

**GENERAL CONSIDERATIONS IN LAUNCHING A NEW URBANIST RENTAL MULTIFAMILY  
HOUSING DEVELOPMENT**

A Professional Paper

by

SCOTT JACOBSON

Submitted to the Department of Landscape Architecture and Urban Planning at  
Texas A&M University  
as partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE

May, 2009

Major Subject: Land Development  
College of Architecture

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## **Acknowledgements**

I would like to thank my committee chair, Dr. Saginor, and my committee members, Dr. Anderson, and Dr. Solis, for their guidance and support.

Thanks also go to my friends and colleagues and the department faculty and staff for making my time at Texas A&M University a great experience. Finally, a special thanks to my mother and father for their encouragement and to my sister for her patience.

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## **Purpose**

The purpose of this paper is to emphasize and understand the considerations a developer must take into account when launching a new urbanist rental multifamily housing development. This analysis will include a succinct look at the history of multifamily housing booms and busts and the influence of new urbanism on the rental multifamily housing movement. The incorporation of new urbanist design principles into new developments with a rental multifamily component has become a recent development trend. Determining the financial feasibility and practicality of this building trend has been challenging for many developers; however, documented case studies do indicate the trend can be successful. The feasibility of a new urbanist development with a rental multifamily component will be presented through a series of documented case studies.

This paper will also examine the important components of a rental multifamily market analysis and explore the sources of equity and debt available to the multifamily developer. As a source of equity, Low Income Housing and Historic Preservation Tax Credits will be examined to determine their applicability for the new urbanist multifamily developer. Finally, a Planned Unit Development will be examined as a proposed solution for successfully implementing a new urbanist development with a rental multifamily component.

## **A Chronicle of the Multifamily Movement**

To understand the multifamily movement, one must first understand the terminology related to the rental multifamily concept. The terminology and history presented in this section will be helpful in understanding the past, so that a new urbanist rental multifamily developer can understand the future as it relates to socially and economically successful developments.

The United States Census Bureau defines, based strictly on design, multifamily housing as a structure with five or more dwelling units. The dwelling units can be built side by side, or stacked on top of one another within the same structure (Schmitz, 2000). Multifamily housing is a general term and can further be defined by four multifamily market segments.

Rental multifamily housing is the first market segment. In this segment, tenants are granted a lease from a landlord. The lease allows the tenant the right to occupy the unit and in exchange, the landlord receives rent. The tenant’s interest may range from a verbal agreement with the landlord for a month-to-month lease or a lease term ranging from six months to two or more years (Peiser, 2003). Another popular market segment is based on type of ownership. This segment includes condominiums, cooperatives, and timeshares (Schmitz A. , 2000). The market can also be segmented by design and by type of construction. These four housing market segments can each be further divided into four major categories by physical attributes: garden, low-rise, mid-rise, and high-rise units, see Table 1Error! Reference source not found..

**Table 1 – Multifamily Housing Summary**

Market Segments	Contract Types	Physical Attributes
Rental	Lease	Garden
	Condominiums	Low-rise
Ownership	Cooperatives	Mid-rise
	Timeshares	High-rise

**The Rental Multifamily Categories by Physical Attributes**

People often confuse the rental multifamily market segment with the multifamily categories. One has to remember that the multifamily categories are found throughout the four different multifamily housing market segments. For instance, an apartment is a generic term for both rental and for-sale units. The dynamic term “apartment” can be further defined by the market segment and category. The four major apartment categories are characterized as follows:

**Garden Apartments:** are generally two to three stories and do not have elevator access. Instead, they have an interior stairway that serves two to four apartments on each stairway landing. These apartments usually have ten or more units in each structure and are surrounded by ample landscaping, common space, and street parking (Peiser, 2003). Covered parking has recently become popular, and some developers have begun to offer garages with direct unit access (Schmitz, 2000), see Figure 1.



Figure 1 - “Montecito Vista”  
 This 162 unit garden style apartment complex was built in 2005 near Irvine, CA. This style is the most common type of multifamily housing built today.  
 Source: ULI: Development Case Studies



**Figure 2 - "Eleven80"**  
 This high-rise office building, located in downtown Newark, NJ was built in the 1930's. In 2007, a renovation job was completed transforming this dilapidated office building into high-rise luxury apartments.  
 Source: ULI: Development Case Studies

**Low Rise Apartments:** are three to four stories, walkup or elevator buildings with repeated floor plans. This category usually has one or two levels of parking above grade or below the deck (Peiser, 2003). These apartments are similar to garden apartments in design and in the type of construction materials used.

**Mid- and High-Rise Apartments:** Mid-rise apartments are five to eight stories and high-rise apartments are over eight stories. These apartments usually have elevators and central halls for apartment access on each floor. Local building codes are more stringent for these types of apartments. For instance, a fire sprinkler system is usually required, as are specific fire rated building materials. Depending on the location of the development, parking for these buildings may be in surface lots surrounding the building, at grade but below the first floor of the building (which may sit on a podium), in a full-fledged parking structure, or in a below grade parking garage (Schmitz, 2000), see Figure 2 for an example of a high-rise apartment building.

Mid- and high-rise apartments not only differ from garden and low-rise apartments in the way they are built, but also in their design and size. More recently, mid- and high-rise apartments have come to be designed with more flattering front elevations, employing a variety of building materials and other design features, such as gables, bays, and balconies (Schmitz, 2000). Apartment categories may vary from city to city and are dependent on local conditions and zoning codes. A twelve story building in Dallas may be considered a high-rise while the same building in New York City would be considered a mid-rise. See Table 2 for a summary of the rental apartment categories by physical attributes.

**Table 2 - Summary Chart of Apartment Categories by Physical Attributes**

Physical Attribute	Stories	Density: units per acre	Construction
Garden	2 to 3	16 to 40	wood frame
Low-Rise	2 to 4	40 to 90	wood frame over concrete parking
Mid-Rise	5 to 8	60 to 120	steel or concrete
High-Rise	8 or more	80 to 200	steel or concrete

(Peiser, 2003)

## History of Multifamily Housing

### Early Years and the Industrial Revolution

Before the 19<sup>th</sup> century, it was common for multiple households to live under the same roof, whether the residents were family members or unrelated, or even if they were employees of the home owners (Schmitz, 2000). This can be seen in the living arrangements of sharecroppers, slaves, and poor immigrants. These living arrangements were born of economic necessity, reflecting the fact that in the late 1700s most residents could not afford a home of their own. At that time, only one in six inhabitants in the newly created United States owned any property (Krueckeberg, 1999). This was the state of multifamily housing up until the Industrial Revolution.

The Industrial Revolution was a period in the late 1800s and early 1900s when major changes in agriculture, manufacturing, and transportation occurred. These changes had a profound effect on the socioeconomic and cultural conditions in the United States. “In 1860, the U.S. population was totaled near 31.4 million people and grew to 76.2 million people in 1900. By 1910, the U.S. population was nearly 92.2 million people, see Figure 3. Railroads, the epitome of industrialization, expanded from an estimated 30,000 miles of track before the Civil War to nearly 270,000 miles of track in 1900. The industrial labor force nearly tripled between 1880 and 1910 to an estimated 8 million workers” (Illinois Labor History Society, 2008). This period can be summarized as a time of great growth which also included the rise of factories in American cities.

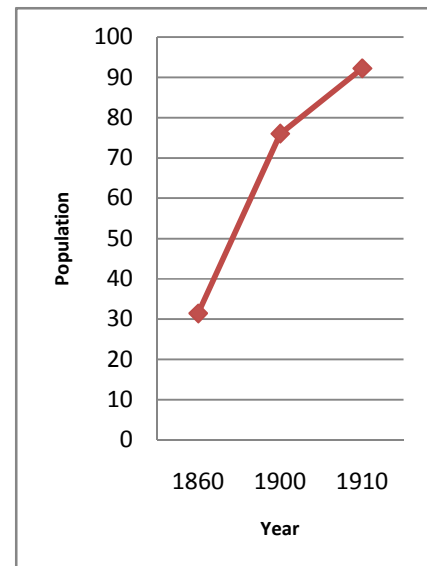


Figure 3 –Population Growth in the United States Between 1860 and 1910  
Source: (Illinois Labor History Society, 2008)

During the Industrial Revolution, many people began to move into the cities. This created the demand for affordable housing which subsequently meant higher-density multifamily housing. “Many of the buildings constructed during this time came to be known as tenements. A tenement can be defined as a building accommodating three or more households under a single roof. These households quickly developed a sordid reputation” (Schmitz, 2000). They were basically rental apartment buildings

in older sections of large cities. Many of these apartment buildings were "walk-ups" meaning there were no elevators, and some had shared bathing facilities.



**Figure 4 – "Tenement Building"**  
This is a vintage tenement building located in New York City. It was constructed in 1863.  
Source: [www.Flickr.com](http://www.Flickr.com)

During this time, tenements were the only affordable form of housing available in large cities for poor immigrants and for people moving from rural areas into the cities. The advantages and disadvantages of tenements are summarized below:

**Tenements had the advantage of being within walking distances of work, and they provided a form of housing that workers found comparatively affordable. Life in a tenement was difficult, to say the least. Some tenements were plagued with shoddy construction, inadequate lighting, and nonexistent plumbing. Overcrowding was rampant. These deplorable conditions made illness and disease a common feature of life in the tenements (Schmitz, 2000), see Figure 4.**

Landlords often packed many people into their tenements and would spend so little on maintenance that these slum properties actually became very profitable (Miles, Berens, & Weiss, 2000). In fact, in 1983 a New York Board of Health census concluded that more than 1 million New Yorkers, 70 percent of the population, lived in multiple-family dwellings, about 80 percent of which were tenements (Wright, 1981). During this time, municipal and state leaders realized that tenement landlords were taking advantage of their residents. As a result, New York and other major cities passed tenement housing laws that provided minimum standards for new buildings, but reform was slow.

For the wealthier individuals, tenements meant that the poor, immigrants, and others deemed undesirable were conveniently housed in "ghettos" where they were less visible. The "privileged", at this time were looking for apartment housing that alluded to the sophistication of European urban living, equipped with the latest amenities such as electric lighting and indoor plumbing (Schmitz, 2000). Multifamily housing began to morph into another form in the middle to late 19<sup>th</sup> century as new transportation technologies, such as the trolley gave "middle class" families opportunities to leave tenements and move to new homes in the suburbs.

In addition to new forms of transportation, there were other innovations that helped transform multifamily housing. In newly constructed buildings, walls were being constructed from steel instead of

load-bearing masonry construction. This new form of construction coupled with the advent of electric elevators allowed developers to build bigger and taller buildings which resulted in a higher per acre density ratio. Consequently, apartments became larger and more comfortable, as well as more attractive as a real estate investment. Multifamily buildings were becoming a part of the American landscape.

### **The 1920s to World War II**

By the 1920s, for the first time, more Americans lived in urban areas rather than in rural areas. During this time, most apartments were being built in downtown areas near businesses, entertainment centers, and along transportation routes leading in and out of the city. In all regions of the country, both the absolute number and the proportion of apartments rose throughout the decade (Miles, Berens, & Weiss, 2000). The multifamily industry experienced good fortune from the 20s up until 1929 when the stock market crashed. With the American banking system in turmoil, real estate values began to decline and unemployment increased. Overnight, financing became difficult if available, and all new construction stopped, putting an end to the good fortunes of the past.

During this turbulent time, the private sector could not meet the housing demands of the public. This issue caught the attention of Presidents Hoover and Roosevelt. Once thought inconceivable before the Great Depression, the government extended its hand to help with the construction and financing of multifamily housing. In 1934, the federal government established the Housing Division of the Public Works Authority (USHA), see Figure 5.

**The Housing Division was granted the power to remove the worst slum dwellings and to replace them with new publicly owned rental housing. Local governments owned these new buildings which were built by private contractors. Local governments paid for the housing by selling 40-year tax exempt bonds, the federal government paid the interest and principal on the bonds through annual contributions. Operational expenses were taken from the rents paid to the local governments by the tenants living in these new housing structures (Schmitz, 2000).**



**Figure 5 – “Cedar Springs Place”**  
Cedar Springs was one of the first public housing projects built under the Public Works Authority. It was built in Dallas, Texas around 1937.  
Source: National Archives

By the time World War II broke out, this program had built more than 100,000 safe, sanitary, and affordable multifamily housing units (Miles, Berens, & Weiss, 2000).

### **World War II to Present Day**

During the Great Depression, the government created the Federal Home Loan Bank (FHLB) and the Federal Housing Administration to revive the housing industry and to stimulate the economy. After World War II, these programs and the Veterans Administration (VA) contributed financing for single-family homes in one of the most prolific housing booms in history. By the 1950s, housing starts had reached more than 1.5 million new homes, mostly in suburban areas (Schmitz, 2000). Even though this time is characterized by the expansion in the construction of single-family homes, a large number of multifamily units were built as well.

The multifamily business benefited greatly in 1954 when Congress passed new tax legislation which allowed for accelerated depreciation, see Figure 6. The Section 608 program was created to insure mortgages for multifamily housing, thus encouraging construction. These programs did spur the construction of multifamily housing, but scandal erupted when the government began to realize that builders were inflating their cost and fees to reap windfall profits (Schmitz, 2000).



**Figure 6 – “The Robinson Hotel Apartments”**  
Located in Las Vegas, Nevada, these apartments were built in the 1950’s. A high-rise condominium complex now stands on the site.  
Source: <http://www.flickr.com>

By the 1960s, baby boomers began to enter the workforce. This created an increased demand for multifamily housing units as new households were formed. During this period, multifamily housing became the solution to an increased housing demand created by the substantial migration of people to the Sunbelt states of California, Florida, and Texas (Schmitz, 2000). During the mid 1960s, in some cities, more multifamily units were built than single-family homes (Wright, 1981). Throughout this time, the baby boomers gravitated towards garden apartments. Between 1960 and 1978, for example, almost 50 percent of rental units built in the United States were garden apartments (Horowitz, 1983). Garden apartments continue to be popular today.

Up until the 1970s, the multifamily housing market saw tremendous growth with nearly 906,000 multifamily housing starts in 1972 (Schmitz, 2000). This prosperity came to an abrupt halt in 1973 as a result of the energy crisis, the steep rise in interest rates, and speculative overbuilding. Multifamily starts plummeted through to the end of the 1970s, effectively bottoming out in 1975 when only 204,300 units were started in the United States (Hays, 1995).

Throughout the 1970s, the federal government continued to support multifamily housing. The National Housing Act of 1968 and Section 236 were carried over into this decade. Section 236 helped subsidize the construction of privately owned affordable multifamily housing. Congress also passed the Housing and Community Development Act of 1974. The most notable part of this act is Section 8. The section 8 program provides housing vouchers to low income tenants (Schmitz A. , 2000). This program is still being used today.

The 1980s began with a regulatory environment change. The Economic Recovery Tax Act of 1981 deregulated financial institutions and created incentives for investments in real estate. During this time, investors invested in multifamily syndicates that would rapidly depreciate their assets. This resulted in a passive paper loss that was used to reduce the investor's active income gains. In 1986, a new tax reform act was passed. The Tax Reform Act of 1986 significantly affected the status of real estate as a tax-shelter investment; the tax benefits enjoyed in the past by real estate investors were no longer available (Etter, 1995). Poor market conditions due to the savings and loan collapse and overbuilding caused lenders to severely tighten their underwriting criteria for multifamily housing well into the 1990s.

The bad fortune of the 1980s began to change in 1992. At this time, the large supply of units built in the 1980s was finally absorbed into the market, and demand started outpacing supply. This demand can be contributed to the baby boomers' children beginning to form households of their own. Multifamily construction has increased in every major region of the country in every year since 1992 (Joint Center for Housing Studies of Harvard University, 1999).

In the 1990s, widespread acceptance of new technologies such as the computer helped to reduce underwriting ambiguities and helped the industry to better track market saturation rates, making the possibility of overbuilding less likely. This decade also saw the emergence of Real Estate Investment Trusts (REITs) which are now a major force in multifamily development and ownership.

Government involvement also continued in this decade. Apartment owners were given the option of restructuring their debt through HUD and continue as a Section 8 community, or they could opt out of the program and become a market rate community (Schmitz, 2000). Developments using Low Income Housing Tax Credits (LIHTCs), which were created by the Tax Reform Act of 1986, started to appear as the financial markets improved, see Figure 7.

Today, tenants, apartment owners, and managers have begun to embrace the benefits of technology. Communication applications and community websites for paying rent and submitting repairs are becoming very popular. Software programs, such as *Rent Roll*, *Yardi*, and *One Site* are also available to help apartment managers better meet the residents' needs and enhance the property's financial performance. Over the years, multifamily housing has had its share of ups and downs, but through each economic downturn, rental multifamily housing has come back stronger than before. See figure 8 for a summary history of multifamily housing.



**Figure 7 - "Sara Conner Court"**  
Sara Conner Court, built in 2006, is a garden style apartment complex located in Hayward, CA. All of the 57 units are reserved for those earning between 30 and 60 percent of the area median income, LIHTCs were used to help finance this complex.  
Source: ULI: Development Case Studies

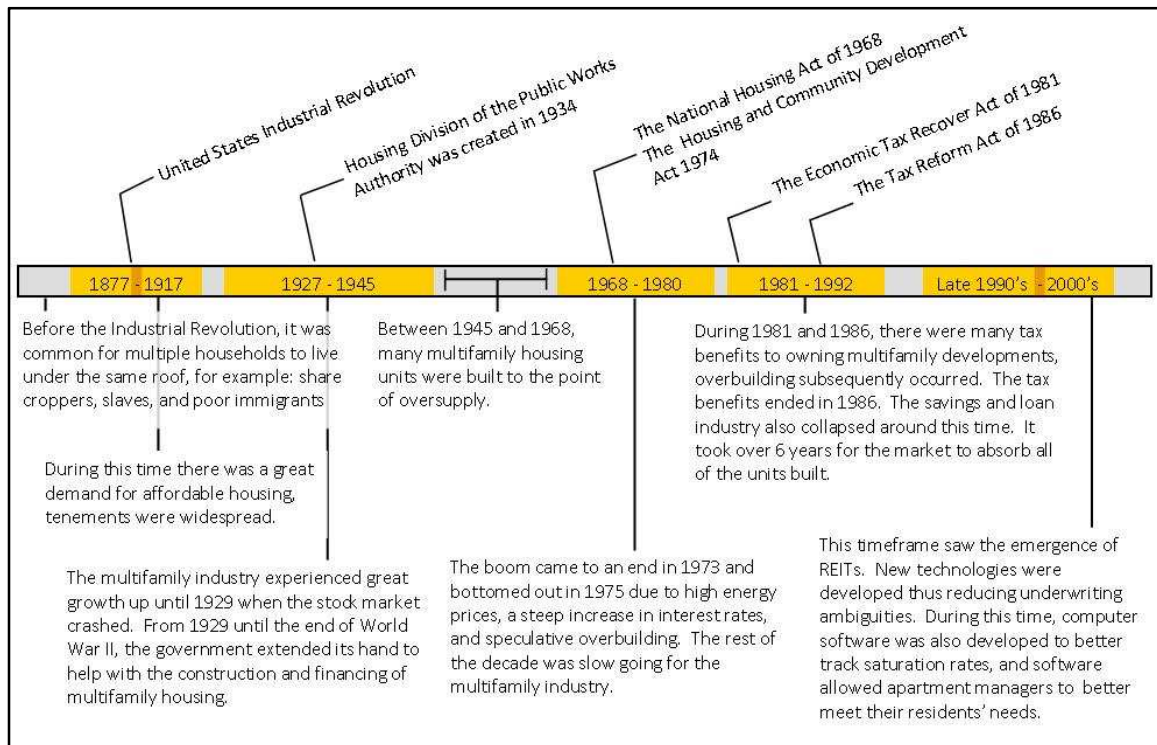


Figure 8 – Multifamily Timeline  
Created by: Scott Jacobson

Many American cities have been revitalizing their downtowns by offering incentives to companies. These include tax abatements and aid in the creation of Public Improvement Districts. These incentives encourage companies to add jobs and attractions to downtown areas. Today, mixed-use infill developments have added to the vitality of urban neighborhoods while preserving historic buildings. This trend has sparked interest from consumers monitoring the multifamily market. There are consumers who want to live near where they work and play.

Today, developers, planners, and consumers are embracing New Urbanism and smart growth movements. These two philosophies are having a strong influence in the development and redevelopment of more attractive multifamily housing developments. These philosophies are gaining support and creating renewed interest in the multifamily movement. Today, multifamily developments feature physical and architectural distinctions. Multifamily developments are no longer monolithic or a single solution repeated over and over again. With skill, care, and good analysis, the rental multifamily industry will continue on a successful path.

## Marketing Rebirth: The Influence of New Urbanism on the Multifamily Movement

Herbert Muschamp, architectural critic for the *New York Times*, has described New Urbanism as the “most important phenomenon to emerge in American architecture in the Post Cold War Era” (Muschamp, 1996). “The godfather of this architectural phenomenon called “New Urbanism” is Andres Duany. See Figure 9 for an example of Duany’s work. Duany thinks everyone should live within a quarter-mile of the activities that constitute their daily lives. He furthermore faults the post-World War II home-building surge for creating a disconnect in society. In other words, people who spend three-and-a-half hours a day in their cars do not have time to enjoy life the way Andy Griffith and Beaver Cleaver did” (Ward, 2002).



**Figure 9 – “First Street Village”**  
First Street located in Florida represents a resurgence of the cosmopolitan lifestyle, the embodiment of new urbanism.  
Credits: Andres Duany, Architect and Urban Planner  
Source: <http://www.camerattaproperties.com>

### The Congress for the New Urbanism and Multifamily Housing

The Congress for the New Urbanism (CNU) advocates the restructuring of public policy and development practices to support the following principles:

#### **Table 3 - A Partial List of Principles Published by the Congress for the New Urbanism**

- **Neighborhoods should be diverse in use and population;**
- **Communities should be designed for the pedestrian and transit, including the car;**
- **Cities and towns should be shaped by physically defined and universally accessible public spaces and community institutions;**
- **Urban places should be framed by architecture and landscape design that celebrates local history, climate, ecology, and building practices (Congress for the New Urbanism, 2007).**

The CNU also states in their Charter:

**Affordable housing should be distributed throughout the region to match job opportunities and to avoid concentrations of poverty. Neighborhoods should be compact, pedestrian-friendly, and of mixed-use. Within neighborhoods, a broad range of housing types and price levels can bring people of diverse ages, races, and incomes into daily interaction, strengthening the personal and civic bonds essential to an authentic community. The**

**preservation and renewal of historic buildings, districts, and landscapes can affirm the continuity and evolution of urban society (Congress for the New Urbanism, 1997-2007).**

“New Urbanism” is an umbrella term for a design concept. Some individual designers are more specific in identifying or referring to this design model. “Traditional neighborhood development” and “neo-traditional” town planning are terms generally referenced by Andres Duany and Elizabeth Plater-Zyberk (Duany, 1991). New Urbanism borrows many design concepts from developments built in the first quarter of the 20<sup>th</sup> century prior to World War II. Developments built during this period were in the form of compact, mixed-use neighborhoods with an interconnected network of streets and blocks all organized around a neighborhood center.

It has been said that New Urbanism is a response to sprawl. Speir and Stephenson define sprawl as a “spread out, low density housing pattern.” In most discussions related to design models, suburbanism is often associated with sprawl. Critics assert that sprawl housing patterns degrade air and water quality, destroy open spaces and prime farmland, and contribute to the deterioration of established urban centers (Burchell, 1995).



**Figure 10 - “Tyson's Corner”**  
This aerial photo, taken in Virginia around 2007, shows low-density development shaped by separate-use zoning codes and a street system featuring freeways, arterials, collectors and cul-de-sacs instead of an urban grid network.  
Source: <http://www.cnu.org/node/1333>

The appeal of suburban housing patterns became popular after World War II because of modernization, use of zoning regulations, and the widespread acceptance of the automobile as the primary means of transportation. The American landscape, where most people live and work is now dominated by strip malls, fast food chains, traffic congestion, and subdivisions without much individuality or character, see Figure 10. From 1994 to 1997, an estimated two-thirds of all rental units built in the United States were built outside central cities (Hays, 1995).

Rental multifamily housing is a major component used to accomplish the goals set forth by the CNU. From the beginning, the New Urbanism movement was not merely an aesthetic statement, but it was also concerned with turning spaces into places which would protect and better the lives of the

families in residence. New Urbanism and the rental multifamily component hold out hope for the revitalization of America's inner cities.

## Summary

Multifamily housing can be defined as a structure with five or more dwelling units built side by side or stacked on top of one another within the same structure. The rental multifamily market segment is one of four general multifamily housing segments. The three remaining segments are: type of ownership, design, and type of construction. Each of the four multifamily housing market segments can be broken down into four main physical categories by attributes: garden, low-, mid-, and high-rise multifamily units. Out of these four categories, garden apartments are the most common.

The rental multifamily units from the past do not resemble the units of today. During the United States Industrial Revolution, many rental multifamily units were built to accommodate the massive influx of workers who flooded major cities looking for work. Multifamily developers responded to this demand by building tenements. Many tenement landlords/owners took advantage of their tenants, and tenements quickly developed a sordid reputation.

The end of World War II was followed by the largest housing boom in the history of the United States. During this time the rental multifamily housing market segment also experienced great growth. The rental multifamily housing boom came to an end in the mid 1970s due to the energy crisis, high interest rates, and saturated markets. For the next few years, the units were absorbed into the market until Congress passed The Economic Recovery Act of 1981. This act created another multifamily housing boom that lasted for five years until Congress passed the Tax Reform Act of 1986. This act and the collapse of the savings and loan industry had a negative effect on the rental multifamily market that lasted until the 1990s.

Today, New Urbanism has become a premier development trend. The rental multifamily component has become an important factor in the New Urbanism design model. New Urbanism attempts to recreate the essence of an old town community, much like the small towns our grandparents would have been familiar with. Rental multifamily housing can be used to address many of the principles set forth by the Congress for the New Urbanism. Many of the urban design principles from the past are influencing design principals of the today. Understanding the history of rental multifamily housing can assure developers that the mistakes can be avoided.

## A Multifamily Market Analysis

A market analysis refers to the study of market conditions for a specific property type (Parli, 2008). A market analysis can help to define the needs and preferences of the target market and provide guidance in positioning the product to meet those preferences (Schmitz, 2000). An analysis can be used to support the decision making for all phases of the development from site selection to marketing.

A preliminary analysis is usually done in-house by sending staff out to interview property managers. The staff will analyze the current needs of tenants for properties that are considered to be in the same market and price range. After the in-house analysis, a professional management or market research company would be hired to confirm the findings. A professional multifamily market analysis should identify the following:

### **Table 4 - Elements a Professional Market Analysis Should Address**

- I. **Identify The Market Area**
  - A. **Target Market Area – Location of the development**
  - B. **Competitive Market Area – Will the proposed development fit into the competitive market, a productivity analysis is conducted.**
- II. **Demand Factors – Takes into account the size and rate of demand growth for the target market area, and what percentages of the market can be attracted to the subject property.**
- III. **Supply Factors**
  - A. **Analyzing the Competition**
    - a. **The appropriate rent range for the market existing and forecasted**
    - b. **Types of units and unit sizes suitable for the market**
    - c. **Identify amenities and unit features which should be provided to appeal to this market and benchmarks for other markets (Barrett & Blair, 1982).**
  - B. **Absorption and Capture Rates – are estimated by the analyst**
  - C. **Niche Markets and Rental Inelasticity – the developer needs to identify opportunities, gaps or specialized niches where a need can exist in the market place.**

A market analysis will assist lenders and investors in their decision making process. Additionally, these reports can be used to obtain the necessary municipal approvals by demonstrating market rationale. For more innovative developments such a new urbanist development with a multifamily component, the analysis will further guide planners, architects, and engineers in their design process.

A market analysis is also a key element in the due diligence process and should not be overlooked by the developer, investors, and lenders. The market analysis defines two market areas: the demand side of the economic equation known as the target market area and the supply side which is often called the competitive market area.

## Identifying the Market Area

The market area can be defined as “the geographic region from which a majority of demand and the majority of competition are drawn (Schmitz & Brett, 2001).” Defining the market area provides a key link in identifying potential renters. An identifiable target market area is the result of the developer defining a geographical market study area. Initially, the market study area encompasses a Metropolitan Statistical Area (MSA) for the location of the property, see Figure 11. Ultimately, this geographical region will be refocused to a specific target market area.

### Target Market Area

A target market area is defined as the location where the majority of demand exists. It is important to delineate a target market area for a multifamily development to “determine the boundaries of the market area based on time-distance relationships. Distances to employment and support facilities (e.g., shopping centers, schools) are important as are the locations of competitive housing that appeals to the same customers as the subject (Fanning, Grissom, & Pearson, 1994).” The following factors should be considered in delineating the target market area for a proposed multifamily housing development:

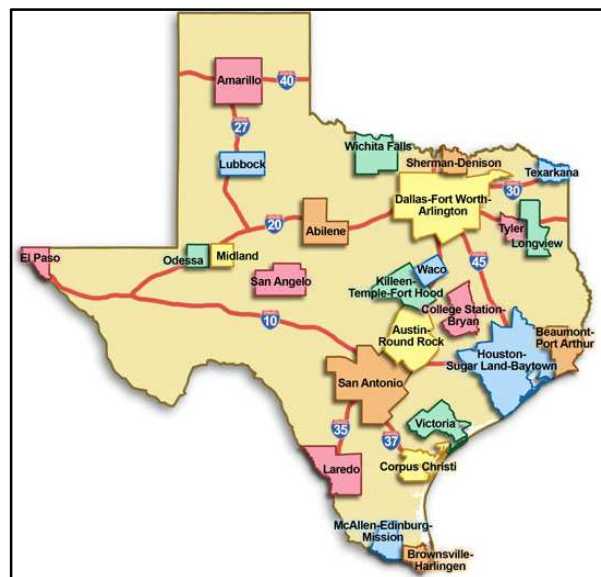


Figure 11 – The Top 25 Metropolitan Statistical Areas in Texas  
Year 2008

Source: [recenter.tamu.edu](http://recenter.tamu.edu)

**Table 5 - Factors to Consider When Delineating a Target Market Area**

- **Travel time from major employment centers** - Identifying major employment centers and making assumptions regarding acceptable commuting time (a normal commute time should be identified in the demographic research)
- **Mass-transportation facilities and highway links** - Availability, ease of access, location of the transport corridors, and the speed at which they operate during peak travel times.
- **Existing and anticipated patterns of development**
- **Socioeconomic composition** - An area's income, age, household characteristics and other demographic characteristics influence housing choice and location.
- **Physical barriers** - Natural features (rivers, bluffs, etc.) and man-made features (highways, railroads, etc.)
- **Political subdivisions** - Municipal boundaries can be especially important when adjoining jurisdictions differ markedly in political climate, tax policies, or status. School district policies can be critical if households with school-age children represent a major market segment (Schmitz, 2000).

A more defined target market area is dependent on geographical location. For instance, an average priced rental multifamily development in New York might only have a target market area of a few blocks. The same development in a less populated location might have a target market area of a few miles. If there is little to no competition, then the development will draw renters from a larger area. Most rental multifamily developments have a market area of no more than two to three miles (Schmitz, 2000).

**Competitive Market Area**

The competitive market area encompasses developments that potential renters would consider comparable to the proposed rental development (Schmitz, 2000). This area is usually the same as the target market area. Units located in the broad geographical market need to be included as comparables. These developments may not be directly competitive but they offer an alternative to renters who are less concerned about location, see figure 12. Developments identified as comparables provide data to measure competition and ultimately estimate absorption, capture, and rental rates for the proposed development.



**Figure 12 - "The Colony"**  
Built in 1998, the Colony is a multifamily development in Newport Beach, CA. This development incorporates a common swimming pool and an adjacent spa into its amenity package offered to the residents. These amenities often create a standard for the competitive market area. Source: ULI: Development Case Studies

When identifying potential multifamily competitors, this analysis should exclude developments within the target and market areas that do not compete with the subject property in terms of price, quality, or product type. On the other hand, it might be necessary to widen the definition of competitive to include all multifamily developments (condominiums, cooperatives, and timeshares) in a certain area if few competitors exist. For a proposed rental multifamily development, complexes built in the last ten years would most likely be considered competitive: older properties might not have contemporary designs, features, or amenities (Schmitz, 2000). Additionally, if the proposed development will charge market rents, then subsidized or low-income targeted developments should not be included in the competitive comparison. An analysis of the competition can be used to estimate the appropriate rent range for the competitive market area.

To objectively view how a proposed multifamily development will fit into the competitive market, a new urbanist multifamily developer may conduct a productivity analysis. This analysis is used to identify the submarket the proposed rental multifamily component will serve and highlight its competitiveness within the market (Fanning S. F., 2005). The rating table below can be used by a new urbanist multifamily developer to conduct a productivity analysis.

**Table 6 - A Multifamily Developer’s Productivity Analysis**

Impact on Productivity	Veto Factor	Inferior			Typical	Superior		
		High	Moderate	Slight	Average	Slight	Moderate	High
Design and appearance of property					X			
Quality of construction (materials and finish)					X			
Condition of improvements					X			
Room sizes and layout					X			
Closets and storage					X			
Plumbing (adequacy and condition)					X			
Electrical, tech., and appliances					X			
Unit amenities					X			
Recreational amenities			X					
Parking				X				
<b>Rating Conclusions</b>								
Number of items		0	1	1	8	0	0	0
Times category score		0	2	4	5	6	8	10
Subtotal score		0	2	4	40	0	0	0
Total subject score		46						
Percentage above or (below) average		-8%						

(Fanning S. F., 2005)

The productivity analysis initially examines the multifamily development’s competitiveness within its respected market area. The proposed development’s productivity features are categorized and ranked as being inferior, typical, or superior as compared to the market. The number of tallies for each respected category is then totaled and multiplied by a category score netting the subtotal score. The category score is a way of weighting the ranking categories, for instance: the typical ranking earns the proposed development 5 points, an inferior ranking earns between 0 – 4 points, while a superior ranking will earn 6 to 10 points. The subtotal score for each category is then added to net the proposed development’s total score. This score is then compared to the total score of a typical development.

In the above table, a typical development would have a total score of 50. The proposed development only scored a 46, 8 percent below the typical score. This means that the proposed development would have a tough time competing with other multifamily developments within the market. It is at this point, before construction, that the developer would need to carefully reevaluate the proposed multifamily component.

One of the purposes of a market analysis is to determine opportunities, gaps, or specialized niches within the market place. These three are often identified as unmet demands within the market

place. The unmet demand equals the total demand minus net absorption by competitive products. The supply of competitive developments must be understood in terms of both quantity and quality to estimate net absorption. The competitive developments provide the data the analyst uses to measure the competition and ultimately estimate absorption and capture rates for the proposed development.

## **Demand Factors**

After the market area has been defined, an analysis of the market area's demographic characteristics should follow. Demographic trends and projections form the basis for determining the demand for housing (Schmitz, 2000). Market research firms employ many statistical techniques to refine their estimates of the number of households, but their basic approach is the same and takes into account the following factors:

### **Table 7 - Important Considerations When Estimating Demand**

- **Employment growth in basic industries such as manufacturing and other industries that generate sales outside the city**
- **Employment growth in service industries such as retail, local government, real estate, professionals, and other whose activities support the local community**
- **Percentage of growth expected to occur in the market area**
- **Socioeconomic characteristic such as population, age, education, income distribution, and household size and characteristics – families with children, couples without children, singles, divorcees with children, and so on**
- **Net in- and out-migration (Peiser, 2003)**

From these important considerations, four main demographic categories can be extracted. These demographic categories are particularly important in analyzing the market area's potential for a rental multifamily development, the categories are as follows: employment, population, households, and income.

Employment growth is directly tied to population growth and is an important factor in determining demand. If there is increasing employment growth, new workers will begin to reside in the area. When estimating employment growth one should take into account corporate expansion plans, reductions in the work force, relocations, and new employers/employees entering the region. Employment data is available from federal, state, and local government agencies.

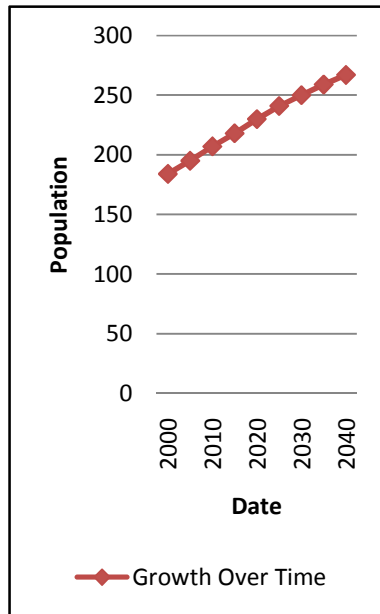


Figure 13 – Bryan- College Station MSA  
Projected Population  
Sources: Texas State Data Center (2006  
projection)

The population and household characteristics within the market area are important in estimating the number of current and future households within the market area. Population can increase in two ways. The first is by having more births than deaths, and then by having more in- than out-migration. Population data can be obtained from the U.S. Census Bureau and/or a private firm specializing in demographic data, see Figure 13.

An increase in population does not always equate to a need for more households. The population for an area could increase but if the average household size decreases, from a housing demand perspective nothing has changed. Over the past few decades, the national trend has pointed to smaller households. In 1950 the average household contained 3.37 persons, by 1970 it had declined to 3.14 persons, and in 2003 the average household contained only 2.57 persons (U.S. Bureau of the Census, 2004). This information can be used to estimate the number of households needed and to help determine a project’s overall design.

An analysis of household incomes in the target market area indicates the region’s economic vitality and provides valuable information into the scope and magnitude of the available purchasing power. This information will be used in determining affordable rent ranges. In analyzing this information, it is important to use data from the local market. National and even state wide income trends are helpful but are of minimal value in determining the development’s rent range.

The analyst should use the demographic data corresponding to the market area to estimate the total potential demand for rental units. This demand can be estimated two ways, the segmentation method and the ratio method. “The segmentation method is a direct function of the market area’s population and average household size, current and anticipated over a period of time. The ratio method is based on the economic tie between multifamily demand and increases in employment in the market area” (Fanning S. F., 2005). With the segmentation method in mind, the process of calculating total potential demand for rental units in a multifamily development’s market area has been detailed in the following table.

**Table 8 - Forecasting Multifamily Demand Using the Segmentation Method**

Line ID	Item	Current	Year 5	Year 10	Comment
<b>Market Demand Forecast</b>					
1	Population forecast	46,800	57,800	68,800	
2	Average increase per year		2,200	2,200	Analyst's forecast
3	Persons per household	2.60	2.55	2.49	Decreasing
4	Occupied housing unit demand (total household)	18,000	22,667	27,631	Line 1 divided by Line 3
5	Percentage of apartment units	39%	35%	35%	Analyst's forecast
6	Potential demand for apartment units	7,020	7,933	9,671	Line 4 x Line 5
7	Percentage able to afford units in subject economic segment	80%	80%	80%	Based on minimum and maximum income
8	Total potential demand for occupied units in subject economic segment	5,616	6,346	7,737	Line 6 x Line 7
9	Plus frictional vacancy @ 5%	296	334	407	
10	Total potential demand for units in subject economic segment	5,912	6,680	8,144	Line 8 plus Line 9

(Fanning S. F., 2005)

The above table shows that by dividing the forecasted population by the average household size an estimate of the total number of new households needed in the targeted market area can be determined. The total number of households is then separated into those who will want to own and those who will want to rent their homes. These two numbers are calculated using an historical ratio between home owners and renters in the target market. The potential rental demand is then multiplied by the percentage of residents who will be able to afford the proposed development's rental units. The net result is the total potential demand for rental units in the development's economic market area and segment.

Another part of the table identifies the supply of rental units in the market area; this will be elaborated on in the following section. Once the supply is estimated, the analyst will have enough information to estimate the aggregate absorption rate for the development. This data can then be overlaid with the market segments identified in the demographic analysis.

## Supply Factors

The supply of housing includes the existing housing stock, the units currently under construction, and the units that may be under construction in the future (Peiser, 2003). It is important when estimating supply to take into account units on the drawing board that have not been announced.

Local real estate brokers, bankers, and architects are the best informed about these developments. Of course many of these developments may never get past the planning stage, but they should still be considered in the overall supply.

### Analyzing the Competition

The existing inventory can provide information about the successful and not so successful developments in the market area. It is wise when identifying competitive developments to get out and visit each development in the competitive area and talk to managers and residents. Discussions with management will let you know how the market is operating, where tenants come from, and what they want. Sometimes, management will not tell you about current promotions, but a well informed resident is usually aware of these promotions.



**Figure 14 – “Eleven80”**  
Older developments often lack the amenities to compete with newer projects. The “Eleven80” building, just recently remodeled in 2007, includes: a health club, a private bowling alley, a cocktail lounge, and an indoor basketball court.  
Source: ULI: Development Case Studies

When comparing the competition, it is important to keep track of the data collected. A spreadsheet should be compiled comparing unit size, rental rates, number of units, vacancy rate, and amenities offered. See Figure 14 for a list of possible amenities that a high-rise multifamily development might offer to renters. The market can be further segmented based on these attributes. The organization of data will show which properties are outperforming the market. It is important to figure the rental rate per square foot, because this will eliminate the ambiguities associated with different unit size within the

competition pool when comparing the units together. In a perfect market, properties with the lowest rents should be outperforming the market. If the analysis finds that consumers are not responding to the lower rents, then other factors must be examined, such as: age of the development (functional obsolescence), curb appeal, location, and management practices.

Vacancy rates are important and must be looked at carefully. For example, an older development without many amenities could have a 40 percent vacancy rate, while newer properties with many amenities have a 5 percent vacancy rate. A 15 percent vacancy rate in a market that only has 100 units may be quickly absorbed if a new company moves into the area. “A more meaningful measure

is the total number of months it will take to absorb the existing and planned inventory. The estimated demand is measured by the absorption rate expressed in units per month" (Peiser, 2003), see Table 9.

Historical data reflecting absorption and rents for developments should also be examined. This data is proprietary, thus a market analysis prepared by a reputable and well established company is important. For this data to be useful, it should be examined from a wider perspective. Reasons for spikes and decreases in absorption need to be examined. Changes in infrastructure or land use can affect average rents and leasing rates. Completion of a new highway or road could make a location more desirable and cause rents to rise, while opening a new prison or the building of a waste water disposal facility nearby may make an area less desirable. When comparing competitive properties, factors such as location, design, and amenities must all be taken into account because these intangibles can greatly affect a property's performance.

### **Absorption and Capture Rates**

The most valuable data from a market analysis is the number of units of a particular type that a submarket can absorb over a given period (Schmitz, 2000). The total absorption is based on the projected performance of existing and proposed competitors that will be competitive during the marketing period of the subject property. This figure should be broken down according to the different unit types planned for the development. The number of months to absorb the inventory should preferably be twelve or fewer for apartments, eighteen months is considered soft but still possible, while anything over eighteen months should be avoided unless the developer has a truly strong reason to believe that his product will be absorbed significantly faster than the competition (Peiser, 2003). In a massive phased development, a longer period might be acceptable.

A residual demand can be calculated after the absorption rate for competitive properties has been figured. Residual demand equals total demand minus total absorption by competitive developments. If there is a negative number, then the market has an oversupply of units, however if there is a positive number, then the market is undersupplied. A capture rate for the property is then used to calculate the subject property's share of the demand that it is likely to capture. A capture rate can be defined as the percentage of total demand in the submarket that a development absorbs--units leased per month (Peiser, 2003). Determining the capture rate is highly speculative and must take into

account all of the development’s advantages and disadvantages in relationship to all others that will be on the market (Schmitz, 2000).

Table 9 combines the estimated demand from the previous section, the market area’s residual demand, partially calculated by surveying the competitive properties within the market area, and the analyst’s forecasted capture rates. Within Table 9, line5, the analyst will forecast the percentage of apartment units relative to the total demand for housing units; the current percentage can usually be found within the demographic data. Line 9 takes into account frictional vacancies, which can be defined as “units that will be vacant because of seasonal occupancy or the need to refurbish units” (Fanning S. F., 2005). For a multifamily developer, the net result is the development’s estimated occupied units and occupancy rate.

**Table 9 - Apartment Demand by Segmentation Method**

Line ID	Item	Current	Year 5	Year 10	Comment
<b>Market Demand Forecast</b>					
1	Population forecast	46,800	57,800	68,800	
2	Average increase per year		2,200	2,200	Analyst's forecast
3	Persons per household	2.60	2.55	2.49	Decreasing
4	Occupied housing unit demand (total household)	18,000	22,667	27,631	Line 1 divided by Line 3
5	Percentage of apartment units	39%	35%	35%	Analyst's forecast
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8	Total potential demand for occupied units in subject economic segment	5,616	6,346	7,737	Line 6 x Line 7
9	Plus frictional vacancy @ 5%	296	334	407	
10	Total potential demand for units in subject economic segment	5,912	6,680	8,144	Line 8 plus Line 9
<b>Market Residual Demand</b>					
11	Year starting competitive supply	7,000	7,000	8,400	
12	New construction	0	0	350	Analyst's forecast
13	Total competitive supply	7,000	7,000	8,750	
14	Residual demand	(1,088)	(320)	(606)	Line 10 minus Line 13
15	Estimated market occupancy rate	80%	91%	88%	Line 8 divided by Line 13
<b>Subject Capture Estimate</b>					
	<b>Subject Pro Rata Share</b>	4.5%	4.5%	3.6%	
16	Estimated subject actual capture rate (rounded)	4.44%	4.30%	3.5%	Analyst's forecast
17	Estimated subject occupied-units	249	273	271	Line 8 x Line 16
18	Estimated subject occupancy rate	80%	88%	87%	Subject 312 units

(Fanning S. F., 2005)

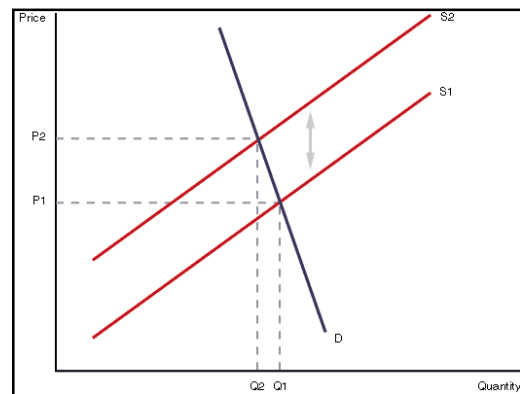
## Niche Markets and Rental Inelasticity

If a market analysis can identify niches in the market, then the developer can take advantage of the inelastic nature of multifamily rents. If the change in quantity demanded is less than proportional to the change in price, the demand is price inelastic (Etter, 1995). Rental revenue from niche products is inelastic because of the following three reasons:

### **Table 10 - Three Reasons why Multifamily Unit Rents are Inelastic**

- 1. Tenants do not have dwelling options. If no other type of housing is affordable or desired by the tenant, then a multifamily unit is the only choice for shelter (Etter, 1995). Rent represents a large part of a tenant's budget, up to 30%.**
- 2. Multifamily units are lumpy goods, based on a fixed size and term of lease. It is impossible for tenants to make small adjustments to the size of the unit used. When rental rates increase, tenants cannot stop using 5% of their unit in an attempt to decrease their rent.**
- 3. There is not a hierarchy of uses for multifamily units. These units are limited to residential uses. If a unit had different uses such as retail, and the rent increased, the retail use might be abandoned. Multifamily units have a specific use. Other types of tenants would not rent in response to rental increases or decreases.**

Developers prefer demand to be price inelastic because the change in quantity demand will be smaller than the change in price. For example, if rents are increased by 3% and the quantity demand only changes by 1%, the price elasticity demand is inelastic, refer to Figure 15. In this scenario, the total revenue produced will increase even as the quantity of demand decreases. Price inelasticity will create more revenue for the developer via the scarcity of close substitutes, and customers' unwillingness to move. This does not mean that multifamily unit owners can increase rent outside of market rates. Owners wanting to raise rents must wait till the market demand increases relative to supply. It is at this point that rents can be raised if stipulated in the contract agreement.



**Figure 15 – Price Inelasticity: Supply and Demand Graph** If the change in quantity demanded is less than proportional to the change in price, the demand is price inelastic (Etter, 1995).

## Summary

A market analysis is one of many feasibility elements used in the development process. The market should be continuously monitored throughout the development process even after the development is up and running. A market analysis first starts by identifying a proper target market area.

When identifying a target market area, drive times should be closely examined. After the target market area is identified the competitive market area can be analyzed. The competitive market area is usually the same as the target market area, but other competitors outside the target market area should be examined because some consumers could be less sensitive to location.

Employment growth can drive rental multifamily unit demand. The employment estimates should be overlaid with the average household size within the target market area. From the demographic statistics and other market information, the analyst will be able to estimate the total number of new households moving into the targeted market area. The supply of the existing inventory should also be taken into account. Sometimes the best way to survey the supply of units in the area is to get out and talk to property managers and tenants. The current supply will be used to estimate historical absorption and capture rates for competitive properties in the target market area. The supply and demand estimates along with qualitative data (year built and types of amenities in the existing inventory) must be included in the market analysis. This information will lead to the determination if there is an over or under supply of rental multifamily units in the market.

One of the purposes of a competitive market study is to determine opportunities, gaps, or specialized niches within a market place. This analysis will allow the developer to take advantage of the inelastic nature of rents. In general, multifamily real estate is risky because of its initial development and construction cost totals, immobility, and illiquid nature. Understanding the market in more detail will help reduce investment risk and increase profitability.

## Financing Multifamily Rental Developments

When beginning a development, the developer must control at a minimum one of these four assets: land, knowledge, tenants, or capital. If one controls two or more assets then the development process becomes easier. If the developer controls the land, the development is driven by supply, a site looking for a use. If the developer controls knowledge and tenants, the development is driven by demand, a use looking for a site. If capital is controlled, then the developer has a choice, a site looking for a use or a use looking for a site (Schmitz A. , 2000).

Ultimately, the success of every development comes down to capital. Real estate is risky because of the illiquid nature of its large economic size. Real estate's large economic size (land + building) monetarily speaking, can be split into debt and equity. Generally speaking, debt is cheaper than equity so there is usually more debt taken out by the developer than equity invested into the development; however, this is not always true. The ratio varies from development to development and is dependent on market conditions.

### Equity

Equity can be defined as the net investment of owners or stockholders into a development. It represents ownership and carries with it all the attributes of ownership (Schmitz, 2000). In most instances, limited partnership shares will be transferred to investors in exchange for equity. Investors are able to take advantage of profits and losses associated with the development. The limited partner is only liable for his/her equity invested in the partnership. One of the drawbacks of being a limited partner is that only general partners can participate in the management of the development. Often, multifamily developers are both limited and general partners.

### Sources of Equity

Equity can come from various sources, such as: the developer, the landowner, individuals, or investors. The developer usually contributes the seed money to get the development off the ground. In the predevelopment stage, money might be spent on due diligence studies such as: market studies, surveys, geotechnical reports, and the entitlement process, just to name a few. Another source of equity is from the landowner. This person might be willing to transfer the land into a partnership in

exchange for an equity interest in the partnership. Using the land as collateral can help the developer obtain the balance of the financing required for the development.

Another source of equity can come from individuals. Often, early in a developer's career, equity comes from relatives, friends, and/or business associates. Many of these people may only have the funds for smaller developments. The key is finding high net worth individuals that are interested in participating in a multifamily deal. These people can sometimes be hard to find, but they always employ attorneys, accountants, bankers, and real estate brokers. A developer must seek service providers, who high net worth investors employ, and sell these service providers on the deal. The service providers will, in turn, sell the deal to their clients. This brings up another source of equity, syndication.

Syndication refers to the process of forming a legal entity and finding investors to provide equity funding for the acquisition and/or development project. An advantage to syndications is that they increase the number of investors subsequently increasing the capital raised for a development. A developer must be watchful when involved in syndications. If the syndicate is too large, the syndication will fall under the rules and regulations of the Securities and Exchange Commission. For instance, if a real estate investment club has over 100 members then the club will have to register with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940 (U.S. Securities and Exchange Commission, 2007). Syndications are usually expensive to establish, and most investors consider them confusing and risky, which can be seen in the 1983 Broken Bow Investment Offering put together by J.S. Sunderman and the SunWise Cooperation.

Another way to attract investors is to form a joint venture. A joint venture is a particular partnership whereby two or more partners jointly pursue a specific development (Jacobus, 2005). In a joint venture, one partner contributes the knowledge and the other the equity. Most recently, joint ventures have been used to create an on-going business equity platform for large scale developments. The joint venture could be for one development valued at 100 million dollars or 5 smaller developments valued at 20 million apiece. The types of developments should be specifically spelled out in the joint venture partnership.

Possible joint venture equity partners include REITs, pension funds, and insurance companies. REITs generally focus on a particular type of property in a specific region of the country. They usually invest in well established operating properties but have been known to invest in developments with the

option to buy after rent stabilization, see Figure 16. Pension funds will occasionally invest in developments but are more likely to grant hybrid loans for seasoned high quality investments. Insurance companies like to invest their money into preexisting investment grade multifamily developments, but will occasionally, like the others, invest in new developments. Most of the institutional types of investors will require a preferred rate of return and then a portion of the profits (Schmitz A. , 2000).



**Figure 16 - "Avalon Cove"**  
This development was completed in 1995 and is located in Jersey City, NJ. The developer was Avalon Properties, a self-administered and self-managed equity REIT  
Source: ULI: Development Case Studies

### **Investor's Return on Equity**

Equity partners are going to ask for a return of capital and also a return on capital when investing in a limited partnership. The return of capital equals the amount invested into the partnership. The return on capital is defined as a series of cash flow payments the investor will receive by investing into the partnership. In most circumstances, a multifamily investor would consider deals with a before-tax internal rate of return between 16% and 20% for new properties and 14% to 18% for stabilized properties.

The return of and return on equity depends on how the deal is structured. In looking at returns, a simple and common deal structure will have four priorities.

#### **Table 11 - The Multifamily Deal Structure: Return on and Return of Equity**

- 1. Investors receive a current preferred return**
- 2. Investors receive unpaid but accrued preferred return**
- 3. Investors receive back their equity**
- 4. Investors and the developer split the remainder according to a profit split ranging from 80/20, 80 Percent to the investors, to a 50/50 split (Peiser, 2003).**

A preferred return is similar to a dividend or the interest on a bond. This type of return takes precedence over any other returns distributed after the debt service and tax payments. Investors like the idea that they will receive a preferred return plus their equity back before the developer receives any of the profit. This does not include the development fee which could range between 3 and 5

percent and any additional property management fees that may be charged by the developer. A multifamily investor's preferred rate of return will usually range between 6 and 10 percent and be dependent on the deal and the developer. If the development makes no money and the preferred return is not cumulative, then the amount that would have been owed is not carried over to the next year. On the other hand, a cumulative preferred return is carried over to the next year. The next series of payments is the return of equity and after all the equity has been returned then the profits are split between the investor and the developer at various rates, dependent on the development's internal rate of return (Schmitz A. , 2000).

Equity represents ownership in a development deal. Capital is transferred into a limited partnership by investors and the investors receive shares of the limited partnership. The equity investor is only liable for what he/she contributes to the limited partnership. There are four primary sources of equity: the developer, the landowner, individuals, and investors. It does not have to be one or another contributing equity to the deal but most likely it will be a mixture of all four sources. These sources will require a preferred rate of return, a return of capital, and a portion of the profits. Equity will cost the developer more than debt, so excess equity for a development should be sought only if needed.

## **Debt**

Debt is money that has been borrowed and must be repaid at some predetermined date (Keown, Martin, Petty, & Scott, 2002). The loan is usually established by executing a deed of trust, mortgage, or a promissory note. During the operation of the development and when it is sold, available cash pays expenses first, required debt payments, and finally equity investors with whatever remains (Schmitz, 2000). This priority of payments is one of the reasons that debt capital is cheaper for the developer than equity. Debt is also cheaper because the developer agrees to pay a specified interest rate for a period of time and if default occurs, the loan is backed by the asset being financed. Based on the developer and the asset being financed, lenders make either recourse or non-recourse loans.

A recourse loan means that the borrower is personally liable for the repayment of the loan. In the event of default, the lender can foreclose on the property and place judgments on the borrower's assets for deficiencies. A non-recourse loan limits the lender's rights to the particular asset being financed. If a default occurs on this type of loan, the lender's only recourse is foreclosing and retaking

possession of the development. A developer would be wise to ask for a non-recourse loan because deficiencies that could arise from a default on the loan are the sole liability of the lender.

### Types of loans

A multifamily developer will use two primary types of loans throughout the development process, the construction loan and the permanent loan. There are three other types of loans that can be helpful to a multifamily developer. These are the front-end, gap, and mini perm loans.

**Table 12 - A Comparison of Multifamily Construction Loans and Permanent Loans**

	<b>Construction Loans</b>	<b>Permanent Loans</b>
Term	Short term ( 18 to 36 months)	Long term (10 to 30 years)
Interest Rate	Floating	Fixed or Floating
Funding	As construction or renovation is completed	Upon closing (except for required holdbacks)
Security	Secured by property	Secured by property and income from property
Liability	Borrower may assume personal liability	Non-recourse to borrower
Repayment	From proceeds of permanent loan	From sale of property or assumption by buyer

Source: (Schmitz, Multifamily Housing Development Handbook, 2000)

Front- end loans are used to finance land acquisition and the planning and predevelopment stages of the multifamily development. Only well capitalized, well-established developers will be able to obtain this type of loan from an institutional lender (Schmitz, 2000). Land acquisition and development loans are risky because the land does not produce enough income to cover the debt service payment. These loans are usually expensive and have high debt coverage and loan-to-value ratios. These loans are full recourse, and are secured by the assets of the developer. In addition to institutional lenders, there are high net worth individuals, business pools, and businesses that specialize in high risk speculative short term loans (Peiser, 2003).

Gap loans fund the difference between the construction loan and the placement of the permanent loan. These loans can be used to pay off the construction lender and to float the development until all permanent loan qualifications have been satisfied. These “mezzanine” loans are like a second mortgage, meaning that they are second in line to receive payoff in case of default. Gap loans are common when the permanent take out loan has “floor” and “ceiling” hurdle requirements.

Gap loans are secured by the developer’s assets and are far more expensive than a traditional loan but still cheaper than an equity “cash call” to the investors (Anderson, 2008).

A mini perm loan is an open ended construction loan granted by the construction lender on the expectation that interest rates will be lower in the future. This loan is used to establish an operating history prior to obtaining long term permanent financing. In most cases, this loan is used when construction begins without a commitment from a permanent lender. Mini perm loan financing is normally available during the development’s rental and stabilization period. It is a short term financing solution having a three to five year term. The mini perm loan is a financing tool that is used to pay off the construction and/or commercial property loans. Once the development is completed and starts producing income, the borrower will begin to look for a more long term financing solution.

These three types of loans can be used in conjunction with construction and permanent loans. The amount of debt that a lender will approve depends on the developer and the development. Two ratios that lenders will analyze when determining a proper loan amount are the debt coverage ratio and the loan-to-value ratio.

The table below indicates the average construction interest rate and loan fees that a multifamily developer will expect to pay for a construction loan.

**Table 13 - Average Multifamily Construction Interest Rates and Loan Fees**

PROPERTY TYPE	SPREAD OVER BASE (Prime)	INTEREST RATE	LOAN FEES	LOAN-TO-VALUE RATIO	LOAN-TO-COST RATIO	LOAN TERM (Mos.)	AMORTIZATION
<b>Apartments</b>							
Minimum	1.00%	5.00%	2.00%	70.0%	75.0%	12.0	Interest Only
Maximum	6.85%	10.85%	4.50%	90.0%	100.0%	40.0	Interest Only
Average	2.65%	6.65%	3.25%	80.0%	87.5%	26.0	Interest Only

\*4th Quarter 2008 Data

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**Maximum Loan Amount: Lender’s Analysis**

The lender’s analysis focuses on two key calculations: the debt coverage ratio (DCR) and the loan-to-value ratio (LTV). Both of these calculations rely on the net operating income estimate from the development’s pro forma. The net operating income is the revenue minus all expenses, excluding debt

service. These calculations are used by permanent and construction lenders alike even though they are making two different types of loans. Lenders will generally loan the lesser of the two methods.

The debt coverage ratio (DCR) is calculated by dividing the property's net operating income by the annual debt service.

$$\text{Debt Coverage Ratio (DCR)} = \text{Net Operating Income} / \text{Total Debt service}$$

The DCR is a way to measure loan repayment risk associated with a development. A DCR close to 1.00 means that there is a greater risk to the bank that a missed payment could occur. There is no margin of excess over the debt service payment to cover a decrease in net operating income. The net operating income is a combination of various factors, for instance: operating expenses, rental rates, occupancy rates, and market saturation rates. Any one of these factors can decrease or increase the net operating income. There is no industry standard DCR, but all lenders will have a DCR minimum. In recent years, the minimum DCR coverage ratio accepted by lenders has ranged from as low as 1.15 to as high as 1.5 (Schmitz, 2000).

The loan-to-value (LTV) is the second ratio that most lenders use to determine the maximum loan for a proposed development. The LTV is the ratio of the loan amount divided by the property value.

$$\text{Loan-to-Value Ratio (LTV)} = \text{Loan Amount} / \text{Property Value}$$

Like the DCR, the LTV ratio is a default risk measurement. The more equity invested into the development, equates to a lower debt service payment and less of a chance that the developer will fail to make the required payments. Furthermore, the more equity invested in the development, the less likely that a drop in value would result in the lenders not being able to recoup the loaned amount, either on the open market or at a foreclosure sale.

To estimate the development's value, the lender will analyze the construction costs and the completed development's net operating income. Usually the lender will use the capitalization rate model to estimate market value. The capitalization rate is figured by dividing a development's net operating income by the property value.

$$\text{Cap Rate} = \text{Net Operating Income (NOI)} / \text{Property Value}$$

To estimate the value of the proposed development, the lender must first identify a market “assumed” capitalization rate. The lender or the lender’s appraiser specifies the assumed capitalization rate; this rate is generally based on capitalization rates for recent sales of similar properties. The projected net operating income for the development is then divided by the assumed capitalization rate to net the estimated property value.

$$\textbf{Estimated Property Value = Projected Net Operating Income (NOI) / Market Capitalization Rate}$$

The stabilized net operating income figure is taken from the pro forma provided by the developer in this calculation. Once the lender has estimated the value, the maximum loan amount is figured by multiplying the value by the LTV ratio.

Permanent financing is extremely important to the short-term lender, because it provides a takeout, paying off the construction loan. Because of this, the construction lender will analyze loans using the same formulas as if they were a permanent lender going to make a long-term financing commitment. Having a commitment from a permanent lender to takeout the short-term lender is extremely important.

The table below indicates the average permanent financing conditions for various property types. More particularly, a new urbanist multifamily developer should reference this chart to insure that the development’s permanent loan conditions fall between the indicated ranges.

**Table 14 - Average Multifamily Permanent Loan Conditions**

	Apt.	Golf	Health Senior Housing	Ind.	Lodging	RV/Camp Mfg Hsg MH Park	Office	Restaurant	Retail	Self Storage	Special Purpose
<b>Spread Over Base*</b>											
Minimum	0.70%	1.20%	1.50%	0.90%	1.10%	0.85%	0.83%	2.25%	0.75%	0.83%	1.81%
Maximum	5.79%	11.26%	5.98%	5.79%	11.26%	5.79%	5.79%	11.26%	5.98%	5.79%	12.00%
Average	2.52%	6.17%	3.19%	2.81%	3.44%	3.52%	2.81%	4.72%	2.85%	4.44%	5.05%
<b>Interest Rate</b>											
Minimum	4.23%	4.73%	5.03%	4.43%	4.63%	4.38%	4.36%	5.78%	4.28%	4.28%	5.34%
Maximum	9.32%	14.79%	9.51%	9.32%	14.79%	9.32%	9.32%	14.79%	9.51%	9.51%	15.53%
Average	6.05%	9.70%	6.72%	6.34%	6.97%	7.05%	6.34%	8.25%	6.38%	6.38%	8.58%
<b>Debt Coverage Ratio</b>											
Minimum	1.00	1.20	1.10	0.90	1.00	0.90	0.90	1.15	1.00	0.90	1.15
Maximum	1.90	2.20	2.25	2.00	3.00	2.00	2.00	2.05	2.05	2.55	2.00
Average	1.43	1.57	1.57	1.49	1.60	1.39	1.45	1.74	1.42	1.39	1.70
<b>Loan-to-Value Ratio</b>											
Minimum	50%	50%	50%	50%	50%	50%	50%	50%	50%	80%	50%
Maximum	90%	85%	90%	85%	85%	85%	85%	80%	85%	50%	80%
Average	74%	67%	71%	71%	67%	72%	70%	63%	72%	70%	64%
<b>Amortization (Yrs.)</b>											
Minimum	15	15	15	15	15	15	15	15	15	30	15
Maximum	40	30	40	30	30	30	30	30	30	15	30
Average	26	20	24	25	22	25	25	19	25	27	20
<b>Term (Yrs.)</b>											
Minimum	3	5	3	3	5	5	3	3	3	3	3
Maximum	40	30	25	30	30	30	30	15	10	10	20
Average	21.50	9.25	13.75	11.67	8.00	9.25	8.00	7.50	6.25	6.25	8.00

\* 10-Year Treasury

\*4th Quarter 2008 Data

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### Sources of Debt Financing

The best source for a loan depends on a number of factors, including the type of development, stage of development, size of the loan required, and the experience and financial strength of the borrower (Schmitz, 2000). The future outlook for the multifamily housing industry, the general state of the nation's economy, and the lender's financial and business strategy will greatly affect the terms and conditions of loans at any particular time. The developer should survey the market and even seek out the advice of a mortgage broker or banker when searching for a loan. Mortgage brokers and bankers are instrumental in helping the developer navigate through the process of obtaining the right loan.

- **Mortgage Broker - brings together lenders and borrowers and serves as a connection point and conduit of information throughout the transaction.**
- **Mortgage Banker - is the actual lender who makes a loan secured by a mortgage on real estate from the bank's own capital with the intention of selling the loan to another institution at a later date (Collier, Collier, & Halperin, 2008).**

There are five main lending sources for multifamily developers: commercial banks, pension funds, insurance companies, commercial mortgage backed securities (CMBS), and governmental agencies.

Commercial banks have been and are the principal source for multifamily funding. They can provide funding throughout the development process from planning, to land acquisition, and on through construction. They are a good source of permanent financing, see figure 17. Small banks can only lend 5% of their equity capital on any one loan and their deposits are subject to reserve account minimums of 6% (Anderson, 2008). Because of this, they may syndicate with other banks on larger loans. Some banks keep the loans in a "portfolio" but a majority of them are sold to Wall Street underwriters. The bank makes money by charging the developer an origination and a commitment fee.

Pension funds generally provide an equity investment in existing properties, they also provide take outs for real estate developments, primarily permanent financing (Schmitz, 2000). Pension funds prefer grade A to A++ multifamily investment grade or institutional quality properties. When providing permanent financing, pension funds will generally ask for a "kicker" which means that the lender wants participation in the annual cash-flows and in any profit when the development is sold. In exchange, the fund might be willing to trade for a higher LTV ratio. Pension funds may also offer a convertible loan which is a construction loan that automatically converts into a permanent loan upon stabilization.



**Figure 17 - "Sara Conner Court"**  
Sara Conner Court, which was completed in 2006, received a construction and a permanent loan from Silicon Valley Bank, a commercial bank.  
Source: ULI: Development Case Studies

Insurance companies are a major source of permanent financing for larger multifamily developments. They will offer financing for existing properties and issue takeout commitments on new developments. Some companies will offer construction loans, but as a developer it is recommended to not count on them. Insurance companies seem to want to stick to the "safe" low risk loans, and not loans for land acquisition, the planning and predevelopment phases, or interim financing.

Commercial Mortgage Backed Securities (CMBS), conduit lenders, have become a driving force in commercial/multifamily real estate finance. A CMBS is a pool of many mortgages, originating from conduits and other sources, which are used as collateral for a bond offering. The bonds are sold to investors, who will be paid interest, and the money from the investors will pay back the conduits. A conduit is a special purpose entity formed solely to originate mortgages loans to create CMBS through securitization (Schmitz, 2000). Conduit loans are popular for a number of reasons, including favorable fixed interest rates, longer terms, higher leverage/less required equity and limited personal liability (Kelley, 2004).

There are a number of government and quasi-government agencies that offer support for the development of multifamily housing either through direct loans or by using other mechanisms, such as: tax credits, low interest rates, or high loan-to-value ratios. Due to the economic downturn, agencies such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) are no longer purchasing as many loans as they were from originators. The Government National Mortgage Association (GNMA) and the Federal Housing Administration (FHA) do not make loans but offer various loan guarantees for multifamily developers choosing to develop within one of their programs. Additionally, the federal government has been offering Low Income Housing and Historic Preservation Tax Credits to developers who pursue qualified developments.

**Table 15 - Sources of Debt Financing**

Type of Financing	Commercial Banks	Savings & Loans	Insurance Companies	Pension Funds	Mortgage REITs
Line of Credit	Y	Y	N	N	N
Planning / Predevelopment	Y	N	N	N	N
Land Acquisition	Y	Y	N	N	N
Land Development	Y	Y	N	N	N
Construction	Y	Y	Y	Y	N
Bridge (Gap) Financing	Y	N	N	N	N
Permanent Mortgage	Y	Y	Y	Y	Y

Source: (Schmitz, 2000)

## Leverage

The use of borrowed money (debt) to finance a development is commonly referred to as leverage. When choosing to use leverage, the developer needs to be aware of the following:

1. The more equity invested in the development the lower the risk and the lower the potential return.
2. The use of borrowed money to finance a development can greatly enhance the potential return to the equity investors while also increasing the risk (Schmitz, 2000).



**Figure 18 – “Sara Connor Court”**

In 2003, the developer received a permanent loan from Silicon Valley Bank for 2.5 million dollars. The total cost of the development was 21 million dollars. This development was not highly leveraged.

Source: ULI: Development Case Studies and [www.greenplaybook.com](http://www.greenplaybook.com)

Leverage can be described as a double edged sword, meaning that potential returns and losses are magnified relative to an all cash equity investment. The lure of increasing profits from using leverage leads to more risk and the possibility of negative leverage. Negative leverage occurs when the borrowed money is invested at a rate of return lower than the cost of funds to the borrower. A developer would never do this intentionally, but this type of situation can arise when there are cost and operating overruns, delays, market changes, and missed occupancy and rental rates. Any one of these problems could result in a failure to meet the Developer’s required debt service

payment, resulting in a cash call or foreclosure, see Figure 18. Because leverage increases development risk, lenders impose limits and restrictions to the amount of debt they will allow to be used to finance a development.

## Summary

There are many debt options available to a developer. The options start with the various types of loans available to multifamily developers. The two most common are construction and permanent loans, but there are other types of loans that are helpful along the development process, such as: front-end, gap, and mini perm loans. Lenders will loan the lesser of the loan amount figured by the debt coverage and loan-to-value ratio. Mortgage brokers and bankers help developers navigate through the five various sources of multifamily real estate financing to find the best source or the only source willing to loan money. The amount of debt or leverage needs to be balanced to maximize profits and to minimize risk.

The three fundamental C's of a good borrower are character, competence, and collateral (Collier, Collier, & Halperin, 2008). Borrowed money does not always come from lenders but can also come from equity provided by investors.

**Table 16 - Three Fundamental C's of a Good Borrower**

- 1. Character – history of paying obligations**
- 2. Competence – history of making profitable deals**
- 3. Collateral– borrower has sufficient resources to guarantee repayment of the loan. The lender needs assurance that the mortgage loan capital will be invested in the construction or purchase of a sound, well-built structure in a good location. The borrower's equity in the property must be sufficient to cover a defaulted loan (Collier, Collier, & Halperin, 2008).**

A developer who exemplifies these three C's should have no problem obtaining equity and debt capital. Equity capital can come from various sources; the developer, the landowner, individuals, and investors. In general, the cost of equity will be more than the cost of debt. There are five main sources of financing for real estate debt: commercial banks, pension funds, insurance companies, commercial mortgage backed securities (CMBS), and governmental agencies. Governmental agencies are not as active now as they were in the past, but the federal government still offers and will probably continue offering Low Income Housing and Historic Preservation Tax Credits to developers who pursue qualified developments.

## Two Tax Credits Available to New Urbanist Multifamily Developers

There are two main tax credits available to the multifamily developer: the Low Income Housing and the Historic Preservation Tax Credits. Both of these tax credits are administered by the federal government. A tax credit provides a dollar for dollar reduction in a taxpayer's federal income tax, whereas a tax deduction only provides a reduction in taxable income. Developers have numerous incentives to participate in these programs:

### **Table 17 - Four Reasons why Tax Credits are Good for a Multifamily Developer**

- 1. Increased profits from the construction or the rehabilitation of a development**
- 2. An opportunity to receive an additional source of funds to assure development viability through the sale of tax credits to investors.**
- 3. Utilization of unsold tax credits to offset one's own federal tax liability (Danzig, 2008).**
- 4. Tax credits can be used to shelter both passive and non-passive income for investors (Schmitz, 2000).**

### **Syndication of Tax Credits**

Syndication, in this context, is used to generate private equity, often prior to, or during, the construction of the development. The developer typically syndicates credits - i.e., sells the rights to the future credits in exchange for up-front cash (U.S. Department of Housing and Urban Development, 2008), see Figure 19. For the first several years of this decade, syndicators were selling tax credits for 85 to 95 cents on the dollar.

In a typical limited partnership, the profits and losses are shared with the limited partners according to their percentage of ownership; this is true for tax credits as well. A number of banks, publicly held corporations, and other institutional investors or equity funds with banking connections, may participate in many of these tax credit syndications. These entities are not subject to passive income loss rules. To further understand the tax consequences of utilizing tax credits, passive and active income needs to be defined.

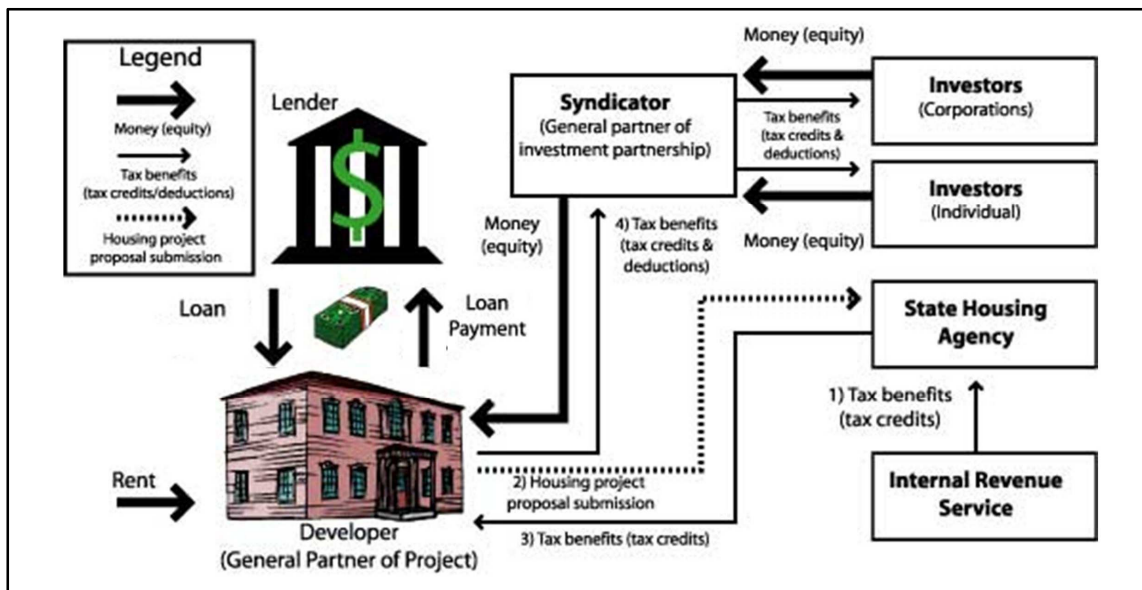


Figure 19 – Follow the Money: The Syndication Process  
Adapted from (The Danter Company, 2008)

### Tax Consequences

Active income can be defined as personal income from salaries, wages, fees, commissions, and trades or businesses in which one materially participates (MSN Money, 2008). Rental income is considered passive income from those activities in which the taxpayer is not involved on a regular, continuous, and substantial basis (National Trust Community Investment Corporation, 2008). For most taxpayers, the passive activity limitation provides that losses and credits from "passive" income sources, such as real estate limited partnerships, cannot be used to offset tax liability from "active" sources such as salaries (National Park Service, 2008). However, in real estate there are exceptions that allow an entity or taxpayer to designate passive income as active income. For example:

#### Table 18 - Three Entities that Allow Passive Income to be Considered Active Income

1. **Corporations** - S and C Corps., and Limited Liability Company – do not differentiate between real estate incomes.
2. **Real Estate Professionals**
  - a. More than half of the personal services performed in all trades or businesses during the tax year were performed in real property trades or businesses in which you materially participated.
  - b. You performed more than 750 hours of services during the tax year in real property trades or businesses in which a real estate professional materially participated.

- 3. Active Participant – if one actively participates in a rental activity you can deduct up to \$25,000 of the rental loss. To actively participate means that one must own at least 10 percent of the property and make management decisions in a significant and bona fide sense, such as approving new tenants, setting rental terms, approving improvements, and so forth (Intuit Inc., 2008).**

Additionally, there are two rules that apply to active participants, the passive loss rule and the passive credit exemption.

- 1. General Passive Loss Rule - Taxpayers with incomes less than \$100,000 (generally, adjusted gross income with certain modifications) may take up to \$25,000 in losses annually from rental properties. This \$25,000 annual limit on losses is reduced for individuals with incomes between \$100,000 and \$150,000 and eliminated for individuals with incomes over \$150,000.**
- 2. Passive Credit Exemption - Individuals, including limited partners, with modified adjusted gross incomes of less than \$200,000 (and, subject to phase out, up to \$250,000) investing in rehabilitation tax credit developments may use the tax credit to offset the tax owed on up to \$25,000 of income. Thus, a taxpayer in the 33% tax bracket could use \$8,250 of tax credits per year ( $33\% \times \$25,000 = \$8,250$ ) (National Park Service, 2008).**

General passive losses up to 25,000 dollars would be applied to an active investor's income first, if any, and then the tax credits would offset the remaining balance. Any unused tax credits can be "carried back" one year or "carried forward" 20 years (National Park Service, 2008). A new urbanist multifamily developer is likely to be considered a real estate professional. As a professional multifamily developer there is no differentiation between active and passive real estate income. If the tax credits are not sold on the open market, the developer will be able to utilize the development's tax credits as a possible form of compensation. The tax credits can also pass to limited partners investing into the multifamily development if the active participant requirement is met. This could assist the developer in raising capital from individuals, by providing a tax benefit that can be carried back one year or forward 20 years.

## Low Income Housing Tax Credits

The federal government offers Low Income Housing Tax Credits. This credit has become the largest affordable housing production program in the country and is one of the most popular among new urbanist multifamily developers, see Figure 20. The Low Income Housing Tax Credit (LIHTC) program was created by the Tax Reform Act of 1986 as an alternate method of funding housing for low- and moderate-income households.

Each state is allocated a certain amount of LIHTCs per capita (PolicyLink, 2008). The states will then distribute the credits to developers. The distribution process is usually very competitive. Once an application is received, a scoring rubric is then applied. Some states give nonprofit developers extra points in the competitive process (PolicyLink, 2008). Tax Credits must be used for new construction, rehabilitation, or acquisition and rehabilitation. Developments must also meet the following requirements:



**Figure 20 – “Solara”**  
In 2004, the developers of “Solara” generated more than 11 million dollars in equity from the sale of Low Income Tax Credits. The total development cost of Solara was nearly 16 million dollars.  
Source: ULI: Development Case Studies

### **Table 19 - Key Low Income Housing Tax Credit Requirements**

- **20 percent or more of the residential units in the development are both rent restricted and occupied by individuals whose income is 50 percent or less of area median gross income**
- **40 percent or more of the residential units in the development are both rent restricted and occupied by individuals whose income is 60 percent or less of area median gross income.**
- **When the LIHTC program began in 1987, properties receiving tax credits were required to stay eligible for 15 years. This eligibility time period has since been increased to 30 years (The Danter Company, 2008).**

There are two types of tax rates available for the construction of low- income housing that may be transferred or “sold” to investors each year for ten years. The first rate is a 9 percent credit of the qualified costs of the development as applied to the costs of new construction or rehabilitation. The next rate is 4 percent of qualified costs tied to building acquisition or federally subsidized developments. A multifamily developer calculates the amount of tax credits by multiplying these percentages (9% or 4%) by the qualified basis. The steps in figuring the tax credit amount are as follows:

**Table 20 - Calculating an Eligible Amount for Low Income Housing Tax Credits in Four Steps**

- 1. Start with the total development cost**
- 2. Figure the eligible basis by subtracting non-depreciable costs, such as land, permanent financing costs, rent reserves and marketing costs.**
  - a. If the development is located in a HUD designated high cost area (HCA), the eligible basis receives a 130% HCA adjustment. These areas include both Qualified Census Tracts (QCTs) and Difficult Development Areas (DDAs)**
- 3. Calculate the qualified basis. The eligible basis is multiplied by the applicable fraction, which is the smaller of**
  - a. The percentage of low income units to total units, or**
  - b. The percentage of square footage of the low income units to the square footage of the total units, to arrive at the qualified basis (The Danter Company, 2008).**
- 4. The qualified basis is then multiplied by the federal tax credit rate.**

Low Income Housing Tax Credits have been successful in creating incentives for private developers to construct low- and moderate-income housing, and have become one of the more popular forms of government assistance utilized by multifamily developers. The developer will receive either a four or nine percent tax credit depending on the type of development. The tax credit is based on the qualified basis times the tax credit percentage. This tax credit program has been around for awhile and it is expected to stay around for years to come.

### **Historic Preservation Tax Credits**

Jointly managed by the National Park Service (NPS) and the Internal Revenue Service (IRS) in partnership with State Historic Preservation Offices (SHPOs), the Historic Preservation Tax Credit (HPTC) program rewards private investment in rehabilitating historic buildings, see Figure 21. There is a three step process the multifamily developer must follow to receive preservation tax credits. The first step in applying for a HPTC is for a new urbanist multifamily developer to provide the SHPO and the NPS an evaluation explaining the significance of the property, followed by a description of the rehabilitation work, and finally when all work is completed a request for certification is submitted. It is at this point that the development becomes eligible for the tax credits. The current tax incentives for preservation, established by the Tax Reform Act of 1986 (PL 99-514;



**Figure 21 –“Eleven80”**  
To finance “Eleven80” in 2007, the developer had to use seven sources of financing, one of which was the federal Historic Preservation Tax Credit program.  
Source: ULI: Development Case Studies

Internal Revenue Code Section 47 [formerly Section 48(g)] include:

- **20 percent tax credit for the *certified rehabilitation* of *certified historic structures*.**
- **10 percent tax credit for the rehabilitation of *non-historic, non-residential buildings* built before 1936.**
  - ❖ **For the 10 percent tax credit, rental multifamily housing does not qualify. Hotels; however, would qualify. They are considered to be in commercial use, not residential (National Park Service, 2008).**



**Figure 22 – “Eleven80”**  
The “Eleven80” building was abandoned by its previous owner in the early 1980s. This art deco building presented a daunting rehabilitation task: entire floor plates had rotted, sections of the facade were crumbling, and steel beams and columns had rusted through and separated from the structure.  
Source: ULI: Development Case Studies

A *certified rehabilitation* is a rehabilitation of a certified historic structure that is approved by the NPS as being consistent with the historic character of the property and the district in which it is located (National Park Service, 2008). To ensure the historic character of the building is preserved, the Secretary of the Interior and the NPS have developed an all encompassing 10-principle code which applies to both the interior and exterior of historic buildings, see Figure 22. These regulatory agencies assume that some alteration of the historic building will occur to provide for an efficient use, ADA and OSHA compliance. However, the developer must not damage, destroy, or cover materials or features that define the building's historic character (National Park Service, 2008).

The definition of a *certified historic structure* is as follows: a structure which is either listed individually on the National Register of Historic Places or is a contributing building in the National Register, or State or Local Historic District that has been certified by the Secretary of the Interior (Advisory Council on Historic Preservation, 2006). The National Register is the nation's official list of cultural resources worthy of preservation.

For both credits, the rehabilitation must be *substantial* and involve a *depreciable* building. The National Trust Community Investment Corporation defines substantial rehabilitation as:

- **Substantial Rehabilitation** - A rehabilitation in which the *qualified rehabilitation expenditures (QREs)* (over a 24-month period selected by the taxpayer or 5 years if development is phased) exceed the greater of 5,000 dollars or the *adjusted basis* of the building. The adjusted basis is to be calculated as of the first day of the 24-month period.
  - **Qualified Rehabilitation Expenditures (QREs)** - expenditures that are connected with the rehabilitation or restoration of the qualifying structure. Include: construction costs, construction interest and taxes, architectural and engineering fees, legal costs, developer's fees, general and administrative fees and other construction-related expenditures if such costs are added to the basis of the property and are determined to be reasonable and related to the services performed (National Trust Community Investment Corporation, 2008).

A *depreciable building* is one that after rehabilitation must be used for an income-producing purpose for at least five years (Advisory Council on Historic Preservation, 2006). Additionally, the *adjusted basis* on the building equals the purchase price of the building, minus the cost of land, plus improvements already made, minus depreciation taken.

To receive the 20 percent Historic Preservation Tax Credit, a multifamily developer must renovate a building in accordance to the regulations established by the Secretary of the Interior and the National Park Service. The proposed development must be included in the National Register of Historic Places as a specific building or be located in an historic district. The substantial rehabilitation must be certified by the Secretary of the Interior and the National Park Service. A 20 percent tax credit can be collected for most of the money spent on improving an old building. This incentive makes historic preservation more attractive and financially feasible for multifamily developers.

## Summary

The Low Income Housing and the Historic Preservation Tax Credits are the most common types of government assistance that a multifamily developer can seek. If a multifamily developer plans carefully, almost 29 percent of the cost of the improvements made to an historic building, to be used for low income housing can be recovered in the form of tax credits. There are many tax consequences pertaining to the use of these credits and a competent tax accountant should be consulted.

Some developers will choose to syndicate the development's tax credits for equity. In tough financial times, either or both of these tax credits can greatly help developers. Most lenders are now

requiring developers to put more equity into developments, and banks usually treat the tax credits as equity. These two tax credits have financially helped multifamily developers revive historic buildings in many downtown areas and provide a source of affordable housing to communities.

The new urbanist movement is gaining momentum across America. The Low Income Housing and Historic Preservation Tax Credits can financially assist a developer in the development of the rental multifamily component. The rental multifamily component addresses many of the principles established by the Congress for the New Urbanism. The rental multifamily aspect can help establish neighborhoods diverse in use and population. Low Income Housing Tax Credits financially help developers to establish neighborhood diversity which might not be financially feasible if otherwise not available. Historic Preservation Tax Credits help preserve and renew historic buildings, districts, and landscapes which ultimately affirm the continuity and evolution of urban society.

## The New Urbanist Movement

Picture a community that encourages parades and school bake sales. A community where neighbors sit and visit on front porches while watching the children jump rope and play tag. A community where residents live, work, and play within walking distances of their homes. This is a type of community that the new urbanist movement attempts to create. As mentioned earlier, New Urbanism is an umbrella design concept. Advocates of New Urbanism have been promoting housing and urban developments to mitigate sprawl, to facilitate infill development, to support regional development patterns that facilitate walking and transit, and to encourage sustainable growth sensitive to environmental quality, economy and social equity (Garde, 2006). Recently, master planned communities, mixed-use, and infill developments have been proposed and marketed with an overlay reflecting new urbanist design elements. In each of these developments, the rental multifamily component provides the necessary densities which are essential to the success of many of these new urbanist developments.

### Master Planned Communities

A master planned community is a large scale development. These communities are not free standing self contained towns but are extensions of urban areas. These developments can be several thousand acres and can be long-tem, multiphase developments. Master planned communities are most prevalent in the Sunbelt states of Arizona, California, Florida, Georgia, and Texas where larger tracks of land are still available.

#### **Table 21 - Features of a Master Planned Community**

- **An emphasis on neighborhood and community identity,**
- **A variety of housing types,**
- **A mixture of land uses including centers of employment,**
- **Coordinated efforts between land planners and architects, and**
- **An emphasis on amenities and lifestyles (Schmitz, 2004), see Figure 23.**



**Figure 23 - "New Columbia"**  
Completed in 2006, New Columbia's main street in Portland Oregon includes 3,600 square feet of ground-floor retail space, with apartments and offices above.  
Source: ULI: Development Case Studies

The New Urbanism design concept is shaping the multifamily aspect in some master planned communities. In these communities, developed in the style of the New Urbanism, rental multifamily units are designed as small buildings. They are located close to the street, and integrated into old-style “city” blocks with other forms of housing and commercial activity (Schmitz, 2000). Live/work units with residential units above street retail shops often are part of a new urbanist’s plans.



**Figure 24 - “New Columbia”**  
This development comprises of 854 new residences, including 232 for-sale units, 186 affordable apartments, and 370 public housing and Section 8 rental units.  
Source: ULI: Development Case Studies

“New Columbia” is a mixed income and mixed-use public housing project developed under The Department of Urban Development’s (HUD) Housing Opportunities for People Everywhere (HOPE VI grant program). HOPE VI grants are used to transform aging public housing projects around the nation into new, mixed-use communities that apply the new urbanist principles of density, pedestrian orientation, and transit accessibility (Krishnamurthy, 2008).

“New Columbia”, developed by the Housing Authority of Portland (HAP), is a \$151 million master planned development located on an 82 acre site. HAP received a bulk of its money from the sale of Low Income Housing Tax Credits which covered 39% of the development costs or 58.8 million dollars, see Figure 24. The HOPE VI grants only covered 29% of the cost or 43.4 million dollars. Between May, 2004 and July, 2005, tax credits were dispersed into four offerings. These tax credits were available to corporate investors via tax credit syndicators. The developers received \$0.98 to \$1.14 per tax credit dollar syndicated (Krishnamurthy, 2008). For additional reading, the “New Columbia” case study, prepared by the Urban Land Institute, has been included in the appendix.

## Mixed-Use Developments

The Urban Land Institute defines a mixed-use development as having: three or more significant revenue producing uses, significant functional and physical integration of the development’s components, and a development in conformance with a coherent plan (Witherspoon, 1976). A Mixed-use town center is often incorporated into master planned communities. Retail, office, and rental multifamily uses are commonly blended together into a single development.

Cities and towns are beginning to recognizing the benefits of mixed-use developments. Developments with office components add new jobs and increase the customer base for local shops and services. The retail component adds to the town's tax base. The multifamily component attracts new residents to urban centers thus creating a demand for restaurants, movies theaters, grocery stores, and other entertainment venues, see Figure 25.

The "Kinsey Flats" are located in downtown Cincinnati, Ohio and were developed by Middle Earth Developers, Inc. The developers transformed an old vacant historic warehouse into 25 apartments, five retail/commercial storefronts, and 118 parking spaces. Within Cincinnati, the "Kinsey Flats" are located on the west side of downtown in the West Fourth Street Historic District, which is listed on the National Register of Historic Places. The district is home to a mix of dining, entertainment, professional, and retail establishments all within a six-block radius (Myerson, 2004).



**Figure 25 – "Kinsey Flats"**  
The redevelopment of "Kinsey Flats" is part of a general trend in downtown Cincinnati to rehabilitate historic structures. The "Kinsey Flats", construction completed in 2004, are now a blend of historic architecture and industrial style. They are located on a dense urban block with a mix of retail, residential, and office uses.  
Source: ULI: Development Case Studies



**Figure 26 – "Kinsey Flats"**  
When the developer purchased the "Kinsey Flats" buildings in 2002, the buildings were in serious disrepair and had to be stabilized before rehabilitation could begin.  
Source: ULI: Development Case Studies

The "Kinsey Flats" cost a total of 3.9 million dollars. The majority of financing was provided by a loan pool designed to stimulate the production of housing in downtown Cincinnati, but equity was obtained from Federal Historic Tax Credits, \$500,000. Local zoning requirements and federal historic tax credit criteria required the developer to keep the first floor as retail space. In addition, the retail space had to remain consistent with the mixed-use character of the neighborhood (Myerson, 2004). Without the equity generated from the Historic Preservation Tax Credits the "Kinsey Flats" might have

never been built. The Kinsey building, instead of being an eye sore, is now a structure that blends historic architecture and industrial style on a dense urban block, see Figure 26. For additional reading, the "Kinsey Flats" case study, prepared by the Urban Land Institute, has been included in the appendix.

## Infill Developments



**Figure 27 - "6 North Apartments"**  
These apartments, completed in 2004, are an urban infill development located in St. Louis, Missouri. "6 North" addresses many smart growth/new urbanist objectives.  
Source: ULI: Development Case Studies

Infill development refers to the building of homes, businesses and public facilities on unused and underutilized lands, grayfields and brownfields, within existing urban areas (Greenbelt Alliance, 2006). This type of development promotes the reuse of property and buildings in a way that makes economic sense for property owners, local governments, and the regional economy. Successful infill can also include: new development on vacant lots within urbanized areas, redevelopment of underused buildings and sites, and the rehabilitation of historic buildings for new uses (Northeast Midwest Institute, 2008).

Infill developments fit into the new urbanist concept by creating neighborhoods and districts that embrace the urban core of mixed-uses and incomes, where citizens live, work, and play. Rental multifamily units are an important component in providing housing in these urban cores due to the densities that can be achieved, see Figure 27. Many tenants choose to live in multifamily infill units because of the close proximity to jobs and services.

The "6 North Apartments" are a three story 80 unit rental development located in St. Louis, Missouri. Developed by McCormack Baron Salazar, Inc, this urban infill development is located one block from the St. Louis University campus (to the east) and about six blocks from the Barnes/Jewish Hospital complex and the Washington University Medical School campus (to the west). "6 North" addresses many smart growth/new urbanist objectives through its mix of uses, density, urban infill development, and accessibility (Stern, 2006 ), see Figure 28.



**Figure 28 - "6 North Apartments"**  
Due to the urban location, two of the three live/work units in "6 North" have been designated for commercial use. Bright yellow door frames on all ground-floor units are intended to make it easier for people with low visual acuity to locate entrances.  
Source: ULI: Development Case Studies

Of the 80 units, 45 are market rate units and 35 are affordable units. Of the 35 units, five of the units must be rented to residents earning less than 50 percent of area median income (AMI) and 30

units to those earning less than 60 percent of AMI. Because of this unit break down, the developer qualified to receive 463,000 dollars in federal and state Low Income Housing Tax Credits (Stern, 2006 ). The Low Income Housing Tax Credits helped to offset the amount of equity required for this 12 million dollar development. For additional reading about the “6 North Apartments”, a case study prepared by the Urban Land Institute has been included in the appendix.

These three developments were commonly developed under a Planned Unit Development regulatory process. One of the difficulties with these developments is trying to balance public access and the tenant’s privacy. New Urbanism developments incorporate a variety of housing types and densities which create a compact urban configuration, with a distinctive pedestrian oriented design that puts an emphasis on providing civic spaces and amenities within walking distances (New Urban News, 1998). The multifamily component became an important factor in these three described developments which were designed around the principals of New Urbanism.

### **Hurdles Facing New Urbanism**

As previously stated, New Urbanism is a design concept, but it is also a reform movement that has attracted criticism in the last few years. Some cite “concerns about restrictions on individual property rights and government intrusions into economic affairs (Harris, 2006). Reform has already been instituted in the federal government. “New urbanist design principles have been incorporated into the Department of Housing and Urban Development’s (HUD’s) community design guidelines for Homeownership Zones and represent a key element of the HOPE (Housing Opportunities for People Everywhere) VI program’s efforts to transform severely distressed public housing developments into more diverse, mixed-use neighborhoods” (Bohl, 2000). Others, who are worried, see New Urbanism as nothing more than conventional sprawl dressed up with superficial stylistic cues. The not-in-my-backyard activists complain about the high density ratios and also express concern that “mixed-use” results in too much around-the-clock activity.

### **New Urbanism Insights and Implications**

Ajay Garde, a professor at the University of California, conducted a survey of designers, developers, and planners who had experience working on new urbanist developments. The survey revealed obstacles associated with new urbanist developments. The survey encompassed 202 new

urbanist developments which were published in the *New Urban News* (September–October 1998, pp. 8–13), (and) were acknowledged (at that time) as the most comprehensive list of such developments in the United States by the Congress for New Urbanism (Garde, 2006). The obstacles uncovered in the survey and discussed by Ajay Garde in his publication titled *Designing and Developing New Urbanist Projects in the United States: Insights and Implications* are quoted below:

**Table 22 - New Urbanism: Obstacles**

**Designers**

- **Too often public authorities say they like it but by the time the approval process is over they have transformed a good new urbanist plan into a bad conventional plan by increasing lot sizes, refusing to allow mixed-use, reduce street widths etc.**
- **Designs are not favored by public authorities: mainly alleys, maintenance, and accessibility of service vehicles**

**Developers**

- **Requires more than usual amount of effort to gain regulatory approvals, have to educate homebuyers and realtors**
- **Biggest problem is city engineers and fire chiefs who want wide streets, which reduces 'New urbanist' 'pedestrian scale'**
- **Are seen as 'risky' by builders, bankers, developers etc.**
- **Opposed by homebuilders**
- **Cost more for infrastructure and market acceptance is weaker**

**Planners**

- **Change seems to always be a scary proposition and it's the brave and hardy few who are willing to try it**
- **New urbanist developments are restricted by street width standards**
- **People generally relocate to have more space than was available to them in more populated areas.**
- **Fitting in and competing with regular subdivisions that are more automobile oriented was noted as a strong issue**

New Urbanism attempts to recreate the essence of an old town community, much like the small towns our grandparents would have been familiar with. The blending of the pre-World War II style of developments with new societal norms creates a new urbanist neo-traditional architectural style. Designers of homes incorporating this type of style, while borrowing urban design concepts from the past, must incorporate modern living spaces and amenities into their design. Stores and business must be handicap accessible, have sufficient parking, have modern floor plans, and must provide for appropriate vehicle and pedestrian traffic.

New Urbanism may become a premier development model and replace suburbanism. The new urbanist ideology attempts to create a sustainable development which is socially responsible, creates a healthy environment, and is financially feasible. The success or demise of the new urbanist design model lies in the hands of those in the housing market and the issues of supply and demand in the 21st century.

### **A Means to an End: Planned Unit Developments (PUD)**

There are advantages for a multifamily developer who chooses to use a new urbanist design model, but sometimes a municipality's zoning regulations pose a major hurdle to overcome. As an example, consider "by-right districts which are the most traditional type of zoning" (Peiser, 2003). These districts are broken down into zoning classifications such as single family, multifamily, commercial, and industrial. A developer has the right without additional regulatory zoning approvals to build what is permitted in these types of zoning districts based on the current zoning specifications. By-right zoning districts can be problematic for a new urbanist multifamily developer. In the planning stages of the development, the new urbanist developer will have to precisely conform to the various zoning entities within the development district. This would make it difficult to create a seamless development and to rezone a development district in a timely manner. Most municipalities provide other options to developers rather than by-right zoning districts. Form-based zoning districts, for example are much more conducive to the new urbanist design model.

#### **Why use a Planned Unit Development**

A Planned Unit Development (PUD) is a special form-based overlay zoning district. In PUDs, by-right zoning is discarded in favor of a more flexible approach that considers the development in its entirety and is approved as an entirely new separate zoning entity. The special zoning entity created will establish its own unique and permitted uses, setback requirements, and other standards to be applied in the development zone. Standing in contrast to conventional land development regulations (which, it is argued, favor regulating use over form), PUDs are designed to place the ultimate form of the development in a superior position to the use to which the property is put (Sitkowski, 2006). Some municipalities have other names for PUDs such as *planned residential development districts*, *planned development districts*, and *planned mixed-use districts*.

**Table 23 - Multifamily Developers Achieve Flexibility with PUDs**

- 1. A maximum choice in the type of environment for working and living available to the public;**
- 2. Open space and recreation areas;**
- 3. A pattern of development which preserves trees, outstanding natural topography and geologic features, and prevents soil erosion;**
- 4. A creative approach to the use of land and related physical development;**
- 5. An efficient use of land resulting in smaller networks of utilities and streets, thereby lowering development costs;**
- 6. An environment of stable character in harmony with surrounding development; and**
- 7. A more desirable environment than would be possible through strict application of other sections or districts in this Unified Development Ordinance (Indirectly quoted from the City of College Station's "Unified Development Ordinances.").**

**Creating a Planned Unit Development**

There are four general steps in creating a PUD. In each of the steps, the multifamily developer will be negotiating between review agencies and the public. During the negotiation process, the community will express their interest which will provide the developer an opportunity to tailor the development towards the desires of the community, see Figure 29. The process for creating a PUD varies from city to city, but the municipality must first of all allow for the use of PUDs. The PUD ordinances, for each city, should clearly spell out the review process, opportunities for public involvement, and procedural guidelines. Besides these standards, the community's comprehensive plan will provide the overall context within which the proposed development should fit.



**Figure 29 - "The Parks of Austin"**  
"The Parks" is located in the Colony, TX. Phase 1 was completed in 2001. This multifamily rental housing development, developed by the Billingsley Company, is a part of a master-planned new urbanist community which utilizes a planned unit development zoning designation.  
Source: ULI: Development Case Studies

Outlined below are four general steps in creating a PUD. These steps are expressed in the article titled "Planning Implementation Tools: Planned Unit Development" published by the Center of Land Use Education:

**Table 22 - Four General Steps in Creating a PUD**

1. **Pre-application conference** - The developer consults with planning staff for ordinance and process clarification and discusses initial development plans.
2. **Site plan review** - The site plan review consists of a detailed site analysis of existing features, often an on-site walkabout, and a discussion about development goals and possible design solutions.
3. **Preliminary development plan**
  - a. The plan includes specific documents and maps giving a legal description of the development, a detailed site plan and supporting maps.
  - b. The planning commission holds a public hearing at which time the developer will present the PUD proposal and the planning commission's recommendations are made available for public review.
4. **Final development plan** - The final plan contains the detailed engineering drawings of the entire site and process for completion of the development. The entire site plan for the PUD will be reviewed as a single entity. The planning commission would, at this time, approve recording the plat.

PUDs are generally accepted if the proposed development is discussed with the public early in the planning stages. This allows the public to clearly understand the development and their concerns can be addressed prior to the final public hearing. Misunderstandings could result in costly delays and even rejection of a development. If the public accepts the development, then it is likely that the politicians will follow. New Urbanism can be accomplished without a PUD but it is difficult and very time consuming, which can be costly to a developer. Form based codes can be used to contextually fit a multifamily rental development within a new urbanist design. PUDs and other form based zoning regulations can streamline the regulatory permitting process.

## **Summary**

A new urbanist multifamily developer who cannot compete with conventional developments or find a niche that is poorly served by the real estate industry will have a difficult time achieving success. The new urbanist ideology attempts to create a sustainable development which is socially responsible, creates a healthy environment, and is financially feasible. A rental multifamily component is most often found in new urbanist inspired master planned, mixed-use, and infill developments. Low Income Housing Tax Credits can be used in each of these three types of developments. Of the three types of developments, Historic Preservation Tax Credits are most often sought by infill developers.

At this time, it is not clear how long the New Urbanism development trend will last because traditional zoning regulations favor suburbanism, also known as sprawl. Planned unit development

districts have been around for many years. A rental multifamily developer can use form based type of zoning designation to implement a New Urbanism design model. The success or demise of the new urbanist design model lies in the hands of those in the housing market and the issues of supply and demand in the 21<sup>st</sup> century.

## Conclusion

The history of the rental multifamily housing market has shown that it has had its share of ups and downs. The multifamily housing crash of the 1970s was caused by an energy crisis, high interest rates, and speculative over building. Excluding the energy crisis of the 1970s, the crash in the 1980s shares many of the same causes. The collapse of the savings and loan banks certainly did not help the multifamily market. The effects of this crash were felt well into the 1990s. Today, it is necessary for the multifamily developer to know of the new banking regulations. Accounting practices have also improved and now allow the developer to more accurately keep track of supply and demand. Understanding the history of rental multifamily housing can assure the developer that the mistakes made in the past can be avoided.

A market analysis is one of many feasibility elements used in the development process. The rental market should be continuously monitored throughout the development process even after the development is up and running. The analysis should identify niche markets so that a multifamily developer can take advantage of rental price inelasticity. In a market analysis, the developer should also look for proper delineation of the market area and the competitive market area product types. Supply and demand should be figured into the market analysis when examining the target market area. Supply and demand should also be expressed in terms of net absorption and capture rates.

The cost of a multifamily development can be divided into two parts: equity and debt. Equity capital can come from the developer, the landowner, individuals, and investors. In general, the cost of equity will be more than the cost of debt. There are five main sources of financing for real estate debt: commercial banks, pension funds, insurance companies, commercial mortgage backed securities (CMBS), and governmental agencies. Governmental agencies are not as active now as they were in the past, but the federal government still offers and will probably continue offering Low Income Housing and Historic Preservation Tax Credits to developers who pursue qualified developments. Equity will cost the developer more than debt, so excess equity from investors should be sought only if needed. In the end, there should be a balance between equity and debt so that profits may be maximized and the development's financial risk minimized.

Low Income Housing and Historic Preservation Tax Credits have been successful in creating incentives for private developers to construct low- and moderate-income housing and to rehabilitate

and preserve historic buildings. There are many tax consequences pertaining to the use of these credits, and to avoid tax problems a competent tax accountant should be contacted. In today's tough financial times, tax credits greatly help developers. Most lenders are now requiring developers to put more equity into their developments, and banks usually treat the tax credits as equity. In the past, these two tax credits have financially helped multifamily developers build new structures and revive older buildings in many downtown areas.

Today, New Urbanist design principles have been incorporated into many premier developments. The rental multifamily component has been and will continue to be an important element in these premier developments. Many of the principles set forth by the Congress for the New Urbanism can be addressed by a developer incorporating a rental multifamily component into a development. The rental multifamily component is commonly found in master planned, mixed-use, and infill developments. In each of these types of developments, Low Income Housing Tax Credits have been and will continue to play an important role in attracting diversity, which would otherwise be priced out of the market.

New Urbanism attempts to recreate the essence of an old town community. Many of the design principles from the past are influencing design trends of the present. Historic Preservation Tax Credits can help the developer financially carry historic buildings from the past into the present so that they can be preserved for future generations. The new urbanist ideology attempts to create a sustainable development which is socially responsible, creates a healthy environment, and is financially feasible. It is not clear at this time how long this trend will last because traditional zoning regulations favor suburbanism, also known as sprawl.

Planned unit development districts have been around for many years. New Urbanism can be accomplished without a PUD but it is difficult and very time consuming, which can be costly to a developer. PUDs and other form based zoning regulations can streamline the regulatory permit process. A multifamily developer should find it helpful to use this type of zoning designation to implement a New Urbanism design model with a rental multifamily component.

The success or demise of the multifamily component included in a new urbanist development will depend on satisfying the needs and wants of the consumer and city governments alike. Implementing a new urbanist design in itself has been and will continue to be challenging. A developer's

skills and perseverance will be tested. These general considerations, as outlined in this paper should prove helpful to experienced and new developers alike who intend to create a socially responsible and financially feasible new urbanist rental multifamily housing development.

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## **Appendix**

## **Resume**