



Cleveland
Neighborhood
Progress



REAL ESTATE 101

Session 4 Finance, Leverage & Return on Investment

REAL ESTATE LITERACY

**MID
TOWN**

Real Estate 104

JULY 15 | 6-7:30 PM

FREE VIRTUAL COURSE FOCUSED ON
FINANCING AND RISK ASSESSMENT. LED BY
RICHARD BARGA, MIDTOWN CLEVELAND AND
MICHAEL ELLIOTT, CLEVELAND NEIGHBORHOOD PROGRESS

**REGISTER NOW:
[BIT.LY/REALESTATE104](https://bit.ly/REALESTATE104)**

Real Estate 101

Q: What do you guys want to know?

1. Intro

- Why Real Estate?
- Players
- How do we play a role?

2. The Development Process

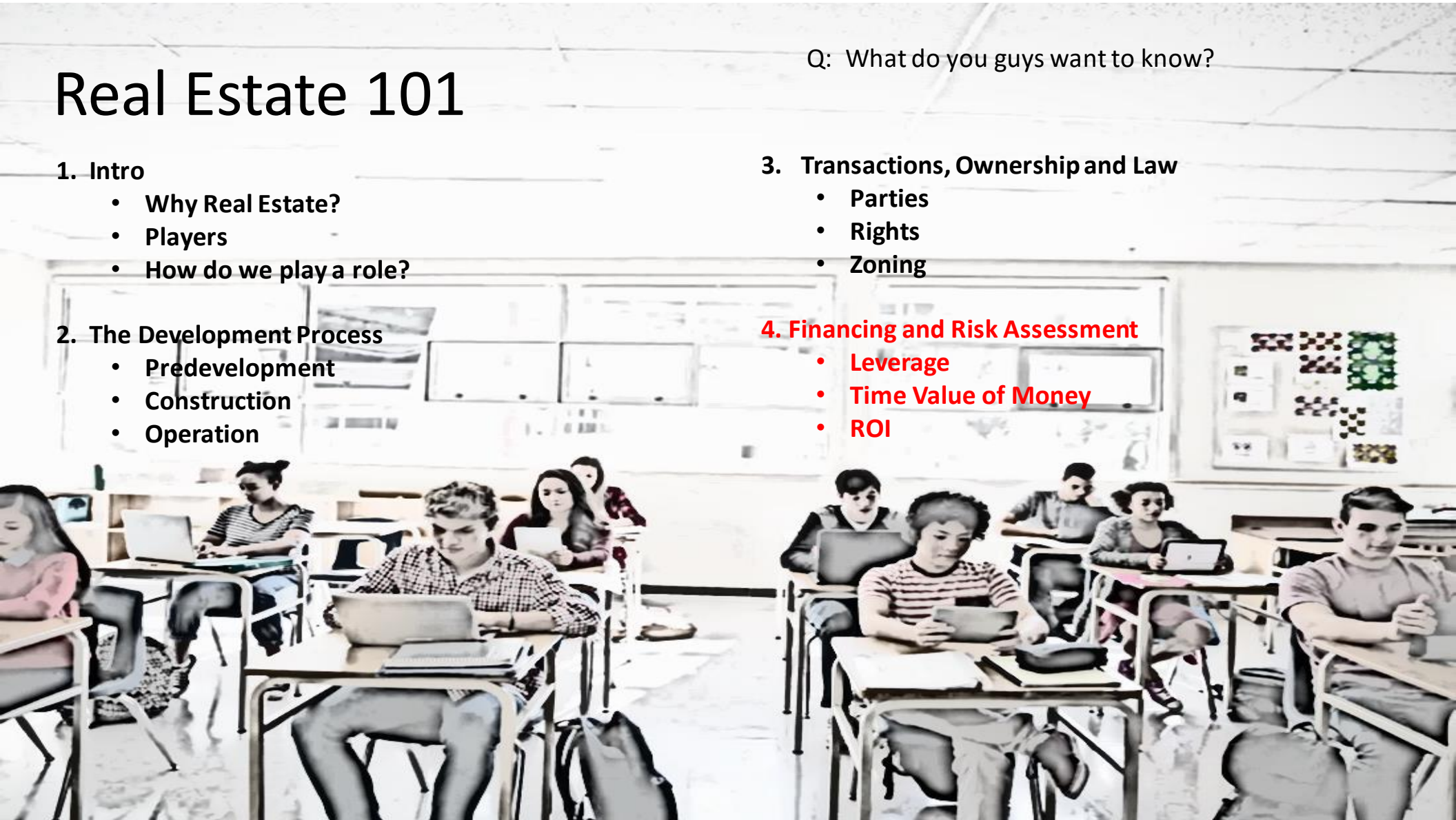
- Predevelopment
- Construction
- Operation

3. Transactions, Ownership and Law

- Parties
- Rights
- Zoning

4. Financing and Risk Assessment

- Leverage
- Time Value of Money
- ROI



Recap Session 1 - Intro

What is Real Estate

- Community development tool
- Financial asset

The Key Players In Real Estate – Who Does What?



Session 2 Recap

The Development Process

Real estate requires a huge array of capabilities including people skills, financial acumen, negotiating ability, and technical knowledge. Understanding what is needed during each stage is important. Further, knowing your own abilities and limitations, and when to bring on external help will be critical to your success.

STAGES OF DEVELOPMENT

1. PREDEVELOPMENT – Resolve uncertainty!!!

- Entitlements are negotiated
- Design iterations completed
- Cost effective construction solutions are evaluated
- Market analysis is finalized
- Financial resources are committed and acquired
- Finalizing the public review process
- Tenant negotiations

2. CONSTRUCTION

3. LEASEUP & OPERATION - (Stabilization @ 80% for 1 year)

- Ongoing marketing and leasing
- Property management
- Achieving stabilization



Session 3 – Recap

Contractual obligations

Elements of a contract

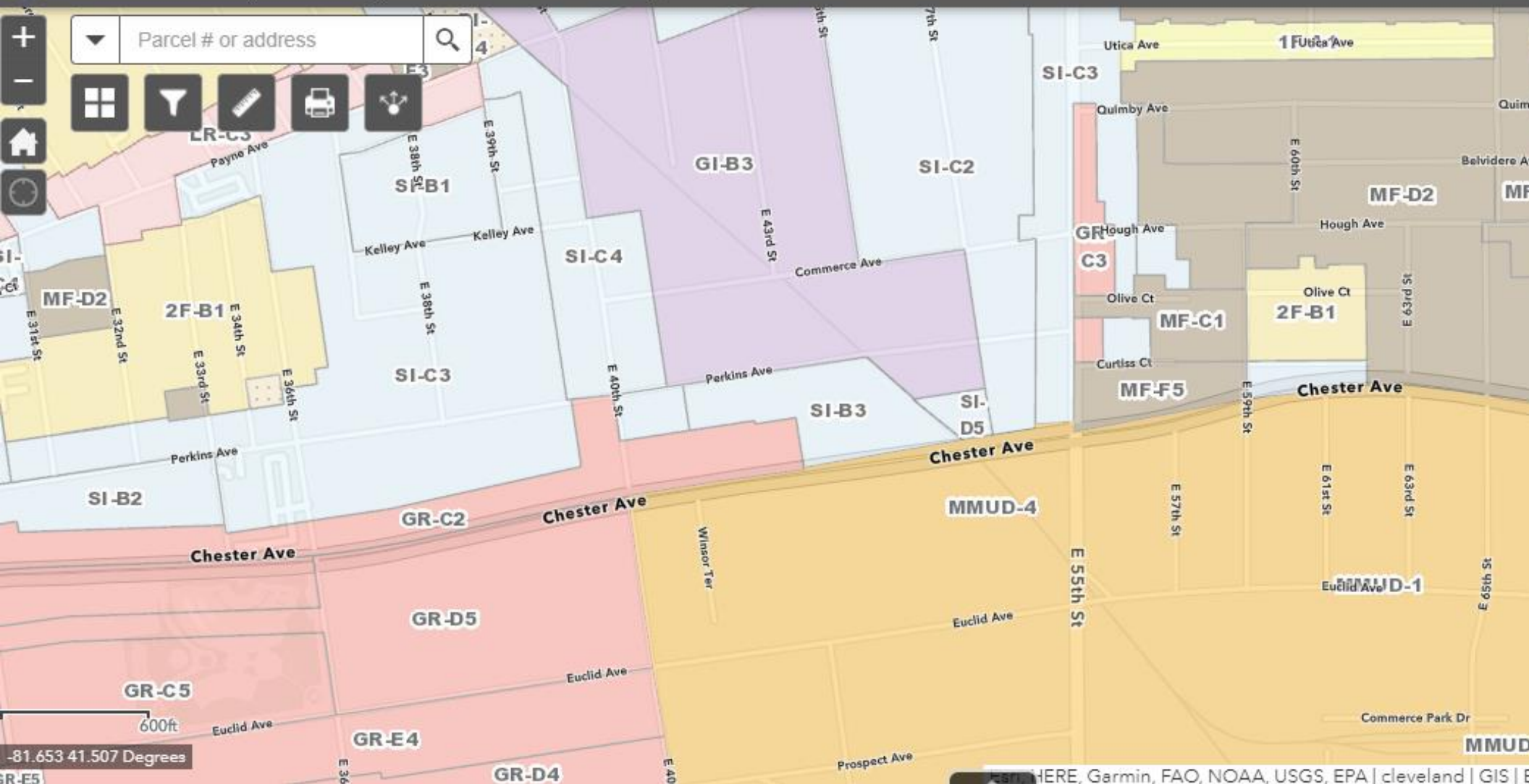
1. Agreement
2. Consideration
3. Intention to enter into legal relations



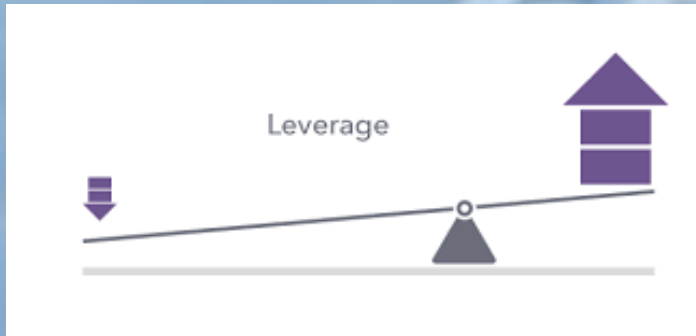
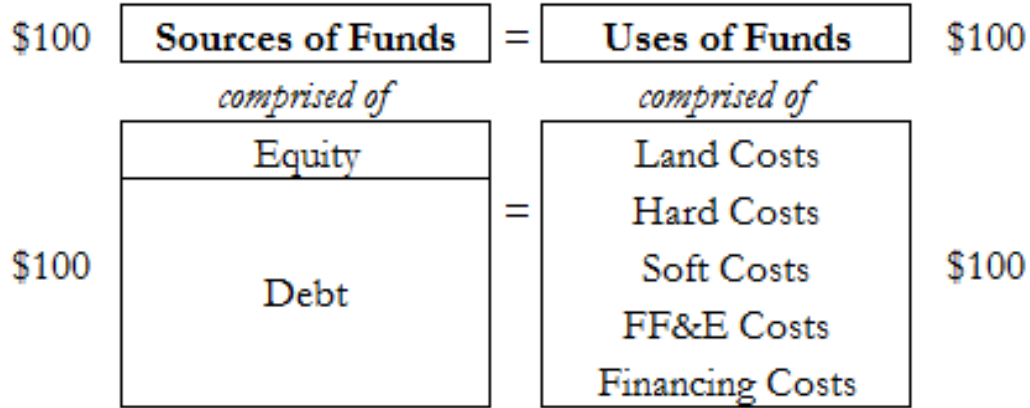


Cleveland City Planning Commission Zoning Viewer

Cleveland | GIS



REAL ESTATE FINANCE



PROFORMA Crossroads of Janesville (104,337 SF)										
Jump To: 1	1	2	3	4	5	6	7	8	9	10
End of Year	10/30/2012	10/30/2013	10/30/2014	10/30/2015	10/30/2016	10/30/2017	10/30/2018	10/30/2019	10/30/2020	10/30/2021
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Leasing Commissions	(\$128,977)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,950,000
CASH FLOW BEFORE TAX	\$16,871	\$147,700	\$148,663	\$149,663	\$150,663	\$203,495	\$204,532	\$206,677	\$207,787	\$7,448,550



\$100

Sources of Funds

=

Uses of Funds

\$100

comprised of

comprised of

Equity

=

Land Costs

Hard Costs

Soft Costs

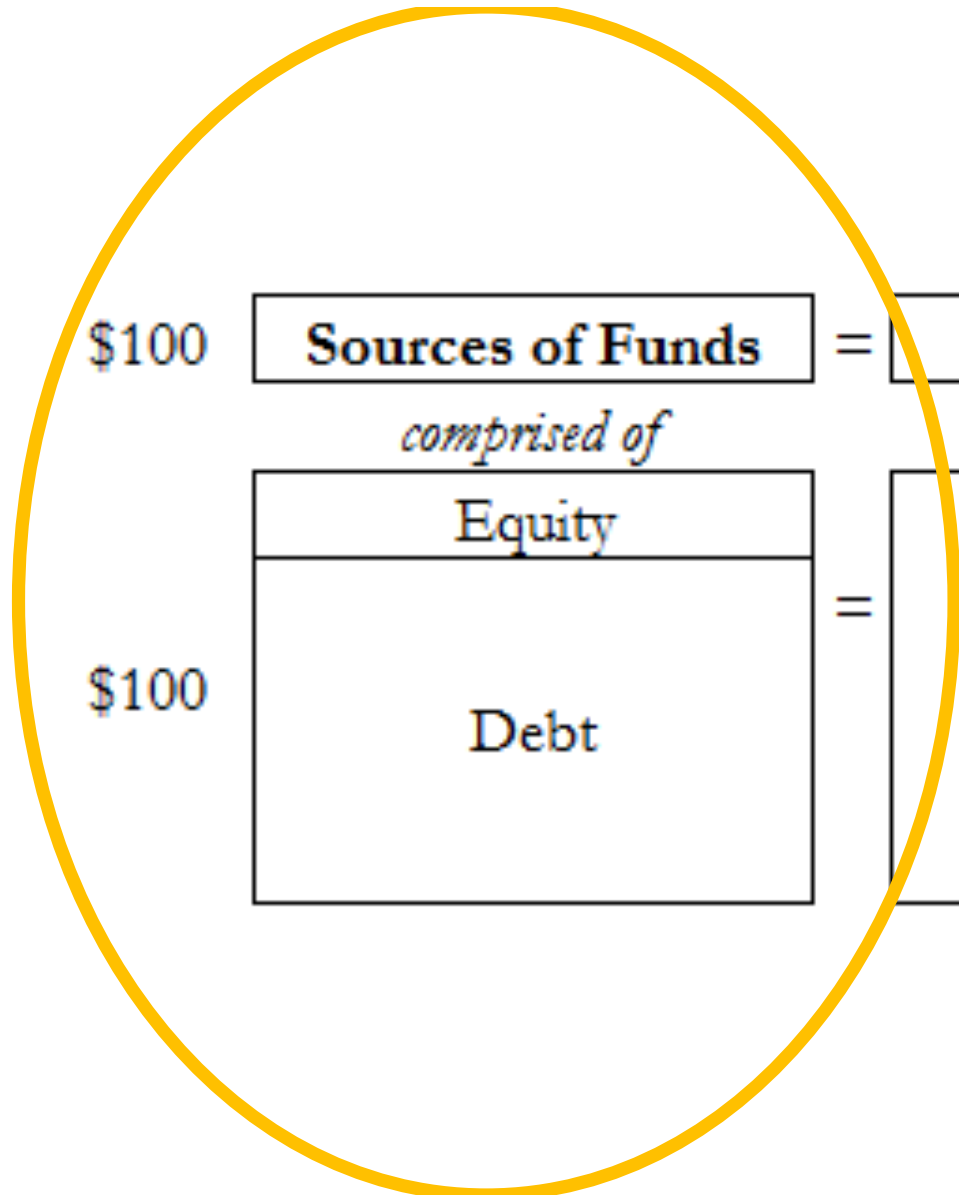
FF&E Costs

Financing Costs

\$100

Debt

\$100



Equity.....Which one?!?!

- **Racial Equity** is about applying justice and a little bit of common sense to a system that's been out of balance
- **Equity** in real estate means is the difference between what you owe on your mortgage and what your home is currently worth

Today, we are going to focus on....





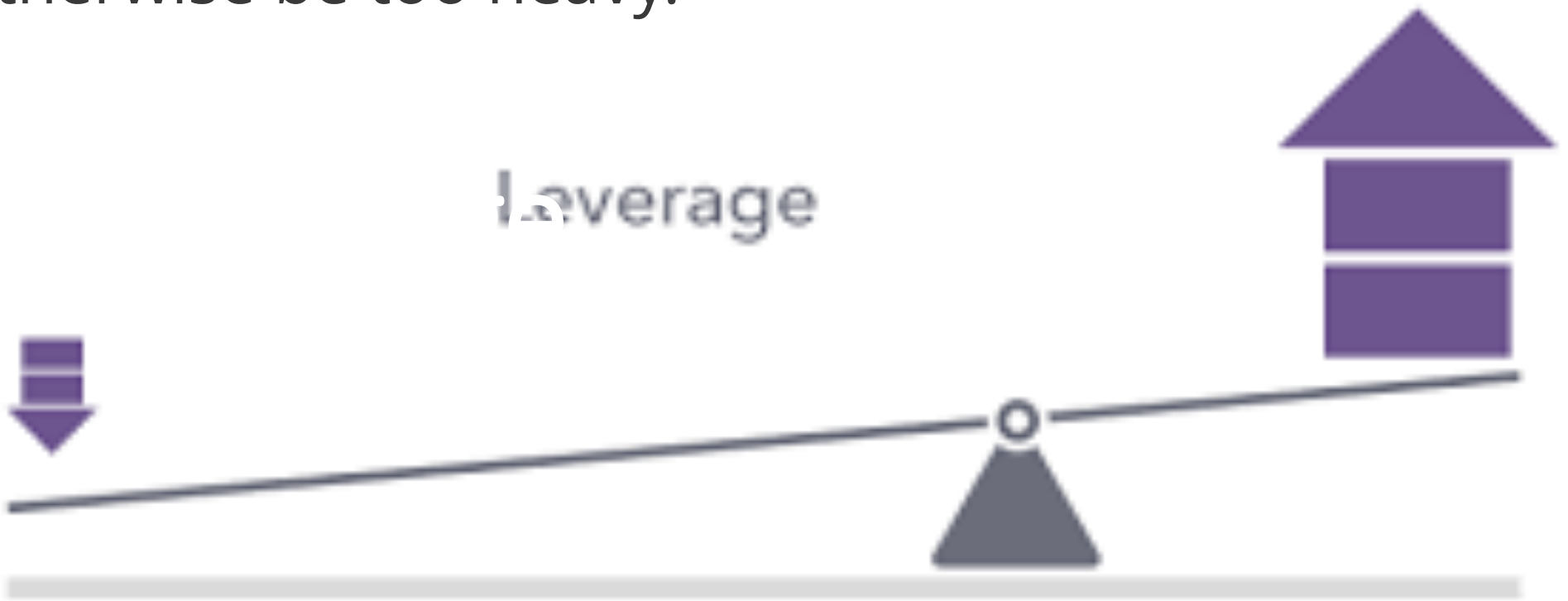
Equity (finance definition)

- **Cash** - Money/Cash you are injecting into your project
- **Sweat** - a person or company's contribution toward a project, generally not monetary and, in most cases, comes in the form of physical labor, mental effort, and time

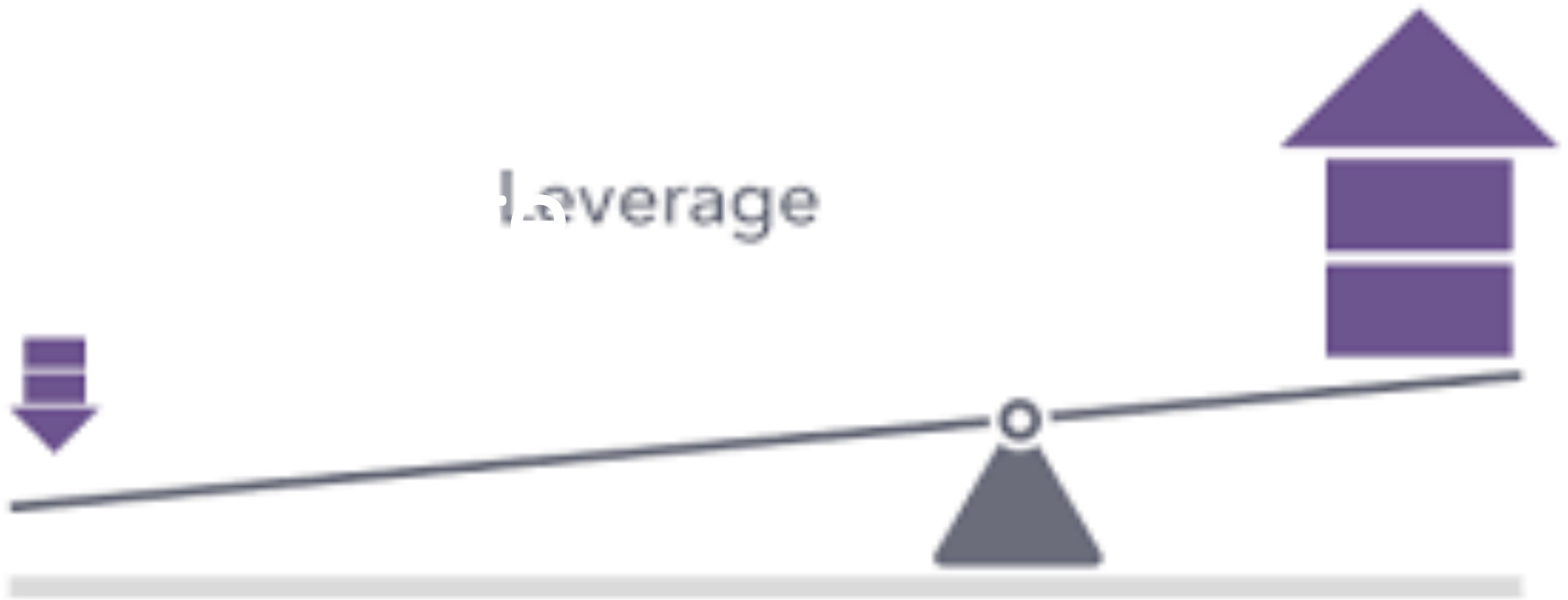
Debt - amount of money borrowed by one party from another



Leverage is a physics term that refers to the ability to use something to move an object that would otherwise be too heavy.



In real estate, Leverage uses borrowed capital or *debt* to increase the potential return of an investment.





Why Do Developers Use Leverage?

1. Allows developer to not have to use all of their money to purchase the property/building
2. Leveraging allows you as an developer to keep more money in your pocket
3. Mitigate risk



Which is it?

Elements of Debt

- A. Obligated to pay back with a predetermined set of payments
- B. Secured by collateral
- C. Legal document typically contracting real estate debt is called a mortgage

the periodic table of elements

Debt is an instrument that the borrower is obliged to pay back with a predetermined set of payments.

Loan Amount – Amount being borrowed

Interest Rate - Amount a lender charges for the use of assets expressed as a percentage of the principal.

Term - Length of time it will take for a loan to be completely paid off when the borrower is making regular payments.

Payment – Amount of money being paid back in installments.



Interest Rates	7.25% - 9.75%
Loan Amounts	Up to \$5M
Repayment Terms	Up to 10 years for working capital loans Up to 20 years for commercial real estate loans
Requirements	Credit Score: 680+ Down payment: 10% - 20% Some collateral (fully collateralized is not required)
Use of Funds	Working capital Equipment purchases Debt refinancing Buy a business Buy commercial real estate Leasehold improvements

Residential vs. Commercial Real Estate

Residential

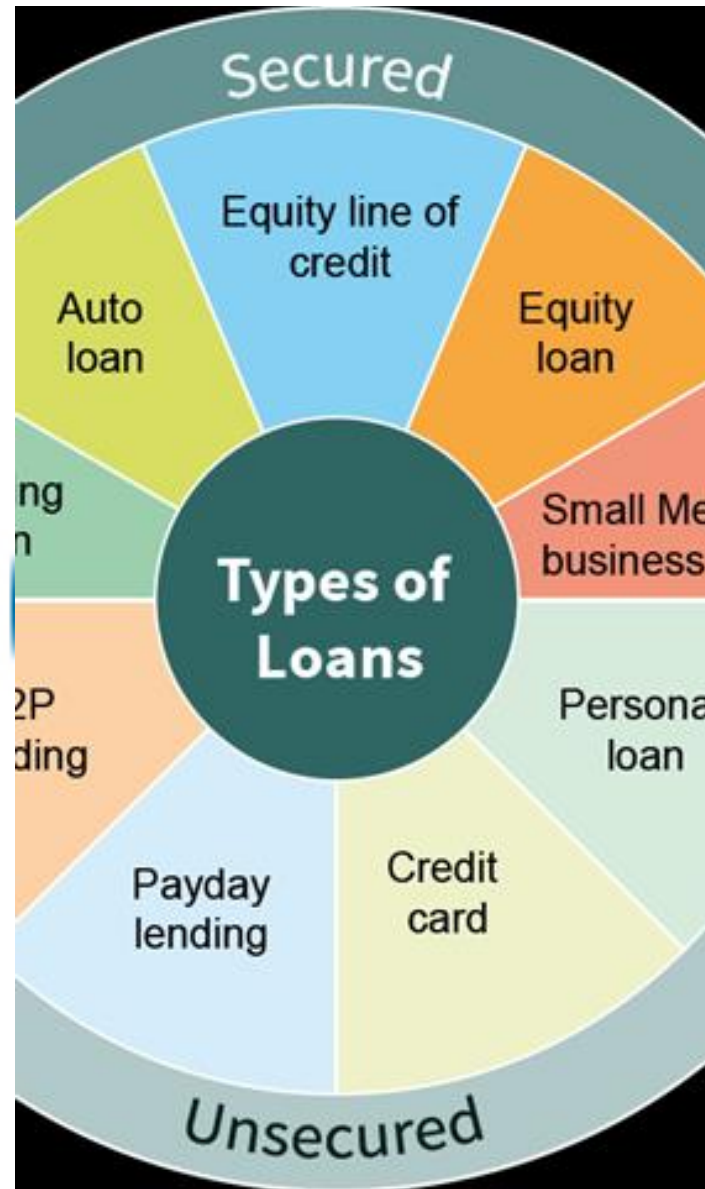
- Residential mortgages are typically made to individual borrowers.
- Residential mortgages are an amortized loan in which the debt is repaid in regular installments over a period of time. The most popular residential mortgage product is the 30-year fixed-rate mortgage.
- High loan-to-value ratios—even up to 100%—are allowed for certain residential mortgages, such as USDA or VA loans.

Commercial

- Commercial real estate loans are usually made to business entities (corporations, developers, limited partnerships, funds and trusts).
- Commercial loans typically range from five years or less to 20 years, with the amortization period often longer than the term of the loan.
- Commercial loan loan-to-value ratios generally fall into the 65% to 80% range.



MORTGAGE LENDERS



MORTGAGE IS BEST FOR ME?



CONVENTIONAL MORTGAGE OPTIONS

FIXED-RATE MORTGAGE

Lock in a mortgage rate that stays the same for the duration of your loan.

- ✓ **PRO:** Predictability in your monthly expenses.
- ✓ **PRO:** Easier to comparison shop for fixed-rate mortgages.
- ✗ **CON:** The longer the mortgage, the more interest you pay.
- ✗ **CON:** To take advantage of falling interest rates, you'll need to refinance your loan.

OR

ADJUSTABLE-RATE MORTGAGE

Pay a below market interest rate for an introductory period, after which your interest rate adjusts at agreed upon increments (monthly, yearly).

- ✓ **PRO:** Lower interest rate to start your loan.
- ✓ **PRO:** Introductory rate is set below market rate.
- ✗ **CON:** Monthly payments can change frequently.
- ✗ **CON:** If held long enough, rates may surpass those for fixed-rate loans.

NON-TRADITIONAL MORTGAGE OPTIONS

BALLOON MORTGAGE

Loan has a fixed interest rate for an initial period, after which you must repay the entire loan balance in one lump sum.

- ✓ **PRO:** A fixed-rate loan with lower payments during an initial period.
- ✓ **PRO:** Option of refinancing your mortgage to more traditional terms at the end of the initial period.

OR

INTEREST ONLY MORTGAGE

Repay just the interest on your loan for an introductory period, after which you can repay the balance of your loan with a one-time payment or begin to pay both interest and principal.

- ✓ **PRO:** Lower monthly payments during introductory period.
- ✓ **PRO:** Gives borrowers more time to save before having to pay down the

Let's do an example



Kids want to start a lemonade stand but they need to borrow \$10 from their parents to buy the lemons and cups. The parents want to teach the kids about borrowing money. The parents are going to charge 2.5% interest on the requested amount and ask that the kids pay it back monthly over the next four years.

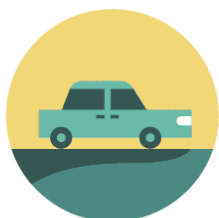
	Amount	10			
	Rate	2.50%		PMT	\$2.66
	Period	4			
Period	Starting	Payment	Interest	Principle	Ending payment
1	\$ 10.00	\$ 2.66	\$ 0.25	\$ 2.41	\$ 7.59
2	\$ 7.59	\$ 2.66	\$ 0.19	\$ 2.47	\$ 5.12
3	\$ 5.12	\$ 2.66	\$ 0.13	\$ 2.53	\$ 2.59
4	\$ 2.59	\$ 2.66	\$ 0.06	\$ 2.59	\$ -

Debt is secured by collateral.

Collateral LOANS

Collateral is often required when the lender wants some assurance that they won't lose all of their money. If you pledge an asset as collateral, your lender has the right to take action.

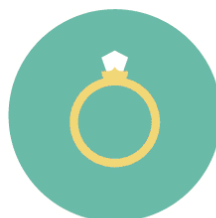
TYPES OF COLLATERAL



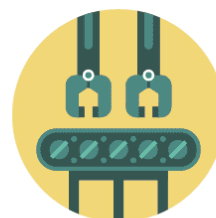
Automobiles



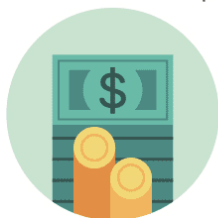
Real estate (including equity in your home)



Valuables and collectibles



Machinery and equipment



Investments



Insurance policies



Cash accounts

REAL ESTATE MORTGAGE

KNOW ALL MEN BY THESE PRESENTS:

This Real Estate Mortgage made and executed by and between:

_____, of legal age, Filipino, single / married to _____, with residence at _____, and hereinafter referred to as the "**MORTGAGOR**",

-and-

_____, of legal age, Filipino, single / married to _____, with residence at _____, and hereinafter referred to as the "**MORTGAGEE**".

WITNESSETH: That –

WHEREAS, the MORTGAGOR is the absolute and registered owner of a parcel of land situated at _____, covered by Transfer Certificate of Title No. _____ of the Registry of Deeds for _____;

WHEREAS, the MORTGAGOR is indebted to the MORTGAGEE in the principal sum of _____ (Php _____), Philippine currency, under and by virtue of a Promissory Note ("Note") attached herewith and made an integral part hereof as Annex "A";

WHEREAS, the MORTGAGOR has agreed to secure the payment of the Note to the MORTGAGEE by means of a good and valid mortgage upon the property herein described below;

NOW, THEREFORE, for and in consideration of the foregoing premises and as security for payment of the aforesaid obligation, the MORTGAGOR has transferred and conveyed, and by these presents transfer and convey by way of MORTGAGE, unto the MORTGAGEE, his/her heirs, successors or assigns the aforesaid parcel of land [*with/without improvements*] situated at _____, and more particularly described as follows:

TRANSFER CERTIFICATE OF TITLE NO. _____
Registry of Deeds for _____



Pop Quiz – Question #1

*A. What % of
homes in the US
used debt to
finance the
purchase?*



Important Note About Who Should Hold the Property

Question: Should I hold property personally or create a separate entity (LLC)?

- Protect yourself from personal liability
- Tax Benefits
- Property Transferring
- Business Like Appearance
- Anonymous

END OF ACT 1
INTERMISSION



Pop Quiz – Question #2

*A. How do you
generate income
in real estate?*

How do you make \$\$ in real estate?

As an owner, you can

- Sell your property
- ***Lease your property***

Additionally, real estate investors make money through

- ***Rental income***
- Appreciation
- Profits generated by business activities



The benefits of investing in real estate include

- ***passive income***
- ***stable cash flow***
- tax advantages
- leverage

PROFORMA Crossroads of Janesville (104,337 SF)

Jump To: 1 ◀ ▶	1	2	3	4	5	6	7	8	9	10
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Utilities	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
CAM	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)
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PROFORMA

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CAM	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)
Total Expenses	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)
NET OPERATING INCOME	\$752,307	\$754,159	\$755,122	\$756,122	\$757,122	\$809,954	\$810,991	\$813,137	\$814,247	\$815,375
BB&T	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$5,316,825)
Leasing Commissions	(\$128,977)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,950,000
CASH FLOW BEFORE TAX	\$16,871	\$147,700	\$148,663	\$149,663	\$150,663	\$203,495	\$204,532	\$206,677	\$207,787	\$7,448,550


Rent Roll

All Properties

8957 Broadway Park Avenue

Address	Tenant	Work	Mrkt Rent	Rec. Chrg.	Move In	Start	End	Unit Type	
Lot 1	Jackson, Tom	(789) 654-2154 X	250.00	250.00	01/01/08	01/01/08	01/01/09	Wooded Lot	
Lot 2	Parkson, Amy	(663) 528-5471 X	250.00	250.00	01/01/08	01/01/08	01/01/09	Private Lot	
Lot 3	Gibbs, Lisa	(853) 654-0223 X	850.00	850.00	10/15/07	10/15/07	10/15/08	Wooded Lot	
Lot 4	Peterson, James	(921) 320-6574 X	850.00	850.00	09/01/07	09/01/07	09/01/08	Private Lot	
Lot 5	Grant, Pamela	(937) 856-9874 X	250.00	250.00	12/01/07	12/01/07	12/01/08	Wooded Lot	
Lot 6	Davidson, Kyle	(321) 856-8766 X	250.00	325.00	11/01/06	11/01/06	11/01/07	Wooded Lot	
Lot 7	Janssen, Lawrence	(687) 326-9544 X	250.00	250.00	10/01/07	10/01/07	10/01/08	Wooded Lot	
Lot 8	Delgado, Maria	(635) 874-3653 X	250.00	325.00	10/01/07	10/01/07	10/01/08	Wooded Lot	
Lot 9	Jennings, Jim	(663) 523-6586 X	300.00	300.00	01/09/08	01/09/08	01/09/09	Wooded Lot	
Lot10	Kinder, Sandy	(636) 525-8541 X	300.00	250.00	01/01/08	01/01/08	01/01/09	Wooded Lot	
Total For: 8957 Broadway Park Avenue			\$3,800.00	\$3,900.00					
Total For: All Properties			\$3,800.00	\$3,900.00					

Monthly Operating Income		Scenario A	Scenario B
Number of Units		1	4
Average Monthly Rent per Unit		1,200.00	400.00
Total Rental Income		1,200.00	1,600.00
% Vacancy and Credit Losses		0.00%	25.00%
Total Vacancy Loss		-	400.00
Other Monthly Income (laundry, vending, parking, etc.)		-	
Gross Monthly Operating Income		1,200.00	1,200.00

Jump To: 1 ▾ 	1	2	3	4	5	6	7	8	9	10
End of Year	10/30/2012	10/30/2013	10/30/2014	10/30/2015	10/30/2016	10/30/2017	10/30/2018	10/30/2019	10/30/2020	10/30/2021
Anytime Fitness	\$50,325	\$52,338	\$53,385	\$54,472	\$55,559	\$56,686	\$57,813	\$60,145	\$61,352	\$62,579
Dollar Tree	\$134,320	\$134,320	\$134,320	\$134,320	\$134,320	\$140,160	\$140,160	\$140,160	\$140,160	\$140,160
Hobby Lobby	\$421,950	\$421,950	\$421,950	\$421,950	\$421,950	\$436,500	\$436,500	\$436,500	\$436,500	\$436,500
Slumberland	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$275,909	\$275,909	\$275,909	\$275,909	\$275,909
POTENTIAL RENTAL INCOME	\$846,595	\$848,608	\$849,655	\$850,742	\$851,829	\$909,255	\$910,382	\$912,714	\$913,920	\$915,147
Anytime Fitness Reimbursements	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811
Dollar Tree Reimbursements	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166
Hobby Lobby Reimbursements	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192
Slumberland Reimbursements	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831
TOTAL POTENTIAL RENTAL INCOME	\$1,178,595	\$1,180,608	\$1,181,655	\$1,182,742	\$1,183,829	\$1,241,255	\$1,242,382	\$1,244,714	\$1,245,920	\$1,247,147
General Vacancy	(\$94,288)	(\$94,449)	(\$94,532)	(\$94,619)	(\$94,706)	(\$99,300)	(\$99,391)	(\$99,577)	(\$99,674)	(\$99,772)
EFFECTIVE RENTAL INCOME	\$1,084,307	\$1,086,159	\$1,087,122	\$1,088,122	\$1,089,122	\$1,141,954	\$1,142,991	\$1,145,137	\$1,146,247	\$1,147,375
Property Taxes	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)
Insurance	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)
Utilities	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
CAM	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)
Total Expenses	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)
NET OPERATING INCOME	\$752,307	\$754,159	\$755,122	\$756,122	\$757,122	\$809,954	\$810,991	\$813,137	\$814,247	\$815,375
BB&T	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$5,316,825)
Leasing Commissions	(\$128,977)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,950,000
CASH FLOW BEFORE TAX	\$16,871	\$147,700	\$148,663	\$149,663	\$150,663	\$203,495	\$204,532	\$206,677	\$207,787	\$7,448,550

Expenses

Monthly Operating Expenses	
Property Management Fees	
Repairs and Maintenance	33.33
Real Estate Taxes	187.50
Rental Property Insurance	50.00
Homeowners/Property Association Fees	
Replacement Reserve	50.00
Utilities	
Pest Control	
Accounting and Legal	
Monthly Operating Expenses	
	320.83

PROFORMA

Jump To: 1 ◀ ▶	1	2	3	4	5	6	7	8	9	10
End of Year	10/30/2012	10/30/2013	10/30/2014	10/30/2015	10/30/2016	10/30/2017	10/30/2018	10/30/2019	10/30/2020	10/30/2021
Anytime Fitness	\$50,325	\$52,338	\$53,385	\$54,472	\$55,559	\$56,686	\$57,813	\$60,145	\$61,352	\$62,579
Dollar Tree	\$134,320	\$134,320	\$134,320	\$134,320	\$134,320	\$140,160	\$140,160	\$140,160	\$140,160	\$140,160
Hobby Lobby	\$421,950	\$421,950	\$421,950	\$421,950	\$421,950	\$436,500	\$436,500	\$436,500	\$436,500	\$436,500
Slumberland	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000	\$275,909	\$275,909	\$275,909	\$275,909	\$275,909
POTENTIAL RENTAL INCOME	\$846,595	\$848,608	\$849,655	\$850,742	\$851,829	\$909,255	\$910,382	\$912,714	\$913,920	\$915,147
Anytime Fitness Reimbursements	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811	\$12,811
Dollar Tree Reimbursements	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166	\$37,166
Hobby Lobby Reimbursements	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192	\$185,192
Slumberland Reimbursements	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831	\$96,831
TOTAL POTENTIAL RENTAL INCOME	\$1,178,595	\$1,180,608	\$1,181,655	\$1,182,742	\$1,183,829	\$1,241,255	\$1,242,382	\$1,244,714	\$1,245,920	\$1,247,147
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Property Taxes	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)
Insurance	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)
Utilities	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
CAM	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)
Total Expenses	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)	(\$332,000)
NET OPERATING INCOME	\$752,307	\$754,159	\$755,122	\$756,122	\$757,122	\$809,954	\$810,991	\$813,137	\$814,247	\$815,375
DEBT	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)	(\$606,460)
Leasing Commissions	(\$128,977)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,950,000
CASH FLOW BEFORE TAX	\$16,871	\$147,700	\$148,663	\$149,663	\$150,663	\$203,495	\$204,532	\$206,677	\$207,787	\$7,448,550

Here is an outline of a single year financial analysis

- | | |
|----|--|
| A. | Gross Potential Income |
| B. | - Vacancy |
| C. | Effective Gross Income |
| D. | - Operating Expenses (RE Tax, Insurance, Maintenance, Utilities, Reserves) |
| E. | + Reimbursed Expenses (Commercial only, not residential) |
| F. | Net Operating Income (NOI) |

[illegible]

A.	Gross Potential Income
B.	- Vacancy
C.	Effective Gross Income
D.	- Operating Expenses (RE Tax, Insurance, Maintenance, Utilities, Reserves)
E.	+ Reimbursed Expenses (Commercial only, not residential)
F.	Net Operating Income (NOI)
G.	- Capital and Leasing Costs
H.	Cash Flow (before Financing)
I.	- Debt Service
J.	Cash Flow (after Financing)

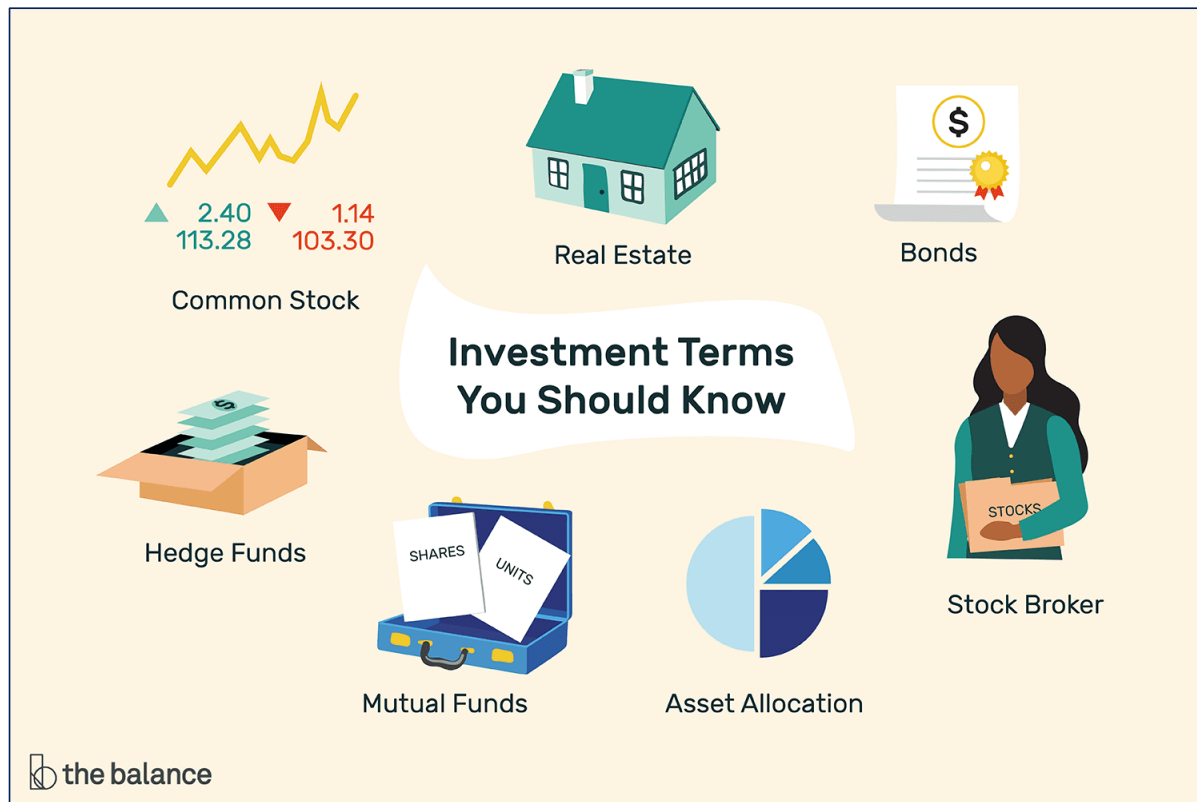
	1	2	3	4	5	6	7	8	9	10	11	12
INCOME	\$ 7	\$ 8	\$ 6	\$ 9	\$ 7	\$ 7	\$ 6	\$ 7	\$ 8	\$ 9	\$ 9	\$ 9
EXPENSES	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
NOI	\$ 3	\$ 4	\$ 2	\$ 5	\$ 3	\$ 2	\$ 1	\$ 2	\$ 3	\$ 4	\$ 4	\$ 4
Capital Costs	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1
Debt Service	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5
Cash Flow	\$ 0.50	\$ 2.50	\$ 0.50	\$ 3.50	\$ 1.50	\$ (0.50)	\$ (0.50)	\$ 0.50	\$ 1.50	\$ 2.50	\$ 2.50	\$ 1.50

END OF ACT 2
INTERMISSION



RETURN
ON
INVESTMENT

Make no mistake - Real Estate is an investment vehicle



- Why invest?
- **Investing** is an effective way to put your money to work and potentially build wealth.
- With well-chosen assets, investors can enjoy predictable cash flow, excellent returns, tax advantages, and diversification—and it's ***possible*** to leverage real estate to build wealth

	0	1	2	3	4	5
Cash Flow	\$ (12.00)	\$ 0.50	\$ 2.50	\$ 0.50	\$ 3.50	\$ 1.50

[illegible]

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Cash Outflow	(\$100,000)						(\$100,000)
Cash Inflow	\$0	\$5,000	\$5,000	\$5,000	\$5,000	\$105,000	\$125,000
Net Cash Flow	(\$100,000)	\$5,000	\$5,000	\$5,000	\$5,000	\$105,000	\$25,000
IRR	5.00%						



MARKET BASED



PLACE BASED

RE benefits – what do WE (MTC) see?

- Social networks
- Health benefits
- Walkable communities
- Safer neighborhoods
- Sustainability practices
- Transit Oriented Development
- Parks/Public Space



Think about it from a developer's perspective

12%



- Suburban shopping mall

7%



- Redevelopment of vacant lot
- Provides Housing
- Supports public transit
- Community supported project



How do you **JUICE** an ROI?

- Lower upfront costs
- Better debt terms
- Minimize operating expenses
- Increase rents, add units, charge additional fees
- Look for public subsidy!!



LOAN COMPARISON CHART

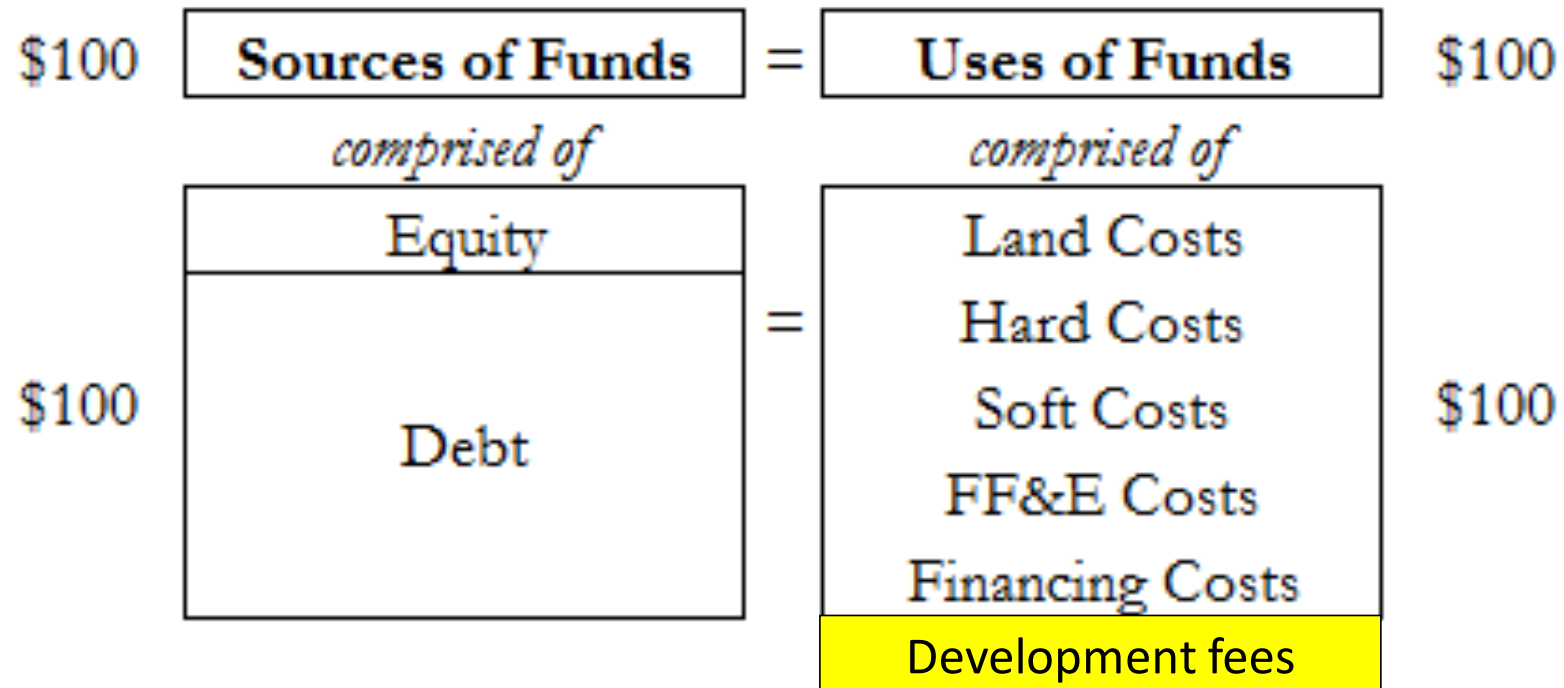
Criteria	Vacant Property Initiative	Neighborhood Retail Assistance Program	Working Capital Loan Program	Equipment Loan Program	Mayor's Neighborhood Transformation Initiative Loan Programs	Municipal Small Business Initiative	Tech Delta Program	Job Creation Incentive Grant Program
Program Overview	VPI is specifically designed to overcome barriers in the full reuse of abandoned, idled or underutilized commercial and industrial properties within the City of Cleveland.	NRAP provides financial assistance to small retail businesses, merchants, and locally owned restaurants in the City of Cleveland.	The Working Capital Loan Program provides financial assistance to small-medium businesses looking to expand in the City of Cleveland.	The Equipment Loan Program provides financial assistance to small-medium businesses looking to expand in the City of Cleveland.	NTI Loans provide financial assistance to businesses and landlords located in one of the targeted neighborhoods. These programs aim to fill vacancy and reactivate commercial corridors.	MSBI is a partnership with Cuyahoga County and the Small Business Administration to support small businesses growth with financing to create jobs.	TDP provides financial assistance to tech and medical companies relocating to or expanding within the City.	JCIP is designed to attract new businesses to the City of Cleveland.
Eligibility	Commercial, industrial buildings must be at least 20 years old and 40% or more vacant for at least 2 years.	Retail businesses, merchants, and restaurants. Private developers with retail, restaurant or mixed-use projects	Manufacturing, technology related, commercial, service, green/sustainable industry, or a grocery store.	Manufacturing, technology related, commercial, service, green/sustainable industry, or a grocery store.	Businesses and landlords located in: Glenville Circle North, Buckeye-Woodhill, E. 79 th Street (between Central Ave and Kinsman Rd), and Clark-Metro	Participant must obtain approval for an SBA backed loan	For-profit entities moving to/expanding in Cleveland that are creating at least five (5) new, full-time jobs in the City.	New businesses creating five or more new jobs in the City of Cleveland within the first year or for existing businesses with substantial job creation.
Max Assistance	Projects < \$2M: loan size up to up to 25% of total project costs. Must create 1 permanent full time job for every \$10,000 of City funds. Projects > \$2M Loan size, up to \$720,000. Must create at least 25 new permanent full time jobs.	Maximum City assistance is \$50,000	Maximum City assistance is \$200,000 and 33.3% of total project cost	Maximum City assistance is \$500,000 and 33.3% of total project cost	Up to \$100,000	Up to \$50,000 (Recoverable Grant) or 15% of total project cost	\$5 a square foot, up to \$50,000.	Grant up to 0.5% of new payroll to the City for up to 3 years
Use Of Proceeds	<ul style="list-style-type: none"> Property Acquisition Environmental site assessments and remediation costs Site clearance and demolition "As is" and "As Completed" property appraisals New construction Renovation 	<ul style="list-style-type: none"> Exterior and interior improvements Storefront renovation Exterior lighting Landscaping/bike racks Fencing and signage Equipment, furniture, & fixtures Public Art 	<ul style="list-style-type: none"> Inventory 	<ul style="list-style-type: none"> Machinery and equipment Furniture and fixtures 	Business owners: <ul style="list-style-type: none"> Buildout Purchase of equipment, furniture and fixtures Signage Landlords: <ul style="list-style-type: none"> Interior/ exterior renovations Landscaping Fencing 	<ul style="list-style-type: none"> Property Acquisition Construction and renovation Signage Purchase of equipment, furniture and fixtures Architectural and engineering fees Site improvements 	<ul style="list-style-type: none"> Tech buildout Lab space New construction Renovation 	New, for profit businesses moving to Cleveland and creating at least 5 new, full-time jobs in the City. Retail, restaurants, bars, daycares, and non-profits are not eligible.
Equity requirement	Applicant must provide a minimum of 10% equity	Applicant must provide a minimum of 10% equity	Applicant must provide a minimum of 10% equity	Applicant must provide a minimum of 10% equity	Applicant must provide a minimum of 10% equity and is required to provide a personal guarantee.	Applicant must provide a minimum of 10% equity	Applicant must provide a minimum of 10% equity	N/A
Collateral	City to have a subordinate lien position on the Project Site and/or UCC lien on business assets. Other collateral may be deemed necessary.	City to have a subordinate lien position on the Project Site and/or UCC lien on business assets. Other collateral may be deemed necessary.	City to have a subordinate lien position on the Project Site and/or UCC lien on business assets. Other collateral may be deemed necessary.	City to have a subordinate lien position on the Project Site and/or UCC lien on business assets. Other collateral may be deemed necessary.	City to have a subordinate lien position on the Project Site and/or UCC lien on business assets. Other collateral may be deemed necessary.	City to have a subordinate lien position on the Project Site and/or UCC lien on business assets. Other collateral may be deemed necessary.	N/A	N/A
Interest Rates	6% fixed interest rate	3% fixed interest rate	75% of WSJ prime	75% of WSJ prime	Up to 3% interest rate	N/A	N/A	N/A
Loan Terms	Loan terms are up to 5 years	Loan terms are up to 5 years	Interest only payments for up to 12 months with total term of 96 months.	Interest only payment for up to 12 months with total term up to 96 months	5 years for business owners / 11 years for landlords	N/A	N/A	N/A
Forgiveness/ grants	Maximum \$180,000 Forgivable Loan.	\$3,000 forgiven for green/ sustainable components			\$3,000 for architectural and engineering fees (landlords)	3 years, recovery based on job creation		\$5,000 moving assistance grant

Village Capital



Village Capital - Village Capital's objective is to provide financing for catalytic real estate projects that strengthen and revitalize communities.

(<http://www.clevelandnp.org/vcc/>)





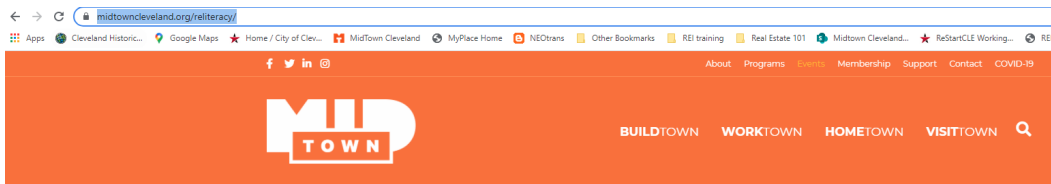
Questions?



GROUP REPRESENTATION

- Legal Aid provides free legal services to eligible community groups and nonprofits, including support with formation, contracts, development projects, and more.
- Eligible groups are those that:
 - cannot afford to hire an attorney, and
 - are made up of mostly people with low incomes or their mission focuses on issues of poverty.
- Questions? Call Catherine Donnelly at 216.297.7968 or email catherine.donnelly@lasclev.org





<https://midtowncleveland.org/reliteracy/>

Real Estate Literacy: A Community Conversation



PAST EVENTS



Real Estate 101: Why Real Estate? How Do We Play a Role?

Click [here](#) to access the presentation

Despite its complexity, with the right skills and partnerships, it is possible to be highly successful in real estate. Real estate requires developing strong relationships with community leaders, architects and engineers, brokers, lawyers, financiers, and potential tenants.

This section provides many basic real estate concepts to help residents and others in the Midtown community to understand terminology



Real Estate 102: The Development Process

Click [here](#) to access the presentation


Many things must be brought together at the same time to make a real estate development successful. Despite these multiple parallel paths, there are still various phases in the development process that must occur.

The material in this section is organized into three different phases of development, which loosely occur during the development process in the order presented here.



Instagram

THE CHOMP IS BACK!



EVERY TUESDAY!
11:30 AM - 1:30 PM
COLONEL YOUNG PARK
E.46TH AND PROSPECT

CLEVELAND WALLS!
August 23-28

MID TOWN **HTC** CLEVELAND HEALTH TECH CORRIDOR

INNOVATION INTERSECTION
WITH GUEST
Twelve Literary Arts

July 27th, 2021
5:00-6:30 PM

FOUNDER AND EXECUTIVE ARTISTIC DIRECTOR
Daniel Gray-Kontar

Join us in-person for an engaging discussion and presentation followed by happy hour networking with beverages & light snacks.

DUNHAM TAVERN | 6709 EUCLID AVE, CLEVELAND

REGISTER NOW FOR THIS FREE, IN-PERSON EVENT!
<http://bit.ly/twelveliteraryarts>

THANK YOU TO DUNHAM TAVERN AND OUR PARTNERS

DUNHAM TAVERN MUSEUM

CASE WESTERN RESERVE UNIVERSITY | VITAL INSTITUTE FOR ENTREPRENEURSHIP | University Hospitals Ventures | CLEVELAND STATE UNIVERSITY | jumpstart

MID TOWN

YOUR NEIGHBORHOOD CAREER HOTLINE LAUNCHES MARCH 31!

CALL 216 399 3550
M-F 9-3

CVTT.LY/CAREERHOTLINE

M **MID TOWN** **BEST OF CLEVELAND** **THANK YOU TO OUR PARTNERS**



- Final thoughts
- We want your feedback!
 - Survey
- Upcoming projects
 - Podcast project
 - In-person sessions coming in 2022!

Real Estate 101

Q: What do you guys want to know?

1. Intro

- Why Real Estate?
- Players
- How do we play a role?

2. The Development Process

- Predevelopment
- Construction
- Operation

3. Transactions, Ownership and Law

- Parties
- Rights
- Zoning

4. Financing and Risk Assessment

- Leverage
- Time Value of Money
- Return on Investment

