From the perspective of a market rate, multi-state developer

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How communities are selected for investment

- **Currently have 8 projects under development**
  - 2,261 total units
  - Texas, Minnesota, Washington, Utah, and California

- **We have another 13 projects under consideration for 2020 and beyond**
  - 6,107 total units
  - Throughout the country

Woodin Creek p3 – Woodinville WA

How communities are selected for investment

- Job market
- Population trends
- Acquisition potential vs. Replacement cost
- Needs based assessment

Some of the common concerns we hear regarding market rate development

- Developers in my city are only building luxury housing.
- Developers aren't building anything that ordinary people can afford.
- That type of building isn't going to help the people who truly need assistance

- Many times, the conventional belief is that **greed** is the motivation

- Clearly ….. developers are in business to make a profit, but the actual issues surrounding what gets built, when, and for whom are far more complex.

Cost of development

1. **New construction is expensive**
   - Avg construction cost of **$192/psf** for **apartments** in 2017 per Fannie May
     - **$230 - $250/psf** avg in Anchorage
   - Median construction cost of **$103/psf** for **single family homes** in 2017 per NAHB
   - Higher costs translate to higher rents in order for the project to pencil
   - Therefore, developers are trying to both meet the need for new housing stock, while also delivering a financially viable project

Cost of development - continued

1. **New construction is expensive – ACTUAL AK EXAMPLE**
    - Proforma for a **160 unit** apartment project
        - Construction Costs - **$35.5M**
            - **$221K/door**   **$290/sq ft**
        - Underwriting at a **5%** Cap yields value of **$35.1M** **(**$219.5/door**)**
        - Underwriting at a **6.75%** Cap yields value of **$26.1M** **(**$162.5/door**)**
        - Underwriting at a **7%** Cap yields value of **$25.1M** **(**$157/door**)**
        - Underwriting at a **8%** Cap yields value of **$21.9M** **(**$137.2/door**)**
        - **AND THIS IS ALL UNDERWRITTEN WITH NO REAL ESTATE TAXES!!!!**

The hidden cost of excessive regulation

2. **Other regulations are driving costs up**

- According to a 2018 study that was commissioned by the NAHB and the NMHC:

> *"multifamily development can be subject to a bewildering array of regulatory costs, including a broad range of fees, standards, and other requirements imposed at different stages of the development and construction process. In view of this, it may not be surprising that regulation imposed by all levels of government accounts for **32.1%** of multifamily development costs on average, and one-fourth of the time reaches as high as **42.6%**".*

Incentives and barriers that affect the decision to develop

- **Incentives**
  - TIF
  - Rapid Response
  - Infrastructure investment
  - Utilities alignment
  - Public Private partnership
- **Barriers**
  - Outdated zoning laws
  - Cost of land and construction
  - Arbitrary permitting requirements
  - Inflated parking requirements
  - Environmental site assessments/appeals

What we are seeing in the market

- **4.6M new apartments needed by 2030**
  - Average of 328K per year
  - Industry averaged just 243K/year from 2011 - 2017

  - 3 demographic factors are driving this phenomenon
    - The rise of 71M young adults getting ready for their first apartment (Gen Y)
    - The aging of the Baby Boomer Generation
    - Immigration's increasing contribution to population growth

What we are seeing in the market

- Construction is being hampered by lack of labor
- Age Friendly Housing is becoming a trend
- Policy conversations surrounding greater residential densities, and Housing Affordability concerns
- Efforts at rent control in areas with high demand

In closing

- For Weidner and most private developers, real estate development is a long-term, entrepreneurial undertaking. The developer must believe that the newly designed and designated real estate will have sufficient value (and meet sufficient demand) to compensate for the time, labor and other resources devoted to the project.
- If any of those factors above don't occur, the project will generally not get built, and that capital will flow to a different project where the feasibility gap is overcome.