

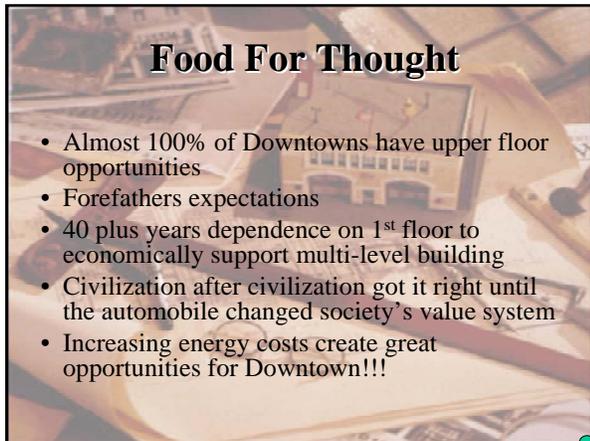


Main Street Innovation Lab Webinar

Upstairs Downtown
Successful Upper-floor
Housing Development

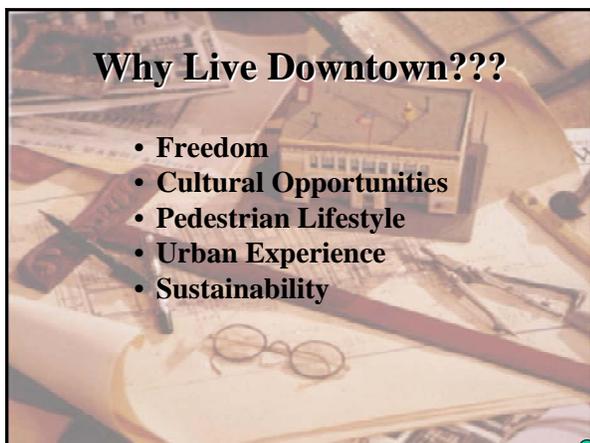
April 2, 2009

Thom Guzman, Main Street Iowa
Tim Reinders, Main Street Iowa
Linda Sorden, National Trust Loan Fund



Food For Thought

- Almost 100% of Downtowns have upper floor opportunities
- Forefathers expectations
- 40 plus years dependence on 1st floor to economically support multi-level building
- Civilization after civilization got it right until the automobile changed society's value system
- Increasing energy costs create great opportunities for Downtown!!!



Why Live Downtown???

- **Freedom**
- **Cultural Opportunities**
- **Pedestrian Lifestyle**
- **Urban Experience**
- **Sustainability**



Why Rehab Upstairs?

Justifications:
Economic
Physical
Social
Political



Alternative Uses

(in order of program complexity)

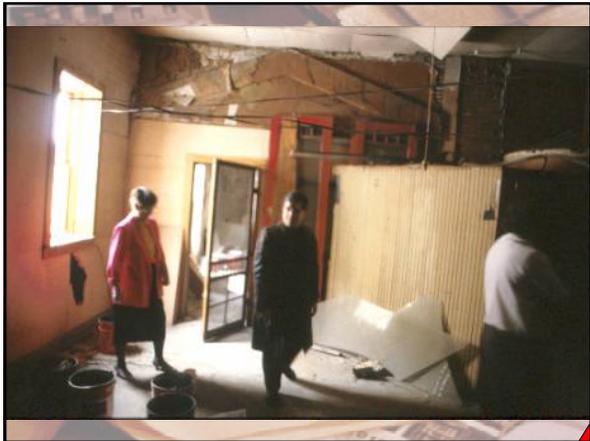
- **Mothball or storage use**
- **Office space for your own use**
- **Residential- owner's apartment**
- **Residential - rental**
- **Office - rental**
- **Retail (very difficult to make work for most retail operations)**
- **Assembly- theater, meeting hall (adds life safety and structural costs)**



Evaluating What You Have

- **Size (square footage per floor)**
 - Total square footage (exclude basement)
- **Structure- usually OK for residential**
 - Floor capacity (allowable load in pounds per sq. ft.)
 - Combustible or non-combustible systems and separations
- **Architectural**
 - Egress (number of stairs)
 - Natural light and ventilation (side windows?)
- **Environmental**
 - Prior industrial use (check Sanborn maps or abstract)
 - Asbestos (professional survey required)
 - Lead paint (residential use)



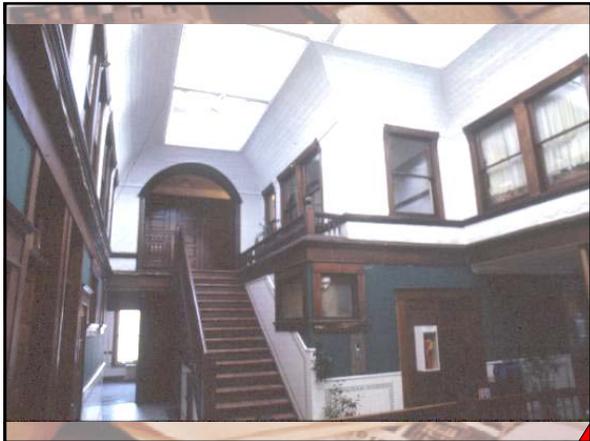


Codes and other Necessities

- **Zoning ordinance**
 - Parking requirements/Use options
- **Building code (International, Existing)**
- **Life Safety Code-**
 - Fire Marshall
- **Accessibility Code (ADA)**
- **Secretary of the Interior's Standards**

Codes and Other Necessities Residential or Commercial Use

- **Light and air analysis**
 - Corner building or side windows
 - Mid block building with no side windows
- **Two or three stories**
- **Square footage per floor**
 - Under 3,000 sq. ft.
 - Over 3,000 sq. ft. (Higher accessibility requirement)
- **Ceiling construction systems and fire separation**
- **Parking availability (zoning)**



Downtown Markets Four Segments

Market Rate Owner Occupied	Affordable Owner Occupied
Market Rate Rental	Affordable Rental

Crucial Variables in successful Rehabilitation

- Market
 - Who is buying/ renting
 - Why are they buying/ renting
 - How much will they, can they pay
 - What do they want
- “1-3 % Rule”

Crucial Variables in successful Rehabilitation

- Cost
 - Acquisition
 - Rehabilitation
 - Soft costs
 - Holding costs
 - Sales/ marketing costs

Crucial Variables in successful Rehabilitation

- Timing
 - Too soon/Too late
 - Holding period
 - Rent-up time



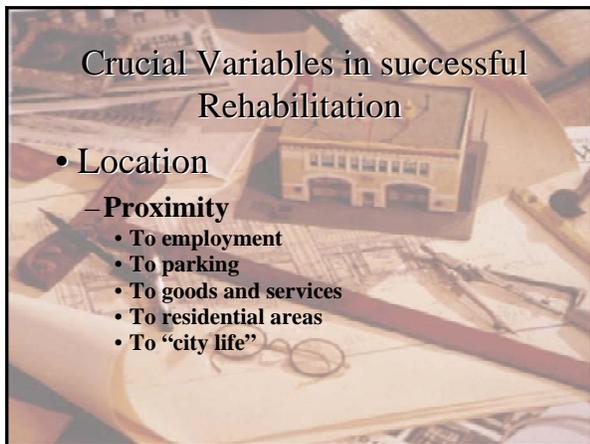
Crucial Variables in successful Rehabilitation

- Physical Characteristics
 - Extent of Rehabilitation
 - Aesthetic/ Design elements



Crucial Variables in successful Rehabilitation

- Regulatory
 - Building code
 - Zoning
 - Historic district
 - Secretary's Standards
 - Tenant Protection laws



Crucial Variables in successful Rehabilitation

- Location
 - Proximity
 - To employment
 - To parking
 - To goods and services
 - To residential areas
 - To “city life”

Cost Saving Design Options

- Leave brick exposed, or paint it
- Cluster plumbing runs
- Use existing floor layout
- Try not to use elevator



Cost Saving Design Options

- Expose heavy structural elements
- Maintain existing wood or exposed joist ceilings
- Sand existing wood floors
- Install exposed sprinkler systems
- Install exposed ductwork



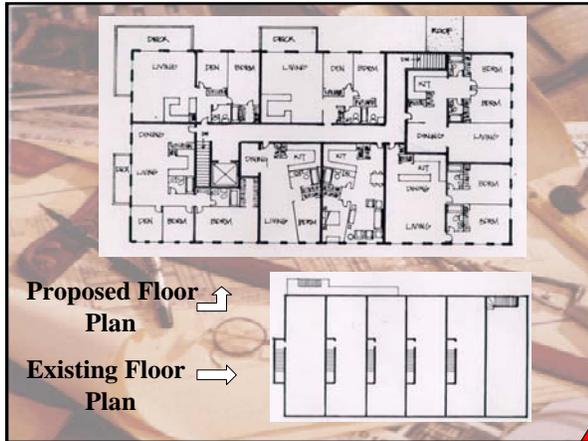


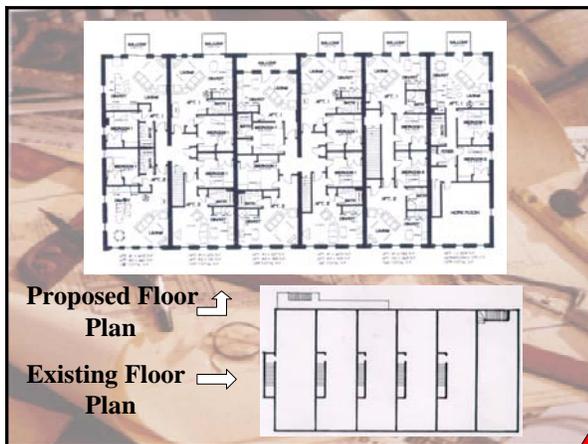
**The Most Expensive
Rehabilitation Mistakes**

- **Paying too much for acquisition**
- **Spending too much for rehabilitation**
- **Not controlling rehabilitation costs**
- **Inadequate analysis of physical structure**
- **Over improving for likely market**

The Most Expensive Rehabilitation Mistakes

- Picking property without “character”
- Not considering initial building layout constraints
- Using contractor not experienced in rehabilitation
- Using other professionals- architect, appraiser, broker, lender- not experienced in rehabilitation







The Most Expensive Rehabilitation Mistakes

- **Allowing too little time to:**
 - Obtain financing
 - Get required approvals
 - Complete rehabilitation work
 - Rent up property
- **Not having early discussions with:**
 - Building Inspector
 - Historic Preservation Office
 - Zoning officials



The Most Expensive Rehabilitation Mistakes

- **Not using architect**
- **Diminishing architectural integrity of structure**
- **Allowing architect to control economic issues**
- **Not involving architect in marketing decisions**



The Most Expensive Rehabilitation Mistakes

- **Not Identifying specific likely tenants**
- **Confusing downtown housing needs with suburban housing demands**
- **Not controlling costs after completion**

Bonus Amenities

- Off- Street Parking- Covered?
- Washer/Dryers
- Outdoor Living Space
- Private Entrance
- Views
- Large Rooms
- Skylights
- Walkability
- Shopping, Employment, Entertainment









TYPES OF FINANCING

Debt Financing - Pre-Development
Acquisition
Rehabilitation
Bridge

Grants - Façade grants
Hope VI grants (HUD)

Tax Incentives - Federal Historic Tax Credits
State Historic Tax Credits
New Markets Tax Credits
Alternative Minimum Tax Credit
Low Income Housing Tax Credits
Energy Tax Credits

Crucial Variables in successful Rehabilitation

- **Loan to Value**
 - Best Use
 - Cost
 - Income
 - Market
 - Location

<p>Good Times 80%</p>	<p>Economic Downturn 65% (Estimate) or less</p>
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Mixed-Use Development MacGillivray's Building, Baltimore, MD

- *Sources and Uses – Total Project Costs - \$2,814,886*

- Local Bank - \$800,000
- NTLF - \$225,000
- Investor - \$150,000
- State HTC - \$300,000
- Fed HTC - \$316,940
- Owner Eqty- \$492,057
- DefDevFee- \$308,618
- Grants - \$ 65,000
- Liq.Lic. - \$157,270
- *Project Genesis*
 - Concerned neighbors working with CDC
 - 2000 Population of neighborhood – 4,500



Uses

- Acquisition - \$ 456,600
- Liq.Lic - \$ 157,270
- Hard Costs -\$1,460,000
- Soft Costs - \$ 741,015



Terms to Know

- **Pro Forma**
- **Reserve for Replacement**
- **Net Operating Income**
- **Debt Coverage Ratio**
- **Cash Flow**

Operating Pro Forma

Income	
• Gross Rent	Rent Collected at 100% Occupancy
• Tenant Contributions	Tenant Contributions towards operating expenses
Gross Income	Total Income at 100% Occupancy
• (Vacancy Rate)	Adjustment for Vacancy and Collections Loss
Effective Gross Income	Anticipated Cash Actually Collected
Expenses	
• Taxes	Research and negotiate with assessor
• Insurance	Discuss your project with your provider
• Maintenance	Snow removal, window washing, common area
• Utilities	Are utility expenses paid as part of rent?
• Management	Are you going to manage the project or pay someone?
• Reserves	Appliances need to be replaced, Units need repainting
Net Operating Income	Cash generated by the project
Debt Service	Interest, principal payments to lender
Cash Flow	Return to owner

Reasonable Expenditure For Upper Floor Residential Units

• Monthly Rent	• Investment Per Unit
- \$400----	- \$24,000 - \$29,000
- \$500-----	- \$30,000 - \$36,000
- \$600-----	- \$36,000 - \$43,000
- \$700-----	- \$42,000 - \$50,000
- \$800-----	- \$48,000 - \$57,000
- \$900-----	- \$54,000 - \$64,000
- \$1,000-----	- \$60,000 - \$71,000

For more detailed references and sources on
the topic of upper floor housing:

1. www.illinoishistory.gov/ps/upperstory.htm

2. Two authoritative *Main Street News* articles on the topic:

Upstairs Downtown : cover article, March 2002

Living Downtown: Developing Affordable Housing on Main Street April 2004

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