Property Development 101

New Mexico Main Street

Economic Development Department

Derrick Archuleta
Rhea Serna
“Everything I Wish I Knew About Property Development . . .”

New Mexico Main Street
NM Economic Development Department

Derrick Archuleta
Rhea Serna
Derrick Archuleta and Rhea Serna

PROPERTY OWNER
BANK OF AMERICA N A
PO BOX 54285
IRVINE, CA 92619

AGENT
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P.O.BOX 25911
ALBUQUERQUE, NM 87125

Rhea Serna
Expanding organizations' capacity to improve people's lives
Santa Fe, New Mexico
Fundamentals of Property Development

• 8:30 – 9:20: Overview of Property Development and Community Initiated Development

• 9:20 – 10:00: Land Use Plans, Permitted Uses, Site Review Processes, Zoning and Regulatory Issues

• 10:00 - 10:45: Predevelopment and Feasibility Planning

• 11:00 - 11:10 Avis Building Overview
• 11:10 - 12:00 Concept Phase Exercise
Ground Rules

• Ask Questions!
• We’re here to learn from one another
Part 1

• Overview of Property Development
• Introduction to Community Initiated Development
Property Development

Overview

The continual reconfiguration of the built environment to meet society’s needs.

OR

Buy Property + Increase Value + Sell = Profit
Property Development

Value: what potential participants in the marketplace or willing to pay for the right to use, buy, occupy, or lease property
Real Estate Development Process

1. Initial Market Research
2. Organize Development Team
3. Site Plan
4. Feasibility Analysis
5. Acquisition
6. Pre-application Meetings with Agencies
7. Re-do Feasibility Studies
8. Close on Property
9. Begin Permitting Process
10. Acquire Financing
11. Get Construction Bids
12. Confirm Market Assumptions
13. Re-do Feasibility Studies
14. Complete Permit Process
15. Complete Final Feasibility Studies
16. Start Construction
Real Estate Development Process

Municipal-Led Placemaking Project
Task Line

Planning
- Master Plan Updated
- Appropriate Districts Identified
- Development Processes Identified
- Pre 1
- Pre 2
- Pre 3
- Pre 4
- Pre 5
- Start
- Market Analysis
- Appropriate Zoning is in Place
- Redevelopment Areas Prioritized

Pre-Development
- Pre 1
- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9
- Step 10
- Step 11
- Step 12
- Step 13
- Step 14
- End
- RFP Response, Evaluation & Selection
- Community Visioning
- Identify Incentives to Fill Gap (if needed)
- Construction Begins
- Closeout of Compliance (if needed)
- Request for Qualifications (RFQ) for Developer
- Pre-Development Agreement
- Final Development Agreement
- Site Plan Review/Approval
- Monitoring
- Construction Complete
- Final Form Development Based on Visioning
The development process is the series of steps that turn an idea for a development into a completed project.
The Landlord’s Game

By Elizabeth Magie, 1904
For-Profit vs. Non-Profit
For-Profit or Non-Profit
RISK – Political Capital

Group looks for recall of city representative

Centro Chicano, an organization headed by Segundo Barrio activist Carmen Felix, started a petition drive Tuesday for the recall of Southwest city Rep. Beto O’Rourke. At issue, Felix said, is O’Rourke’s support for the Downtown redevelopment plan put forth in March by the city and the Paso del Norte Group.

David Crowder

El Segundo Barrio, El Paso: “The Other Ellis Island”
RISK – Financial Capital

Market Station@ The Santa Fe Railyard

Court Ordered Sale! Auction Date November 7, 2017

Santa Fe Railyard
Property Developer

Private Sector
Committing your expertise to converting a community identified property from its current use to a higher and better use.
COMMUNITY INITIATED DEVELOPMENT CID
MainStreet and/or CID Property Developer

• Operates as a “co-developer” in a team
• More communal
• Less hierarchical
• Gains consensus on

WHAT IS IMPORTANT IN THE COMMUNITY
MainStreet Property Developer

- Identifies a *problem* as an OPPORTUNITY
- Assembles resources
- Coordinates and facilitates team members
We are not replacing private developers, but rather acting when the private sector either will not or cannot.
Community Initiated Development Project

Characteristics

• Ideas originate from either public or MainStreet

• Co-development Team – part of process from START to FINISH

• Commitment of public and MainStreet resources

• Serves a public benefit
Why would a MainStreet to take on a CID?

• Private sector can’t or won’t act
• Need to influence character, quality, or use
• Catalyst for additional activity
• Conduit needed for public or philanthropic funds
• Major infrastructure required
Community Initiated Development (CID)

Difficult, time consuming, expensive, risky, labor intensive

Public/Private Partnership

Comprehensive, INCREMENTAL, and Responsive to Change

DIY Strategy that Capitalizes on Assets
“It took over 40 years for our city to get in the shape it’s in and it happened 1 business, 1 store, and 1 block at time. We will revitalize the same way.”

Robert Larson, Chairman
Detroit Economic Growth Corp., 1995
Successful CID s Have:

- FT Staff
- Executive Director Involvement
- Community Vision - Where does the community want to be?
- Designated CID as priority
- Commitment to pursue $$$ (all sources and types)
- Public occupancy in the building
A Successful CID

• Comprehensive Revitalization Strategy
• Catalytic Opportunity
• Community “Ownership”
• Technical Assistance
• COMMUNITY VOLUNTEERS
• Flexible Building Owner
• Active Stakeholders
Active Stakeholders Lead to a Successful CID

- City and / or County Staff
- Elected Officials
- Other Organizations and Nonprofits
- Local Business Community
- Financial Institutions
- Foundations
Finding the Right Team

• Real estate agents
• Finance strategists
• Lawyers
• Town planners
• Architects, designers or draftsmen
• Engineers
• Landscape architects
• Building contractors
• Project and Construction managers

• COMMUNITY VOLUNTEERS

https://youtu.be/Pk7yqlTMvp8
TWO Approaches to CID

1. Property Driven: Building Focus

- CDFI purchased building
- Barelas Community Coalition entered into lease to own agreement
TWO Approaches to CID

2. Use or Need or Idea Driven:
Address an economic, cultural, or social issue
Community Initiated Development

Five Stages

- Concept
- Analysis
- Preparation
- Implementation
- Operation

WHY IS THIS REDEVELOPMENT PROJECT IMPORTANT TO OUR MAINSTREET?
Community Initiated Development

Time Budget for Five Year Project (260 Weeks)

- Concept: 13 to 52 weeks (5-20%)
- Analysis: 26 to 52 weeks (10-20%)
- Preparation: 39 to 52 weeks (30-60%)
- Implementation: 78 to 156 weeks (30-60%)
- Operation: 13 to 39 weeks (5-15%)
Community Initiated Development

Money Budget for $250,000 CID Project

- Concept: $0 - $12,500 (0-5%)
- Analysis: $12,500 - $37,500 (5-15%)
- Preparation: $37,500 - $75,000 (15-30%)
- Implementation: $100,000 - $187,500 (40-75%)
- Operation*: $12,500 - $25,000 (5-10%)

Plus: Acquisition Cost

(*Through rent-up only)
CID Concept Stage

- Identify Opportunity
- Assemble Co-Development Team
- Define Roles of Co-Developers
- Consider Appropriateness of CID
- Identify and Review Information
- Identify Sources of Help
CID: A Manual for Nonprofit Real Estate Development in Traditional Commercial Districts

https://www.nmmainstreet.org/resources/mainstreet-tools/
• Project Initiation – 2006
• Project Completion – 2016
• Leveraged public ($500K) to secure additional $103,000 (Lions Club)
MainStreet Property Developer

Different people playing different roles in the process of creating value throughout the lifetime(s) of the property.

- Plaza site is municipally-owned
- Volunteers
- T.A. from NMMS Frontier Communities Initiative

Monte Alto Plaza, Mountainair
When **NOT** to undertake a Community Initiated Development

- Lack of bandwidth
- No consensus between board and staff
- Not prepared for multi-year project
- Don’t like **RISKS**
- Lack of $$$ or access to $$$$$$
- Unwilling to operate within ambiguous, changing environment
SUCCESS

PRICE OF ENTRY

HARD WORK
PERSISTENCE
DISCIPLINE
AMBITION
SACRIFICE
PATIENCE
FAILURE
FOCUS

If you don’t pay your dues, success will not be rewarded.
Part 2

Planning

- Land Use Plans
- Permitted Uses
- Site Review Processes
- Zoning and Regulatory Issues
- Code Enforcement
- Site Selection and Control
Land Use Plans

Providing the framework

**Land Use Plan**: A planning document that serves as a community’s blueprint for future development.

- Provides a scheme or set of actions that may be *strategic plan* (general or broad) or an *action plan* (specific or narrow)
- Also known as urban plans, town plan, sector plan, master plan or comprehensive plan.
Land Use Plans

• A land use plan shows what a place could be like in the future.
  • Form: geographic location of all of a community’s essential features (schools, parks, factories, redevelopment opportunities)
  • Function: relationship between the different elements of the community (location of residential, commercial and transportation)

• Most important component of a land use plan (planning document) is to find a place for everything to go.
Land Use Map

Coordinates land use patterns and provides framework

**Figure**
A conceptual future land use map.
Bridge Boulevard Sector Plan

Action Plan example
Land Use Map

What goes where?

Figure
A detailed future land use map.

R - Residential
C - Commercial
O - Office
E - Entertainment and cultural
M - Mixed use
Zoning

**Land Use Regulations:** directly affect the value & utility of your site

Zoning: Land use regulations used by local authorities to designate what types of land uses are allowable in specific locations.

- Primary legal means for local authorities to shape the overall pattern of land use in a manner consistent with their land use plan (planning document)
Zoning

Zoning Code (Ordinance):

• A legal description of zoning classifications, including what type of development is allowed in each category;

• A zoning map showing the zoning classification for each property.
  – Permissive uses: allowable land uses (residential, commercial, industrial, mixed-use
  – Extent of site development: setbacks, height of buildings
  – Site layout and design: architecture, design (building envelope; colors), landscaping
Zoning Map

Zoning classifications (legally binding)

- R-1 - Low-density residential
- R-2 - Medium-density residential
- R-3 - High-density residential
- C-1 - Commercial
- GO - General office

Figure
A zoning map.
Zoning

Permitted Uses: what is in? what is out?

• Conduct your due diligence
• What you can and cannot do on a particular site
• What restrictions are there?
• What is the development potential?
• What you need to know before you rehab a building or develop on a site
Zoning development standards

DEVELOPMENT TERMS

- **Dimension regulations** - Front, side, and back setbacks. Height restrictions.
- **FAR** - Floor area ratio, the ratio of square footage of building to square footage of land
  
  **EXAMPLE:** 12,000 SF Parcel with a 2.0 FAR allowance results in 24,000 SF development potential

- **Building Coverage** - the ration of the building footprint to the square footage of the development parcel.
  
  **EXAMPLE:** 60% Building Coverage on 12,000 SF Parcel allows a 7,200 SF.

Green Space and Lot Coverage ratios also apply

- **Parking Ratio** - Parking spaces required per residential unit or square feet of commercial space.
  
  **EXAMPLE:** Residential building with 100 units and parking ratio requirement of .75 per unit would require 75 parking spaces.
Permissive Uses

- Who is responsible?
- Overlays, Easements or Covenants
- Entitlements
- MainStreet Designation
SAMPLE SITE PLAN  Scale: 1"=20'

ADDRESS: 1020 FOREST RD (NW)
PROPERTY OWNER: M. FUENTES.
PROJECT: 600 SF GARAGE/WORKSHOP (20X30)

- INCLUDE PROPOSED PROJECT AND ALL EXISTING STRUCTURES
- SETBACKS
- STRUCTURE DIMENSIONS
- STREET NAMES
- NORTH ARROW
- PROPERTY LINE
- SCALE
- LABEL ALL STRUCTURES

* R-1 SETBACKS
- FRONT YARD SETBACK: MINIMUM 20'.
- REAR YARD SETBACK: MINIMUM 15' (FOR DWELLING ONLY).
- SIDE YARD SETBACKS: MIN. AGGREGATE OF 14' ON BOTH SIDES (7'6" & 6'&8" BOTH EQUAL TOTAL 14').
- DETACHED ACC. STRUCTURE: 5' MIN. SIDE/REAR YARD.
- 10' FROM DWELLING.
- DETACHED ACC. STRUCT. MUST BE 5' MIN. AWAY FROM ANY OTHER ACC. STRUCTURE.

FOREST RD NW  1/15 DG
Development Review Procedure

Zone Change Application Process

**Applicant’s Responsibilities**
- Schedule a Pre-Application Meeting (to meet with Planning Staff, call 314-0350 and ask for a Planner)
- File Application (see Application Requirements)
- Post Sign (15 days Prior to 15 days After Public Hearing)
- Neighborhood Association Notification (see Attachment)
- Attend CPC hearing (recommended)

County departments and other agencies review the application. Planning staff prepares a report for the CPC.

**County Planning Commission (CPC)**
- Conducts a Public Hearing on the application
- Recommends approval or denial to the BCC

If the CPC recommends DENIAL and there is NO APPEAL FILED then the application does not proceed.
The applicant must wait 1 year to re-apply.

If the CPC recommends APPROVAL and no appeal is filed, then the application is placed on a Board of County Commissioners (BCC) consent agenda for final approval. The zone is changed and there is no further action required.

If the CPC recommends APPROVAL or DENIAL and an APPEAL IS FILED then the application is placed on a Board of County Commissioners (BCC) agenda and the BCC conducts a Public Hearing for the Appeal.

**Board of County Commissioners (BCC)**
Conducts a Public Hearing and considers the Appeal based on the CPC recommendation, transcript, and record and new testimony.
The BCC will:
- Grant the appeal (the zone is changed); or
- Deny the appeal (the zone is not changed); or
- Remand the case/application back to the CPC for further review.

The BCC decision is FINAL and may be subject to Judicial Review (30-day)
Regulatory Issues

What do I need?

- Site plan
- Landscape plan
- Grading and Drainage Plan
- Utility Plan
- Building and Structure Elevations
- Previous approvals
Is the project a GO or a NO GO?

Who’s responsible for what?

Role of a Planner

• Determine “highest and best use” of the property to maximize development potential and financial return
• Zone changes, text amendments, variances, subdivisions, special use permits

Buyer’s or Property Owners due diligence

• Purchase and Sale Agreement may be contingent on securing zoning approval
• Prospective purchaser may want to know the development potential of the property
Site Selection and Control

The project and your land: assessing your objectives

• What do you want to achieve?
• Over what time frame?
• What are you prepared to give up?
• What is your staying power?
• How much time, energy & money are you willing to expend?
• What exactly did you buy or what are you buying?
• Building & Location Assessments
• Site Control / Owner Engagement
• Familiarity with Development Review Process
Part 3

Pre-development Phase / “Feasibility Plan”

- Overview of Construction and Operating Pro-Formas
- Preliminary Market Analysis
- Commercial Leases
- Financing Options
- Reuse Factors

DUE DILIGENCE CHECKLIST
Is your deal a GO or NO GO?
Pro-Forma (Feasibility Study)

• Plan your finances
• Project income and expenses
• Know how much we need to fund raise
• Funder requirement
Preliminary Operating Pro-Forma

**Revenue**
- Projected Rental Income (based on average retail/office rents: $x/sq. ft.)

**Costs**
- Building Operating Expenses (Utilities, Insurance, Taxes, Advertising, Cleaning,)
- Repairs (5% Gross Rent Collected)
- Reserve
- Loan Payment (Construction and/or Mortgage)

Revenue – Costs = NET OPERATING INCOME
Operating Pro-Forma

Step 1: Determine Income from Market Analysis
Projected Rental Income (average retail and office rents: $x/sq. ft.)

Market Statistics by Submarket

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Total SF</th>
<th>Available SF</th>
<th>Vacancy</th>
<th>Available %</th>
<th>Vacancy %</th>
<th>Absorption</th>
<th>Rent Q2 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cottonwood</td>
<td>4,170,757</td>
<td>351,638</td>
<td>359,118</td>
<td>8.43%</td>
<td>8.61%</td>
<td>(1,224)</td>
<td>$17.20</td>
</tr>
<tr>
<td>Downtown</td>
<td>610,095</td>
<td>45,032</td>
<td>45,032</td>
<td>7.38%</td>
<td>7.38%</td>
<td>2,606</td>
<td>$15.24</td>
</tr>
<tr>
<td>Far Northeast Heights</td>
<td>3,985,626</td>
<td>302,527</td>
<td>283,643</td>
<td>7.59%</td>
<td>7.12%</td>
<td>(147)</td>
<td>$14.57</td>
</tr>
<tr>
<td>North I-25</td>
<td>3,397,712</td>
<td>330,618</td>
<td>361,197</td>
<td>9.73%</td>
<td>10.63%</td>
<td>(22,572)</td>
<td>$11.07</td>
</tr>
<tr>
<td>North Valley</td>
<td>886,696</td>
<td>57,308</td>
<td>57,308</td>
<td>6.46%</td>
<td>6.46%</td>
<td>13,218</td>
<td>$18.72</td>
</tr>
<tr>
<td>Northeast Heights</td>
<td>4,323,038</td>
<td>282,760</td>
<td>278,224</td>
<td>6.54%</td>
<td>6.44%</td>
<td>(18,425)</td>
<td>$11.66</td>
</tr>
<tr>
<td>Rio Rancho</td>
<td>2,072,096</td>
<td>178,434</td>
<td>178,434</td>
<td>8.61%</td>
<td>8.61%</td>
<td>5,155</td>
<td>$14.55</td>
</tr>
<tr>
<td>South Valley</td>
<td>1,281,653</td>
<td>121,270</td>
<td>121,270</td>
<td>9.46%</td>
<td>9.46%</td>
<td>1,850</td>
<td>$13.56</td>
</tr>
<tr>
<td>Southeast Heights</td>
<td>2,879,609</td>
<td>301,885</td>
<td>301,885</td>
<td>10.48%</td>
<td>10.48%</td>
<td>7,401</td>
<td>$11.54</td>
</tr>
<tr>
<td>University</td>
<td>980,036</td>
<td>31,632</td>
<td>31,632</td>
<td>3.23%</td>
<td>3.23%</td>
<td>3,800</td>
<td>$9.48</td>
</tr>
<tr>
<td>Uptown</td>
<td>2,459,628</td>
<td>15,649</td>
<td>15,649</td>
<td>0.64%</td>
<td>0.64%</td>
<td>105,800</td>
<td>$22.05</td>
</tr>
<tr>
<td>West Mesa</td>
<td>2,441,391</td>
<td>196,546</td>
<td>196,546</td>
<td>8.05%</td>
<td>8.05%</td>
<td>(2,408)</td>
<td>$17.30</td>
</tr>
<tr>
<td>Total</td>
<td>29,488,337</td>
<td>2,215,299</td>
<td>2,229,938</td>
<td>7.51%</td>
<td>7.56%</td>
<td>95,054</td>
<td>$14.17</td>
</tr>
</tbody>
</table>

* Retail inventory includes all multi-tenant and single tenant buildings at least 10,000 square feet. Available space includes all vacant space and occupied space currently on the market for lease. "Change in Availability" is based on the change of availability from beginning of quarter to the end. "Absorption" is based on the change of vacancy from the beginning of the quarter to the end.

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Preliminary Operating Pro-Forma

Step 1: Determine Income from Preliminary Market Analysis:
Average retail and office rents: $x/sq. ft.)

Alamogordo Market Analysis:

<table>
<thead>
<tr>
<th>Asking Rent for Commercial Spaces</th>
<th>Vacancy Rate</th>
<th>Rent Q4 2018 per square foot</th>
<th>Purchase Price Q4 2018 per square foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alamogordo MS – District Wide</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alamogordo MS – Retail Core*</td>
<td>49%</td>
<td>$0.31</td>
<td>$40.90**</td>
</tr>
</tbody>
</table>

*Where the Avis Building is located
**Prices range from $19 up to over $100!
Commercial Leases

Income Dependent on Type of Lease

• NNN or Triple Net Lease or Absolute Net Lease
  Tenant pays for all operating expenses

• Absolute Gross Lease
  Property owners pays for all the operating expenses
Commercial Leases

MainStreet vs. For Profit

Structure lease agreement where rent during off season is less and more during the busy season.
Commercial Leases

Structure a lease where rent during the off season is less and more during the busy season.

Can You Curate a Town?

Even Walmart wants to bring back ye olde Main Street.

By Jennifer Miller

Nov. 3, 2018

“Mr. Resnick is allowing his shopkeepers to operate either rent free or for a nominal fee, since there aren’t enough shoppers to keep the doors open. During the week, Mountain Dale is a veritable ghost town.”

Mountain Dale, NY
Commercial Leases

One of their donors, who owns the 826 building, is letting them use it rent free. Ragano said “everyone who knows this building knows who owns it,” but Amster said the owner doesn’t want to be identified.

Ragano and Amster are responsible for all operating expenses, such as maintenance and staffing. They are likely guaranteed the space for the next year or two, but “it’s going to depend on whether we can actually make it,” he said.
Downtown card shop moving to Canyon Road

By Teya Vitu | tvitu@sfnm.com  Jan 31, 2019 Updated Feb 1, 2019

Vanessa and John Manahane, visiting from Tacoma, Wash., admire ornaments on display at the Marcy Street Card Shop in November. The shop, rebranded as Marcy Cards, is moving to Canyon Road. Gabriela Campos/New Mexican file photo

This article has been updated to include material from Tesoro Trading Company that was received after The New Mexican’s print deadline.
Operating Pro-Forma

Step 2: Estimate Projected Expenses

- Building Operating Expenses
  - Utilities
  - Insurance
  - Taxes
  - Advertising
  - Cleaning
- Repairs (5-25% Gross Rent Collected)
Operating Pro-Forma

Landlord Pays All Expenses (Absolute Gross Lease)

<table>
<thead>
<tr>
<th>LANDLORD EXPENSES</th>
<th>ESTIMATED MONTHLY</th>
<th>ESTIMATED ANNUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADVERTISING</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLEANING (EXTERIOR)</td>
<td>$100.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>INSURANCE</td>
<td>$273.00</td>
<td>$3,272.00</td>
</tr>
<tr>
<td>REPAIRS/MAINTENANCE (15% GROSS RENT)***</td>
<td>$730.86</td>
<td>$8,770.36</td>
</tr>
<tr>
<td>PROPERTY TAXES</td>
<td>$168.92</td>
<td>$2,027.00</td>
</tr>
<tr>
<td>UTILITIES / DISPOSAL</td>
<td>$500.00</td>
<td>$6,000.00</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>$1,772.78</td>
<td>$21,069.36</td>
</tr>
</tbody>
</table>

3,550 sq. ft. building

***Based on condition of building, this figure can range from 5-25%
Operating Pro-Forma

Tenant Pays All Expenses (NNN or Triple Net Lease)

<table>
<thead>
<tr>
<th>EXPENSES- TENANT (including rent)</th>
<th>ESTIMATED MONTHLY</th>
<th>ESTIMATED ANNUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>RENT</td>
<td>$4,872.42</td>
<td>$58,469.00</td>
</tr>
<tr>
<td>CLEANING (EXTERIOR)</td>
<td>$100.00</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>INSURANCE</td>
<td>$273.00</td>
<td>$3,272.00</td>
</tr>
<tr>
<td>REPAIRS/MAINTENANCE (15% GROSS RENT)***</td>
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</tr>
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</tr>
<tr>
<td>UTILITIES / DISPOSAL</td>
<td>$500.00</td>
<td>$6,000.00</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>$6,645.20</td>
<td>$79,538.00</td>
</tr>
</tbody>
</table>

3,550 sq. ft. building

***Based on condition of building, this figure can range from 5-25%
# Operating Pro-Forma

## RETAIL Rental Income – Expenses = Net Operating Income

<table>
<thead>
<tr>
<th>RETAIL INCOME 3,550 sq. ft.</th>
<th>PROJECTED MONTHLY</th>
<th>PROJECTED ANNUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROSS RENTAL INCOME - $15.24/sf - retail*</td>
<td>$4,872.42</td>
<td>$54,102.00</td>
</tr>
<tr>
<td>LESS VACANCY (0%)**</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>LESS LANDLORD EXPENSES</td>
<td>($1,772.78)</td>
<td>($21,069.36)</td>
</tr>
<tr>
<td>NET OTHER INCOME</td>
<td>$0.00</td>
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<tr>
<td>NET OPERATING INCOME (GROSS CASH FLOW)</td>
<td>$3,099.64</td>
<td>$33,032.64</td>
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</tbody>
</table>

*Based on a “lease ready” 3,550 sq. ft. building
**Single Building – Either a 0% or 100% Vacancy rate
Absolute Gross Lease Model (Landlord Pays All Expenses)
DEVELOPMENT TERMS - FINANCE

• **Operating Expense**: Ongoing costs for property including management, maintenance, insurance, taxes, marketing, etc.

• **Net Operating Income**: The net of rental revenue after operating expense, before debt service (loan payments)

• **Reserves**: Escrow accounts established for interest, operating deficits, and capital improvements

• **Debt Service Coverage**: The ratio of net operating income allowed to service the project’s debt

• **Tax Credits**: Income tax credits created through qualifying development (e.g., Historic Tax Credits)
Construction Pro-Forma or Development Budget

**COSTS**
- Acquisition
- Monthly Debt Repayment
- Soft Costs
- Hard Costs

**SOURCES**
- Grants or Impact Investments
- Building / Land Contribution
- **Donated / Volunteer Services**
- Loans
- Equity (Cash or Tax Credits)
# Construction Pro-Forma Development Budget

Hard cost bids come from licensed contractors.

<table>
<thead>
<tr>
<th>Hard Costs</th>
<th>Soft Costs</th>
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<tbody>
<tr>
<td>• Demolition</td>
<td>• A &amp; E</td>
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<tr>
<td>• Site Work</td>
<td>• Permits</td>
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<td>• “Brick and Sticks”</td>
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Soft Costs are sometimes calculated at 20% of Hard Costs.
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</tbody>
</table>

*Example: Other Construction: Asbestos abatement costs*
### Construction Pro-Forma

#### Sources of funds

- **SDBA equity**
  - Cash: $75,000
  - CDBG ('95): $100,000
  - CDBG ('96): $250,000
  - Development fee: $130,000
  - **Total**: $555,000

- Outside equity - sale of tax credits: $116,770
- Tenant-funded improvements: $50,000
- Contributed services - NTHP: $10,000
- 1st mortgage - conventional: $418,000
- 2nd mortgage - Wayne County: $150,000
- 3rd mortgage - Sisters of St. Joseph: $30,000

**TOTAL SOURCES**: $1,330,650

#### Uses of funds

- **Acquisition**: $80,000
- Parking acquisition: $5,000
- Construction: $805,198
- Site preparation: $50,000
- Awnings and signs: $9,952
- Architectural and engineering: $49,000
- Development fees: $130,000
- Construction period interest: $18,000
- Construction period taxes: $5,000
- Appraisal: $6,000
- Legal, accounting, and consultants: $35,000
- Contingency: $61,000
- Tenant improvements: $50,000
- Operating reserve: $16,500

**TOTAL USES**: $1,330,650

### Operating Pro-Forma

#### Income

- Ground floor: $55,815
- Second floor - SDBA: $26,594
- Second floor - other
  - Gross scheduled income: $107,209
  - Less: Vacancy: $(21,442)
- Effective gross income: $85,767

#### Expenses

- Taxes: $10,000
- Insurance: $1,500
- Repair and maintenance: $5,000
- Utilities: $2,400
- Management: $4,040
- Legal and accounting: $1,500
- Miscellaneous: $2,000
- Reserve for replacement: $5,000

**TOTAL EXPENSES**: $31,440

**NET OPERATING INCOME**: $54,327

#### Debt service

- 1st mortgage: $40,772
- 2nd mortgage: $15,444
- 3rd mortgage: $1,800

**TOTAL DEBT SERVICE**: $58,017

**CASH FLOW**: $(3,690)

$16,500 available in "Operating Reserve" to cover negative cash flow; anticipated to reach positive cash flow in year five.
Do you have any other collateral... besides this e-mail from a Nigerian prince?
Sources of Financing

- LOCAL GOVERNMENT TOOLS
- REAL ESTATE PROJECT LOANS
- REAL ESTATE PROJECT TAX CREDITS
- NM ECONOMIC DEVELOPMENT PROJECT INCENTIVES
- COMMUNITY FACILITIES, INFRASTRUCTURE, & REMEDIATION
- RURAL BUSINESS DEVELOPMENT
- FOUNDATIONS
- STATE COORDINATION EFFORTS
Sources of Financing

e-Training Series
Financing Real Estate Development on Main Street: Local Program Roles

Presented by
Keith Kjelstrom
NMMS Economic Vitality Program Associate
505-454-1187
keithkjelstrom@gmail.com

Sustainable Tax Credits - 1\textsuperscript{st} mid-rise building in U.S. to receive LEED Platinum energy certification

Hotel Clovis

2001

2014

LEED - Leadership in Energy and Environmental Design
Secured Funding:
- Light and Rogers Families’ Donation – $250,000
- Capital Outlay for electrical updates - $173,000
- Lodgers Tax for marquee restoration

Pending:
- EDA Grant - $173,000

Estimated $6 million for renovations, including asbestos removal

The Historic Cavern Theatre Rehabilitation Project

Carlsbad, 1951
Adaptive Reuse

“Adaptability is the way in which we judge whether or not a building can be reused.”

- Does a building have “good bones”?  
- Does it have enough power?  
- Is the water line big enough?  
- Is there enough gas coming into the building?  
- Is it historic? Should HPD get involved?
The Carnegie Library, Roswell

7,425 square feet of land
9,156 square feet of building,

• Vacant and for sale in 2011
• Purchased in 2018
• Will be repurposed into hotel and restaurant
• New entrance for ADA compliance
• Roof’s deferred maintenance led to foundation problems
The Carnegie Library, Roswell

Carnegie Library soon to be reincarnated; Local Realtor and architect announce ambitious plans to restore decaying historic building

By Vistas - April 1, 2018

Adaptive Reuse of a Historic Library

Why restore such an old building?

Daugherty said the old Carnegie Library is special and must be preserved.

“It has details we can’t design today,” he said. “We don’t have the craftsmanship or money.”

He added that he can feel a presence from the past when he walks into old buildings like the Carnegie.

Even after the Carnegie is restored and beautifully furnished, the most important things will remain the same.

The original exterior, floors and large windows remain as a testament to American generosity, acknowledgment of education and the impact women had on building our country.
Adaptive Reuse of a Church

Co-Working Spaces

• Estimated 1000 spaces opened in U.S. in 2018
• Independent business owners and entrepreneurs
• Part-time workers, freelancers, small enterprises
• #COCHURCHING

The use of a shared space by pastors, believers, and ministers
Mix Coworking and Creative Space

White Rock United Methodist Church, Dallas
Adaptive Reuse

The only limit is a community’s imagination, resources, and willingness to take risks.
Adaptive Reuse
Elbphilharmonie Hall in Hamburg
Elbphilharmonie Hall in Hamburg

- Concert hall built on top of historic brick warehouse
- Exceeded budget by more than $600 Million
- Delays included political debates and public protests

https://www.youtube.com/watch?v=evcpxACKIdQ&feature=youtu.be
Community Initiated Development

Idea Driven

Property Driven

Española
Lowrider Museum

“Lowrider Capital of the World”

Avis Building, Alamogordo
Española lowrider museum a great idea

By Journal North Editorial Board

Friday, February 23rd, 2018 at 12:02am

Fred Rael, seen here in his '67 Chevroltt Impala SS convertible lowrider, is chairman of the Lowrider Museum Coalition. (Eddie Moore/Albuquerque Journal)
Española Lowrider Museum

- Idea Driven
- Federal and State Grants
- Capital Outlay
- Private, Public and Nonprofit Partners
- Flexible Building Acquisition
- Feasibility Considerations

Former Hunter Ford Car Dealership

- Flexible Rent and Lease
- Volunteers
- Colocation Concept
- Income Producing
- Adaptive Re-use
- Creative Economy

Former Cariños de los Niños Charter School
Part 4

The Avis Building - Alamogordo
Avis Building
“White Elephant” Building

- Vacant, large building
- Difficult to adapt for other uses (e.g., Banks, Department Stores, Hotels, Churches)
- Investment risk
- Uncertain market demand
Common Denominators of Successful Elephant Rehabilitation

• Multiple sources of financing
• Acquisition price approaches $0
• Project is complex, time consuming, demand driven, local effort
• Mixed use property
• **Not an end to itself, approaches other ends**
• Property part of community
• Core group willing to take action
• Public sector participation
• Potential for adaptive re-use
Exercise

Part of the Alamogordo MainStreet Co-Development Team
Complete Concept Phase of Community Initiated Development
Avis Building
923 New York Avenue, Alamogordo, NM 88310-6919
The Five Stages of Community Initiated Development

The CID process is divided into five stages: concept, analysis, preparation, implementation, and operation. The following chart lists the steps in each of the five stages.

**Concept Stage Steps**

C-1 Identify Opportunity
   - Property opportunity
   - Need/use/idea opportunity
C-2 Assemble Co-Development Team
C-3 Define Role of Co-Developers
   - Objectives
   - Contributions
C-4 Consider Appropriateness of CID
C-5 Formulate Skeletal Plan
C-6 Identify Information Sources and Assemble Available Studies
C-7 Identify Sources of Help
C-8 Review Available Information
C-9 Identify Seed Money: Source/Use
C-10 Compare Objectives, Contributions, and Climate
C-11
C-12
C-13
C-14 Decision Point - Options
   - Abandon project
   - Reconsider this stage
   - Revise objectives
   - Revise contributions

**Analysis Stage Steps**

**Preliminary Market Analysis**

A-1 Community Profile
A-2 Target Area Profile
A-3 Supply Analysis
   - Office
   - Retail
   - Residential
   - Miscellaneous
A-4 Competitive Analysis
   - Office
   - Retail
   - Residential
   - Miscellaneous

• Concept Stage Steps: C-1 to C-14
• Analysis Stage Steps: A-1 to A-31
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<th>Preparation Stage Steps</th>
<th>Implementation Stage Steps</th>
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<td>I-1 Acquire Property</td>
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<td>P-2 Choose Ownership Form</td>
<td>I-2 Prepare Bid Documents</td>
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<tr>
<td>P-3 Legal Work as Required</td>
<td>I-3 Bid Project</td>
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<tr>
<td>P-4 Gain Property Control</td>
<td>I-4 Select Construction Company</td>
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<td>P-5 Preliminary Plans and Specifications</td>
<td>I-5 Revise Plans and Specifications if Necessary</td>
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<tr>
<td>P-6 Prepare City Package</td>
<td>I-6 Marketing and Leasing (if necessary)</td>
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<td>P-7 Negotiations with Local Government</td>
<td>- Assemble team</td>
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<td>- Marketing plan</td>
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<td>- Prepare standardized lease</td>
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<td>P-8 Finalize Plans and Specifications</td>
<td>I-7 Finalize Financing</td>
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<td>P-9 Finalize Cost Estimates</td>
<td>- Loan documents</td>
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<td>P-10 Revise Financial Projections</td>
<td>- Receive funding</td>
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<tr>
<td>P-11 Prepare Lender Package</td>
<td>I-8 Collect Equity Funds</td>
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<td>P-12 Financing Negotiations</td>
<td>I-9 Construction Management</td>
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<tr>
<td></td>
<td>- Assemble team</td>
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<td></td>
<td>- Construction management plan</td>
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<td></td>
<td>- Supervise construction</td>
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<tr>
<td>P-13 Prepare Developer Package</td>
<td>I-10 Tenant Involvement</td>
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<td>P-14 Finalize Equity</td>
<td>I-11 Inspect Construction</td>
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<td></td>
<td>- Contact syndicator</td>
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<td></td>
<td>- Equity commitments - private</td>
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<td>- Equity commitments - public</td>
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<tr>
<td>P-15 Tax Act Certification Process</td>
<td>I-12 Preliminary</td>
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<tr>
<td>P-16 Reevaluate All Information</td>
<td>I-13 Final</td>
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<td>P-17</td>
<td>I-14</td>
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<td>P-18</td>
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<tr>
<td>P-19 Decision Point - Options</td>
<td>Operating Stage Steps</td>
</tr>
<tr>
<td></td>
<td>- Abandon project</td>
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<td></td>
<td>- Obtain additional information</td>
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<td>- Reconsider this stage</td>
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<td>- Return to previous stage</td>
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<td>- Revise objectives</td>
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<td>- Final &quot;go/no go&quot; decision</td>
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<td>Proceed to the next stage</td>
<td>O-1 Prepare Property Management Plan</td>
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<td>- Policies and procedures</td>
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<td>- Operating budget</td>
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<td>- Maintenance plan</td>
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<td>- Capital improvements budget</td>
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<td>O-2 Revise Marketing Plan</td>
<td>O-3 Rent the Property</td>
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<td>O-3 Rent the Property</td>
<td>O-4 Oversee Marketing or Leasing</td>
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<td>O-4 Oversee Marketing or Leasing</td>
<td>O-5 Implement Property Management</td>
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<td>O-6 Management of Ownership Entity Reports - owner relations</td>
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<td>O-7 Update Market Conditions</td>
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<td>O-8 Property Improvements as Required</td>
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<td>O-9 Property Disposition</td>
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<td>O-9 Property Disposition</td>
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<td>O-12</td>
<td>O-13 Closing of Ownership Entity</td>
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</tbody>
</table>

- Preparation Stage Steps: P-1 to P-19
- Implementation Stage Steps: I-1 to I-11
- Operating Stage Steps: O-1 to O-13
Resources

NMMS Technical Assistance:
• Identify your community priority
• Develop a feasibility plan
• Identify potential funding sources
• Work with an architect or landscape architect to design the concept and review licensed bids from contractors
Resources

Pro-forma Templates
http://plannersweb.com/

Financing Real Estate Development on Main Street

Colocation Technical Assistance
https://www.nonprofitcenters.org/
For More Information

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