

“Logic is .. the unfolding of intuition” Emmerson

DETERMINING FINANCIAL FEASIBILITY OF MASTERPLAN

R.E.D. SYSTEM ANALYSIS : RIGOUROUS THINKING ECLIPSES DEFAULT THINKING

PREDEVELOPMENT MARKET RESEARCH & ANALYSIS

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MODULE 2

DETERMINING FINANCIAL FEASIBILITY OF MASTERPLAN

Right Sized Revenue

Intelligent Income

Calibrated Costs

RIGHT SIZED REVENUE

LEASES

Flat

Variable

Steps

Revaluation

Percentage

TYPES OF LEASES

	UTILITIES	TAXES	INSURANCE	MAINTENANCE	STRUCTURAL REPAIRS
GROSS	Landlord	Landlord	Landlord	Landlord	Landlord
NET	Tenant	??	??	Landlord	Landlord
DOUBLE NET	Tenant	Tenant	Tenant	Landlord	Landlord
TRIPLE NET	Tenant	Tenant	Tenant	Tenant	Landlord
ABSOLUTE NET	Tenant	Tenant	Tenant	Tenant	Tenant

INTELLIGENT INCOME

WHY
UNLEVERED?

INTELLIGENT INCOME

- Developer's Return seeks:
- Full recovery of capital invested
- A reward for the assumption of risk

Investor Target Returns: Each use is different

Sector	Target IRR*	Timing of sale or lease	Anchor Tenant
Land Development	20-30%	With phasing	Depends on phase
For-sale residential	8-20%	Pre-sales for each phase	None
Multi-family	7.5-11%	Lease-up after construction	None
Office	7-12%	Pre-leasing desirable	Desirable
Retail	7-12%	Pre-leasing usually req'd	Desirable
Industrial	7-12%	Lease up after construction	Occasional

*Unleveraged Internal Rate of Return. Higher leverage increases return on equity.



INTELLIGENT INCOME

OCR

TCR

GOING
IN

YIELD

Payback

INTELLIGENT INCOME

1. Unusual combinations of cash flows may produce multiple IRRs
2. Negative IRRs may be interpreted as a rate of loss but theoretically meaningless
3. Don't work for investments that require very little or no equity due to financing



KNOW
LIMITS

CALIBRATED COSTS

Direct Comparison vs. Direct Capitalization
(Land Residual)

Reproduction Cost vs. Replacement Cost

Direct Costs & Indirect Costs

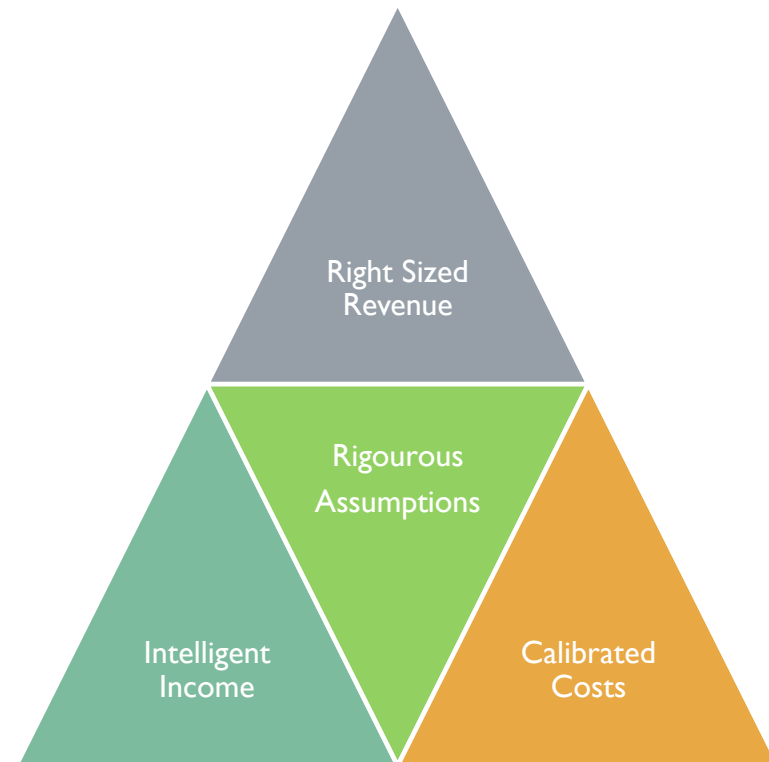
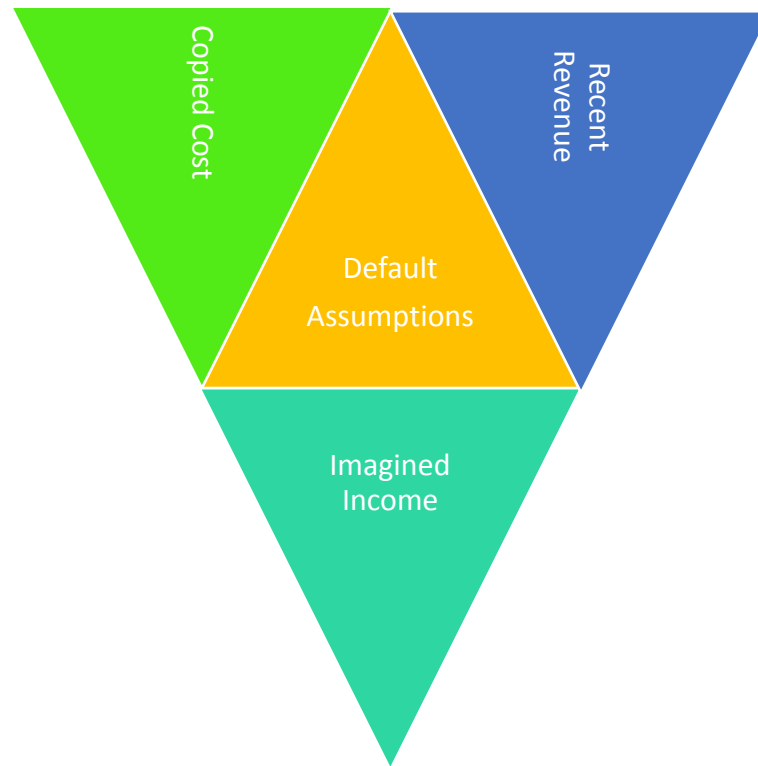
CALIBRATED COSTS

Cost of Capital

Cost Index Trending

Standard Area Measures

R.E.D. SYSTEM: TOP-DOWN VS. BOTTOM-UP



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R.E.D. SYSTEM ANALYSIS : **R**IGOUROUS THINKING **E**CLIPSES **D**EFAULT THINKING