

DEVELOPMENT NUMBERS AND THEIR  
IMPACT ON ZONING, DEMOLITIONS, AND  
GENTRIFICATION

# SIMPLE DEVELOPER BUDGET

- + Total Revenue (Number of units X Revenue per unit)
- - Land Costs
- - Development Costs (Construction costs, design fees, financing)
- - Operating Costs (Management, insurance, property taxes, repairs)
- = Profit

There is really no magic or complication.

# SIMPLE LAND VALUE FORMULA

- + Total Revenue (Number of units X Revenue per unit)
- - Development Costs (Construction costs, design fees, financing)
- - Operating Costs (Management, insurance, property taxes, repairs)
- - Profit (Measured by return on investment or markup on cost)
- = Land Value

To figure out how much to pay for land developers use the same formula.

# SIMPLE PROJECT VALUE FORMULA

- + Total Revenue (Number of units X Revenue per unit)
- - Development Costs (Construction costs, design fees, financing)
- - Operating Costs (Management, insurance, property taxes)
- - Profit (Measured as return on investment or markup on cost)
- = Project Value

The same formula is used to figure out how much to pay for an existing structure - house, duplex, apartment

# THE EQUATION HAS TO STAY IN BALANCE

- + Total Revenue (Number of units X Revenue per unit)
  - - Development Costs (Construction costs, design fees, permitting costs)
  - - Operating Costs (Management, insurance, property taxes)
  - - Profit (Measured as return on investment or markup on cost)
  - = Project Value
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- As one number changes it impacts the value of others.

# THE EQUATION HAS TO STAY IN BALANCE

- + Total Revenue (Number of units X **Revenue per unit**)
  - - Development Costs (Construction costs, design fees, permitting costs)
  - - Operating Costs (Management, insurance, property taxes)
  - - **Profit (Measured as return on investment or markup on cost)**
  - = Project Value
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- Same theory – as one variable changes so do the others.

# DEVELOPER'S HOMERUN

- + Total Revenue (**Number of units X Revenue per unit**)
- - Development Costs (Construction costs, design fees, permitting costs)
- - Operating Costs (Management, insurance, property taxes)
- - Profit (Measured as return on investment or markup on cost)
- = **Project Value**
  
- **Christmas!**
- **Basic economics for period after recovery.**

# RECENT HISTORY WITH APARTMENTS

- + Total Revenue (Number of units X Revenue per unit)
  - - Development Costs (Construction costs, design fees, permitting costs)
  - - Operating Costs (Management, insurance, property taxes)
  - - Profit (Measured as return on investment or markup on cost)
  - = Project Value
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- Minimum profit hurdle is fixed.
  - All fight for bigger piece.
  - Construction Costs up 30%.



# IMPACT OF DENSITY ON DEMOLITIONS

## Existing Project

- + Total Revenue (2 units X \$2 per unit)
- - No development costs
- - Operating costs
- - Profit
- = Project Value

## Proposed Project

- + Total Revenue (6 units X \$2.50 per unit)
- - Development costs (Project Value, construction costs)
- - Operating Costs
- - Profit
- = Proposed Project Value

# MISSING MIDDLE CALCULATION

## Existing Project

- + Revenue (1 units X \$2 per unit)
- - No development costs
- - Operating costs
- - Profit
- = **Project Value**

## Proposed Project

- + Revenue (6 units X \$1.75 per unit)
- - Development costs (**Project Value**, construction costs)
- - Operating Costs
- - Profit
- = Proposed Project Value

How much density is required to make the numbers work?

# GENTRIFICATION CALCULATION

## Existing Project

- + Revenue (1 units X \$2 per unit)
- - No development costs
- - Operating costs
- - Profit
- = **Project Value**

## Proposed Project

- + Revenue (1 units X **\$3 per unit**)
- - Development costs (**Project Value**, construction costs)
- - Operating Costs
- - Profit
- = Proposed Project Value

The rent gap theory.

- Understanding this simple math lets you understand why developers take positions.
- It helps you understand city planning.
- It helps you understand the impacts of city policy.
- It helps you understand financial motivations.
- It helps you understand zoning.
- It helps you understand CodeNEXT.