *Overview of the Real Estate Development Process* [PowerPoint slides], retrieved February 6, 2025, from https://archives.huduser.gov/oup/conferences/presentations/hbcu/sanantonio/overview.pdf.

PROFILE

Equitable Development at ENCORE! in Tampa, Florida

Encore—a mixed-use, mixed-income redevelopment in Tampa, Florida, led by the Tampa Housing Authority—was the subject of a ULI case study in 2017. It demonstrates that recognizing the related financial and social benefits of equitable development can contribute to project success.

The site was traditionally home to a thriving, predominantly Black community. However, post–World War II urban renewal and highway construction tore apart the neighborhood. Much of the neighborhood was replaced with the 483-unit Central Park Village public housing development in the 1950s. The development had a superblock layout that isolated the community from its surroundings.

Encore aims to build back the neighborhood at greater density (given its location near downtown), taking advantage of the area's cultural and transportation assets and making the community a gateway to greater opportunity. Encore plans to maintain or expand affordable housing options and house people of various backgrounds.

TAMPA HOUSING AUTHORITY

Investors and lenders influence development feasibility, features, and profitability.

Developers generally need to obtain capital for site acquisition, planning, and entitlements—the legal process a developer goes through to get the necessary approvals from government entities to develop a property.

Lenders and investors may influence project features or amenities to attempt to maximize profitability. For example, in certain markets, they may encourage developers to include a greater number of parking spaces in a project than required by zoning even though this can increase project costs.

Capital markets affect project feasibility and success.

In real estate, capital markets are the markets for raising capital to finance development, acquisition, and improvement of real estate assets. Capital providers look for opportunities to invest in real estate.

Shifts in capital markets—like changes in interest rates—affect the cost of borrowing money for projects and can render previously feasible projects infeasible, and vice versa.[22] In times of higher interest rates, the cost of borrowing capital increases, making acquiring property, advancing development, and/or refinancing existing loans more expensive.

Higher interest rates can also increase development risk, including by making homebuying less affordable, thereby decreasing demand for residential units. This may, in turn, improve the rental market, leading to owners of rental properties raising rental prices due to increased demand.

Real estate is just one of several options for investors.

Potential investments have different opportunities and risks. Investors consider factors like risk tolerance, available capital, time horizons, and overall investment goals when deciding whether to invest in real estate versus other options, such as stocks.

Common Sources of Capital

Capital Type	Description	Examples
Debt	Debt capital is a source of funding that a company can raise by taking out a loan. Providers of debt capital are creditors, not part owners in the project. They generally receive a percentage return on their loan.	• Traditional bank loans • Private loans • Loans underwritten by entities such as life insurance companies • Construction loans
Equity	Equity financing is a way to raise capital by selling a portion of a property's ownership to investors in exchange for funds. They receive a share of the ownership and profits the property generates.	• Private investors • Institutions such as pension and foreign wealth funds • Capital firms like real estate investment trusts (REITs)—companies that own and operate income-producing real estate
Public	Public funding sources may include requirements to advance certain goals, including related to affordable housing, clean energy, sustainability, and more.	• Government financing, grants, and loans • Public/private partnerships • Federally insured funding sources

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REGULATORY FACTORS

Key Points: How Regulatory Factors Influence Development

Well-crafted regulations can promote safety and community benefits.

Regulations such as zoning and building codes can be designed to help ensure developments are safe and provide benefits for residents and other community stakeholders—including by promoting housing affordability and access to green space.

Regulations may increase the cost of development or limit development opportunity.

Complying with development regulations may increase development timelines, thereby increasing the overall cost of development. Complying with development regulations may also increase hard costs when specific features and amenities are required.

In certain contexts, developers may choose to develop in locations in a region with fewer regulations (i.e., a suburban municipality versus a central city with a more complicated regulatory framework).[23]

Identifying ways to simplify the regulatory process can encourage development and reduce development costs.

Streamlining the regulatory process may support project feasibility and allow developers to include more community amenities in projects. The key is to identify and protect community benefits that development should provide while reducing the complexity of complying with the overall process.

Context is key.

City leaders should engage community members, developers, and others when considering the appropriate mix of new regulations versus eliminating existing regulations to achieve specific goals—understanding that what works in one area may not necessarily work in another.

> “The real estate development process is a mystery for most people. Often, we’ll hear from residents that they don’t want certain parcels to be developed. It can be a challenge to explain that owners have rights to develop their properties, and although a parcel might have been sitting vacant for a while, it won’t stay vacant forever. It may just be that the developer is waiting for the right time to move a project forward.”
>
> **– Stephanie Garcia-Vause, chief strategy officer/assistant city manager, City of Henderson, Nevada**

Zoning Defined

Zoning is a tool that communities can use to help shape and enable the kind of development that they want to see.

Zoning rules shape development outcomes, therefore, it is important for these rules to reflect community values—potentially including a desire for additional housing, stores, or other types of development.

Zoning can be characterized by the following:

- The use taking place in or around a building and separating uses into zones;
- Development standards that dictate the form of buildings, including height, floor/area ratio, and relationship to public rights-of-way;
- The size of buildings and how they are oriented on a property;[24] and
- Implementation of the vision of communities as laid out in documents, such as comprehensive plans.

Although state and citywide policies inform zoning decisions, specific provisions and enforcement of zoning rules are often informed by hyper-local and political processes.

Zoning and other regulations influence the pace, character, and features of development projects.

The regulatory environment, including zoning, plays a significant role in determining what type of development gets built in certain places, and how long it takes. Zoning review processes in the public sector are complex, involving many different departments.

The more complex and longer the approvals/entitlements process, the higher the project cost.

Higher costs can affect overall project feasibility and can sometimes lead to certain building features or amenities being reduced or eliminated.

Updating zoning can streamline the development process and lead to more equitable outcomes.

Community groups and members are essential to advancing zoning reform. Advancing zoning updates to promote investment in development that supports goals such as access to green space, provision of affordable housing, and greater walkability, can create more predictability in the development process, potentially making projects less expensive and risky and more likely to support community priorities.

While engagement related to updating zoning policies can be a complex and emotional process, it can also be an opportunity to align policy around key livability goals and to create the conditions for a more healthy, sustainable, resilient, and inclusive future.

History of Racism and Zoning

All levels of government, including municipalities across the United States, have systematically imposed residential segregation for over a century, including through racial zoning and redlining—a former Federal Housing Administration policy established in 1934 that refused to insure mortgages in and near neighborhoods where Black people lived.[25]

As a result, generations of Black Americans have been denied the constitutional right to "live where they wanted, the right to raise and school their children where they thought best, and the opportunity that whites were afforded to build generational wealth through home ownership."[26]

Today, research has directly connected exclusionary zoning—a legal practice that restricts the types of homes that can be built in certain neighborhoods—to racial segregation, which has led to measurable disparities in health outcomes and economic opportunity and has contributed to the racial wealth gap. The negative impacts of racial zoning, redlining, and other related policies are numerous, including disparities in exposure to extreme heat, children's long-term outcomes, and wealth based on where people and families live.[27]

The Color of Law: A Forgotten History of How Our Government Segregated America (Liveright, 2018), by Richard Rothstein provides more information on the history of racism and zoning.

Zoning and the Development Process

Traditional Zoning	Updated Zoning Policies
Zoning uncertainty raises costs at every stage of development, from financing through construction; higher costs are generally passed along to future tenants and buyers.	Simplifying zoning to reduce the cost of development is more likely to lead to developments that affordably meet community needs.
Development projects that comply with traditional zoning and include features that are not aligned with market demand—for example, projects with excessive parking in areas with high walkability and transit access—raise costs and lead to less viable developments.	Zoning updates that streamline the development approvals process may give municipalities room to require or incentivize developer-funded, in-demand community investments, such as parks and trails, which can also provide a return on investment for associated projects.
Existing zoning may not meet current market demand, leading developers to choose a different location or jurisdiction to avoid potentially costly and lengthy approval processes.	Aligning zoning policies with community needs and market demands means developer and investor funds that would otherwise be spent to gain variances or get parcels rezoned may instead be used to invest in features that support health, equity, resilience, and sustainability.

Zoning that advances locally defined priorities makes development application outcomes more certain.

Whereas outdated zoning policies can make projects difficult, time-intensive, and costly to complete, zoning that advances local priorities and responds to market demand—including for a wider range of home types and healthier and more environmentally friendly projects—allows more projects to be approved "by right" (i.e., through relatively simple administrative processes), making development application outcomes more certain.

In contrast, outdated zoning may make projects riskier for developers and investors, lead to expensive legal bills, and even stall or end projects.

For example, eliminating single-family zoning—zoning that limits development to single-family detached homes; restricts duplexes, multifamily housing, and other nonresidential uses—may set the stage for the development of a wider range of more affordable home types since development applications are more certain.

Today, roughly 75 percent of land zoned for housing in major U.S. cities allows only single-family homes—contributing to high housing costs and reinforcing residential segregation.[29] Although eliminating single-family zoning alone is unlikely to solve the nation's housing affordability crisis, it is one change that, alongside complementary policies, may help reduce housing costs and lessen racial segregation and disparities in health outcomes and economic opportunity.

Incentives can make it more financially feasible for developers to provide public benefits.

Incentives can offset all or part of the cost of providing amenities and features as components of development projects, potentially including affordable housing, grocery stores, parks, and community gardens.

Common zoning incentives include, but are not limited to, the following:

- **Density bonuses** are zoning tools that allow developers to build more units, commercial space, taller buildings, and more in exchanges for providing public benefits. For example, developers may receive density bonuses to offset the cost for providing below-market rate housing. Such incentives may be provided in conjunction with inclusionary zoning policies, which require or encourage developers to provide affordable housing alongside market-rate development to receive zoning approval.
- **Reduced parking requirements** may be provided in exchanges for developing in transit, providing affordable housing, and more. By lowering the number of parking spaces required for project approval, the overall cost of development can be reduced since parking is one of the most expensive line items on a development pro forma.
- **Reduced permit fees and expedited permitting** can incentive projects that provide benefits such as public gathering spaces, bike facilities, and more; municipalities can aid developers in offsetting the cost of providing these benefits by reducing the cost and complexity of securing zoning and other approvals.

> “People generally agree that we need more housing. Even though no one is disputing the need, people disagree on where it should go, especially when it comes to single-family neighborhoods. A better understanding of the range of housing types and opportunities to address local goals through the real estate development process would help communities to play a role in addressing the housing crisis.”
>
> **– Erin Baldwin Day, Anchorage Housing Club**

PROFILE

Promoting Healthy Food Access through Zoning Incentives in New York City[30]

New York City's Food Retail Expansion to Support Health (FRESH) program was established in 2009 to bring grocery stores to underserved New York neighborhoods.

Specifically, the program goals include the following:

- Giving zoning incentives to property owners by allowing them to construct slightly larger buildings in certain districts if they include a supermarket; and
- Allowing grocery stores by right in light manufacturing districts, which increases the number of areas where they can be built.

A 2021 update to the FRESH program made changes, including the following:

- Expanding the program to include 11 additional lower-income districts and updating zoning rules to prevent clustering of FRESH supermarkets; and
- Reducing building renovation requirements for projects that aim to transform existing buildings into supermarkets and reducing parking requirements.

Regulations beyond zoning affect development.

Many other regulations affect the character, features, scale, and overall financial success of development projects. Regulations concern safety standards, environmental protections, the collection of revenue for cities to invest into services, and more.

Selected Development Regulations

- **Building codes and permits.** Whereas zoning regulates what can and cannot be built in specific areas, building codes concern safety and technical specifications for construction, including requirements related to fire safety, maximum occupancy, electricity, and plumbing. Similarly, state energy codes regulate the efficiency standards buildings must meet.
- **Environmental regulations.** Developers may be required to complete environmental impact studies before construction begins. Such regulations help protect the natural environment and support quality of life, but may also increase the time, complexity, and cost of development.
- **Taxation.** Tax laws determine the tax rates that developers and owners need to pay. Complying with tax laws affects the profitability of projects, but provisions through government programs may offer tax deductions and credits for advancing certain goals, such as creating energy-efficient buildings.

For more about the role of zoning and planning processes in development, see ULI's report *Reshaping the City: Zoning for a More Equitable, Resilient, and Sustainable Future*.

COMMUNITY ENGAGEMENT

Key Points: Constructive Engagement in the Development Process

Engaging effectively can help improve community outcomes.

Effective engagement requires that local stakeholders understand development opportunities and constraints—which can ultimately lead to better and more equitable plans, projects, and outcomes for people, communities, and developers alike.

Engagement provides an opportunity to identify and share local priorities.

Every community is unique and multifaceted. Engagement in the development process creates an opportunity for community members to coalesce around key priorities—such as housing affordability, access to parks, or creating spaces that reflect local culture and history. Developers may be able to advance some of these priorities in their projects.

Existing community spaces and events can be settings for collaboration with developers.

Community members and elected officials can influence when, where, and how engagement occurs. By inviting developers to community spaces and events, engagement may include more voices and better reflect key community priorities and cultural considerations.

Consistent, sustained engagement can illuminate the factors behind development decisions.

Regular engagement can help build trust among community members, elected officials, and developers, providing opportunities to have open discussions about changes to project plans—including what is and is not feasible at various development stages.

Local stakeholders can provide feedback on development plans and renderings.

The site plans, project renderings, site tours, and other forms of storytelling developers provide can help stakeholders understand the effect a development is likely to have on their community. Community members and elected officials can provide specific feedback on project plans to increase the likelihood that they will advance locally defined goals.

The information community members provide is valuable.

Community members can share valuable insights with developers that complement market data—potentially uncovering opportunities to include features, businesses, and cultural amenities into project plans that communities want and that will support development success.

Communities know best what they need.

Residents understand their neighborhood's strengths and weaknesses from lived experience. They can share what they love the most about where they live and what amenities are lacking. Community engagement can provide developers with valuable knowledge about what can make a project successful.[31]

Effective community engagement starts before project design has begun and is sustained throughout the development process.

Engaging early, before project design has begun, allows the community to share what it needs and can help developers set the right goals for a project while developing community support.[32] Regular engagement can help build trust among community members, elected officials, and developers, providing opportunities to have open discussions about changes to project plans.

Equitable engagement goes beyond traditional strategies to give power to communities and co-create places.

Community members, including community organizers, small business owners, and residents from all generations, can be involved throughout the development process—from goal-setting to analysis—as part of an equitable decision-making process with transparent accountability measures. People who have traditionally held power can continue to be engaged as allies while making space for new voices, viewpoints, and practices.[33]

It is important to start with existing relationships and to look at previously collected data and studies to avoid "engagement burden and fatigue." Being realistic about implementation timelines and identifying "quick wins" can help build trust—especially in communities that have experienced racism and have historically seen limited investment.[34]

PROFILE

Community Engagement at J-Centrel in Philadelphia

J-Centrel is a 155,000-square-foot development in Philadelphia that converted a former textile mill into a mix of residential units and offices and studios for creative and small businesses. It opened in 2021 and was developed by Shift Capital.

The project includes different forms of community engagement, including collaboration with local civic and business associations and meetings with registered community organizations—groups of community members involved in the development of their neighborhood.

Engagement efforts led to strong alignment on project goals among Shift and local stakeholders and led to trust and commitment to the project from those in the neighborhood.

One result is the "Good Neighbor Program," which gives building tenants a $100 monthly discount on rent for spending time on neighborhood clean-ups, attending civic association meetings, and other digital and in-person neighborhood activities.[35]

SHIFT CAPITAL

Effective community engagement leads to projects being shaped by communities.

This begins with ensuring that a broad group of stakeholders is part of the project planning process and that they have effective channels to provide input. This way, not only is the community shaped by the project, but the project is also shaped by the community.

Responding to local needs through project decisions—for example, by adding publicly accessible green space or leasing retail spaces to a mix of stores and service providers that reflect the culture of the existing community—can support improved quality of life for residents while also advancing project success. The insights developers can gain through engagement are valuable data points for understanding the market context.

Local governments can aid in defining and promoting inclusive development.

Research from the Brookings Institution identifies opportunities for city governments to proactively promote inclusive engagement and development processes, including working with community organizations to define an inclusive development framework for their cities, identifying and tracking metrics to capture progress on key outcomes, and investing in research to help developers and communities understand baseline economic and social conditions in neighborhoods.[36]

Potential Benefits of Community Engagement

Stakeholder Group	Benefits
Community groups and residents	• Opportunity to shape projects and ensure project is shaped by community • Potential to gain important community benefits • Potential to mitigate potential negative externalities of development • Opportunity to partner on neighborhood economic development and capacity-building efforts • Advancing community cohesion • Ability to hold other stakeholders accountable
Developers	• Avoiding delays and legal issues in development process • Opportunity to build trust and co-create solutions • Opportunity to be responsive to needs to community and market • Potential to gain and maintain positive reputation • Gaining important insights on potential project components • Potential faster approvals and less risk of organized pushback
Elected officials	• Better understanding of community concerns and desires • Opportunities to align policies with community needs and wants • Improved decision-making • Building trust among communities, developers, and government—resulting in more fruitful partnerships
City staff	• Ability to more efficiently serve residents by understanding needs and wants • Ability to minimize conflict and need for mediation • Tailoring policies to actual wants and needs of citizens • Improving quality of life within municipality

Community benefits agreements can help deliver desired local amenities and services.

A community benefits agreement (CBA) is a contract signed by community groups and the private or public sector that requires development projects to provide specific amenities or mitigations to the local community or neighborhood. In exchange, community groups agree to publicly support the project, or at least not oppose it.

Negotiating a CBA may rely on the formation of a multi-issue, broad-based community coalition, including community, environmental, faith-based, and labor organizations. Creating a CBA can be an effective way to advance local priorities—including related to housing affordability, access to open space, job training, local hiring initiatives, and more. Negotiating a CBA also may lead to crucial community support that allows projects to move forward.[37]

Development in Milwaukee after Park East Freeway removal. (City of Milwaukee/Department of City Development)

Park East Corridor Community Benefits Agreement[38]

Milwaukee, Wisconsin

In 2005, the Milwaukee County Board of Supervisors approved a CBA for 16 acres of county-owned land that became available for development after the removal of an elevated highway spur.

The Good Jobs and Livable Neighborhoods Coalition—a partnership of 27 community-based organizations—campaigned for the CBA so that residents would share in the benefits of the redevelopment spurred by the highway removal. Requirements include the following:

- County-owned land must be sold to developers whose proposals would “provide the most jobs, increase the tax base, and enhance the community’s image while offering a fair price.”
- Affordable housing units must comprise 20 percent of any housing units built on county-owned land.
- Developers must expand transit and advance building designs to incorporate green elements to address environmental issues.
- At least 25 percent of construction jobs must be from businesses designated as Disadvantaged Business Enterprises/Minority Business Enterprises; 5 percent must be from businesses designated as Women’s Business Enterprises.
- Developers must provide apprenticeship programs and training opportunities to help low-income and low-skilled residents qualify for construction positions.

APPENDIX 1: STEPS IN REAL ESTATE MARKET ANALYSIS

Real estate market analysis is the process of gathering and analyzing information about the real estate market—including related to the supply of, and demand for, specific types of real estate products. This type of analysis helps investors, developers, building owners, and others make educated decisions on investment and development.

Define Market Area

- Understand that real estate markets are hyper-local and need to be clearly defined—markets may be determined by various boundaries (i.e., bodies of water, major roadways, socioeconomic conditions); market sizes vary based on real estate product types and the competitive landscape

Demand Analysis

- Evaluate existing real estate stock, including how much of a product type is already located in a market; consider factors such as age, quality, size, and density of existing real estate
- Consider impact of new construction on demand and drivers of new construction—such as cost of labor, materials, and land, and availability of capital

Supply Analysis

- Establish target "customer" for real estate product
- Consider number of target customers, whether this group is growing or declining, and more
- Explore drivers of demand, such as projected population growth, immigration, household income, age, job growth, and more

Evaluate Investment Opportunity

- Use above analyses to evaluate investment opportunity

Conclusions

- Provide conclusions for investors and developers to consider based on market analysis

Adapted from "Introduction to Real Estate Market Analysis, Part 1: The Fundamental of Real Estate Market Analysis." (ULI Learning, Mary Lynne Boorn, associate professor, teaching, USC Price School of Public Policy)

APPENDIX 2: FINANCIAL FEASIBILITY ANALYSIS

Developers perform financial feasibility analyses to determine if projects are likely to meet performance expectations.

Common Stages of Financial Feasibility Analysis

1. Simple Capitalization	**Make initial estimate of a project's financial performance**. The analysis summarizes project revenues, land and development costs and interest, and the expected profit. This is the starting point for evaluating financial feasibility, but it does not give the developer all necessary information on which to base decisions. (See Appendix 3 for an example.)
2. Discounted Cash Flow Analysis	**Assign revenues and expenditures from the simple capitalization stage to specific periods of time. This process varies for for-sale versus for-rent projects**. This analysis computes 1) financial returns on the overall project, 2) loan requirements, and 3) returns to project joint-venture partners.
3. Combined Analysis of Development and Operating Periods	**Provide measures of financial return for the entire life of the proposed project, making it more accurate than Stage 2**. This analysis includes 1) quarterly cash flows during the development period, 2) a summary of annual development costs, and 3) combined before- and after-tax cash flows during the development and operating periods.
4. Monthly Cash Flows During the Development Period	**Refine the cash flow projections during the development period to support the request for the construction loan**. Monthly projections give both the developer and the lender the most accurate picture of funding needs.
5. Discounted Cash Flow Analysis for Investors	**Divide cash flows for the whole project into the investor's and developer's shares**. Project viability hinges on attracting sufficient capital, so the investor's internal rate of return (IRR)—a tool for assessing a commercial real estate investment's profitability—is one of the key measures of return.

Adapted from *Professional Real Estate Development: The ULI Guide to the Business, 3rd ed.* (Richard Peiser and David Hamilton, Urban Land Institute, 2012)

APPENDIX 3: ESTIMATING PROJECT COSTS

Developers and partners decide whether a proposed project is financially feasible by analyzing projected costs, revenues, and potential returns on investment.

Part of this process includes creating **pro formas**—financial projections that estimate a project's potential financial performance.

The example below is a summary analysis of projected costs, revenues, and profit for a project with a mix of rental and for sale multifamily units.

Key Concepts

- Metric calculated by subtracting operating expenses from total revenue → Net Operating Income (NOI)
- Includes all development costs (land costs, approval fees, environmental remediation, construction hard costs and loan interest, and soft costs—including architecture, engineering, legal fees, appraisal and title, taxes, and insurance) → Total Project Cost
- Cap rate measures the annual rate of return—the profit or loss made on an investment—by calculating the ratio between NOI and purchase price or market value. In this use, the cap rate is defined as "what rate the market demands that this asset return." → Overall Return, Overall Cap Rate
- Amount left over after subtracting annual debt service from NOI → Cash Throw-Off
- Measures the annual investor return on a property compared to the amount of mortgage paid the same year → Cash-on-Cash Return

Summary Analysis and Simple Ratios

Net Operating Income (NOI)	523,942
Total Project Cost	10,751,191
Less: Development Subsidies	*(2,476,984)*
Project Cost after Subsidies	8,274,208
Less: Development Cost of For-Sale Condominiums	*(854,798)*
Total Adjusted Cost for Income Property Only	7,419,410
Overall Return, Overall Cap Rate (NOI/Total Adjusted Cost)	**7.1%**
Net Operating Income	523,942
Annual Debt Service	436,619
Cash Throw-Off	87,324
Total Adjusted Cost	7,419,410
Permanent Mortgage	6,234,849
Equity	1,184,560
Cash-on-Cash Return	**7.4%**
Development Profit for Apartments	
Net Operating Income	523,942
Overall Cap Rate at Sale	6.0%
Capitalized Value (NOI/Cap Rate)	8,732,373
Less: Total Adjusted Cost	*(7,419,410)*
Development Profit	**1,312,963**

Adapted from *Professional Real Estate Development: The ULI Guide to the Business, 3rd ed.* (Richard Peiser and David Hamilton, Urban Land Institute, 2012)

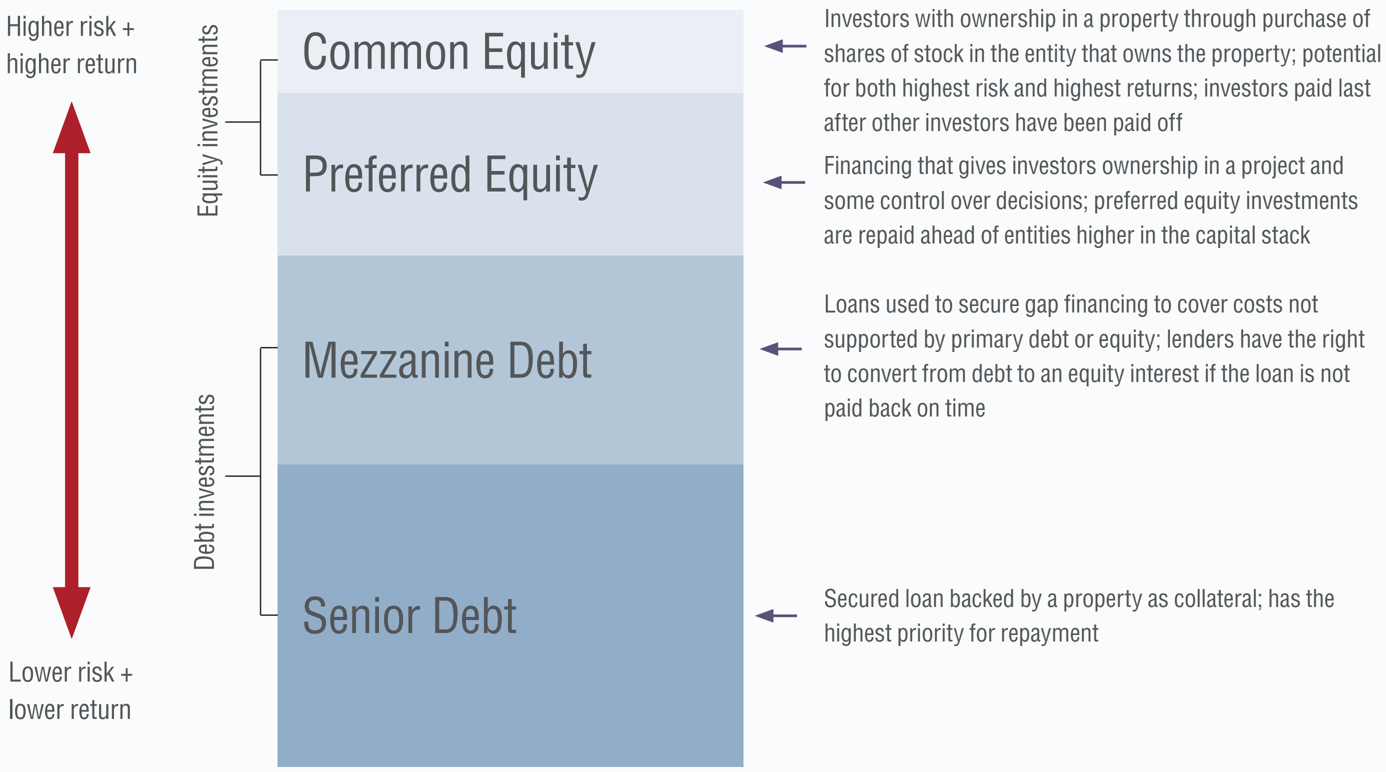
APPENDIX 4: THE CAPITAL STACK

A capital stack is a model that shows how a property is financed.

The capital stack provides information on the types and amounts of debt that are used to buy, build, and/or renovate a property. It helps investors understand potential returns and risks associated with a property. The capital stack includes information on the various types of capital used and the order in which investors will be paid.

Developers only put up a fraction of the cost of development, with the vast majority often coming from lenders and investors. Various capital providers have different expectations and time horizons related to the project.

Simplified Capital Stack



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RESOURCES

Development Basics: Public/private partnerships
Successful Public/Private Partnerships: From Principles to Practices:
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COMMON REAL ESTATE FINANCE TERMS

Acquisition cost: Acquisition cost is the total price, including all fees (mortgage, closing costs, inspection fees, etc.) required to purchase an investment property.

Annual rate of return (ROR): Annual ROR is the profit or loss made on an investment over the course of a year, expressed as a percentage.

Bridge loan: A bridge loan is a short-term loan a developer takes out against their property to finance the purchase. It is an interim loan before the next stage of financing and may cover an interval between two transactions.

By right zoning: By right zoning allows projects that comply with certain zoning standards to obtain approvals and building permits through relatively simple administrative processes—without requiring discretionary approval.

Capitalization (cap) rate: Cap rate is a metric used to measure annual rate of return—the profit or loss made on an investment over a year. It is the ratio between net operating income (NOI)—a metric of a property's profitability—and purchase price or market value. Cap rates may be used to compare different real estate investments to assess the riskiness of an investment—higher cap rates indicate higher risk.

Capital stack: Capital stack is the legal organization of the layers of debt that are used to purchase, build, or renovate a piece of real estate. It outlines who will receive income and profits generated by the property and in what order. The capital stack also defines who has the first right to foreclose on the asset as collateral in the event the equity owner defaults on the mortgage. The position of a piece of debt in a property's capital stack determines the order that lenders will be repaid in the case of a borrower default or bankruptcy.

Cash-on-cash return: Cash-on-cash return measures the annual investor return on a property compared to the amount of mortgage paid the same year.

Cash flow: Cash flow is the amount of money that an investor can take home at the end of each month after payment of all operating expenses, including loan payments.

Closing: Closing is the final stage of a real estate transaction. The closing date is agreed upon by both the buyer and seller to legally transfer the property from seller to buyer.

Commercial real estate (CRE): CRE is income-producing property that falls into the main categories of land, industrial, retail, office, special use (i.e., gas station or government building), and larger multifamily apartment buildings.

Community benefits agreement (CBA): A CBA is a contract signed by community groups and the private or public sector that requires development projects to provide specific amenities or mitigations to the local community or neighborhood.

Comparable sales (comps): Comps are figures used by real estate investors, funders, and appraisers to assess how much a property is worth based on what other similar properties in the area have sold for recently.

Debt-to-equity (D/E) ratio: D/E is a measure of ownership that determines how much of a property belongs to a particular entity and how much an entity owes in debt.

Discount rate: The discount rate is the interest rate the Federal Reserve charges commercial banks and other financial institutions for short-term loans. This can also refer to the interest rate used in discounted cash flow analysis to determine the present value of future cash flows.

Discounted cash flow (DCF) analysis: DCF is the estimate of the value of an investment based on its expected future cash flows. Based on the concept of the time value of money, DCF analysis helps assess the viability of a project or investment by calculating the present value of expected future cash flows using a discount rate.

Equity: Equity is a property's present market value minus any outstanding mortgage amount that exists.

Internal rate of return (IRR): IRR is a metric used in financial analysis to estimate the profitability of potential investments. Usually, the higher the internal rate of return, the more desirable the investment.

Loan-to-value (LTV) ratio: Lenders use LTV to measure the amount of a loan compared to the value of the property and to assess the overall risk before approving the loan.

Multifamily property: A multifamily property is a residential property designed with more than one housing unit to house different tenants in separate units.

Net operating income (NOI): NOI is a metric calculated by subtracting operating costs from revenue.

Overlay: Zoning overlays are special districts placed over existing zones that include provisions in addition to those already present.

Pro forma: A pro forma is a projection of a property's income and expenses that predicts the financial return of a proposed development.

Real estate investment trust (REIT): A REIT is a company that buys and operates income-generating real estate properties using investor money.

Time Value of Money (TVM): TVM is a concept that a sum of money is worth more now than it will be in the future because of its investment earnings potential.

Variance: Variances are requests to deviate from area zoning or use requirements of zones where properties are located.

Zoning incentives: Zoning incentives may offset all or part of the cost of providing certain project features or public benefits—making including such features or benefits more attractive.

Sources: Longleaf Lending, Feldman Equities, CCIM, Investopedia, T. Thornton, CCIM

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