


## Purpose of this toolkit

 This toolkit is meant to help manufacturers understand developers, and help developers understand manufacturers, so they can better identify and pursue opportunities to work together. We also want state, local, and federal government actors to understand the particular challenges urban manufacturers face in securing the space they need; and we want to promote the development of policy and financing tools that can lower some of the barriers to nonprofit industrial development that now impede the growth of vibrant, diverse, and stable industrial communities.

## Introduction: why is nonprofit industrial real estate development important to urban manufacturers?

Manufacturers need space that is:

- Stable
- Affordable
- Right Size
- Right Quality
- Right Location

But good space is hard to find – in hot-market cities and in cool ones.

The legacy industrial building stock in many cities is dominated by structures built for large-scale operations by a single user – often with rudimentary (or no) mechanical systems. Manufacturers in emerging sectors often need smaller spaces, with specific attributes like daylight and environmental controls. But subdividing and modernizing large, old buildings involves significant cost and risk.

Small and mid-sized manufacturers often rent, rather than own their spaces. Few are willing to invest in substantial improvements to the shell and systems of a building they may be leasing for five years, or less. To the extent that these firms can access capital, they prioritize investing it in equipment, materials, and technology rather than space. They may also lack the technical capacity to acquire and develop the space they need.



Reclaiming legacy industrial buildings in urban markets demands development expertise and a mission-driven commitment.

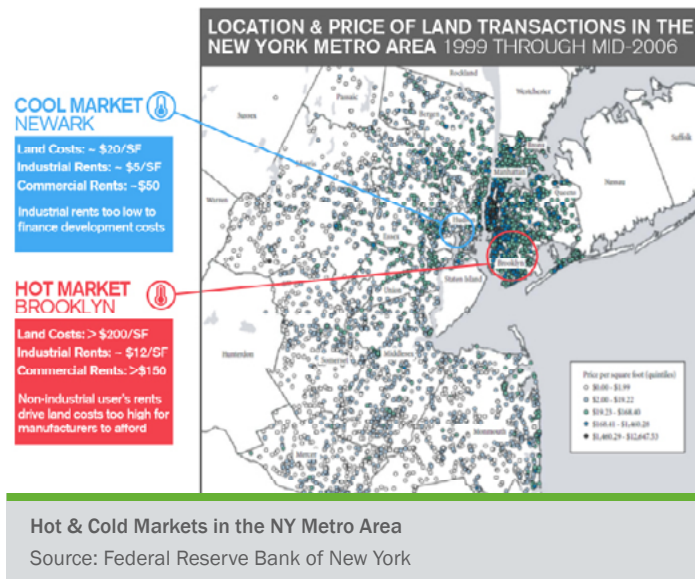
## Different markets: different challenges

### Hot market challenges:

- In high-cost, high-demand cities, land that has traditionally been industrial is under pressure from users who can pay more – much more – for space than manufacturers. A parcel of land used for manufacturing may have value of \$150 per square foot; if residential development is allowed on the same parcel, its value may be \$3,000 per square foot or more.
- Political leaders in many cities have rezoned Industrial land to accommodate residential and commercial growth, often with the stated goal of increasing local property and income tax revenues.
- Even where industrial zoning remains, it is often porous. Uses like hotels and self-storage may be allowed as of right; waivers and variances for other uses may be easy for developers to obtain based on “hardship.” Conversion of a few parcels – even one – may be catalytic, signaling that the neighborhood is ripe for transition and encouraging speculation.

### Cool market challenges:

- Large areas of industrial land and buildings may be available, but may not be suitable for use by emerging manufacturing sectors. New users may require relatively small building areas but require a level of maintenance, security, and services that may not be available in these markets.



- Owners of large industrial buildings are able to rent space to less demanding users, such as passive storage. Rents may be low, but expenses are minimal and a modest return can be earned without investing capital in upgrading their buildings.
- Building owners operate as landlords, not developers – they may be unaware of the upside potential of their properties, and lack the skills to finance, upgrade, and market them to users willing to pay higher rents for quality space.

## Role of nonprofit developers

In both hot and cool markets, landowners and investors have easier ways to profit from their properties than leasing space to manufacturers. Non-profit developers have emerged in some cities with the specific mission of building and operating stable, affordable space to meet the needs of local manufacturers. These developers are mission- rather than market-driven – though they need to possess the same skills and tools that for-profit developers have.

Successful real estate developers combine access to capital, knowledge of markets, understanding of real property management, and the ability and willingness to take risks. Individuals and firms possessing these attributes are very well compensated by the private market, and can earn very high returns on investments of their own capital.

While some for-profit developers may also be socially motivated, and may provide space at below-market rents to industrial users, in many cases this has proven to be a strategy for holding property in areas the developers perceive to be in transition, and manufacturers are vulnerable to unaffordable rent increases and displacement as land values rise.

Non-profit, mission-driven development entities have emerged

in some cities to overcome the challenges described above, and fill the need for well-managed, affordable, and stable industrial space. Typically these developers hold and manage their buildings on a long-term basis, rather than selling them off on completion. This is essential if they are to fulfill their commitment to providing permanently affordable space. It also means that the developers are able to re-invest their earnings in future projects – but only if the projects themselves are financially successful in the face of long-term market and operating risk.

## Who nonprofit industrial developers are: corporate structure and internal capacity

Like other 501 c3 organizations, a nonprofit developer is governed by a board of directors, to whom staff are accountable for executing the mission. Leadership at both the staff and board levels are critical, and must support mission-driven, entrepreneurial management of projects and of the organization.

The development organization can be a single-purpose organization, like Greenpoint Manufacturing and Design Center, whose sole mission is the development and management of industrial property. Or it can be a Local Development Corporation with a broader mission, whose responsibilities also include technical assistance to manufacturers, liaison with government, and marketing of an entire industrial area. These functions bring an understanding of local markets that can complement the development role, but they can also dilute the organization's focus, and at times can present some risk of conflicting interests.

Some well-known entities, like the Brooklyn Navy Yard or the Philadelphia Industrial Development Corporation are hybrids, like public-private partnerships or public benefit corporations. They may be created by local governments to develop, market, or manage major publicly-owned parcels of land. The composition of the boards of such quasi-public entities is established in the legislation that creates them, and typically includes representation of one or more elected officials. For PPPs to succeed in their missions, the commitment of the officials who control their boards to professional and entrepreneurial management is essential.

Sometimes nonprofit developers, especially quasi-public entities develop properties for sale, generally with deed restrictions or other provisions to ensure their continued industrial use. Those who retain completed properties and continue to manage them commonly establish spin-off corporations, which are also non-profits, to compartmentalize liability. The original developer can maintain control by establishing overlapping boards for the new spin-offs.

## How developers think: key considerations in shaping a nonprofit RE development project

### Knowing your tenants

A developer considering an industrial project seeks to create space that meets the needs of tenants in the target market. Each tenant has specific needs, not only for a given square footage, but for specific attributes that vary among sectors and firms. The developer has to understand the quantitative and qualitative requirements of prospective tenants, tenants' ability to pay, and the depth of demand for particular kinds of space at a given price. Matching up spaces within a project with different tenants' needs is like putting together a 3-d jigsaw puzzle – or maybe a dinner party. The ideal user mix makes efficient use of all parts of the building, and may include an anchor tenant whose advance commitment to lease a large area can be helpful in getting financing. At best, compatible industrial tenants can collaborate on projects share equipment, and optimize services to minimize waste.

A multi-tenant industrial project is NOT the same as an incubator. It's hard for nonprofit developers to take on the added risk of renting to start-ups – much less to finance an entire building filled with them. Industrial incubators need financing that allows them to absorb operating losses, and expertise in the very specific challenges of nurturing start-ups.

### Land and location

Everybody knows the “three L's” of real estate – but what makes a good location depends on the tenant. A developer chooses a site based on the key location drivers for his or her prospective tenants; these may be:

- Proximity to customers
- Networks of suppliers and partners
- Access to workforce
- Mixed / transitioning districts – amenity, access to designers etc. (In the Design / Production district model, this is the Innovation Core.)
- Stable, homogenous industrial areas - lower rent, fewer conflicts with other users (in the Design / Production district model, this is the Production Ring.)
- High-volume or high-value freight movement (rail & highway access vs Fedex)
- Other infrastructure including telecom



#### Building Characteristics:

- Multi- vs single-story (street access and loading)
- Floorplate size and ability to subdivide
- Power requirements
- Requirements of specific users – daylight, headroom & clear span, temperature and humidity control, freight elevator, floor loads
- Food uses have special considerations and can be the most demanding and expensive spaces to develop and operate

## What developers do: the development process (simplified!)

### A successful developer, whether for-profit or non-profit, needs to:

- Identify, acquire, and hold property that is suitable for their intended use
- Assemble the team of specialists – architects, engineers, and contractors – needed to carry out each project
- Assemble both short-term and long-term financing
- Manage the project through all of its phases: pre-development > construction > occupancy

Each phase brings its own costs and risks, and the biggest decisions – whether to move forward with the acquisition of a particular site – have to be made when the developer has the least information to go on. Will the building code require construction of new stairways and fire safety systems? How much will all of the construction cost? Are there enough tenants able to pay the rents needed to operate the building and carry its debt?

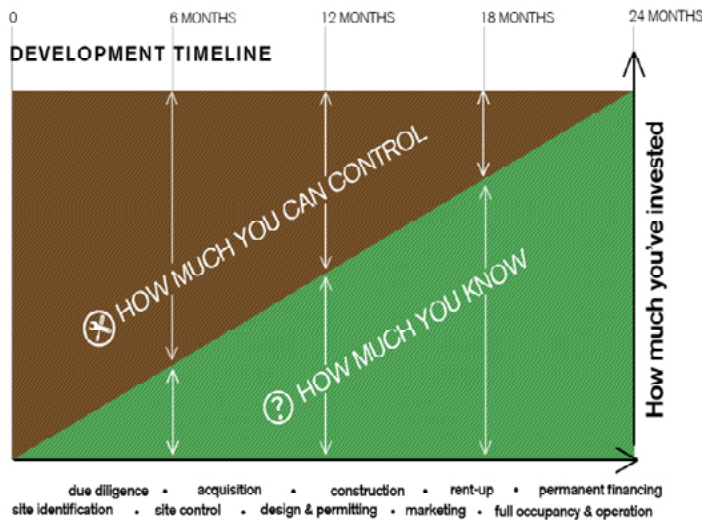
Getting solid answers costs money: the developer hires an architect who prepares the plans needed to obtain approvals and permits. Money spent on due diligence is well-spent; but it's still spent. More detailed plans allow more accurate construction cost estimates, which in turn allow for projection of total development and operating costs. The developer tries to learn as much as possible before making the irreversible commitment of actually closing on the acquisition of the property.

### Land acquisition

While the developer is trying to answer all of these questions, other potential buyers are eyeing the site. By the time the developer has definitive answers to all these questions, someone else will have put in a successful bid. So the developer needs to gain control of the site for enough time to do due diligence. That can be done by a deposit, which can be refundable under specific conditions, or through an option agreement, in which the seller agrees to hold the property off the market for a specified amount of time. Sellers' willingness to enter into such arrangements obviously varies with the strength of the market.

Sellers' motivations can also vary. A speculator flipping a property is obviously expecting to recoup at least the initial investment. A building owner who was also the business operator and is seeking to retire will have different expectations for both the sale price and the terms. It may be possible to negotiate a longer option period by agreeing to pay rent on the space or taking over its expenses in the interim.

During the option period the developer needs to assemble financing for the purchase and for any construction that is needed. Sources of development and permanent financing will be discussed below, but it is important to note that money for the deposit or option is almost always the developers' own – possibly earnings from completed projects - and that it's entirely at risk until the acquisition closes.



The diagram above shows how as the project progresses through the phases of planning and design, to construction, rent-up, and operation, the amount of money for which the developer is at risk continually increases.

### Putting the pieces together: the developer as the spider in the center of the web

The skill and experience of the entire development team are essential to managing both risk and cost. Much of the knowledge on which critical decisions must be based is highly local; successful developers build relationships with attorneys, architects, and contractors expert in the special demands of their projects in their particular market.

The architect is a key member of the team because early, far-reaching decisions about the project must be based on his or her knowledge of local codes and practices. The cost of subdividing a large older building and bringing it into compliance with current codes can only be estimated by someone who knows which codes in fact apply. This may not be straightforward; some features of older buildings may be grandfathered, while others may need to be brought up to current standards.

- Subdividing a single-tenant space almost always brings new code compliance issues, and may involve adding new stairways to provide access and egress, separation of occupancies, and sprinklering.
- Submetering gas and electric service to multiple tenants can be costly.
- Off-street parking and loading requirements can be difficult to meet if they are not “grandfathered” on a tight site.
- New code provisions (e.g. Philadelphia stormwater management) can involve one-time or ongoing costs.
- Greening the site and building can reduce operating costs – but may increase upfront costs. It’s important to analyze financial and non-financial payback.

Environmental contamination from past uses is almost always a possibility on urban industrial sites; the ability to productively

re-use brownfield sites is one of the societal benefits industrial development can deliver. It is essential to have reliable knowledge of the site’s condition and of any remediation requirements that might apply before a site is acquired. Due diligence may be as simple as getting a site history, or as complex as extensive soil and water testing and negotiation of a remediation plan with local authorities. Once you own a site, you own its environmental liabilities – so let the buyer beware!

### Project financing: capital needs during development phases

In the earliest pre-development phases of a project – site identification and due diligence – a developer may not be certain what the total project cost will be, or of where all of the capital will come from. As the project moves forward, sources of capital are identified, and commitments are secured. Assembling this “capital stack” is among the developer’s biggest challenges. Funding for early-stage activities is at high risk; money spent on options or deposits and on preliminary design and cost estimating can be lost entirely if the project proves to be unfeasible and has to be abandoned. Later-stage activities – acquisition, construction, and operation during the rent-up period – are more expensive, but can be at least partly collateralized by the building itself.

Lenders tend to view industrial and commercial projects as riskier than residential projects, because markets are smaller, more complex, and less well understood, and because unlike residential mortgages, there is no secondary market for loans on industrial properties. This means that interest rates are higher, and loan-to-value ratios lower, than would be the case for a residential project. Industrial developers need to invest more of their own money (equity), and assemble capital from a number of sources, each of which has its own restrictions and concerns.



Modernizing and subdividing large industrial buildings involves high upfront costs and uncertain returns.

## Sample development proformas illustrate the challenges of making an industrial real estate project work

In a hot real estate market, demand for manufacturing space may be strong, but land and building costs are driven by competing uses that can afford to pay much more for space. A mission-driven developer must be willing to forego the return he or she could earn by converting a building to residential or commercial use. Just breaking even can require a carefully-assembled mix of tenants, below-market financing, or both.

### Example #1: a multi-tenant building with too many large, low-rent spaces

This proforma shows what happens when a developer in a high-cost market tries to provide low-rent space – the total rent stream is insufficient to cover operating costs and debt service.



#### DEVELOPMENT AND OPERATING PROFORMA

MULTI-TENANT INDUSTRIAL BUILDING, HOT MARKET

| DEVELOPMENT COSTS                                       |              | CAPITAL STRUCTURE                |                      | OPERATING CASH FLOW (AFTER LEASE-UP) |                      |
|---|--------------|----------------------------------|----------------------|--------------------------------------|----------------------|
| LAND & BUILDING ACQUISITION COST                        | \$10,000,000 | EQUITY                           | \$7,000,000          | <b>INCOME</b>                        |                      |
| DEVELOPMENT COST/SF                                     | \$75         | DEBT                             | \$15,500,000         | GROSS POTENTIAL INCOME               | \$3,150,000          |
| TOTAL DEVELOPMENT COST                                  | \$22,500,000 | LOAN-TO-VALUE                    | 69%                  | VACANCY                              | \$315,000            |
|   |              | TERM                             | 15                   | <b>EFFECTIVE GROSS INCOME</b>        | <b>\$2,835,000</b>   |
|   |              | RATE                             | 7.00%                | <b>EXPENSES</b>                      |                      |
|   |              | <b>TOTAL YEARLY DEBT SERVICE</b> | <b>(\$1,701,817)</b> | OPERATING EXPENSES                   | \$600,000            |
|   |              |                                  |                      | REAL ESTATE TAXES                    | \$450,000            |
|   |              |                                  |                      | REPLACEMENT RESERVE                  | \$150,000            |
|   |              |                                  |                      | <b>TOTAL EXPENSES</b>                | <b>\$1,200,000</b>   |
|   |              |                                  |                      | <b>NET OPERATING INCOME</b>          | <b>\$1,635,000</b>   |
|   |              |                                  |                      | <b>ANNUAL DEBT SERVICE</b>           | <b>(\$1,701,817)</b> |
|   |              |                                  |                      | <b>CASH FLOW AFTER FINANCING</b>     | <b>(\$66,817)</b>    |
| PROGRAMMING   |              | RENTAL INCOME                    |                      |                                      |                      |
| LOT AREA  | 100,000      | SMALL SPACE RENT / SF            | 15                   |                                      |                      |
| BUILDING GROSS AREA                                     | 300,000      | GROSS RENT FROM SMALL SPACES     | \$1,800,000          |                                      |                      |
| 4 STORIES OCCUPYING 75% OF LOT                          |              | LARGE SPACES, RENT / SF          | 9                    |                                      |                      |
| SMALL INDUSTRIAL SPACES (<10,000 SF), 40% OF GROSS AREA | 120,000      | GROSS RENT FROM LARGE SPACES     | \$1,350,000          |                                      |                      |
| LARGE INDUSTRIAL SPACES, TOTAL AREA                     | 150,000      | GROSS RENT, ENTIRE BUILDING      | \$3,150,000          |                                      |                      |
| MANAGEMENT OFFICES                                      | 7,000        | VACANCY / UNCOLLECTIBLE @ 10%    | \$315,000            |                                      |                      |
| COMMON AREA + CIRCULATION                               | 23,000       | EFFECTIVE GROSS INCOME/YEAR      | \$2,835,000          |                                      |                      |
| RENTABLE SQUARE FOOTAGE                                 | 270,000      |                                  |                      |                                      |                      |
| BUILDING EFFICIENCY %                                   | 90.00%       |                                  |                      |                                      |                      |
| RATES   |              | BUILDING EXPENSES                |                      |                                      |                      |
| VACANCY / UNCOLLECTIBLE                                 | 10%          | OPERATING EXPENSE/SF             | \$2.00               |                                      |                      |
| INCOME/EXPENSE ESCALATION                               | 3.00%        | REAL ESTATE TAXES/SF             | \$1.50               |                                      |                      |
|   |              | REPLACEMENT RESERVE/SF           | \$0.50               |                                      |                      |

### Example #2: a multi-tenant building, with a richer tenant mix

Dividing up the building to create more small spaces can provide the developer with more rental income, if demand for small spaces is strong among small firms making high-value products. Even in this case, annual income exceeds expenses by an uncomfortably small margin – about 5.5%.



#### DEVELOPMENT AND OPERATING PROFORMA

MULTI-TENANT INDUSTRIAL BUILDING, HOT MARKET

| DEVELOPMENT COSTS                                       |                | CAPITAL STRUCTURE                  |                      | OPERATING CASH FLOW (AFTER LEASE-UP) |                      |
|---|----------------|------------------------------------|----------------------|--------------------------------------|----------------------|
| LAND & BUILDING ACQUISITION COST                        | \$10,000,000   | EQUITY                             | \$7,000,000          | <b>INCOME</b>                        |                      |
| DEVELOPMENT COST/SF                                     | \$75           | DEBT                               | \$15,500,000         | GROSS POTENTIAL INCOME               | \$3,330,000          |
| TOTAL DEVELOPMENT COST                                  | \$22,500,000   | LOAN-TO-VALUE                      | 69%                  | VACANCY                              | \$333,000            |
|   |                | TERM                               | 15                   | <b>EFFECTIVE GROSS INCOME</b>        | <b>\$2,997,000</b>   |
|   |                | RATE                               | 7.00%                | <b>EXPENSES</b>                      |                      |
|   |                | <b>TOTAL YEARLY DEBT SERVICE</b>   | <b>(\$1,701,817)</b> | OPERATING EXPENSES                   | \$600,000            |
| <b>PROGRAMMING</b>                                      |                | <b>RENTAL INCOME</b>               |                      | REAL ESTATE TAXES                    | \$450,000            |
| LOT AREA  | 100,000        | SMALL SPACE RENT / SF              | 15                   | REPLACEMENT RESERVE                  | \$150,000            |
| BUILDING GROSS AREA                                     | 300,000        | GROSS RENT FROM SMALL SPACES       | <b>\$2,250,000</b>   | <b>TOTAL EXPENSES</b>                | <b>\$1,200,000</b>   |
| 4 STORIES OCCUPYING 75% OF LOT                          |                | LARGE SPACES, RENT / SF            | 9                    | <b>NET OPERATING INCOME</b>          | <b>\$1,797,000</b>   |
| SMALL INDUSTRIAL SPACES (<10,000 SF), 40% OF GROSS AREA | <b>150,000</b> | GROSS RENT FROM LARGE SPACES       | <b>\$1,080,000</b>   | <b>ANNUAL DEBT SERVICE</b>           | <b>(\$1,701,817)</b> |
| LARGE INDUSTRIAL SPACES, TOTAL AREA                     | <b>120,000</b> | GROSS RENT, ENTIRE BUILDING        | \$3,330,000          | <b>CASH FLOW AFTER FINANCING</b>     | <b>\$95,183</b>      |
| MANAGEMENT OFFICES                                      | 7,000          | VACANCY / UNCOLLECTIBLE @ 10%      | \$333,000            |                                      |                      |
| COMMON AREA + CIRCULATION                               | 23,000         | <b>EFFECTIVE GROSS INCOME/YEAR</b> | <b>\$2,997,000</b>   |                                      |                      |
| RENTABLE SQUARE FOOTAGE                                 | 270,000        |                                    |                      |                                      |                      |
| BUILDING EFFICIENCY %                                   | 90.00%         | <b>BUILDING EXPENSES</b>           |                      |                                      |                      |
| <b>RATES</b>  |                | OPERATING EXPENSE/SF               | \$2.00               |                                      |                      |
| VACANCY / UNCOLLECTIBLE                                 | 10%            | REAL ESTATE TAXES/SF               | \$1.50               |                                      |                      |
| INCOME/EXPENSE ESCALATION                               | 3.00%          | REPLACEMENT RESERVE/SF             | \$0.50               |                                      |                      |

Shifting the balance between small and large space makes the project work.

### Example #3: blending in some low-interest financing allows the developer to keep rents low

In the affordable housing sector, financing tools including tax credits, bonds, loan guarantees, and capital grants enable developers to keep debt service low. Fewer options are available to industrial developers. Some state and local governments and authorities offer bonds or loan guarantees at lower interest rates than private lenders. Reinvestment of returns earned on previous projects may be the most common way of increasing developer equity and decreasing the need to borrow.

#### DEVELOPMENT AND OPERATING PROFORMA MULTI-TENANT INDUSTRIAL BUILDING, HOT MARKET

| DEVELOPMENT COSTS                                       |              | CAPITAL STRUCTURE                |                      |
|---|--------------|----------------------------------|----------------------|
| LAND & BUILDING ACQUISITION COST                        | \$10,000,000 | EQUITY                           | \$7,000,000          |
| DEVELOPMENT COST/SF                                     | \$75         | DEBT                             | \$15,500,000         |
| TOTAL DEVELOPMENT COST                                  | \$22,500,000 | LOAN-TO-VALUE                    | 69%                  |
|   |              | TERM                             | 15                   |
|   |              | RATE                             | 3.50%                |
|   |              | <b>TOTAL YEARLY DEBT SERVICE</b> | <b>(\$1,345,789)</b> |
| PROGRAMMING   |              | RENTAL INCOME                    |                      |
| LOT AREA  | 100,000      | SMALL SPACE RENT / SF            | 15                   |
| BUILDING GROSS AREA                                     | 300,000      | GROSS RENT FROM SMALL SPACES     | \$1,800,000          |
| 4 STORIES OCCUPYING 75% OF LOT                          |              | LARGE SPACES, RENT / SF          | 9                    |
| SMALL INDUSTRIAL SPACES (<10,000 SF), 40% OF GROSS AREA | 120,000      | GROSS RENT FROM LARGE SPACES     | \$1,350,000          |
| LARGE INDUSTRIAL SPACES, TOTAL AREA                     | 150,000      | GROSS RENT, ENTIRE BUILDING      | \$3,150,000          |
| MANAGEMENT OFFICES                                      | 7,000        | VACANCY / UNCOLLECTIBLE @ 10%    | \$315,000            |
| COMMON AREA + CIRCULATION                               | 23,000       | EFFECTIVE GROSS INCOME/YEAR      | \$2,835,000          |
| RENTABLE SQUARE FOOTAGE                                 | 270,000      |                                  |                      |
| BUILDING EFFICIENCY %                                   | 90.00%       |                                  |                      |
| RATES   |              | BUILDING EXPENSES                |                      |
| VACANCY / UNCOLLECTIBLE                                 | 10%          | OPERATING EXPENSE/SF             | \$2.00               |
| INCOME/EXPENSE ESCALATION                               | 3.00%        | REAL ESTATE TAXES/SF             | \$1.50               |
|   |              | REPLACEMENT RESERVE/SF           | \$0.50               |

| OPERATING CASH FLOW (AFTER LEASE-UP) |                      |
|--------------------------------------|----------------------|
| INCOME                               |                      |
| GROSS POTENTIAL INCOME               | \$3,150,000          |
| VACANCY                              | \$315,000            |
| <b>EFFECTIVE GROSS INCOME</b>        | <b>\$2,835,000</b>   |
| EXPENSES                             |                      |
| OPERATING EXPENSES                   | \$600,000            |
| REAL ESTATE TAXES                    | \$450,000            |
| REPLACEMENT RESERVE                  | \$150,000            |
| <b>TOTAL EXPENSES</b>                | <b>\$1,200,000</b>   |
| <b>NET OPERATING INCOME</b>          | <b>\$1,635,000</b>   |
| <b>ANNUAL DEBT SERVICE</b>           | <b>(\$1,345,789)</b> |
| <b>CASH FLOW AFTER FINANCING</b>     | <b>\$95,183</b>      |

This is a **very** simplified demonstration of how below-market financing can make a project viable. In reality, a developer might combine market and below-market rate financing to bring the blended interest rate down to an affordable level.

### Example #4: single-tenant building in a cool market – costs are low, but so are rents

In this case, the owner’s development and operating expenses are low, because the tenant bears most of the costs of buildout and operation. A higher vacancy rate is budgeted, because the building might be fully vacant for some time before a suitable tenant is found, and the owner might need to offer a rent concession in consideration of improvements made by the tenant. Also, banks might require the developer to put up more equity if they view property in a cool market to be less desirable as collateral.

#### DEVELOPMENT AND OPERATING PROFORMA SINGLE TENANT INDUSTRIAL BUILDING, COOL MARKET

| DEVELOPMENT COSTS                 |             | CAPITAL STRUCTURE                |                    | OPERATING CASH FLOW (AFTER LEASE-UP) |                    |
|-----------------------------------|-------------|----------------------------------|--------------------|--------------------------------------|--------------------|
| LAND & BUILDING ACQUISITION COST  | \$3,500,000 | EQUITY                           | \$1,500,000        | <b>INCOME</b>                        |                    |
| DEVELOPMENT COST/SF               | \$50        | DEBT                             | \$2,250,00         | GROSS POTENTIAL INCOME               | \$525,000          |
| TOTAL DEVELOPMENT COST            | \$3,750,000 | LOAN-TO-VALUE                    | 60%                | VACANCY                              | \$105,000          |
|                                   |             | TERM                             | 15                 | <b>EFFECTIVE GROSS INCOME</b>        | <b>\$420,000</b>   |
|                                   |             | RATE                             | 7.00%              | <b>EXPENSES</b>                      |                    |
|                                   |             | <b>TOTAL YEARLY DEBT SERVICE</b> | <b>(\$247,038)</b> | OPERATING EXPENSES                   | \$37,500           |
| <b>PROGRAMMING</b>                |             | <b>RENTAL INCOME</b>             |                    | REAL ESTATE TAXES                    | \$11,250           |
| LOT AREA                          | 100,000     | SMALL SPACE RENT / SF            | N/A                | REPLACEMENT RESERVE                  | \$18,750           |
| BUILDING GROSS AREA               | 75,000      | GROSS RENT FROM SMALL SPACES     | \$0                | <b>TOTAL EXPENSES</b>                | <b>\$67,500</b>    |
| 1 STORY OCCUPYING 75% OF LOT      |             | LARGE SPACES, RENT / SF          | \$7                | <b>NET OPERATING INCOME</b>          | <b>\$325,500</b>   |
| SPACE OCCUPIED BY A SINGLE TENANT | 75,000      | GROSS RENT FROM LARGE SPACES     | \$525,000          | <b>ANNUAL DEBT SERVICE</b>           | <b>(\$247,038)</b> |
| MANAGEMENT OFFICES                | 0           | GROSS RENT, ENTIRE BUILDING      | \$525,000          | <b>CASH FLOW AFTER FINANCING</b>     | <b>\$105,462</b>   |
| COMMON AREA + CIRCULATION         | 0           | VACANCY / UNCOLLECTIBLE @ 10%    | \$105,000          |                                      |                    |
| RENTABLE SQUARE FOOTAGE           | 75,000      | EFFECTIVE GROSS INCOME/YEAR      | \$420,000          |                                      |                    |
| BUILDING EFFICIENCY %             | 100.00%     | <b>BUILDING EXPENSES</b>         |                    |                                      |                    |
| <b>RATES</b>                      |             | OPERATING EXPENSE/SF             | \$0.50             |                                      |                    |
| VACANCY / UNCOLLECTIBLE           | 20%         | REAL ESTATE TAXES/SF             | \$0.15             |                                      |                    |
| INCOME/EXPENSE ESCALATION         | 3.00%       | REPLACEMENT RESERVE/SF           | \$0.25             |                                      |                    |

These budgets underscore the importance of the mission-driven developer’s role. While a nonprofit development project needs to at least break even – that is, to generate a positive cash flow after all expenses and debt service are covered – that return is much less than the developer might have earned by developing the site for its highest and best use. The developer incurs costs and risks that are the same or greater than a market-rate project would have presented, but for a far more modest return.