

**ANALYSIS FOR THE DEVELOPMENT OF AN
8 UNIT APARTMENT BUILDING**

**by
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the requirements for the degree of Master of Science in Real Estate**

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Executive Summary

With the devaluation of real estate values in the Philadelphia marketplace, the apartment sector has sustained positive values and is even experiencing growth because of increased tenant demand along with available financing. Real estate investors are looking to invest their capital in the apartment sector which has led to an increase in competition and consequently has driven up prices while decreasing investors' expected capitalization rates. With the increased competition from investors for existing apartment complexes, it is hard to find deals for apartment properties that make financial sense.

Since there is increased competition among investors for apartments, the development of new construction apartments in infill locations is a good alternative to existing apartment complexes with low cap rates. Although there is competition in the market from other developers looking to build new construction apartments, there is less competition among investors where finding ground that meet the financial and location criteria. By developing in infill locations it helps with keeping the cost of offsite improvements low while also ensuring a faster lease up period.

Summary of Findings

It is not recommended that the development of the property should move forward based on the findings from the cash flow model for the 'Expected' model. The initial returns under the 'Expected' model do not show a loss, but it does not show an upside to the deal that would make an investor want to move forward. If the market improves further under the assumptions with the 'Best' model, it shows that this development would initially provide average returns while paying down the debt on the mortgage.

Highlights of the Deal

- Lot size of .54 acre (23,694 sf)
- Lot currently used as a parking lot
- Owned by a single person: Andrew P. Dellaquila
- Purchase price would be \$120,000 which is \$15,000 per unit
- Zoned Downtown Commercial and allows for multifamily which is highest & best use
- Development program for a 4 story, 8 unit apartment building where units are approximately 1,050 sf with elevator access

Development Program

The program for this particular site is to develop an 8 unit apartment building that is 4 stories high with 2 units per floor. Because of the tight building envelope, the property is being developed with only 2 units per floor. This will be discussed in the Development Issues section. Each unit will be approximately 1,050 sf that will be comprised of 2 bedrooms and 2 full bathrooms. The building will feature an elevator for easy access as well as a staircase. By having an elevator, the development is able to compete with other newer apartment complexes that also have elevators. The building will be built with a slab on the 1st floor. A basement is not going to be provided as it would raise the construction costs by about another \$10 per square foot.

The apartments will be provided with amenities that would be in line with a lower grade class A apartment building. All units will feature 9' ceiling heights with an open floor plan having the kitchen area overlooking into the living area. Based on the wants and needs of today's renters, they prefer this type of living. Other amenities that will be included in each unit will be a washer and dryer and a walk-in closets in all master bedrooms. All apartments will be finished with modern looking kitchens. Kitchens will have (4) recessed lights, black appliances, tile floor, 42" cabinets along with sleek looking granite countertops. These features may seem "upscale" to the potential tenant but there is not much of an additional cost to have them installed. As the project would be contracted by our development company, we can manage costs and have the ability to spend extra time finding suppliers that offer products are reasonable prices. By offering these amenities, tenants will feel like they are getting more when compared to the 20 to 40 year old apartment complex. Even if a higher rent cannot be achieved with these amenities, it will only help with having a faster lease up period and keeping turnover low.

Another part of the development program that would be a priority is the ability to incorporate green building techniques and products into the construction of the building. Although building green is not required, it would be preferred to build under that label which would help with marketing and goodwill of the property. All units of the building would have high efficiency HVAC systems at a minimum rating of 90% efficient. High efficiency tankless hot water heaters would be installed. Tankless hot water heaters have come down in cost where they are only a little more than a typical hot water tank. Even though they may be a little more money a tankless hot water heater will be able provide the tenant with lower energy costs which would hopefully

help with the marketing and lease up of the units. Besides being more efficient to operate, less space now has to be dedicated to a mechanical room to locate a hot water heater.

Low E energy efficient windows will be installed throughout the building. Efficient windows help with the heat loss from the room while also minimizing the amount of UV sunrays. The apartment will be developed to meet or exceed an Energy Star rating. The R value of the walls and ceilings will be a minimum of R-28 and R-60, respectively. This insulation together with energy efficient windows will provide for more comfortable and stable room temperatures.

Potential tenants may not recognize this as a selling feature when looking to rent an apartment but it will help with tenant retention. Tenants will want to renew and stay longer when they know their energy costs are low and the added insulation will help with sound reduction between the units.

With the growing opportunity to use solar power, the roof of the building would be developed in a way to add solar panels and its equipment. The building is being proposed to have a flat roof and engineered ahead of time to handle the small amount of extra weight from the solar panels and mounting apparatuses. Besides the solar panels, the only other required equipment is the converter which could also be located on the roof. The converter converts the DC power from the panels to the AC power for the building. At the moment, the SREC (Solar Renewable Energy Credit) market is depressed with oversupply. Currently it is not be financially feasible to install solar panels but in the years to come energy suppliers will be required to purchase more electricity from renewable sources and the value of the SREC should increase to where it would be worthwhile to make the investment.

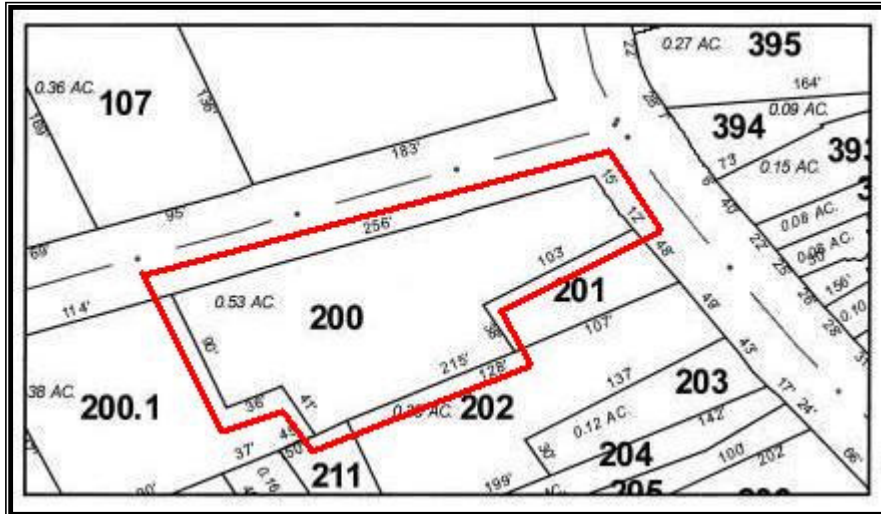
During the construction of the building the amount of construction debris that goes to the landfill would be reduced. This is beneficial for several reasons. First it reduces the impact that the construction has on the amount of trash that goes to the landfill. Second it helps keep the waste expense lower. Leftover wood, drywall and any other materials that can be recycled will be.

Site & Property Description

This ½ acre property is located at the corner of Yost and Market in Spring City has been available for sale since June 2011 at an asking price of \$145,000. It has been listed with a local real estate agent that typically deals with selling residential properties. The property would be acquired at a maximum price of \$120,000 which would equate to a per unit price of \$15,000.

The lot is .54 acres which equates to 23,694 sf which is shown below in the attached picture. With the lot fronting on 2 streets, the lot has 256 feet of frontage on Yost and approximately 45 feet of frontage on Market Street.

Tax Map of the Subject Property



The topography of the lot slopes from the west to the east which naturally makes the eastern portion of the lot the location for the storm water management.

Pictures of Sloping Lot



Currently the property is being used as a parking lot by neighbors as extra parking. The lot is not being utilized to its highest and best use which would be a residential development. The parking lot was paved years ago and has not been kept up as it is very deteriorated. The property is being represented that there are no easements and that a building has never been built on it. With the property being completely paved there is almost no pervious ground. Unfortunately with the subdivision and land use ordinance, the site cannot be grandfathered for the amount of its existing impervious coverage. With the new land development plan the development has to meet current the ordinances as it relates to the amount of allowed impervious coverage. Also the site

has to be engineered to handle all of its own storm water runoff. The storm water management system would be design as an underground system with crushed stone and piping.

Aerial Picture of the Subject Property



With the lot set for redevelopment Spring City Borough’s Downtown Commercial Zone offers many different possibilities for uses. Under the Downtown Commercial Zone multifamily is an allowed by-right use but the area and bulk regulation requirements for the multifamily development must be met from the R-3 zoning ordinance

Spring City Borough Zoning Requirements

Downtown Commercial Zone- Uses & Requirements

- Multiple family dwelling is listed as a use permitted by right.

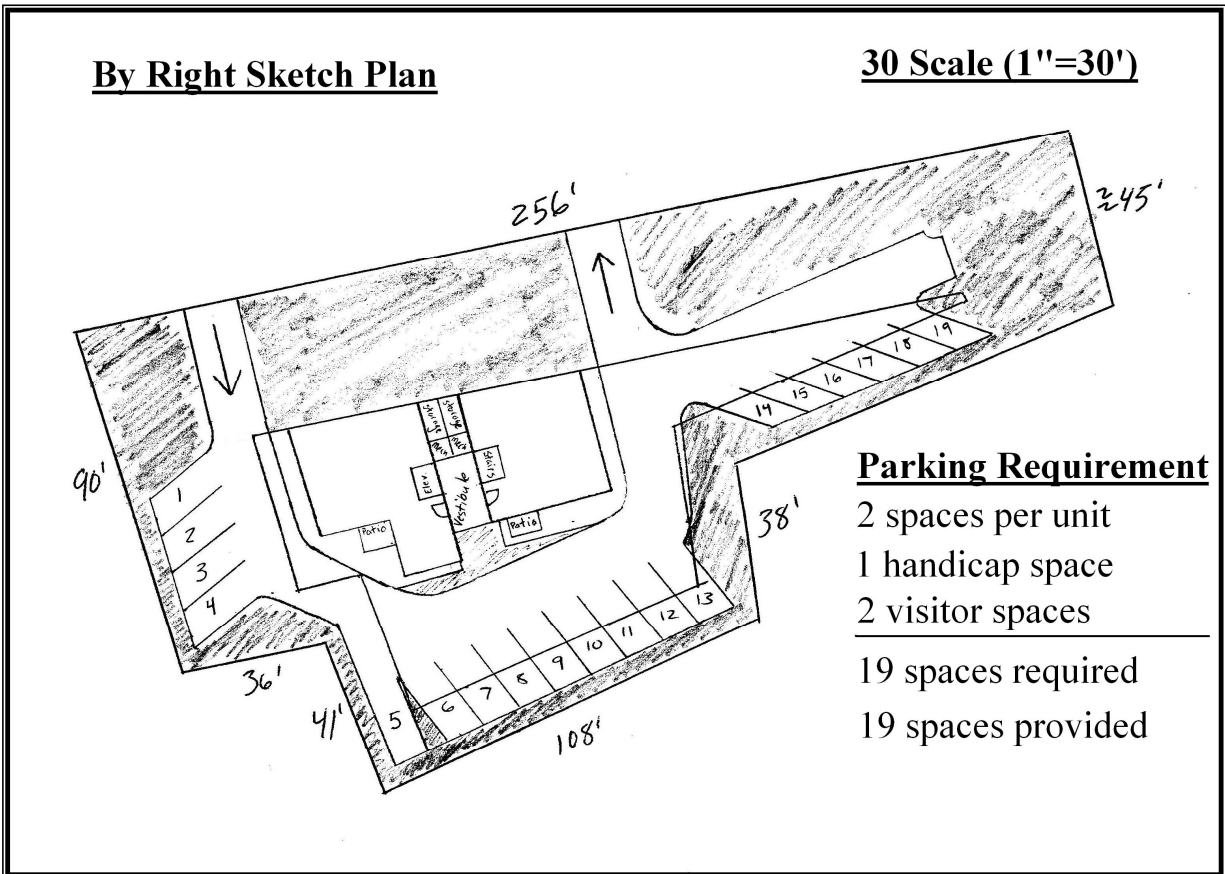
R-3 Zone- Uses & Requirements

- Minimum Lot Area per Dwelling: 2,500 sf
- Maximum Lot Coverage: 40%
- Front Yard Setback: 35 feet
- Side Yard Setback: 15 feet
- Rear Yard Setback: 35 feet
- Parking spaces and access drives must be at least 5 feet from any lot line
- Parking spaces are not allowed within any front yard areas in DC zone

Parking Requirements

- Parking spaces and access roadways must be 5' from property boundaries
- 2 spaces per unit
- 0.2 spaces per unit for visitors which equals 2 spaces
- 1 handicap space

By-Right Sketch Plan



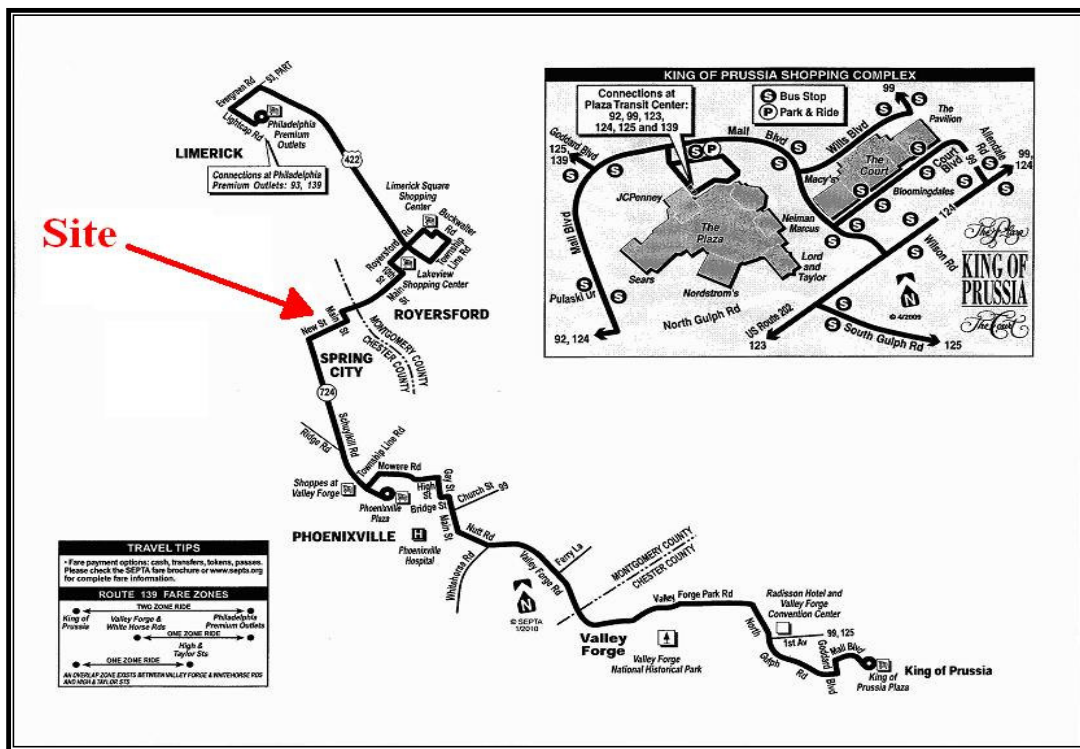
The apartment building will be accessed from the parking lot which is to the rear and sides of the building. The ingress and egress to the property's parking lot will be from a private one way driveway. The driveway's entrance off of Yost Road will be on the western side of the lot away from Market Street. Cars will exit the property on to Yost Road which will be on the eastern side of the lot closer to Market Street.

Transportation

The property is centrally located in that can be easily accessed from the areas major traffic routes. From Market Street, travelers can take New Street to Rt. 724 which leads to Pottstown to the north and to Rt. 23 which leads to Phoenixville to the south. Going east on Market Street

travelers can cross the bridge over the Schuylkill River into Royersford. Main Street in Royersford leads to Rt. 422. Taking Rt. 422 to the north will take travelers to Pottstown and Reading. Taking Rt. 422 to the south will lead travelers to King of Prussia which has a interchange for the Pennsylvania Turnpike as well as the beginning of I-76, the Schuylkill Expressway, which can take travelers into Philadelphia and then over to New Jersey. There is public transportation available in Spring City. There is a SEPTA (South Eastern Public Transportation Authority) bus stop at the intersection of Main and New Streets. This stop is part of the bus route that takes travelers to and from Limerick and King of Prussia.

SEPTA Bus Route 139



Utilities

The development will be served by public utilities. The apartment building will be set up where each tenant will be responsible water, gas and electric. The owner will be responsible for sewer and trash removal. The following utilities will be served by the following providers:

- Water- Pennsylvania American Water (Tenant’s Responsibility)
- Electric & Gas- PECO (Tenant’s Responsibility)
- Sewer- Spring City Borough (Landlord’s Responsibility)
- Trash- A.J. Blosenski Trash (Landlord’s Responsibility)

Impact Fees

The only impacts fees that will be due at the time of construction will be for a sewer tap-in fee. The cost of each sewer EDU is \$4,000 which means for a total cost of \$32,000 to gain access to the public sewers. For the moment, Spring City Borough has a sewer moratorium preventing any new developments from hooking into the sewer system. According to township engineers, this moratorium will be in place for the next couple of years as a new treatment plant with more capacity has to be designed, approved, financed and constructed. This sewer moratorium by itself makes this development impossible for next few years. The entitlement process should not begin until there is a definite date of when the sewage treatment plant will be online and able to handle new sewer flows. To spend money on soft costs while there is no set end date for the completion of the work would be foolish. If this development were to proceed with this knowledge, the agreement would have to be structured very liberally in favor of the developer where there is either no or very little money at stake.

History of Spring City

The origins of Spring City date back to the 1800's, when the town used to be called Springville. The town received its name from the many springs in the area. The town abuts the Schuylkill River which is a natural boundary of the town on the east side. In the 1820's a canal was built alongside the Schuylkill River which helped lead to the development of new businesses. The town has roots as a working blue collar town and some of the town's early businesses were as a result of the access to the canal. Some of Spring City's businesses were the American Paper Company, Spring City Stove Company and Valley Forge Flag Company. Other businesses that called Spring City home were Spring City Knitting Company, glass making, knitting mills and a shirt factory. In 1884 the Pennsylvania Railroad built a train line that went from Philadelphia to Reading and had a train station stop in Spring City. After the development of the train line, the demand for the Schuylkill Canal declined and use of the canal for business purposes ended in the 1920's. The rail line through Spring City connected Philadelphia and Reading and provided residents an easy way to access public transportation to and from Philadelphia and Reading. Unfortunately over time the demand for this line decreased and rail operations ceased and was officially declared abandoned in 1980.

School District

Spring City is part of the Springford School District which serves residents of both Chester and Montgomery Counties. The Springford School District was formed in 1955 which is what brought the residents of the two counties together. Springford School District has a statewide ranking of 40 when compared to over 500 hundred other school districts meaning they are in the 10% of school districts in the state.

Property & Local Earned Income Taxes

The development's property taxes would be levied from its assessed value when multiplied by the total millage rate of 31.406. This millage rate accounts for the following tax rates:

- County: 3.965
- Borough: 3.15
- School District: 24.291

Residents of Spring City are responsible for an earned income tax that is 1% of the resident's income. 0.5% goes to Spring City Borough and 0.5% goes to the Springford School District. With this development, the landlord will be responsible for paying the yearly property taxes on the property which are estimated to be \$9,917 per the cash flow spreadsheet. Residents of the apartment building will then be responsible for paying the 1% earned income tax when they file their yearly tax return.

Location within Spring City

The property is centrally located in the center of the Spring City Borough. The property is surrounded by properties that have been previously developed making this an ideal infill development. There are residential homes that abut the property on the east and south side. These homes are accessed from Market Street and New Street. There is a tree line along the property line south side of the property that buffers the view to the homes that back up to the property. On the west side of the property there is a 6 unit apartment building that fronts Church Street. To the north on the other side of Yost Street is a lot that has grass and trees which is part of the Flag House Apartments property. The trees create a nice buffer in that they provide coverage in looking at the Flag House Apartments.

Market Analysis

According to Marcus & Millichap's 2011 annual multifamily report for the Philadelphia area, they are predicting that the area "...will continue to settle into its traditional pattern of limited development, steady tenant demand and rising rents in 2011." With this information, new multifamily development should be in demand as potential tenants will prefer new construction over older existing apartments which will be the case especially in infill locations.

Marcus and Millichap's report goes into further detail describing that the Philadelphia market is an ideal place to be an owner of multifamily properties. A few key items noted in the report are that the forecasted vacancy rate will drop to an expected 3.9% based on the slowdown of new construction and increased demand. The asking rents will rise 3.5% and that effective rents will increase 4.1%. With this information comparing the Philadelphia market on a national scale, the area competes well in that Philadelphia is ranked 6th in lowest expected vacancy rates and 2nd in highest expected absorption. The Marcus and Millichap report also states that there will be an increase in employment by 1% in 2011 which will equate to an additional 28,000 jobs to the area.

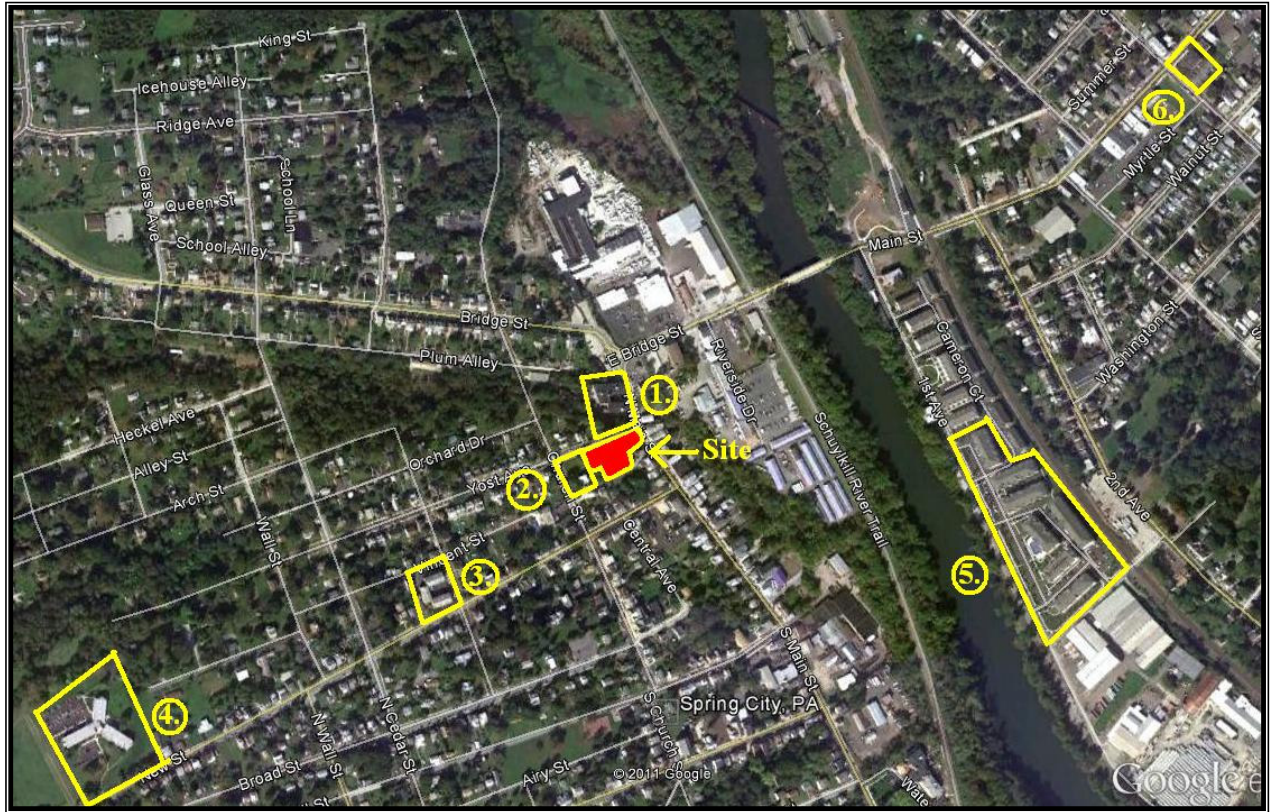
As part of the Marcus and Millichap report on the national overview of multifamily they say "...investors will move down the quality chain in search of stronger yields, resulting in more sales in the Class B and B- categories." This information confirms the belief that this property should be redeveloped with an apartment building that can compete against other older Class B apartments.

Information on a competing property was obtained from the leasing manager, Leah Carney, from The Pointe at Glen River apartment complex. The Pointe at Glen River is a large complex that was built in 2009 by Greystar. At the time of the interview with the leasing manager, their 2 bedroom/2 bathroom units were leasing for approximately \$1,400 per month. The leasing manager also added that they average about 10 new tenants per month and are 90% of the units are leased. With basing the lease up time and absorption for the proposed 8 units, even if 20% of the 10 new tenants from Glen River's average could be achieved; that would be 2 new tenants per month which would average a 4 month lease up period.

Based on the information for the Philadelphia market, this proposed apartment building will compete well among its competition. The proposed asking rent for the units will be \$1,250 per month. This asking rent has been determined based on the competition at the following

competing properties along with the amenities of each unit which was discussed earlier in the Development Program.

Map of Competing Apartment Properties



Competing Properties

1. Flag House Apartments for Seniors- 58 apartments for low income seniors. Former Flag Company factory converted to apartments in 2000.
2. 175 N. Church Street- Small 6 unit apartment building built in 1967.
3. 120 N. Penn Street- 33 units offering 1 & 2 bedroom apartments built in 1969.
4. Vincent Heights Seniors Housing- 91 apartments for seniors built in 1982. Offers subsidized and Section 8 housing.
5. The Pointe at Glen River in Royersford- 216 apartments developed in 2009 by Greystar.
6. 400 Main Street, Royersford- 15 apartments built in 1982.

Demographics

The trade market will come from potential tenants looking to move to the eastern part of Chester County and western part of Montgomery County. The population of Spring City consists of approximately 3,323 based on 2010 census. The town also has a reported average household

income of \$55,117 from 2010. As noted earlier, Spring City is a small borough centrally located around other towns which makes it an ideal to candidate to redevelop the property in an infill location. On the other side of the Schuylkill River the town of Royersford has an estimated population of 4,752 based on the 2010 census. Together these two towns create a nice base of potential tenants.

Employers

There are a vast amount of large employers in the area that are within a 20 to 30 minute commute for a tenant. These employers provide a great base in terms of local employment and because of the location of the property; tenants can have access to employers in both Chester and Montgomery Counties.

Large Chester County Employers

- The Vanguard Group- Financial Services Headquarters
- QVC- Television and Online Retailer Headquarters
- Siemens- Healthcare Industry
- Centocor- Pharmaceutical Biotech Company
- Cephalon- Pharmaceutical Biotech Company
- Shire- Pharmaceutical Biotech Company
- Great Valley Corporate Center- A 700 acre corporate center where more than 20,000 people work.

Large Montgomery County Employers

- Glaxo Smith Kline- Pharmaceutical Biotech Company
- Wyeth- Pharmaceutical Biotech Company
- Pfizer- Pharmaceutical Biotech Company
- Merck- Pharmaceutical Biotech Company
- SEI Investments- Financial Services Headquarters
- GSI Commerce- Ecommerce Technology
- Lockheed Martin- National Defense Technology

Traffic Counts

With the property being located in the center of Spring City, there is good flow of traffic that drive by the site. The traffic on Market Street typically flows from Rt. 724 and from Market Street in Royersford which is on the other side of the Schuylkill River. The average daily vehicle

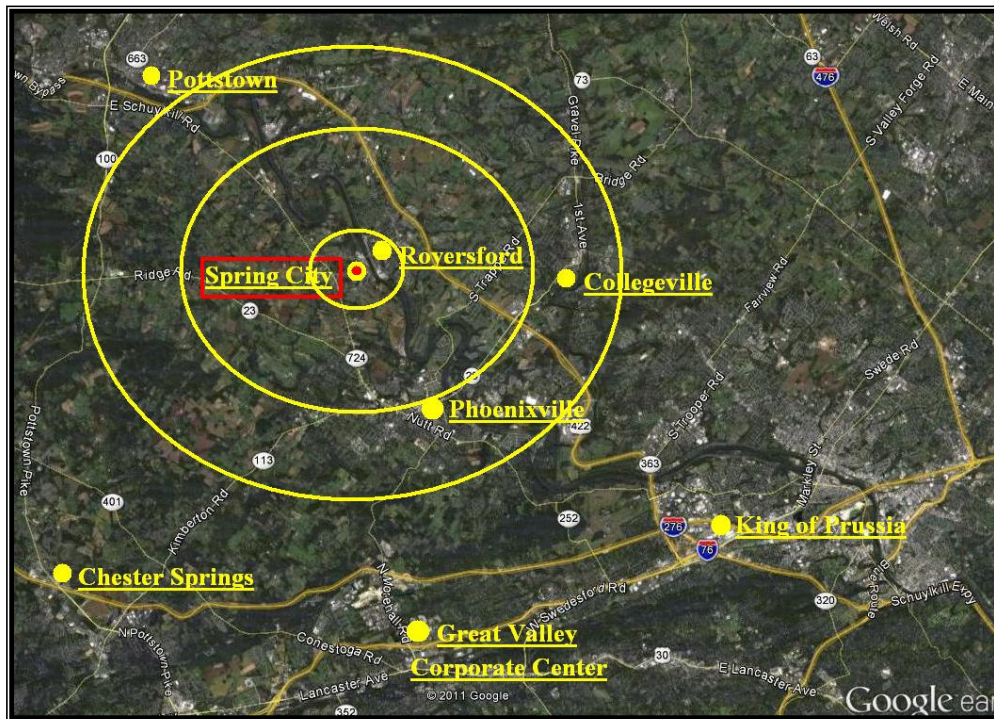
count for Market Street is 5,624. This is based on a traffic study done by the Delaware Valley Regional Planning Commission on 9/22/2009. With this information for the vehicle count, it displays enough traffic passing by to entice new tenants while being centrally located to the area's top employers.

Apartment Unit Finishes

The interior finishes of the units will be modern while also being economical. As noted in the Development Program section, the units will offer 9' ceilings, washer & dryer in the units, walk-in closets and modern kitchens with 42" cabinets, recessed lights and black appliances.

Depending on the competition, interior finishes of the competing properties range from very basic units to units of newer built apartments that will have similar finishes. The Pointe at River Glen is a newer large apartment community that offers many of the same interior features. As confirmed by a leasing manager for the complex, The Pointe at River Glen offers full size washer & dryer in the unit, dark wood cabinets in the kitchen along with black appliances, track lighting, crown moulding and storage in each unit. Based on this information, this development will surpass the older competition as well as compete with the newer larger apartment complexes in the area.

Spring City & Royersford Trade Area



With looking at the map, the trade area for Spring City shows it being centrally located among other nearby towns. The radiuses around Spring City represent approximately 1, 3 and 5 miles for the trade area. All of these neighboring towns offer a good base of employment and are homes to some very large corporations which were discussed earlier. The map also shows how Spring City can easily be accessed by major routes of transportation with such roads as Rt. 724 and Rt. 422.

Development Issues

Once the property were to be put under contract, the due diligence period would begin which would include the identification of any environmental issues. This would be done through an Environmental Phase I report. This report would provide an analysis that would point out any environmental issues that are either located on or around the property. If potential issues were identified with the Phase I report, a Phase II investigation would be performed. Since this property is in an infill location and has been used as a parking lot, it is necessary to perform these environmental tests early in the process to ensure that the acquisition of the property would not be affected by past contamination.

The development of this property will entail the typical hurdles that most developers face when getting approvals for a residential development. Land development approvals will be needed from Spring City Borough's Planning Commission and Board of Supervisors. As a formality, an approval from the Chester County Planning Commission will also be needed. The county planning commission is more of a formality to ensure the development is inline with the township and county's zoning.

While also going through the approval process with the local municipality, approvals will be needed from Pennsylvania's Department of Environmental Protection (DEP). The DEP is concerned wetlands delineation which this property happens to have none. The DEP also requires the developer to submit a 537 Sewer Planning Module which documents where the development's sewage will flow to and where the sewage will be treated and released. All new developments, residential and commercial, are required to document where their sewer effluent will flow. Lastly, the DEP needs to review and approve the development's NPDES (National Pollutant Discharge Elimination System) permit which is a prerequisite prior to the commencement of the development's site improvements beginning.

As the approval process begins the site would be engineered by a civil engineer that would design the storm water management system and grading. As the engineer designs the site, the obstacles they will be challenged with will be designing the storm water management system which will have to be an underground system because of the constraints of the lot size.

Percolation tests will have to be performed prior to the design to ensure that the ground is able to absorb the storm water of the site. Most likely the management system will be located on the eastern portion of the lot which is where the lot slopes down to.

Along with the storm water management system, the other obstacle the engineer will be faced with is the grading of the site because of the lot's sloping topography. With managing the sloping lot and determining the first floor height of the apartment building, the engineer will have to grade the property to limit the amount of excess soil that will be produced as well as limiting the installation of any retaining walls. If the property is not graded properly and there is a lot of excess soil, retaining walls may be needed and those two items will increase the budget for site improvements.

The Americans with Disabilities Act (ADA) requires that apartments have access for potential tenants that are disabled. With the grading plan the engineer would make sure the first floor apartment can be accessed by wheel chairs. This will be done through having curb depressions to allow for wheel chairs to enter the building without any obstructions.

The last obstacle in developing this property is obtaining financing for the construction as well as obtaining a permanent loan once construction is complete. A financing source that is currently lending on multifamily properties is Meridian Bank based in Devon, PA. Geoff Sheehan, an Assistant Vice President at the bank said Meridian Bank is currently lending on multifamily properties for construction and permanent loans with the following terms:

Construction Loan Terms:

- 75% of the lot purchase and construction costs.
- Developer covers all out of pocket expenses (Upfront soft costs)
- Rate is variable tied to the prime interest rate. With this low interest rate environment the bank requires a floor to be set for the interest rate.
- Term: 1 year balloon with a 6 month extension, if needed. Extension fees will be ¼ to 1 point depending on the circumstances. At the end of the extension period the interest reserve would run out and carry costs would be paid out of pocket.

- 1% Origination Fee
- Personal guarantee of partners of LLC
- Developer covers all out of pocket expenses (Upfront soft costs)
- Construction loan has the ability to be converted over to a permanent loan.

Permanent Loan Terms:

- 75% Loan to Value
- Rate of 6.5% as of October 2011
- 25 Year Amortization with a 10 year term and rate reset after 5 years
- 1.25 Minimum Debt Coverage Ratio
- 1% Origination Fee
- Personal guarantee of partners of LLC
- Developer covers all out of pocket expenses (Upfront soft costs)

Other issues that will be faced for the development of the property are the characteristics of the property itself. It has an irregular shape, slopes from the west to the east and has constraints based on setbacks of the zoning ordinance. There are 2 units on each floor is because of the tight building envelope. The building envelope is constrained because of two reasons. First, the zoning requires a front yard setback of 35' which is very large considering this property is set in a downtown setting. Considering the property is located in a downtown setting the front yard setback is the complete opposite of what should be required for an urban setting where the building should be located close to the street front. Second, the lot has an irregular shape which makes it tough to fit a typical garden style apartment building.

Development & Construction Costs

The first part of the development process for the property will entail a lot of upfront soft costs. These soft costs will include upfront fees for land planner/engineer, architectural/structural engineer, legal counsel, governmental permitting and impact fees. The soft costs were noted in the cash flow analysis. The fees are estimated at \$67,000 which are numbers based on past experience for the development of other small sized properties in an infill location. (See Exhibit 'E')

As the property is developed hard costs will be incurred for the site improvements and construction of the building itself. These fees have been estimated in the cash flow analysis

based on past experience and from consultants and contacts such as Peter Batchelor who is a local architect and Harry Pettyjohn who is a builder for Pulte Homes of the Delaware Valley. The construction will be contracted and managed by JBA Properties Ltd. The company has experience in managing small development projects which this project fits into their criteria. By having the development managed and contracted by JBA Properties, this will help with keeping the construction costs down and maintain the schedule to get the construction work done on time.

Financial Analysis

Financial cash flow models were performed to mimic three different scenarios based on a stabilized cash flow and occupancy. The three scenarios were for the expected, best and worst possible results for the development. The cash flow performas show gross potential income, net operating income, income after financing, valuation based on capitalization rates, cash on cash return, internal rate of return and debt coverage ratio.

The first analysis that was completed was for the “Expected” scenario which are based on the current rental market for the region and for specific trade area. (See Exhibit ‘A’) This analysis shows a monthly rent of \$1,250, vacancy at 5% which has a gross income of \$114,000. After expenses the expected NOI is \$81,583. The cash flow after financing leaves \$4,040. Based on the NOI with a cap rate of 7%, the development will have a value of \$1,165,466 after the 1st year of stabilized income. The difference in value from the 1st year’s NOI and the cost of the development is (\$110,556).

The second analysis illustrates the “Best” scenario of what could happen after stabilized cash flow is reached. (See Exhibit ‘B’) Monthly rent is listed at \$1,400 per month which is based on the competition at Glen Pointe renting their units for over \$1,400 per month. Vacancy has been factored at 3.9% which was taken from the Marcus and Millichap 2011’s Market Outlook report for vacancy forecast. The gross income is forecasted at \$134,400. After expenses the expected NOI is \$96,021 and after financing that leaves \$18,479. Based on the NOI with a cap rate of 6%, the development will have a value of \$1,600,350 after the 1st year of stabilized income. The difference in value from the 1st year’s NOI and the cost of the development is \$324,328.

The third analysis shows the ‘Worst’ scenario of what may happen if the market down for multifamily in the marketplace. (See Exhibit ‘C’) For this scenario monthly rent has been reduced to compete with the inventory of the existing older units. The monthly rent is listed as \$1,050 and vacancy is increased to 10%. The gross income is projected to be \$100,800. After

expenses the expected NOI is \$59,263. Then after financing there would be a loss of (\$18,280). Based on the NOI with a cap rate of 9%, the development will have a value of \$658,473 after the 1st year of stabilized income.

An amortization schedule based on 25 years has also been included with the financial analysis. Exhibit 'D' shows the first few years of how the monthly payment is split between interest and principal. It shows the pace at which the principal amount is paid down as well as to show how much interest is paid back to the lender.

Outside of the financial cash flow analysis, this development needs a minimum of 25% of equity plus closing costs and fees to proceed forward. The ownership structure would be in the form of an LLC, limited liability company, which would be a single purpose entity for this particular development. The LLC needs to contribute the 25% equity through the LLC's partners and if needed, outside investors. The LLC would be managed by JBA Properties Ltd., which is a small family owned real estate development and management company. The equity needed for the development to move forward would come from JBA Properties Ltd., employees and owners of JBA Properties Ltd. and then lastly from outside investors if equity is still needed.

With structuring the acquisition of the property and later developing the property from raw ground to a finished product, equity will be needed along the way to keep the project moving forward.

Initially with acquiring the property, the LLC would put a \$12,000 deposit up as the good faith deposit to get the property under agreement. This would be 10% of the \$120,000 sales price and should be adequate to hold the property until all approvals and permits for development have been obtained. The timing of approvals would need to coincide with the approvals and construction of the upgraded sewage treatment plant. With the property under contract, all upfront costs and fees for entitlements will have to be paid out of pocket by either JBA Properties Ltd. or from the partners of the LLC.

Once the development is ready for construction to begin, the closing for the property will take place along with the closing for the construction loan. At closing the remaining portion of the 25% equity and closing costs will be needed from the partners and investors.

After the construction is completed and the lease up period is over, stabilized occupancy and rent should be achieved a permanent loan will be put on to the property. The permanent loan will be based on terms from Meridian Bank that were discussed earlier.

Project Management Plan

The development will be managed from the entitlement phase, to the construction stage to stabilized occupancy by JBA Properties Ltd. JBA Properties Ltd. is a family owned real estate development and management company that has experience in residential, multifamily, office and retail properties.

A management fee of 5% will be charged by JBA Properties Ltd. to the development's LLC. The management fee will cover the property's financial accounting, leasing along with contracting with trades to ensure the property is well maintained. Because of the small size of the development there are no economies of scale to pay for an onsite manager to watch over the property. The management company is local to the property and is hands on in making sure their investment is properly maintained.

The property's accounting will be managed through Quickbooks which has proven to be an effective way to track the financial performance of other income producing properties. Using Quickbooks helps maintain the ability to keep costs low instead of utilizing a larger and more expensive software package.

Conclusion & Recommendations

With reviewing the potential outcomes from the three different cash flow analyses, the development of this property should NOT proceed if the numbers from the 'Expected' scenario are achieved. Under the expected outcome, initially the project will not work but as time goes on it would start will not be an overwhelming success. There are several reasons to why this project is not feasible.

- There is approximately \$4,000 of positive cash flow after financing for the first year.
- The bank would not finance the project with an initial debt coverage ratio of 1.05.
- Even if the numbers were to work, the sewer moratorium will not allow connections because of the lack of capacity at the treatment plant. New capacity is years away.

Even with the best case scenario, the results are far from being amazing. The first year of the cash flow only has a little bit of after financing cash flow left over. The only upside to this scenario is that some cash is generated and the mortgage will be paid down but there will not be a huge return on the equity that was invested. As expected with the 'Worst' case scenario, this development should be scrapped.

Based on the Marcus and Millichap report, if construction costs were less and a more traditional garden apartment could be developed, this could prove to be a worthwhile investment for an investor. With the property's central location and barriers to entry, this property has potential to be a great development but under the current zoning and costs.

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Exhibit 'A'

Spring City Apartments- Expected Cash Flow

Operating Data	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
# Apts.	8									
Monthly Rent	\$ 1,250									
Annual Rent	120,000									
Annual Rent Increase	3.5%									
Income										
Rental Income (Increase 3.5%/yr)	\$ 120,000	\$ 124,200	\$ 128,547	\$ 133,046	\$ 137,703	\$ 142,522	\$ 147,511	\$ 152,674	\$ 158,017	\$ 163,548
Vacancy 5%	6,000	6,210	6,427	6,652	6,885	7,126	7,376	7,634	7,901	8,177
Gross Income	114,000	117,990	122,120	126,394	130,818	135,396	140,135	145,040	150,116	155,370
Expenses										
Real Estate Taxes	\$ 9,917	\$ 10,165	\$ 10,419	\$ 10,680	\$ 10,947	\$ 11,221	\$ 11,501	\$ 11,789	\$ 12,083	\$ 12,385
Insurance	3,000	3,075	3,152	3,231	3,311	3,394	3,479	3,566	3,655	3,747
Trash Collection (\$250/unit)	2,000	2,020	2,040	2,061	2,081	2,102	2,123	2,144	2,166	2,187
Common Utilities	2,400	2,472	2,546	2,623	2,701	2,782	2,866	2,952	3,040	3,131
Management Fee (5%)	6,000	6,210	6,427	6,652	6,885	7,126	7,376	7,634	7,901	8,177
Repairs/Maintenance	2,400	2,448	2,497	2,547	2,598	2,650	2,703	2,757	2,812	2,868
Turnover/Redecorating	2,000	2,020	2,040	2,061	2,081	2,102	2,123	2,144	2,166	2,187
Snow Removal	1,500	1,530	1,561	1,592	1,624	1,656	1,689	1,723	1,757	1,793
Landscaping	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390
Admin Fees	1,200	1,212	1,224	1,236	1,249	1,261	1,274	1,287	1,299	1,312
Total Expenses	\$ 32,417	\$ 33,192	\$ 33,988	\$ 34,804	\$ 35,642	\$ 36,503	\$ 37,386	\$ 38,292	\$ 39,223	\$ 40,179
										\$ 1,645,589
										\$ 57,596
Net Operating Income	(1,276,022)	\$ 81,583	\$ 84,788	\$ 88,132	\$ 91,590	\$ 95,175	\$ 98,894	\$ 102,749	\$ 106,747	\$ 110,893
										\$ 115,191
Property Value @ 7.0%	\$ 1,165,486	\$ 1,211,395	\$ 1,259,028	\$ 1,308,424	\$ 1,359,648	\$ 1,412,767	\$ 1,467,848	\$ 1,524,963	\$ 1,584,184	\$ 1,645,589
IRR	8.451%									
NPV	6.5%	687,663								
Net Operating Income	\$ 81,583	\$ 84,798	\$ 88,132	\$ 91,590	\$ 95,175	\$ 98,894	\$ 102,749	\$ 106,747	\$ 110,893	\$ 115,191
Yearly Debt Service	77,542	77,542	77,542	77,542	77,542	77,542	77,542	77,542	77,542	77,542
Net Cash Flow	4,040	7,256	10,590	14,048	17,633	21,352	25,207	29,205	33,351	37,649
Cash on Cash Return	1%	2%	3%	4%	6%	7%	8%	9%	10%	12%
Debt Coverage Ratio	1.05	1.09	1.14	1.18	1.23	1.28	1.33	1.38	1.43	1.49

Operating Data	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Terminal Cap Rate:			7%							

Exhibit 'B'

Spring City Apartments- Best Case Cash Flow

Operating Data	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
# Apts.	8									
Monthly Rent	\$ 1,400									
Annual Rent	134,400									
Annual Rent Increase	5.0%									
Income										
Rental Income (Increase 5%/yr)	\$ 134,400	\$ 141,120	\$ 148,176	\$ 155,585	\$ 163,364	\$ 171,532	\$ 180,109	\$ 189,114	\$ 198,570	\$ 208,499
Vacancy 3.9%	5,242	5,504	5,779	6,068	6,371	6,690	7,024	7,375	7,744	8,131
Gross Income	129,158	135,616	142,397	149,517	156,993	164,842	173,085	181,739	190,826	200,367
Expenses										
Real Estate Taxes	\$ 9,917	\$ 10,165	\$ 10,419	\$ 10,680	\$ 10,947	\$ 11,221	\$ 11,501	\$ 11,789	\$ 12,083	\$ 12,385
Insurance	3,000	3,075	3,152	3,231	3,311	3,394	3,479	3,566	3,655	3,747
Trash Collection (\$250/unit)	2,000	2,020	2,040	2,061	2,081	2,102	2,123	2,144	2,166	2,187
Common Utilities	2,400	2,472	2,546	2,623	2,701	2,782	2,866	2,952	3,040	3,131
Management Fee (5%)	6,720	7,056	7,409	7,779	8,168	8,577	9,005	9,456	9,929	10,425
Repairs/Maintenance	2,400	2,448	2,497	2,547	2,598	2,650	2,703	2,757	2,812	2,868
Turnover/Redecorating	2,000	2,020	2,040	2,061	2,081	2,102	2,123	2,144	2,166	2,187
Snow Removal	1,500	1,530	1,561	1,592	1,624	1,656	1,689	1,723	1,757	1,793
Landscaping	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390
Admin Fees	1,200	1,212	1,224	1,236	1,249	1,261	1,274	1,287	1,299	1,312
Total Expenses	\$ 33,137	\$ 34,038	\$ 34,969	\$ 35,931	\$ 36,925	\$ 37,953	\$ 39,016	\$ 40,114	\$ 41,251	\$ 42,427
Net Operating Income	\$ 96,021	\$ 101,578	\$ 107,428	\$ 113,586	\$ 120,068	\$ 126,889	\$ 134,069	\$ 141,624	\$ 149,575	\$ 157,940
Property Value @ 6%	\$ 1,600,350	\$ 1,692,967	\$ 1,790,466	\$ 1,893,098	\$ 2,001,126	\$ 2,114,824	\$ 2,234,483	\$ 2,360,406	\$ 2,492,913	\$ 2,632,341
IRR	13.302%	Terminal Cap Rate:	5.5%							
NPV	6.5%	872,390								
Net Operating Income	\$ 96,021	\$ 101,578	\$ 107,428	\$ 113,586	\$ 120,068	\$ 126,889	\$ 134,069	\$ 141,624	\$ 149,575	\$ 157,940
Yearly Debt Service	77,542	77,542	77,542	77,542	77,542	77,542	77,542	77,542	77,542	77,542
Net Cash Flow	18,479	24,036	29,886	36,044	42,525	49,347	56,527	64,082	72,033	80,398
Cash on Cash Return	6%	8%	9%	11%	13%	15%	18%	20%	23%	25%
Debt Coverage Ratio	1.24	1.31	1.39	1.46	1.55	1.64	1.73	1.83	1.93	2.04

92,132 selling costs
\$ 2,540,209

Exhibit 'D'

Spring City Apartments- Amortization Table

Loan Amount	\$ 957,017
Annual Interest Rate	6.50%
Years	25
Number of Payments per Year	12

Loan Amount	\$ 957,017
Interest Rate	0.54%
Term	300
Debt Serv. Monthly	\$6,462
Debt Serv. Yearly	\$77,542

Period	Amount Outstanding	Debt Service	Principal	Interest	Periods Remain	Accum Principal	Accum Interest
0	957,016.68				300	-	-
1	955,738.67	6,461.85	1,278.00	5,183.84	299	1,278.00	5,183.84
2	954,453.75	6,461.85	1,284.93	5,176.92	298	2,562.93	10,360.76
3	953,161.86	6,461.85	1,291.89	5,169.96	297	3,854.82	15,530.72
4	951,862.97	6,461.85	1,298.89	5,162.96	296	5,153.70	20,693.68
5	950,557.05	6,461.85	1,305.92	5,155.92	295	6,459.63	25,849.60
6	949,244.06	6,461.85	1,312.99	5,148.85	294	7,772.62	30,998.45
7	947,923.95	6,461.85	1,320.11	5,141.74	293	9,092.73	36,140.19
8	946,596.70	6,461.85	1,327.26	5,134.59	292	10,419.98	41,274.78
9	945,262.25	6,461.85	1,334.45	5,127.40	291	11,754.43	46,402.18
10	943,920.57	6,461.85	1,341.67	5,120.17	290	13,096.10	51,522.35
11	942,571.63	6,461.85	1,348.94	5,112.90	289	14,445.05	56,635.25
12	941,215.38	6,461.85	1,356.25	5,105.60	288	15,801.30	61,740.85
13	939,851.79	6,461.85	1,363.60	5,098.25	287	17,164.89	66,839.10
14	938,480.81	6,461.85	1,370.98	5,090.86	286	18,535.87	71,929.96
15	937,102.40	6,461.85	1,378.41	5,083.44	285	19,914.28	77,013.40
16	935,716.53	6,461.85	1,385.87	5,075.97	284	21,300.15	82,089.37
17	934,323.14	6,461.85	1,393.38	5,068.46	283	22,693.53	87,157.83
18	932,922.22	6,461.85	1,400.93	5,060.92	282	24,094.46	92,218.75
19	931,513.70	6,461.85	1,408.52	5,053.33	281	25,502.98	97,272.08
20	930,097.55	6,461.85	1,416.15	5,045.70	280	26,919.12	102,317.78
21	928,673.74	6,461.85	1,423.82	5,038.03	279	28,342.94	107,355.81
22	927,242.21	6,461.85	1,431.53	5,030.32	278	29,774.47	112,386.12
23	925,802.93	6,461.85	1,439.28	5,022.56	277	31,213.75	117,408.69
24	924,355.85	6,461.85	1,447.08	5,014.77	276	32,660.83	122,423.45
25	922,900.93	6,461.85	1,454.92	5,006.93	275	34,115.75	127,430.38
26	921,438.13	6,461.85	1,462.80	4,999.05	274	35,578.55	132,429.43
27	919,967.41	6,461.85	1,470.72	4,991.12	273	37,049.27	137,420.55
28	918,488.72	6,461.85	1,478.69	4,983.16	272	38,527.96	142,403.71
29	917,002.02	6,461.85	1,486.70	4,975.15	271	40,014.66	147,378.85
30	915,507.27	6,461.85	1,494.75	4,967.09	270	41,509.41	152,345.95
31	914,004.42	6,461.85	1,502.85	4,959.00	269	43,012.25	157,304.94
32	912,493.44	6,461.85	1,510.99	4,950.86	268	44,523.24	162,255.80
33	910,974.26	6,461.85	1,519.17	4,942.67	267	46,042.42	167,198.47
34	909,446.86	6,461.85	1,527.40	4,934.44	266	47,569.82	172,132.92
35	907,911.19	6,461.85	1,535.67	4,926.17	265	49,105.49	177,059.09
36	906,367.19	6,461.85	1,543.99	4,917.85	264	50,649.48	181,976.94
37	904,814.84	6,461.85	1,552.36	4,909.49	263	52,201.84	186,886.43
38	903,254.07	6,461.85	1,560.76	4,901.08	262	53,762.60	191,787.51
39	901,684.85	6,461.85	1,569.22	4,892.63	261	55,331.82	196,680.14
40	900,107.14	6,461.85	1,577.72	4,884.13	260	56,909.54	201,564.26
41	898,520.87	6,461.85	1,586.26	4,875.58	259	58,495.81	206,439.84
42	896,926.01	6,461.85	1,594.86	4,866.99	258	60,090.66	211,306.83
43	895,322.52	6,461.85	1,603.50	4,858.35	257	61,694.16	216,165.18
44	893,710.34	6,461.85	1,612.18	4,849.66	256	63,306.34	221,014.84
45	892,089.42	6,461.85	1,620.91	4,840.93	255	64,927.26	225,855.78

Exhibit 'E'

Spring City Apartments

Lot Size	.54 Ac
Usable Acreage (Approximate)	.54 Ac
40% Impervious Coverage- Lot	9,409 sf

Residential Units (2 bed/2 bath units)	8
Square Feet per Unit	1,050
	<u>8,400</u>

Residential Common Area	200
Building Footprint	2,100
Building Footprint Total	<u>2,300</u>

Residential (2 spots per unit plus 2 for visitors & 1 handicap)	19
180 sf per space (18'x10')	3420
Access & Drive Lanes (estimate)	3030
Total Paving	<u>6450</u>

Total Impervious Coverage	<u>8,750</u>
---------------------------	--------------

Soft Costs

Engineering	\$ 15,000
Legal	5,000
EDU's (\$4,000/edu)	32,000
Architect & Structural Engineer	15,000
Total	<u>67,000</u>

Hard Costs

Site Improvements

Earthwork	\$ 40,000
Storm Water Mngt	75,000
Sanitary Sewer	20,000
Paving & Curbing	20,000
Sidewalks (15'x15') @ \$4/sf	2,000
Landscaping	5,000
Total	<u>162,000</u>

Building Construction

Apartment Build Cost @ \$105/sf	\$ 882,000
This also includes common space/vestibule, stairs & elevator	
Sub Total	<u>\$ 1,111,000</u>

Upfront Purchase Costs

Lot Purchase Price (\$15,000/unit)	120,000
Transfer Tax (1% of sale price)	1,200
Title Insurance (Basic Rate)	958.75
Miscellaneous Closing Costs	3,000
Loan Fee @ 1% based on value from 1st year's cash flow	8,741
	<u>133,900</u>

Cost to Build & Finance	\$ 1,244,900
Contingency @ 2.5%	\$ 31,122.49
Total:	<u>\$ 1,276,022</u>

Equity needed for Permanent Financing 75% LTV	\$ 319,006
Loan Amount	\$ 957,017

Exhibit 'F'

Cornerstone Realtors

Member Full Report courtesy of: Byron Anstine
1 to 1 of 1 Listings

Office: (484) 716-3788
Mobile Phone: (610) 420-6736
E-mail: banstine@comcast.net

1) **200 N Main St, Spring City, PA 19475** **COM ACT** **\$145,000.00**

MLS #:	5905857	\$/SqFt:	
MLS Area:	10314	#Bldgs/Units:	0 /
	Spring City Boro	#Stories:	
County:	Chester	Type:	
Tax ID #:	14-04 -0200	Age:	
Subdiv / Nei:	None Available	Sale/Ls/Both:	S
School Dist:	Springford	Land Only:	Y
Bldg/Center:		Wtrfront:	N
Approx Dim:	0x0	Land SqFt:	23,694
Acres:	0.54	BldgSqFt:	
		Internet:	Y / Y

Directions

Property is located at the corner of Main St. & Yost Ave.
Cross Street: Yost **Map Grid:** 7671D6

Financial Info

RE Taxes/Yr: 2262 / 2011
Assessment: 72850
Gross Ann Inc:
Total Expenses:

Other Info

Land Use: C96
Zoning: C96
LsdUnits:
Ann Lse \$/SqFt:
SqFt Avail:
Avail Date:

Lease Info

Ann Lse Price:
Mon Lse Price:
Min Lse-Mo:

Features

Exterior: PubTransNear
Lot Info: Downtown, Boro/Twp
Other: FeeSimple, LandOnly

Remarks

Public: Vacant commercial lot on more than .50 acres located within the borough. Corner property currently being utilized as a parking lot but offers many possibilities.

Brokerage Information

Keller Williams Realty Group-Berks	KELWLMEB	(610) 406-9800	SB:	OPr:	\$145,000.00
ListAgent: Glen Russell	201856	(610) 792-3000	BB: 2.5	LDt:	06/07/2011
CoListAg:	Appt Phone:		TBr:		
Show:					
Poss: ImmedPoss					

Owner: Andrew P Dellaquila

Agmt:	ER	OMD:	
Sign:	N	DVB: Y	LMD: 06/20/2011
BkInt:	N	LBon:	DOM: 132
Disclosure:		PrExc: N	PMP: 132
Short Sale:	N		

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