

Cultivating Neighborhoods

Towards Positive Municipal Math

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**Cultivating 1000 small developers
and cities that support them**

Anyone Bake Bread This Spring?

“Yeast takes a certain time to go from one cell to two cells. You can do everything you can to speed it up, but there’s a hard limit to how fast they can double. Yeast also needs to consume sugar gradually - a production plant can’t force-feed the cells at a faster clip.”

“But all of a sudden the market is being hit by demand from household customers to bake their own bread. They want the 7g or 11g sachets for one loaf. It’s simply insufficient packing capacity, and the supply lines dry out very quickly.”

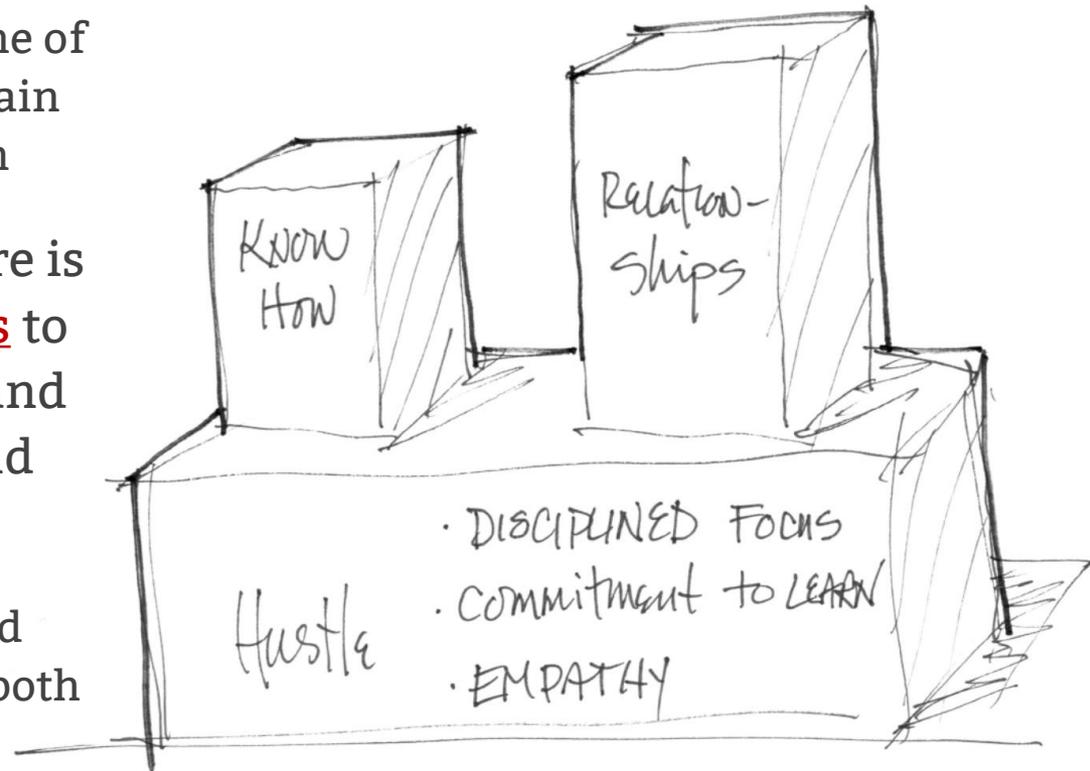


Cultivating The Active Ingredient

Many neighborhoods lack a pipeline of buildings that can build and sustain wealth for the humans in them

This is most often because there is a lack of **people with the skills** to formulate potential projects and an **ecosystem** that **allows** and **rewards** the risk taken

Buildings that retain value build neighborhood wealth, benefiting both humans and their collective municipality



RJH
April 2020

DIY Yeast

Grow yeast by placing old flour, water, and dried fruit (or ale) into a jar. Allowing that mixture to ferment in a warm place for 24 to 48 hours should yield yeast that you can use in baking projects.

“The resulting product won’t act as predictably and consistently as what you’d buy in a store, **but it may imbue your baked goods with a certain distinctive character.**”



IncDev Mission: We Teach and Nurture Implementers

.....

Train

small business owners, neighborhood advocates, design/real estate professionals, builders and others to become small developers

Coach

civic groups and government agencies on how to create a thriving ecosystem for small developers and entrepreneurs

Connect

a continent of neighborhood level doers to celebrate success and share field notes through opportunistic alliances



Neighborhood



Block



Lot

Big City



Small Town



Zero to Three Stories, In Your Neighborhood
Constantly Evolving, Regenerating



What are we
trying to
accomplish?



Building of Intergenerational Wealth

Families

Leverage Building
as Income Source

Provide Lifecycle
Housing Choice

Communities

Flexible and
Adaptable Buildings

Anti-Fragile
Tax Base



Building Wealth Through Real Estate



**One Story
Mixed Use**
Commercial Front,
Residential Back

Creating a Job vs Building Wealth



**Need \$500,000 To Start
Wealth Leaves**

Job: Store Manager



**Builds \$500,000 Over Lifetime
Wealth Stays**

**Wealth: Business and
Building Owner**



Wealth Gap

In 2016, white families had a median net worth of

\$171,000

Compared with

\$17,400 for Blacks and **\$20,900** for Hispanics

Fed report on Survey of Consumer Finances

Washington Post - September 29, 2017



Wealth Gap

In 2019, white families had a median net worth of

\$188,200

Compared with

\$24,100 for Blacks and **\$36,200** for Hispanics

Fed report on Survey of Consumer Finances

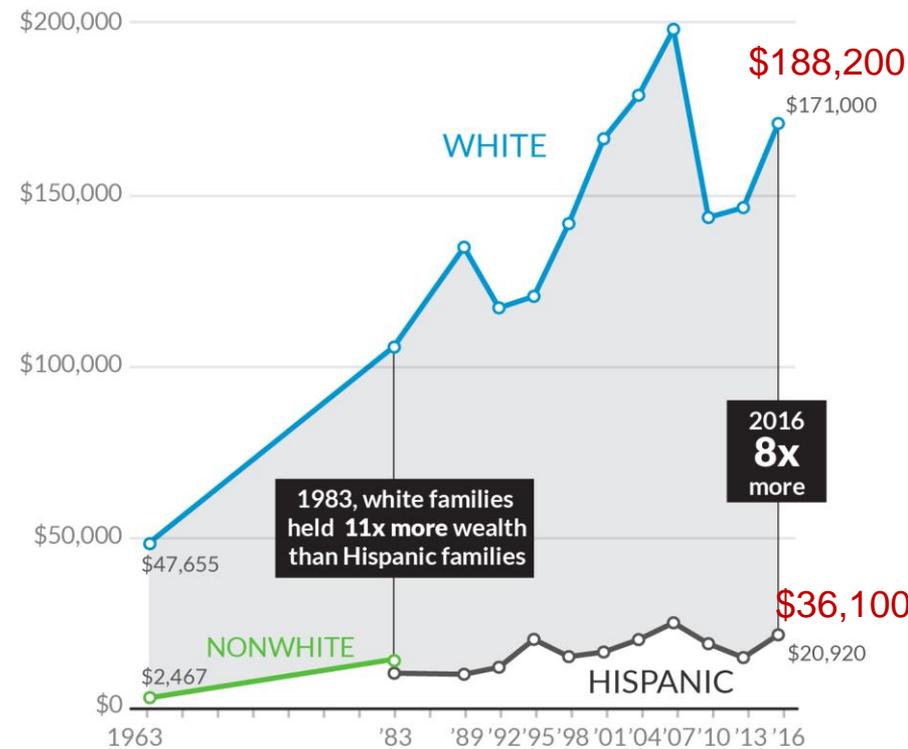
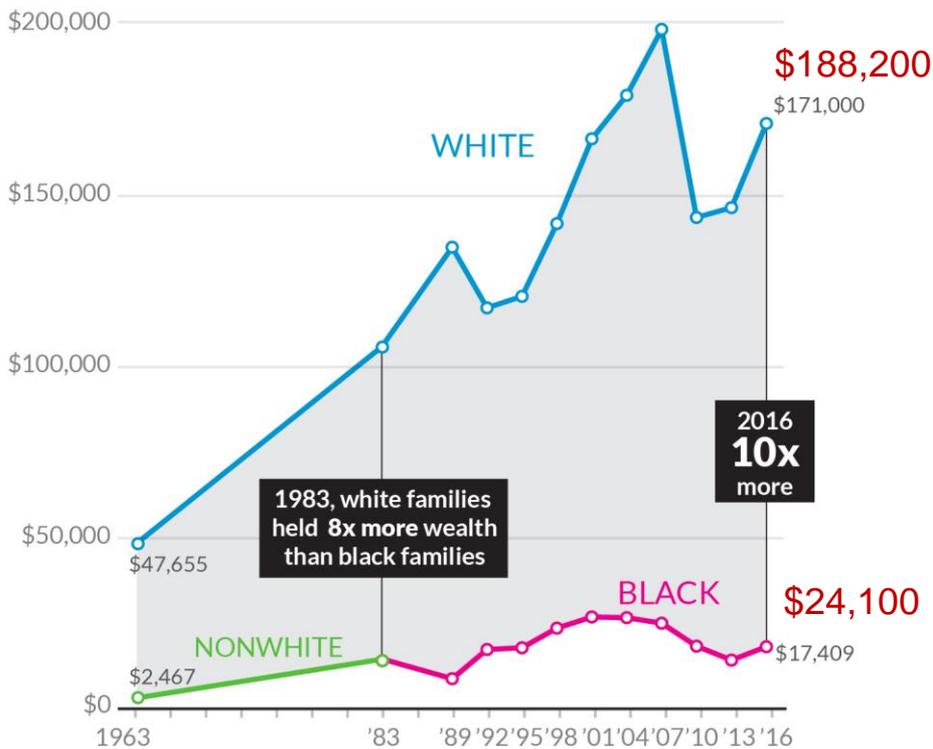
September 2020



Wealth Gap Over Time

Median Family Wealth by Race/Ethnicity, 1963–2016

2019 Updates



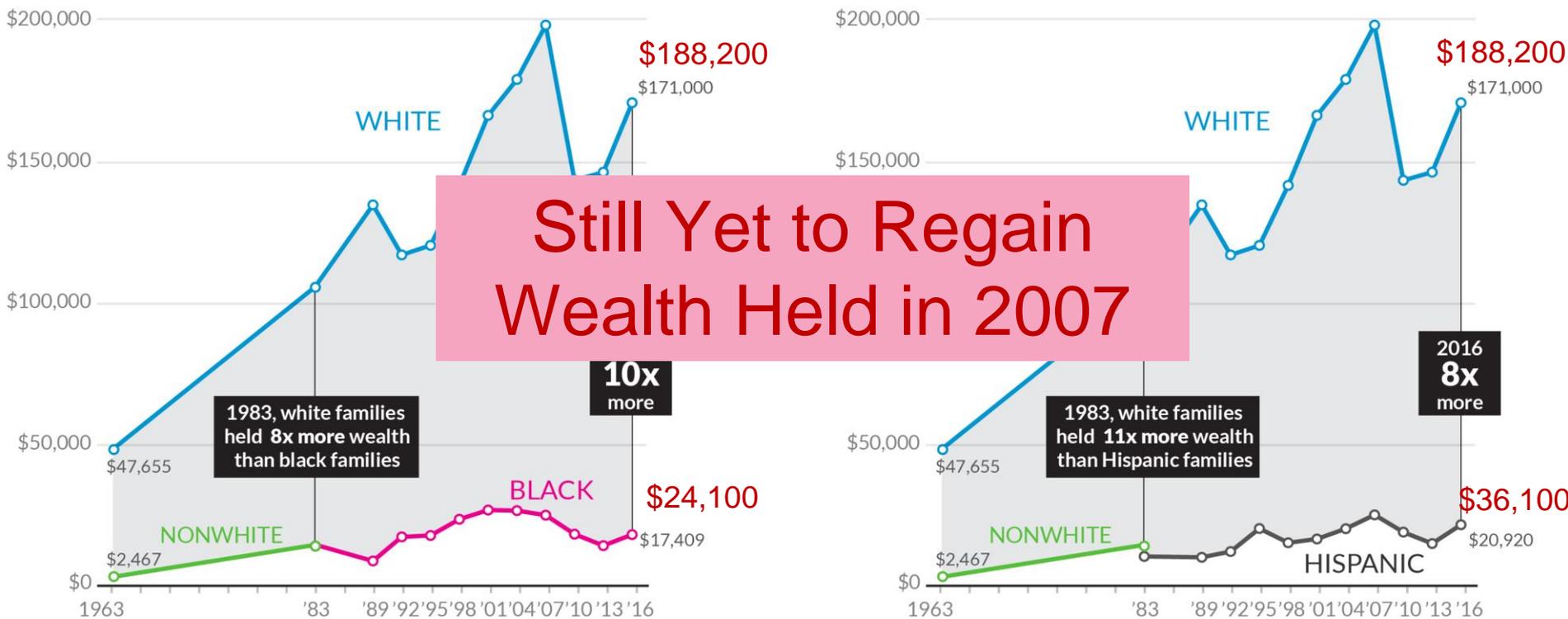
Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.

Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.

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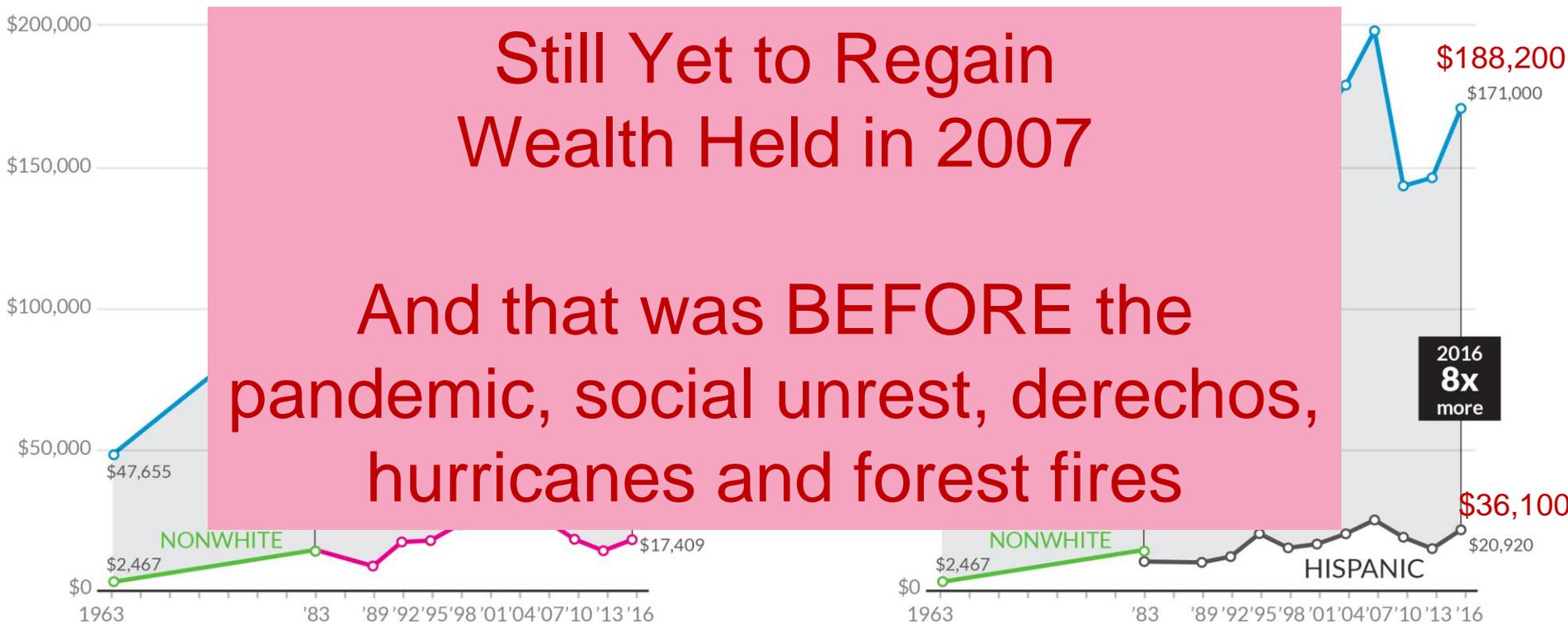
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Reasons for Wealth Gap?

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Low Homeownership Rates

Low Retirement Savings

(If you make enough income to save much of anything)

High Student Debt

(A factor largely preventing young people of all races from entering the ownership market)

And the legacy of structural -isms



How healthy is
your city's
platform for
building wealth?



Understanding The City as a Corporation



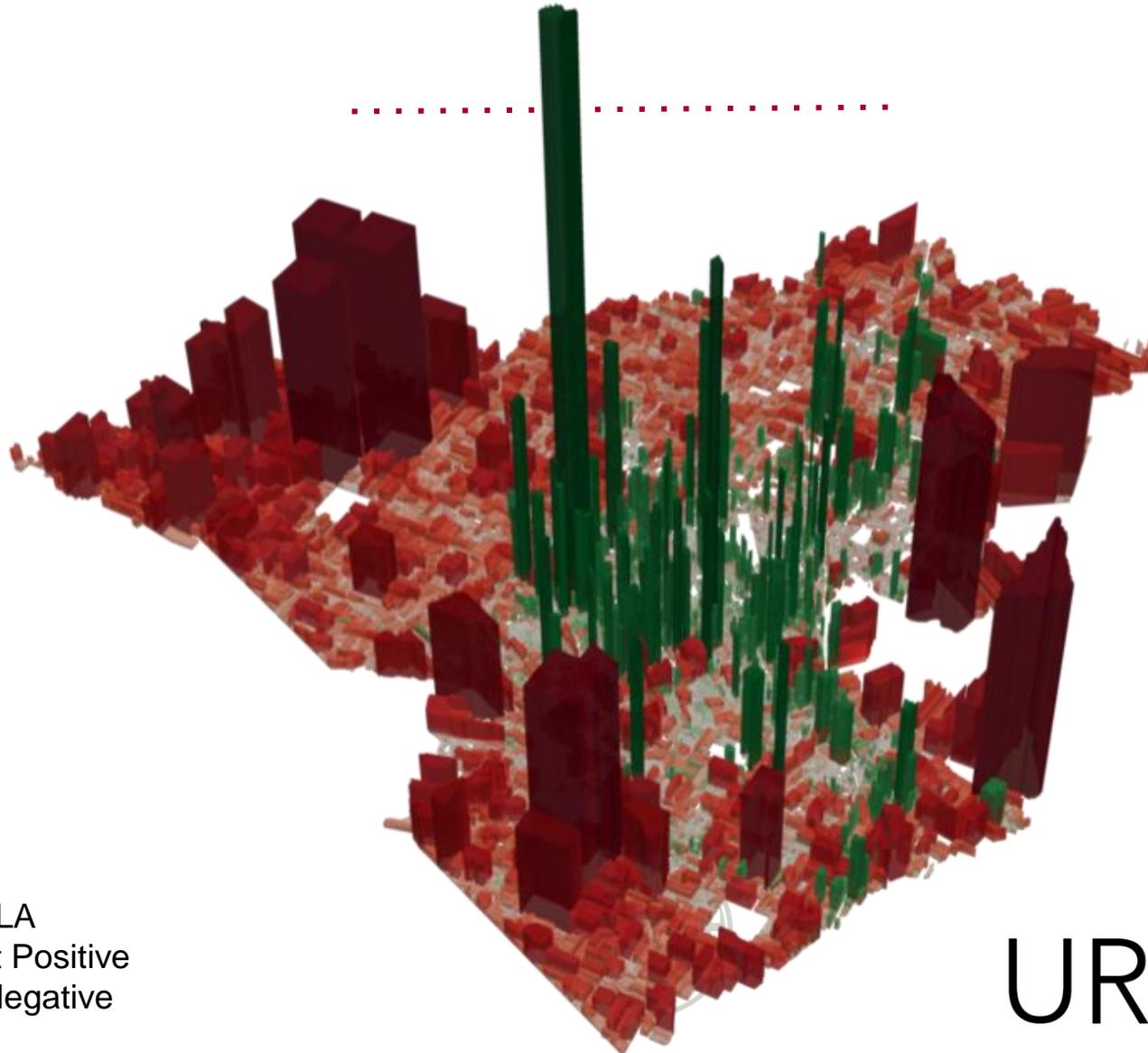
The Story of Your Neighborhood



The Story of Development Patterns



Net Revenue vs Costs - Per Parcel



Lafayette, LA
Green: Net Positive
Red: Net Negative

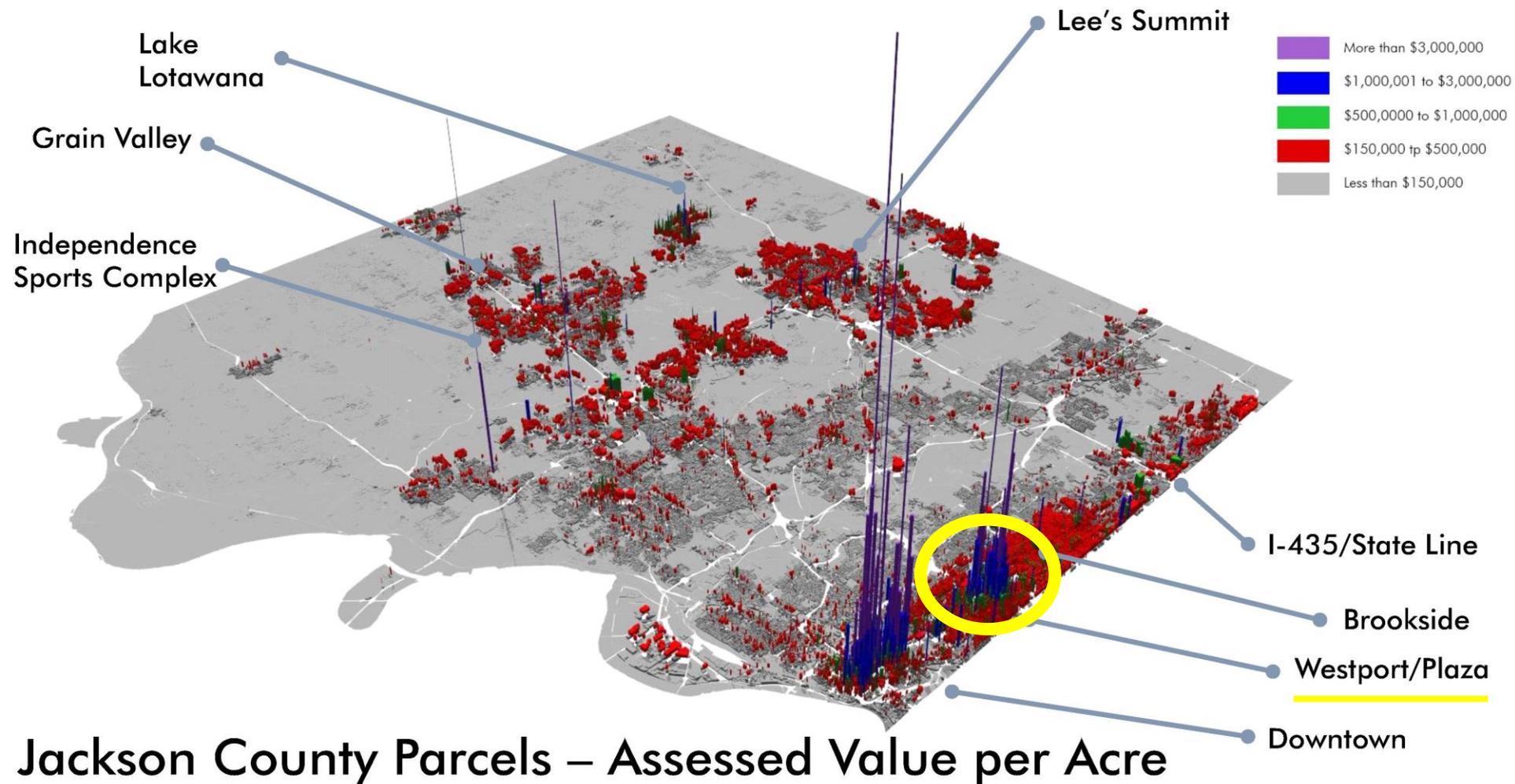
URBAN3

The difference between
red and green parcels is the
economic productivity of the

land use
versus
the infrastructure cost



What Patterns to Copy?



Westport Duplex



612 W 40TH ST

Assessed Value per Acre: \$186,014.99

Market Value per Acre: \$979,016.44



Lot Width (ft): ~45
Lot Depth (ft): 90
Acres: 0.155

12 Units/
Acre

Building Type: 2-Unit Walkup

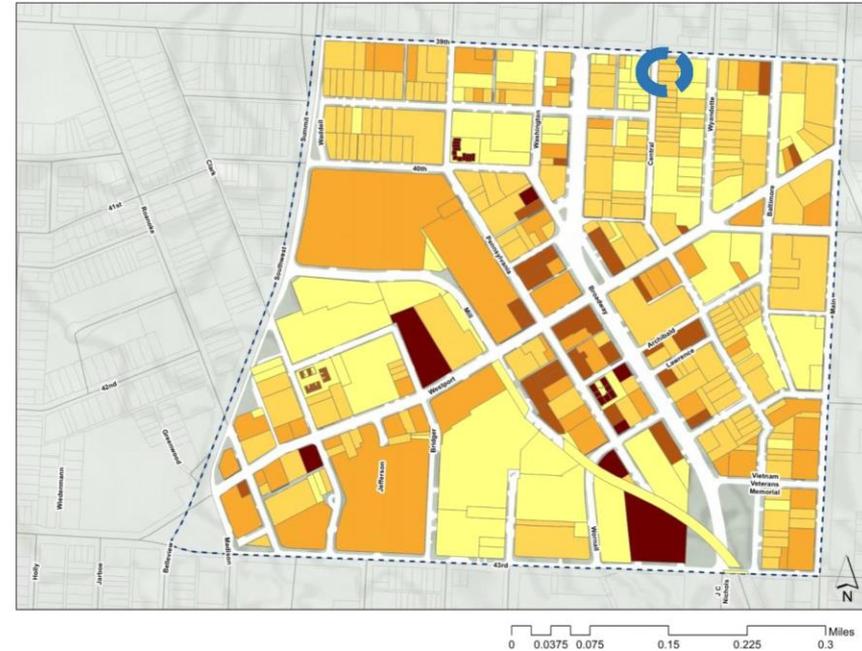
Westport Six Plex



3907 CENTRAL ST

Assessed Value per Acre: \$208,684.15

Market Value per Acre: \$1,098,337.63



Lot Width (ft): 50
Lot Depth (ft): 100
Acres: 0.115

52 Units/
Acre

Building Type: 6-Unit Walkup

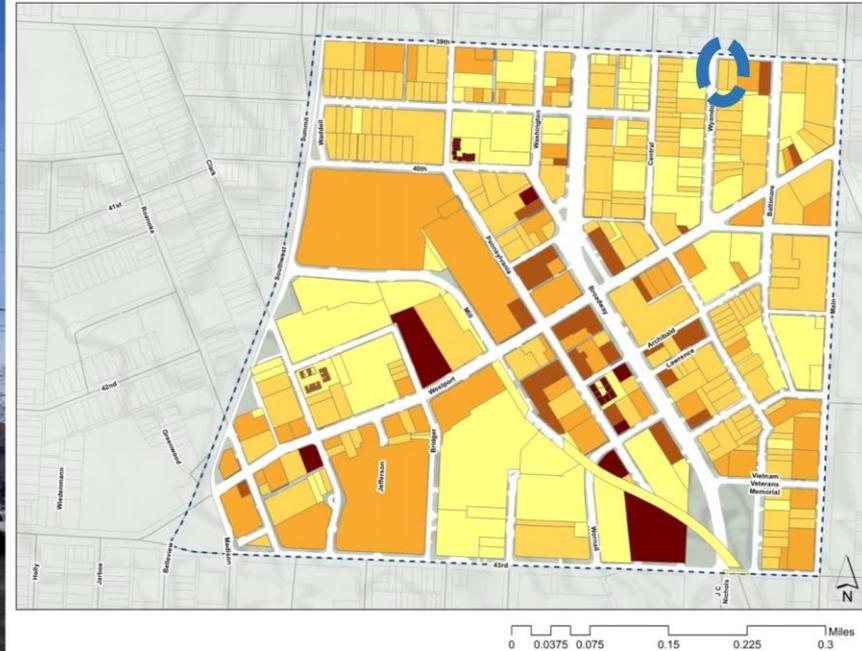
Westport Multi-Plex



119 W 39TH ST

Assessed Value per Acre: \$320,497.07

Market Value per Acre: \$1,686,826.69



Lot Width (ft): 50
Lot Depth (ft): 150
Acres: 0.175

165 Units/
Acre

Building Type: Mid-Rise Apartment

Are you getting
the kinds of
real estate projects
you want to see?



Why Not??

I'll Give You Three Reasons



Overcoming Challenges to Small Scale Projects



Reason #1

Habit of Extractive Land Development

We Don't Regenerate
Like We Used To...



Culture of
Throwaway Buildings

Land Held in Hands
of Few

Deteriorating
Municipal Tax Base

Tyranny of
Amortization

Reason #2

Current State of the Development Industry

Chronic Specialization

Patchwork Quilt of
Arcane Regulation

Neighborhood
Opposition and NIMBY's

Dire Construction Labor
Shortage

Tariffs on Materials



And if that wasn't
enough...



62%

.....

of US housing stock is single-family detached homes as of 2012 (HUD, 2014)



83%

.....

of households in the US will have no children by 2030

According to Arthur C. Nelson, *Reshaping Metropolitan America*



Reason #3

Mismatch of Buildings to People

What we have and what we
need don't fit well



Goldilocks Problem:
Don't have enough of the
'just right' buildings

National demographics
shifting to smaller units
for single person
households

Overheated real estate
markets for walkable
neighborhoods due to
lack of supply of them

The City of Grayling

Net Annual Market Potential for New-Builds



5
Cottage
House



4
Fourplex
Townhse



2
Above
Retail



4
Lofts
Flats



Commercial/Retail/Industrial Conundrum

.....

Demand for **industrial** real estate could reach an additional 1 billion square feet by 2025 (July 2020)

“There’s about a billion square feet of **retail** space that needs to go away, that needs to be converted, for the market to get healthy” (2017)

Still, there are hurdles in taking a former retail space and turning it into something else, Meyer cautioned.

“There are things like zoning laws, these are residential areas,” he said.
“There’s going to be a lot more involved with imagining these things.”



Black Swans and Antifragility

Black Swan – Event which is BOTH an outlier that does not have historical precedent and carries extreme impact

Antifragility is a property of systems that increase in capability to thrive as a result of stressors, shocks, volatility, noise, mistakes, faults, attacks, or failures.

Preference for 100x 1 ft drops, than 1x 100 ft drop.

Incremental and continuous feedback/recovery loops

Preference for redundancy over efficiency, local over external



2020



The events of this year were not intrinsically
unpredictable

In fact, there were many warning signs of system failure
or intensification of strength of natural systems

These stressors **WILL** reoccur

How we deal with that set of possibilities will determine
how negative or positive those future scenarios will be





Break Down Big with
Incremental to Limit Downside

Aggregate Small to Leverage
Upside of Antifragility



What Do We Have to Know to Make These Happen?



Small Building Thresholds

Building Code

International Residential
Code (IRC)

Financing Mechanism

Residential Mortgage
(30 Year Term)

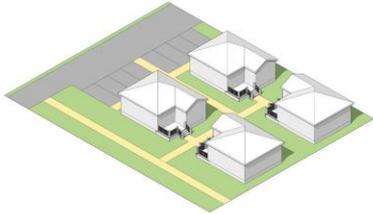
International Building
Code (IBC)

Commercial Loan
(3-10 Year Term)

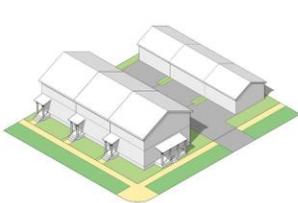
ZONING



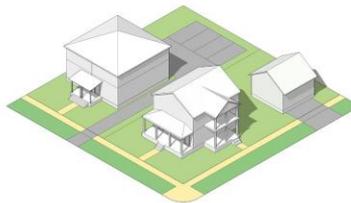
IRC BUILDINGS + 30 YR MORTGAGE



COTTAGES
UP TO 4 ON PARCEL

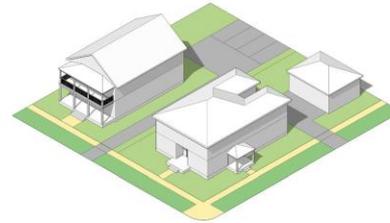


TOWNHOUSE
(UP TO 4 UNITS)

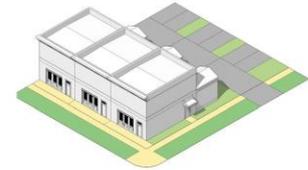


DUPLEX
(IDENTICAL UNITS)

IBC BUILDINGS + 30 YEAR MORTGAGE

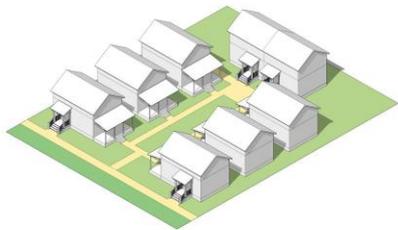


MULTIPLEX
3-4 UNITS



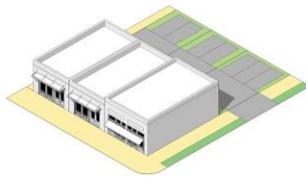
LIVELWORK
RESIDENTIAL ABOVE

IRC BUILDINGS + COMMERCIAL MORTGAGE

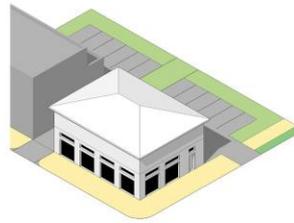


COTTAGE COURT
5 OR MORE UNITS ON PARCEL

IBC BUILDINGS + COMMERCIAL MORTGAGES

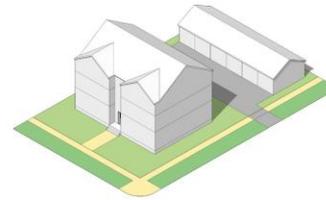


COMMERCIAL
1-STORY

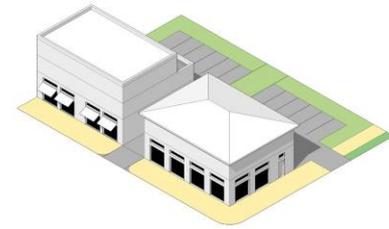


MIXED USE REHAB
MAX. 3 UNITS PER FLOOR

IBC BUILDINGS + COMMERCIAL MORTGAGES



MULTIPLEX
5-12 UNITS



MIXED USE
2-3 STORY, GF RETAIL

PERSONAL CASH/DEBT



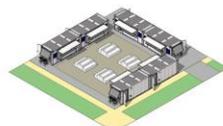
TENT MARKETS
(TEMPORARY)



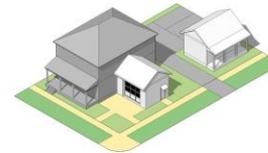
FOOD TRUCKS
(TEMPORARY)



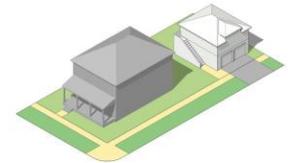
TRAILERS
(UTILITIES)



MICRO-RETAIL
(UTILITIES)



SHOPHOUSE
ATTACHED OR DETACHED



ACCESSORY DWELLING
DETACHED (REAR)

Learn More About Housing
Strategies at 11:15 AM Session
On STEP Buildings



Q: How Do We Find Small Developers?



A: You Don't.
You Grow Them



What Will I Learn at a 1 Day Workshop?

Open to ALL

Public Sector
Private Sector
Non-Profit Sector



The Project Formation Process

Conventional Financing
Thresholds

Building Types and
Site Planning

Financial Pro forma

Asking for Money

Acquisition and Closing

Practice Project

Make a Basic Project Work on Paper



Small Building Investment Package

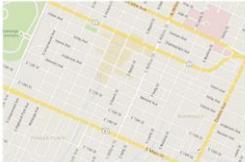


OVERVIEW

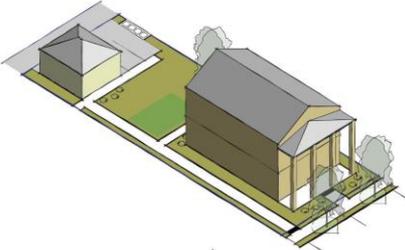
PRODUCT:

The quadplex has two units on each floor, four units total, and a small rear garage for two vehicles. Each 728 sf unit has two bedrooms, one bathroom, and direct access to the outdoors via a two story porch. The first floor units have their own front and rear doors and the second floor units are accessible from a central staircase at the front of the building. Four parking spaces are provided off the alley, one per unit.

LOCATION MAP:



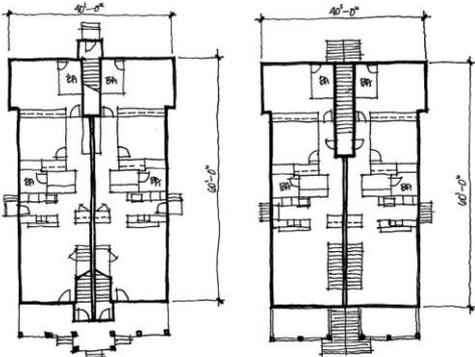
PRECEDENT IMAGE:



PLANS + ELEVATIONS



FRONT ELEVATION



FIRST FLOOR PLAN

SECOND FLOOR PLAN

PRO FORMA

Assumptions:
 New construction building
 Construction loan at 7% LTC
 Current rents at \$110 to \$135 per SF for existing 1 and 2 BR apartments
 Fire sprinklers required
 Wood Frame TYPE V construction, gravel parking off alley and on-street
 Refinance once a certificate of occupancy is granted using a 30-year mortgage

Project Costs			
Land Cost	\$30,000	6,750 SF parcel	\$4.44 per parcel SF
Hard Construction Costs			7.0% of project costs
Residential Conditioned SF	\$320,320		\$110 per conditioned SF
Unconditioned SF	\$0,750		\$45 per SF
Hard Cost Subtotal	\$327,070		76.0% of project costs
Soft Construction Costs	\$73,485		\$24 per building SF
Hard and Soft Costs Subtotal	\$400,555		17.1% of project costs
Total Project Costs	\$430,558		100.0% Project Costs

Net Operating Income					
	Rate (per BSF)	Condt. SF	Uncond. SF	Monthly Rent	Annual Rent
2 story breezeway building with 8 units					
2 Bedroom 1 Bath Fl. 1	\$124	728		\$900	\$10,800
2 Bedroom 1 Bath Fl. 1	\$124	728		\$900	\$10,800
2 Bedroom 1 Bath Fl. 2	\$124	728		\$900	\$10,800
2 Bedroom 1 Bath Fl. 2	\$124	728		\$900	\$10,800
Starway	\$0.00		150	\$3,600	\$43,200
Total		2,912	150	\$43,600	\$43,200
Building SF		3,062		\$43,200	Gross Potential Income (GPI)
				(\$2,100)	% Vacancy Rate
				\$41,040	Gross Operating Income (GOI)
Formula: GOI less Operating Expenses				(\$12,312)	Operating Expenses (30% of GOI)
				\$28,728	Net Operating Income (NOI)
Formula: NOI divided by the Project Cost				\$430,558	Project Cost
				6.6%	Cash Return on Project Costs (no leverage)

Cash Flow & Debt Service			
Project Cost: 100%	\$430,558		
Down Payment / Equity: 20%	\$107,640		
Debt: 70%	\$322,918		
Monthly payment P&I	(\$1,733)		
Annual NOI:	\$28,728		
Annual Debt Service:	(\$20,802)		
Annual Cash Flow above debt service and operating expenses:	\$7,926		
Annual depreciation @ 27.5 year	\$11,742		
Note: Residential Depreciation Expense Rate Used			
Loan Term:	30 Years		
Interest Rate:	6.0%		
Note: 1.25 min. t.p.			
Debt Service Coverage Ratio (DSCR):	1.38		
Pre-tax Return on Equity:	7.36%		



SMALL SCALE DEVELOPMENT WORKSHOP



incrementaldevelopment.org/events

**Virtual Workshops
October 29 and December 3**

Visit Us At:

incrementaldevelopment.org/midwestapa

**Get your code to attend
Development Simulation 101 for free**

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