WHERE DOES

HOUSING

COME FROM?

A DRAMATIZATION

?

Prepared by
Rachael Tanner, James Pappas, and Ru'a Al-Abweh
San Francisco Planning Department

for the
Excelsior and Outer Mission Land Use and Housing Working Group

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

WHERE DOES HOUSING COME FROM? A DRAMATIZATION

Once upon a time, there was a real estate developer working in the wondrous land of San Francisco. One fateful day, he wandered upon a fantastical property that he wanted fo buy in order to build a housing project. So he partnered with another developer and they ventured out to make the property owner an offer. Getting this project done was no easy task, so they got the help of a city planner, architect, general contractor, bank loan officer, and good old Uncle Steve.

But the question remained...would they be able to get this housing project done? Join us in this role-play to find out!

Who are the stars of the show?

Roles in Order of Appearance

Real Estate Developer 1
The enthusiastic developer co-leading a housing project

Real Estate Developer 2
The other enthusiastic developer co-leading a housing project

City Planner
The city employee managing project permits and enforcing regulations

Property Owner
The parking lot owner being offered a proposal to sell their land for housing

Architect
The pro-active designer eager for a new creative opportunity

General Contractor
The pragmatic implementer managing construction logistics and costs

Bank Loan Officer
The bank employee who assists with housing's financial questions

Uncle Steve
The hard-to-please equity investor with extra cash on hand

How is this play organized?

Part I: Five Scenes

SCENE 1: Finding the Fantastical Property

SCENE 2: Passing With the Planner

SCENE 3: Serious (Housing) Business

SCENE 4: Landing a Loan

SCENE 5: Understanding Equity with Uncle Steve

Part II: Discussion with Real-Life Developers

What is the purpose of this role play?

The purpose of this role-play is to simplify the "behind the scenes" process of a housing project -including searching for property, partnering with competent professionals, applying for a bank loan, managing project costs, and securing equity investors.

NOTE: The financial figures used in this role play are hypothetical and do not represent the reality of market and housing costs. Simple figures have been used to make calculations easier. Don't worry about the figures during the role-play. Focus on the steps of the housing project and the overall process. You are welcome to ask questions about the true figures in Part II of this role play.

And equally as important -have fun! ☺

NOTE: Remember the symbol for your character (shown to the left). It will tell you in which scene you have a part.

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

Who is in this scene?

Characters

Script

Developer 1: You won't believe it! I found a property with a great location that I think could become housing!

Developer 2: What's so great about it?

Developer 1: Well, its right near a major transit line, so it's easy to get to jobs in downtown San Francisco or even take BART to the east bay or south down the peninsula.

Developer 2: That's certainly a great asset. What is it now?

Developer 1: Right now it's a parking lot.

Developer 2: That's great. I'll check the zoning and see what we are allowed to build there. Can you check what the rents are in the market?

Developer 1: Sure!

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

END OF SCENE 1

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

City & County of San Francisco
Edwin M. Lee, Mayor

SAN FRANCISCO

San Francisco Planning

EXCELSIOR OUTER MISSION
NEIGHBORHOOD STRATEGY

2

SCENE 2 PASSING WITH THE PLANNER

Who is in this scene?

Characters

Script

Developer 2: Hi City Planner! Thanks for meeting with me. I am interested in a property located at 1000 Apartment Avenue. Can you confirm how many units I am allowed to build here? And other restrictions?

City Planner: I'm happy to help. The lot is 90 by 80 feet, which is a total of 7,200 square feet. Based on the zoning for this area, you are allowed to build up to 45 feet. That's 4 stories.

Developer 2: Great. What's the unit density?

City Planner: You can have 1 unit per every 600 square feet of the property.

Developer 2: That means I can have 12 units there.

City Planner: That's correct. When you build more than 10 units, 12% of the units must be below market rate. So that's 1 unit.

Developer 2: Thank you! *(Tries to leave.)*

City Planner: One last thing! You need to have at least 25% of the units be two and three bedroom. Also,10% have to be three bedroom units! So that means one 3-bedroom unit and two 2-bedrooms.

Developer 2: Got it. Anything else?

City Planner: Well, there's plenty more! But that's enough to get you started!

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

END OF SCENE 2

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

Who is in this scene?

Characters

Script

Developer 1:	I found out about the rents in the neighborhood. Based on what I see currently, I think we can rent the apartments for about $1.00 a square foot.
Developer 2:	I found out we can have a total of 12 units there.
Developer 1:	Great info! I have the property owner, architect, general contractor coming by right now to talk costs.
Property Owner:	Thanks for discussing buying my parking lot. I looked at your offer, and would like to counter. *(Hands Developer 1 a piece of paper.)*
Developer 1:	This seems a bit high.
Property Owner:	Well, I think you forgot to include the money I make from people who pay to use my parking lot; capital gains taxes I have to pay.
Developer 2:	This is higher than expected. We have a budget. Can you do this amount? *(Hands paper to Property Owner.)*
Property Owner:	Ok. This will work. *(Shakes hands with developers. Exits.)*
Architect:	I hope I get to be the architect on this project! *(Hands Developer 1 a piece of paper.)* Here is my proposal for this project. I looked through the planning code, took a look at the site, and put together a staff and sub-consultant team that can really make a great project! *(Exits.)*

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

Who is in this scene?

Characters

Script

General Contractor:	I also hope I get to be the general contractor on this project! I looked at the current construction costs—which are really high! Materials, labor, and equipment are scarce right now. Given that, here is my proposal for how much it will take to build the building.
	(Hands Developer 1 a piece of paper. Exits.)
Developer 1:	When I add up the soft costs from the architect and the hard costs from the general contractor, I get $100,000 to construct each unit.
Developer 2:	Multiply that by 12 units, and the whole project will cost about $1,200,000 to build. Based on the rent, our gross income is $144,000.
Developer 1:	About 35% of our income has to go to maintaining the building, taxes, and other expenses. That's $50,400.
Developer 2:	Taking the income, subtracting the expenses means that our net operating income is $93,600.
Developer 1:	We have to pay off our debt to the bank at 4.5%. So that's $37,800.
Developer 2:	Which means our total cash flow is $55,800. I think that is enough to persuade investors and lenders to work with us. Let's raise $1,200,000!

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

END OF SCENE 3

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

Who is in this scene?

Characters

Script

Bank Loan Officer: Welcome to San Francisco Bank! I'm a loan officer. What can I help you with today?

Developer 1: We have a proposal to construct a new apartment building.

Developer 2: We need a total of $1,200,000. We would like 70% of that to be loaned from San Francisco Bank.

Bank Loan Officer: A $840,000 loan? Let me do some calculations.

(Pauses. Clicks away at a computer or calculator.)

Everything works out. You are experienced and this project seems solid. You are approved!

(Developer 1 and Developer 2 high-five each other.)

Developer 2: What will be our interest rate?

Bank Loan Officer: We'll lend you $840,000 at an interest rate of 4.5%.

Developer 1: Perfect! Now we just need to raise $360,000 from equity investors.

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

END OF SCENE 4

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

Who is in this scene?

Characters

Script

Developer 2:	Why are we here to meet with your Uncle?
Developer 1:	We need an equity investor for our project.
Developer 2:	What is an equity investor?
Developer 1:	Well an equity investor is someone who has access to cash. The person will invest money into the project hoping to make a return on that money.
Developer 2:	And what if your numbers don't pan out like you predict?
Developer 1:	Well, in that case, the equity investors lose money—or at least don't make as much as we hoped.

(Uncle Steve Enters.)

Developer 1:	Hi Uncle Steve! Thanks for meeting with me.
Uncle Steve:	I am happy to meet with you. But I looked at the numbers here and I don't see that I'll be getting much return on any investment I make.
Developer 1:	What do you mean?
Uncle Steve:	Well, I want at least a 7% return on my investment over ten years. Looking at your pro forma, there isn't enough cash flow to sustain that return.
Developer 1:	Oh, I see. That would be $60,958 a year to you. And we had planned for a total cash flow of $55,800.
Uncle Steve:	Yes, so you come up short $5,158.

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

City & County of San Francisco
Edwin M. Lee, Mayor

SAN FRANCISCO

San Francisco Planning

EXCELSIOR OUTER MISSION
NEIGHBORHOOD STRATEGY

Who is in this scene?

Characters

Script

Developer 2:	Oh and that means we can't pay you back and we can't pay ourselves.
Uncle Steve:	I could consider lowering my rate of return, but in exchange for greater ownership stake in the property. So that when you sell it, I get 50% of the profits.
Developer 1:	Thanks for hearing us out. We'll take another look at our numbers and consider your offer. We'll be back again soon!

NOTES | Want to share a thought? Have a question about something? Jot it down and let's discuss it after the role play ends!

END OF SCENE 5

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

Pro-forma	
# of Units	**12**
Below Market Rate	1
Two-bedroom Units	2
Three-bedroom Units	1
Maximum height	**45 feet**
# of Stories	**Maximum 4**
Rent per sq ft	**$1.00**
Cost per unit	**$100,000**
Land cost	
Planning Permits	
Finance costs	
General Contractor	
Architect	
Total project cost	**$1,200,000**
Gross Income (GI)	**$144,000**
Expenses (35% of GI)	**$50,400**
Net operating income	**$93,600**
Debt Service (4.5%)	**$37,800**
Cash to Equity Investors (7%)	**$60,958**
Total Cash Flow per year	**$-5,158**
Debt (70%)	**$840,000**
Equity contribution (30%)	**$360,000**

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.

CREDITS FOR ICONS USED IN THIS DOCUMENT

All icons used in this document are courtesy of the Noun Project (https://thenounproject.com/).

Landan Lloyd

anbileru adaleru

Made by Made

Ralf Schmitzer

Made by Made

(original) *(modified)* b farias   *(Note: the icon has been modified for the purposes of this document.)*

Vectors Market

retinaicon

iconsphere

Mint Shirt

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.