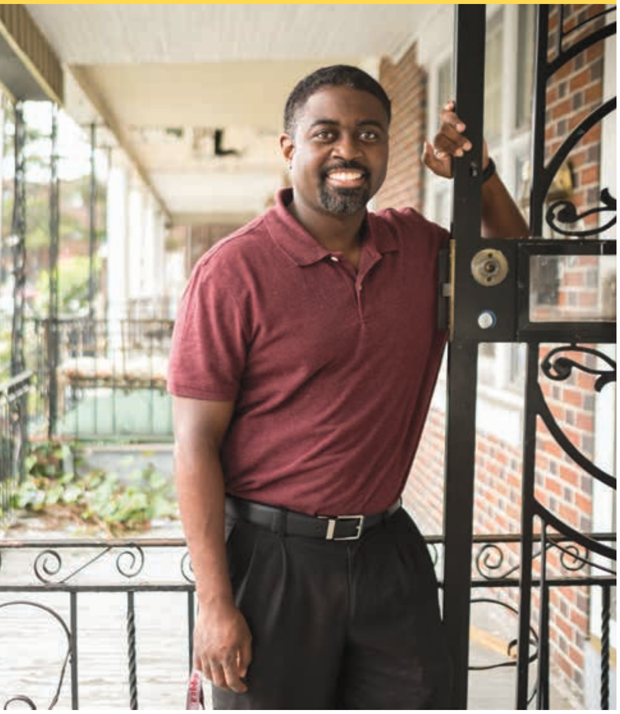
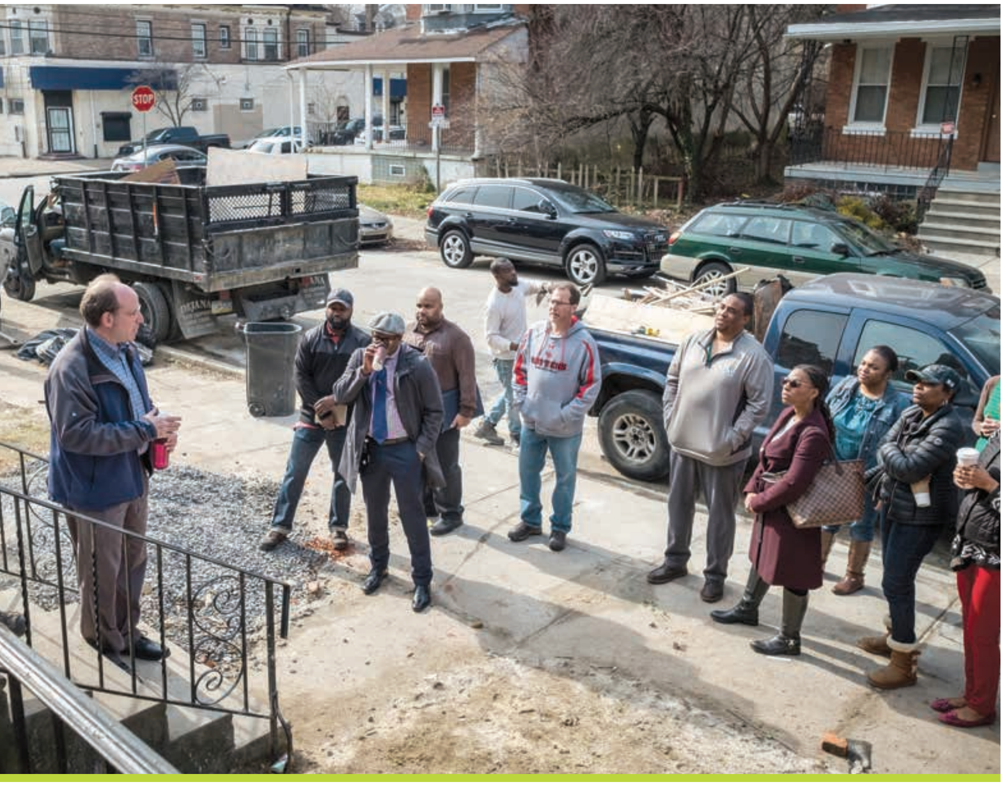
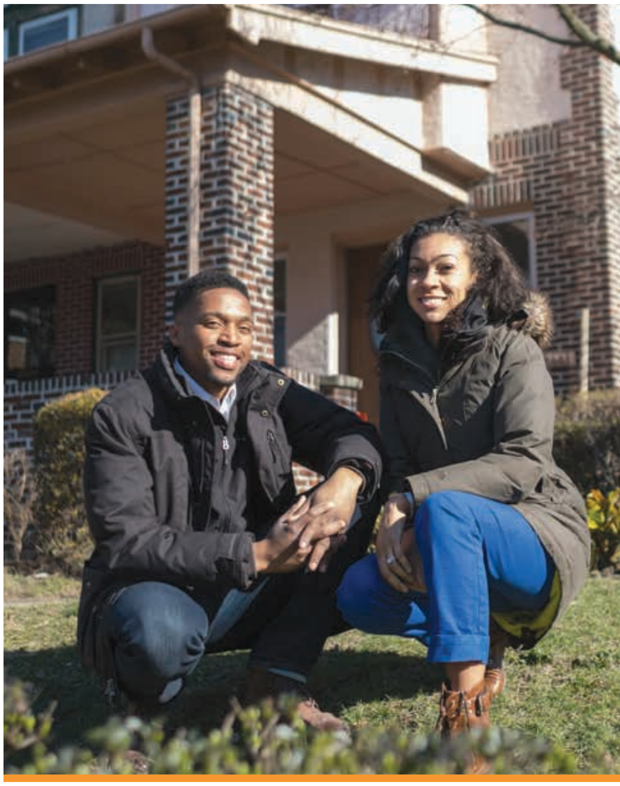
JUMPSTART TRAINING WORKBOOK

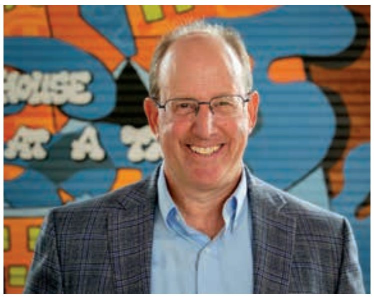






Notes

Welcome from Ken Weinstein, Founder of Jumpstart



Welcome to the exciting world of real estate and community development. I founded the Jumpstart Program in 2015 to make my community a better place to live, work, and invest - and provide opportunities to area residents who want to improve their own neighborhood. As of January 2023, the Jumpstart model has expanded to 6 other neighborhoods in Philadelphia, and 8 other cities across the country. With ongoing expansion, there are no limits to what we can do!

We've seen the positive impact Jumpstart has had on its Training Program graduates, Loan Program borrowers, and the communities in which we invest. To date, Jumpstart Programs in Philadelphia have graduated more than 2,300 individuals and our Jumpstart Germantown and Jumpstart Philly Loan Programs have closed nearly 350 loans and invested more than $40 million in middle neighborhoods. Jumpstart takes pride in removing blight and building local wealth because "a rising tide lifts all boats."

I am excited to share my experiences and ideas on developing real estate thoughtfully, strategically and equitably, so that the community wins as much as you do. All of our materials are open source so as many people and communities, as possible, can benefit.

Please use this workbook to delve into the world of residential real estate development but there is no alternative to learning by doing. After completing this Jumpstart Training Program, I hope you will continue on this exciting path that can change more than a house or a neighborhood. It can change your life.

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An Overview of Jumpstart

History and Success of Jumpstart Germantown

Ken Weinstein, founder of Jumpstart Germantown and Jumpstart Philly, is the President of Philly Office Retail, a mission driven commercial real estate development company based in Philadelphia. He has more than three decades of entrepreneurial, political, and real estate experience:

- Formerly owned a series of eateries: Trolley Car Diner, Trolley Car Café, Trolley Car Station, and Cresheim Cottage Café, all in Philadelphia.
- Chairs the Philadelphia Housing Development Corporation (PHDC), a quasi-governmental agency that helps low-income people continue to live in their homes by providing basic systems home repairs.
- Founded the Mt. Airy Business Improvement District (BID), Trolley Car Teachers' Fund, Trolley Car Table Tennis Club, and Wage Change.
- Served as a Director/Organizer of Valley Green Bank, a community bank that helped revitalize neighborhoods by providing commercial real estate loans.
- Mentored NFL players in real estate development at the University of Pennsylvania's Wharton School.

What makes Jumpstart Germantown and Jumpstart Philly a success?

Social entrepreneurs, like Ken Weinstein, believe in starting new, innovative projects to solve problems and create opportunities. Seeking win-win opportunities enhances your bottom line. His philosophy: Follow your passion and continue to learn every day.

The Jumpstart Mentoring Program is growing.

- Ken conducted the first Jumpstart Germantown mentoring session in April 2015.
- Since then, he has graduated more than 1,300 people from his Jumpstart Germantown Mentoring Program and thousands more through other Jumpstart programs.
- There's been an overwhelming interest in learning responsible residential real estate development and many participants have made major investments in their community.

Jumpstart is spreading.

- Jumpstart initiatives have already spread to Philadelphia's Kensington, Tioga, North Philly West, West, and Southwest neighborhoods, with new start-ups planned in the years ahead. With the recent addition of Jumpstart programs in Wilmington, DE, Norristown, PA, and elsewhere, the potential for neighborhood revitalization is endless. Check out the full list of Jumpstart programs at: GoJumpstart.org

The 3 Jumpstart Initiatives

1 Training Program

- typically 9 to 16 hours of instruction
- on-site visit to a residential construction project
- at the conclusion of the sessions, each mentee is assigned a mentor to help with their development projects (evaluate pro formas, assess due diligence, walk through properties, etc.)

2 Developers' Network

- panel discussions, guest speakers, and opportunities to connect with more experienced developers and community stakeholders
- JUMPinars (virtual and in-person), covering special topics of interest in real estate development. Past JUMPinars are available at jumpstartgermantown.com/library
- active FaceBook group to share information and resources

3 Loan Program

- offers high LTC (Loan to Cost) loans and quick approvals
- acquisition and construction financing
- below market, fixed interest rate and fees
- offers guidance and mentoring throughout the loan process

Jumpstart Philosophy
Doing Well by Doing Good

A. Reducing blight

- renovate dilapidated properties
- improve neighborhood safety - 24/7 security
- increase property values and owners' equity in their homes
- reduce gun violence

B. Improve your community

By focusing on ***social impact real estate development***, Jumpstart helps developers:

- target scattered sites, not "urban renewal"
- create a healthy mix of affordable housing and market-rate housing
- avoid gentrification through slow, steady growth

C. "Grow the Pie": Share Resources

The Jumpstart approach is more collaborative than competitive. By sharing resources and information, Jumpstart participants can do more together than they can do alone.

Instead of fighting over a piece of the pie, focus on growing the pie!

- Form networks and partnerships with other realtors, developers, and investors, and share information instead of hoarding resources.
- In real estate, there's an "80/20 rule." Only 20 percent of people in real estate openly share information and resources. Be a part of the "20 percent."

Your local Jumpstart Facebook group and the Jumpstart Developers' Network are two ways to share information and resources.

Jumpstart Philosophy *(continued)*

Doing Well by Doing Good

D. Be a good neighbor: Gain community support and a marketing advantage

- Take the time to connect with neighbors near your development project and build their trust.
  - Knock on doors and introduce yourself.
  - Leave a note, with contact information, if nobody is home.
  - Use neighbors as a marketing tool and eyes and ears on your project.
- Be a neighborhood partner, not an adversary.
  - Explain how your development project benefits the community.
  - Don't minimize, ignore, or belittle neighborhood concerns or suggestions.
- Attend neighborhood meetings and get to know the broader community.

E. Reckoning with risk

Make no mistake: Real estate development is risky, and it's not for everyone.

Lack of experience and lack of capital are the two most common reasons why people don't pursue real estate development as a career. Jumpstart is designed to remove these roadblocks so almost anyone—who's willing to take the risk—can become a developer.

F. Invest in your future: Create a nest egg

Create a financial nest egg, so you and your family can live more comfortably, by investing in your neighborhood.

G. Change the face of development: Encourage diversity

One of the goals of Jumpstart is to support women and people of color who have historically been left out of the real estate development world.

What You Need to Jumpstart and Succeed

1. Be a sponge—never stop learning and always continue to improve

2. Be willing to take risks—development isn't for everyone

3. Embody these qualities
   - authentic and trustworthy
   - responsive
   - knowledgeable
   - organized
   - patient
   - persistent
   - aggressive
   - have "fire in the belly"
   - use common sense and "street smarts"
   - be a "doer"
   - willing to be hands-on
   - be strategic and work smarter

4. Get going. It's on you to get it done!
   - network with other developers and real estate groups
   - use your mentor
   - engage potential partners and team members
   - start looking for properties
   - ask for help

TIP: Get your real estate license but don't become an agent—just use the information from the class to learn the ins and outs of real estate.

The 7 "JumpSteps" of Residential Real Estate Development

JumpStep 1: Create a ***Development Strategy*** & Identify Your Team

JumpStep 2: ***Source a Property***

JumpStep 3: Do Your ***Due Diligence***

JumpStep 4: Find Your ***Financing***

JumpStep 5: Develop ***Design*** & Procure ***Permits***

JumpStep 6: Customize ***Construction***

JumpStep 7: ***Lease/Manage/Sell*** Your Property

JumpStep 1

Create a Development Strategy & Identify Your Team

1.1 Why invest in a neighborhood?

- ***Market history***: Assessing housing values and rents over time and recent trends in the neighborhood (via online reports, real estate agents, developers, residents)
- ***Affordability***: Opportunity to buy with less money down (lower risk)
- ***Price stability***: Slow, steady growth over time = more recession-proof (lower risk)
- ***Interest***: Pursuit of more attractive housing stock (But don't "fall in love" with your real estate.)

1.2 Assess risks and rewards: Be aware of your expectations

High risk = Higher expected return; Low risk = Lower expected return.

Risk factors

- ***Time & Money***: A project with a limited scope (e.g., cosmetic changes only) lowers your risk. A gut rehab increases your risk.
- ***Neighborhood volatility***: Stable rents or sale prices lower your risk.

Potential rewards

- ***Profit***: Take into account the property's expected appreciation and your annual ROI.
- ***Social impact***: How will your investment improve the neighborhood?

1.3 Determine the ***best strategy*** for you

A. Development ***options***

Where?

- urban vs. suburban
- infill vs. sprawl

Note: Jumpstart focuses on residential, scattered-site rehab (as opposed to commercial rehab or sprawling suburban development).

What?

- market-rate housing vs. low/moderate-income housing vs. workforce housing
- new construction vs. rehab

JumpStep 1 *(continued)*

Create a Development Strategy & Identify Your Team

How?

- appreciation vs. cash flow
- buy, rehab, and sell (flip)
- buy, rehab, and hold (rental)
- buy, rehab, and live in (home ownership)

B. Find your ***niche***

Focus on a type of real estate you understand. Do you have a feel for:

- commercial, residential, or mixed use?
- low-income or high-end?
- a specific rental market (e.g., single-family or multi-family)?

C. Enter into ***partnerships***: Expand your capacity!

- Choose your partner(s) wisely. Find people whose strengths (and weaknesses) supplement yours.
- Talk about expectations up front.
- Put everything in writing.
- Have similar goals and a mutually agreed-upon exit strategy.
- Have respect for each other.

D. Devise a ***"game plan"*** for the property

What will you do with the property?

- single family or multi-unit?
- gut rehab or heavy cosmetic work?
- use existing layout, or demo and reconfigure?
- sell, rent, or live in?

Devise a series of options/strategies:

- rehab individual units as tenants leave—better cash flow
- rehab all units at once—lower construction costs
- rehab building when neighborhood conditions demand higher-quality units and increased rents

1.4 Avoid ***mission creep***

Stay on course. Don't make abrupt changes in strategy.

- If your niche is buying and renovating single-family row houses, don't suddenly buy multi-family housing. Do what you do best, and don't get distracted.
- Don't open a retail or restaurant business—unless that's your goal! This will only slow you down and could reduce your cash flow. Make deliberate choices and don't fall into a sudden change of direction. Stay focused!

1.5 Do your ***legal legwork***

Individual ownership vs. corporate ownership

- A limited liability company (LLC) creates a corporate veil that can protect the owner personally from liability
- Buy with a LLC, if that's the end game—it's costly to transfer a title later from an individual to a LLC
- Evaluate the risks of purchasing multiple properties in one LLC vs. the cost of creating and maintaining multiple entities
- What's involved in creating a LLC?
    - filing paperwork
    - time (1–2 months to file)
    - operating agreement

ACTIVITY

IDENTIFY YOUR STRENGTHS AND WEAKNESSES

1. Grab a partner.

2. Find out which of these qualities are among their strengths:
   - authentic and trustworthy
   - responsive
   - knowledgeable
   - organized
   - patient
   - persistent
   - aggressive
   - have “fire in the belly”
   - use common sense and “street smarts”
   - be a "doer" and hands-on
   - be strategic and work smarter

3. Find out how they developed these qualities.

4. Have your partner ask you questions about your strengths.

5. Compare notes on weaknesses.

6. Tell the group about your partner’s strengths and weaknesses.

HOMEWORK & QUIZ

WHAT YOU LEARNED IN JUMPSTEP 1

Homework:

- ☐ Read the glossary of real estate terms (**TOOL 1.1** on pg. 38), and make sure you understand them. Circle the five terms you're least familiar with.
- ☐ Join your local Jumpstart Facebook group
- ☐ Join your local Jumpstart Developers' Network
- ☐ Research local neighborhood associations (compile a list and read their newsletters/ blogs/Facebook pages)
- ☐ Join other real estate and development networking groups

Quiz:

1. Investing in real estate development:
   - ☐ **a.** is for everyone.
   - ☐ **b.** is a good idea if you have a high risk tolerance.
   - ☐ **c.** is a good idea only if you have an experienced partner.

2. Which strategy will best help you manage your level of risk in changing economic conditions?
   - ☐ **a.** Emphasize appreciation over cash flow.
   - ☐ **b.** Focus on cash flow over appreciation.
   - ☐ **c.** They're both equally useful.

3. The Jumpstart philosophy about sharing information with other developers is:

☐ **a.** Be careful—we're all competing over the same piece of the pie.

☐ **b.** Collaborating and sharing helps grow the development pie so we can each have a bigger piece.

☐ **c.** We should be part of the 80 percent that shares, instead of part of the 20 percent that does not.

4. The main benefit of buying a property with a LLC is:

☐ **a.** There is less paperwork involved.

☐ **b.** You will have greater personal legal protection.

☐ **c.** It's cheap and easy to transfer the property back to an individual.

answer key: 1. b, 2. b, 3. b, 4. b

JumpStep 2
Source a Property

Finding an investment property is the most difficult part of the real estate development process!

2.1 ***Where*** to find properties

- sheriff sales (mortgage or tax sales)
- public auctions
- conservatorship process
- “for sale by owner” (FSBO) properties
- properties with liens (buy liens and foreclose)
- government or land bank owned
- short sales
- bank sales/foreclosures (real estate owned [REO])
- Bright Multiple Listing Service (MLS) — what’s already “on market"
- wholesalers
- HUD/VA owned
- other?

2.2 ***How*** to find properties (strategies/people/places)

- build relationships with local real estate brokers/agents
- go door to door
- network/word of mouth/social media—“off market”
- marketing: flyers and letters to current property owners
- government agency websites

There are many ways to find available properties if you are ready, willing and able. Pick a couple, and get aggressive!

JumpStep 2 *(continued)*

Source a Property

2.3 Agreement of Sale

Once you've found your property and make an offer, be sure to ***read your AOS (Agreement of Sale)***

- Consider special protections in your AOS:
  - mortgage contingency
  - inspection contingency
  - zoning contingency
  - environmental contingency

TIP: Use online resources (like Google) to learn the definitions of these terms!

JumpStep 3
Do Your Due Diligence

3.1 Consider ***all*** possible strengths, weaknesses, and liabilities of property purchase

Property factors—Take off the rose-colored glasses and identify all potential problems.

- Condition
- Use
- Layout
- Environmental assessments
- Code/zoning restrictions

Financial factors—Don't make assumptions. As much as possible, quantify all risks.

- What are the construction costs?
- What will be your operating costs?
- What rents are possible? Be conservative!
- What is the property value after stabilization?

What's your game plan for the property? Rent/Sell/Live? Gut rehab/cosmetic changes?

TIP: Hire a contractor to examine the property to point out deficiencies and provide a construction estimate.

TIP: Hire a home inspector for your first three projects. Follow the inspector around the house and take notes! You won't need a home inspector for your fourth project. By then, you'll know what to look for.

3.2 Find out the zoning classification

- Be sure you know what you're buying. Ask: "What does the current zoning allow? Is the current use legal?"
- Determine the zoning of the property using the city/town website. The zoning code will describe what is allowed in each specific zoning designation. For example, if a property is zoned commercial, you might not be able to legally use the first floor for residential without a zoning variance (exception).
- If zoned incorrectly for your proposed use, get zoning approval before purchasing and/or beginning construction.
- If a variance is needed, the process includes applying for a zoning permit, getting refused, and appealing the decision to the zoning board. Remember to factor in the time and cost of this process. (see **TOOL 3.1** on pg. 41)

JumpStep 3 *(continued)*

Do Your Due Diligence

3.3 Develop a list of "comps" (comparable properties in the area)

Use properties that have sold or rented over the past 12 months. Go to open houses and review MLS, Zillow, Redfin or similar databases to help develop your list of comps.
(see **TOOL 3.2** on pg. 44 for a sample list of comps)

Include:

- address
- actual sales/rent price
- date sold/rented
- square feet
- # of bedrooms & bathrooms
- amenities such as finished basement or deck

TIP: Comps should be similar in size, after rehab condition and have a similar feel (streetscape/ curb appeal) to the subject property. They should be located as close to subject property as possible (while still being comparable) and should be recent sales (within last 12 months, less if available).

TIP: Only include comps that have the same end use as the subject property (ie. if you're converting to a duplex, comps should be duplexes).

3.4 Determine financial feasibility

- Complete a development budget for your project
    - Acquisition costs
    - Construction costs
        - Include 15% contingency for rehabs
        - Include 5% contingency for new construction
- Complete a profit and loss statement (see **TOOLS 3.3 & 3.4** on pg. 45-46 for examples)
    - for Buy and Hold: expected ROI? Consistent with risk taken?
        - DCR (Debt Coverage Ratio) of 1.25 or higher?
    - for Buy and Sell: 20% or higher net margin?

TIPS:

- The formula for DCR = Net Operating Income / Debt Service
- The Pro Forma template is available as an Excel spreadsheets on the Jumpstart website (www.jumpstartphilly.com/loans).
- Always include a 5% or higher management fee, even if you plan to self manage. Banks will require a management fee in your Pro Forma.
- When you plug in rent values, subtract 10% for vacancies and bad debt.

WHAT YOU LEARNED IN JUMPSTEPS 2 & 3

Homework:

- [ ] Download Jumpstart's Pro Forma Template from www.jumpstartphilly.com/loans
- [ ] Fill in the "real estate acronym" worksheet on page 22
- [ ] Find three potential properties using the property sourcing tools.
- [ ] Visit a property for sale and complete a development budget and Pro Forma for that property.

Quiz:

1. When completing a proforma: (Select all that apply)

- [ ] **a.** Be conservative. Protect yourself against worst-case scenarios by basing your decisions on the lowest income and highest expenses reasonably possible.
- [ ] **b.** Be optimistic! Always put the highest income and lowest expenses possible. You don't want to talk yourself out of a deal you like, and what your lender doesn't know won't hurt them.
- [ ] **c.** Get multiple estimates from contractors as needed to complete your construction budget.
- [ ] **d.** Include, at least, a 15% contingency for new construction.

2. If you are completing due diligence for a Buy & Hold project, you will need to research:

- [ ] **a.** Sales comps only, so that you can estimate your ARV.
- [ ] **b.** Rental comps only, since rental income will determine your DCR.
- [ ] **c.** Both sales and rental comps.

answer key: 1. a, c, d, 2. c

Quiz (continued):

3. Using Tool 3.2 on page 44, which of the provided sales comps support the proposed sales price for the subject property? Why?

4. Why is zoning so important for real estate developers?

WORKSHEET

REAL ESTATE DEVELOPMENT ACRONYMS

Fill in the words for each acronym, based on the definition.

1. **APR** A.................................... P.................................... R....................................

The actual effective rate of interest charged on a loan expressed on a yearly basis. It represents the full cost of all elements associated with obtaining a full mortgage into a single formula. It is useful for comparing mortgage products.

2. **ARM** A.................................... R.................................... M....................................

A type of mortgage in which the interest rate applied on the outstanding balance varies throughout the life of the loan.

3. **CO** C.. of O..

A document that local government issues, stating that a building complies with building codes and laws and is in suitable condition to be occupied.

4. **DCR** D.................................... C.................................... R....................................

The ratio of cash available for repaying interest, principal, and lease payments of debt. To calculate, divide the net operating income (NOI) by the annual debt. Also known as DSCR (Debt Service Coverage Ratio).

5. **EGI** E.................................... G.................................... I....................................

The amount of income a piece of property produces, less vacancy costs and collection losses. (For example, if an apartment complex has an income of $500,000 [if all units are rented], but historically, 20% of its units are left vacant, then its vacancy costs are $100,000 [$500,000 x 20%] and its EGI is $500,000 [minus] $100,000, or $400,000.)

6. **LTC Ratio** L.................................... to C.................................... Ratio

The loan percentage or amount a lender is willing to finance, based on the costs on the construction budget. Calculated from dividing loan amount by total costs (i.e., $160,000 loan / $200,000 budget = 80% LTC).

7. **LTV Ratio** L.................................... to V.................................... Ratio

The amount borrowed in a loan relative to the value of the property. (An LTV of 85% means the loan is for 85% of the value of the property, with the borrower making a down payment of 15%.)

8. **NOI** N.................................... o.................................... I....................................

A calculation used to analyze real estate investments that generate income: all revenue from the property minus all operating expenses. This is the income of a business (or individual) before taxes.

9. **ROI** R.................................... o.............................. I....................................

A performance measure used to evaluate the efficiency of an investment. It measures the return of an investment relative to the investment's cost. ROI = (Gains from Investment [minus] Cost of Investment) [divided by] Cost of Investment

JumpStep 4
Find Your Financing

4.1 Identify funding sources

For equity contribution to project (your initial investment)

- Borrow from family or friends
- Take out a line of credit on your home
- Find investor(s) or partner(s)
- Refinance existing investment property

Loans available

- Nontraditional funders
    - Jumpstart Loan Program
    - Hard money lenders
    - Seller Financing
- Government or Traditional Loans
    - Financial institutions/banks
    - Credit unions
    - CDFIs (Community Development Financing Institutions)
    - Local or state government loan programs
- Be creative!

4.2 Secure a loan

- Bankers are not scary people! Your earnestness and goodwill go a long way. Most lenders will be willing to go step by step with you—especially a credit union, CDFI, or the Jumpstart Loan Program
- Be prepared! Review the list of items you'll need for a loan application (see **TOOL 4.1** on pg. 47 and assemble them ahead of time.)
- Know your credit score and payment history, and determine what the bank requires.
- Be organized and professional in your presentation and know the real estate lingo. This will get you the respect you need to overcome your initial lack of experience!
- Follow through—don't drop the ball.
- Get involved with appraisals.
    - Meet appraisers at the property and feed them the info they need.
    - Feel free to appeal an inaccurate appraisal. Appraisals can be way off, especially if the appraiser does not know or understand the neighborhood.

Find Your Financing

- Remember: Everything is negotiable.
    - If the bank offers you an interest rate of 5%, ask for 4.75%!
    - Or better yet: get bids from three different banks, and play them against each other.
- Become familiar with general terms for commercial loans
    - Loan to Value Ratio: Typically 75% LTV
    - Loan to Cost for Renovation Loan: Typically 80% LTC
    - Minimum Debt Service Coverage Ratio: Typically 1.25x
    - Amortization:
        - Either 20 or 25 years
        - Balloon: 5 years
        - Recourse: Personal Guaranty Required

4.3 Your long-term real estate investment strategy for buy and holds

Once you've purchased and stabilized one or more properties, you want to refinance that asset so you can buy more. BRRRR (Buy; Renovate; Rent; Refinance; Repeat) is a way to get more capital out of your projects sooner. (see **TOOL 4.2** on pg. 48)

A cash-out refinance is a type of mortgage refinance that takes advantage of the equity you've built over time and gives you cash in exchange for taking on a larger mortgage. In other words, with a cash-out refinance, you borrow more than you currently owe on your mortgage so you can invest the difference in your next project.

JumpStep 5

Develop Design & Procure Permits

5.1 Create a scope of work

A house/apartment is only as good as its worst feature! Look at the property as if you are a potential homebuyer or tenant.

Spend a couple of hours in the house/apartment(s) to develop a detailed scope of work. The scope should include:

- as much detail as possible
- number of items to be repaired/replaced (i.e. windows, doors)
- square footage of floors to be repaired/replaced
- level of desired finishes (i.e., builders' grade kitchen cabinets, granite countertops)
- a list of unknowns that need further investigation (i.e., operability of heater, life of roof)

A vague or incomplete scope of work is a surefire way to lose money! (see **TOOL 5.1** pg. 49) Hand your scope of work to contractors to obtain a price for your exact specifications so you get comparable estimates from each contractor. Your scope of work should exactly align with the line items in your construction budget, and all budgeted funds should have an explanation. (see **TOOL 5.2** on pg. 51)

TIPS:

- Record all the ideas and suggestions contractors offer!
- Always install double-paned windows if they do not currently exist in the house/apartments. They will reduce your tenants' utility costs and buyers will demand them.
- If you finish the basement with walls, floors, etc., installation of a French drain is a must to protect your investment against moisture/water penetration.
- Ask your contractors to provide you with an estimate based on your scope of work. If the contractor wants to offer more or fewer items to his/her estimate, they can provide "alt adds" or "alt subtracts" for you to consider.

JumpStep 5 *(continued)*

Develop Design & Procure Permits

5.2 Understand the 3 levels of renovations

A municipal department of licenses and inspections will require permits depending on the extent of your renovations. Check with your municipality to determine these requirements.

- ***level 1: minimal***
    - minor removal/replacement of existing materials, coverings, existing equipment, existing plumbing, and existing fixtures
    - May need permit (can possibly obtain online)
- ***level 2: moderate***
    - reconfigure the existing space; add or eliminate windows or doors; expand the mechanical or plumbing systems
    - need permit
- ***level 3: gut rehab (50–100% of the property)***
    - altering the structure; changing a load-bearing wall
    - Need permit and professional services, such as a structural engineer or architectural drawings.

5.3 Determine what approvals you need

- Local department of licenses and inspections
    - zoning permit
    - use registration permit
    - building permit
- Special approvals (possibly needed)
    - Historic Commission
    - Art Commission
    - Zoning Board
    - City Council
    - Water Department
    - Planning Commission
    - Streets Department
- When the city/town will inspect
    - pre-project: walk-through just before you start
    - after demolition
    - before/after you pour foundations
    - rough framing (with mechanical, electrical exposed), before you close walls and drywall
    - after insulation is installed
    - final walkthrough to get CO (Certificate of Occupancy)

TIP: Perform construction in the correct order. Find out when your municipality wants their next inspection so you're prepared. You want to avoid having to take down drywall you just put up.

HOMEWORK & QUIZ

WHAT YOU LEARNED IN JUMPSTEP 4 & 5

Homework:

- [ ] Research hard money loans that are available to you, list their rates, terms, and eligibility requirements to determine which will be the best fit for you.
- [ ] Use a free service to generate your credit report - review the accounts and payment history to evaluate ways to improve/maintain your score.

Quiz:

1. What investment method does the acronym B.R.R.R.R. stand for?

B ________

R ________

R________

R________

R________

2. In your own words - describe what the Debt Coverage Ratio (DCR) means for a Buy & Hold project:

....

....

3. Which of the following alterations will likely require a zoning permit? (Select all that apply)

- [ ] **a.** Converting the first floor of a triplex building from an apartment to a small café
- [ ] **b.** Adding a half bath to the second floor of a single family home
- [ ] **c.** Splitting a single family home (that is zoned as multi-family) into two separate rental units

JumpStep 6
Customize Construction

6.1 Actively manage the construction process

- Be hands-on. Put on your work gloves and borrow a friend's truck. You're the engine that keeps things moving.
- Over time, you want to build construction knowledge and capacity. Ultimately, you can develop a pipeline of projects, and assemble a small team of loyal people who work independently and help you manage projects.

6.2 Working with contractors (see **TOOL 6.1** on pg. 52)

- in-house (your own construction team) vs. out-of-house (general contractor and subcontractors)
- negotiate and sign a construction contract (can use the scope of work)
- closely oversee your contractors
- handle unforeseen conditions, change orders, and problems

TIPS:

- Ask friends and colleagues for contractor recommendations.
- Go to Home Depot and strike up conversations with contractors. Ask for cards, visit job sites, and get pricing.
- Drive around and look for good work being done on other houses in the neighborhood.

JumpStep 6 *(continued)*

Customize Construction

6.3 Construction Timeline

- Do everything in the proper order.
- Hire a General Contractor (GC), project manager, or do it yourself.
- Watch the progression. It should go fast, but not too fast.

1. Demo/Cleanout
2. Framing
3. Mechanicals
    - HVAC
    - Plumbing
    - Electrical
4. Insulation
5. Drywall
6. Trim
7. Paint
8. Floors
9. Punch-list
10. Stage for sale or rent

6.4 Troubleshoot: When everything goes wrong

Keep calm and carry on. Solve one problem at a time, and resolve issues amicably and efficiently. Look for common ground with your contractor and "keep the peace." You want to establish a relationship with your contractor to use them over and over again.

TIP: If your project is delayed because the contractor is behind schedule or peforming poor quality work - do not hesistate to receive new estimates and consider switching contractors.

JumpStart 7

Lease/Manage/Sell Your Property

7.1 Marketing to lease your property

A. Finding tenants

- Walk the unit

  Think about whom you're looking to attract and put yourself in their shoes. Place unique descriptions into the listing. Be honest and accurate, but sell the space!

- Advertising

  You want exposure to build a pool of good applicants. It's a "volume" game.

  - List the property online—use a descriptive tagline. Look at other ads for ideas and competitive advantages.
  - Use lawn signs, banners, and flyers.
  - Ask the neighbors to suggest potential tenants.

- Showings

  Hold open houses—they're more efficient and effective!

  - Host several open houses, to accommodate peoples' schedules.
  - Make open houses 1 hour long, on an evening or weekend.
  - Get to know potential tenants and what they're looking for. Begin to evaluate whether they will be good long-term tenants. What is the tenant's story?
  - Move and respond quickly. Call prospective tenants back right away and aggressively follow up. It will increase your chances of renting quickly.

B. The application process: Getting to "yes"

Applicants may have lots of housing choices. Make the process easy and simple!

A sample rental application is available at gojumpstart.org.

JumpStart 7 *(continued)*
Lease/Manage/Sell Your Property

C. What makes a good prospective tenant? Someone who:

- is ready to move in right away
- has a credit score of 680 or more
- has a monthly income of at least 3x the listed rent (preferably 4x)
- shows concern about the condition of the house/apartment
- has a history of staying several years in previous rentals
- has a stable work history.

D. Tenant application ***Dos*** and ***Don'ts***

- ***Do*** require:
  - work history (previous 3 years)
  - rental history (previous 3 years)
  - reference(s) from previous landlord(s)
  - first month's rent, last month's rent, and at least one month's security deposit
- ***Do*** run a credit check once you've identified them as a desirable tenant.
- ***Do*** have a conversation with the prospective tenant: Reasons for moving? Expected length of stay?
- ***Don't*** bother with application fees. They discourage tenants from applying, which may net you fewer choices.
- ***Do*** adjust your strategy based on the size of your applicant pool.
  - large pool: Be choosy!
  - small pool: Consider less-qualified tenants.
- ***Do*** negotiate multi-year leases, if possible.
- ***Do*** know government regulations on accessing tenant applications.

7.2 Marketing to sell

- Decide whether to ***sell the property yourself***, or ***hire a broker/realtor***.
- Are ***current tenants*** interested in buying?
- Ask ***neighbors*** if they know anyone interested.
- Are there ***comparable houses*** on the market? If so, price your house/apartment accordingly. Provide similar amenities to other houses on the market.
- Advertise.
- Stage the house.

7.3 Leasing and managing your property

The best way to increase your cash flow and ROI is to reduce tenant turnover by selecting and retaining good tenants. Keeping your units rented throughout the year is the best way to turn a measly 5% return into a 15%, or more, annual profit.

Option 1: Use a property management company

- They'll ***find tenants***, ***collect rents***, and/or perform ***maintenance and repairs***.
- Management companies typically charge ***6–10% of the rent*** collected, depending on the number of units.
- ***Get recommendations*** before you hire.
- ***Meet with them once a month*** to stay up to date and keep them motivated.
- ***Consider a hybrid plan***, where you share management responsibilities so you can do what you do best and enjoy the most.

Option 2: Manage the property yourself

If you have time and interest, no one can manage the property like you—the owner—can. You'll be more aggressive and your property will see a better ROI.

A. ***Write a lease***
- Find a lease template that includes all necessary legal language, through:
  - an office supply store, like STAPLES®
  - a realtor you know
  - a state realtors' association
  - add in your own rules and regulations

B. ***Obtain appropriate licenses***

To collect rent, municipalities may require a:
- "commercial activity" license
- rental license (one per unit, usually includes a fee, renew annually)
- "rental suitability certificate" (one per each individual tenant, must reapply when a new tenant moves in)
- remember to include these costs in your Pro Forma!

C. ***Provide the tenant with documents that are required by law:***
- State-produced booklet summarizing your responsibilities as a landlord
- Certificates pertaining to use of lead-based paint (if there will be children under 6 years of age living in the unit); these require property inspections and a fee

A few things to remember about managing a property:

- ***Communicate*** with your tenants. A happy tenant is a good, long-term tenant.
    - Don't get behind on repairs.
    - Keep tenants informed to keep them satisfied.
- ***Utilities***: Separate utilities by unit, when possible, so tenants have an incentive to monitor and limit their energy use.
- ***Rent collections*** and accounting: use standard computer-based systems like QuickBooks, or look into a cloud-based system like AppFolio.
- ***Overdue rent***
    - Be consistent and fair to your tenants.
    - Have a clear internal policy on overdue payments (e.g., file for eviction when tenant becomes 2 months delinquent).
- ***Evictions***
    - Evictions can take 3–4 months, not including tenant appeals.
    - It's worth hiring an attorney to represent you.
    - You may be required to store the belongings of the evicted tenant under law (approximately 30 days).
- ***Raising the rent***: factors to consider
    - How often? How much?
    - How will increases affect turnover?
    - It is better to request more smaller annual increases than fewer large increases.
- ***When a tenant leaves***
    - Stick to the terms in your lease about giving advance notice on showing the unit to other prospective tenants.
    - Use your existing satisfied tenant to help you find a new tenant.
    - You typically have 30 days to return the security deposit, or put in writing to them why you're not returning it in full or in part.

HOMEWORK AND QUIZ

WHAT YOU LEARNED IN JUMPSTEP 6 & 7

Homework:

- [ ] Develop a list of local contractors and compare their pricing and previous work.
- [ ] Come up with a process for vetting potential contractors - decide what questions you will ask and what your priorities are.
- [ ] Review **TOOL 7.1** on pg. 54

Quiz:

1. True or False? (Circle one)

You should ***always***:

1. T F Carry builders risk insurance during construction
2. T F Pay your contractor a large deposit up front
3. T F Check your contractor's license and insurance
4. T F Pull construction permits
5. T F Obtain Housing Inspection & Rental Suitability Licenses

2. What are some strategies for property management and leasing that will help you keep your vacancies low and turn units over quickly?

....

....

Moving Forward

Now you're ready to pull it all together and take development to the next level!

1. Use your mentor effectively

Don't go it alone! Take your mentor/partner/contractor with you to look at a property.
Ask them: Is there too much risk? Does this project make sense from a financial and community standpoint?

2. Expand your capacity

- use other peoples' money (leverage resources, get bank loans, add investor capital)
- seek staff (for book keeping, back office support, etc.)
    - make your expectations clear
    - let them do their jobs
    - keep overhead costs relatively low
    - don't "feed the monster"
- use your time efficiently and effectively
    - multitask
    - write everything down
    - use email (rather than the phone) and social media
- find partners who have different skillsets than you

3. Pay it forward

- Gain enough experience so you're in a position to become a mentor.
- Be part of the 20% of real estate developers who share information and knowledge.
- Post resources on the Jumpstart Facebook page and use it to ask for help.
- Get involved in your community and attend neighborhood meetings.

4. Make smart choices so you profit

Follow your passion and enjoy what you do! Go forth and rehab!

Notes

TOOL 1.1

GLOSSARY OF REAL ESTATE DEVELOPMENT TERMS

Put a checkmark (✔) in the margin next to each term you're familiar with. Put an asterisk (✱) next to those you're unfamiliar with. Review this list again after each session and update your checkmarks.

A

ABATEMENT: A reduction in the level of taxation an individual or company faces. A common type of abatement is property tax abatement, where property owners are exempt from Real Estate Taxes on improvements to existing properties or new construction for a set amount of time.

ABSTRACT OF TITLE: A historical summary of the recorded instruments and proceedings on the title of a property. Also known as Title Abstract.

ACCRUED INTEREST: The interest on a loan that has accumulated since the principal investment, or since the previous coupon payment if there has been one already.

AMORTIZATION: Paying off debt with a fixed payment schedule, in regular installments over a period of time, that consists of both principal and interest.

APPRECIATION: The increase in the value of a property due to changes in market conditions, inflation, or other factors. Investing based on appreciation assumes returns will come later, once the property appreciates significantly and you can collect on that increase. Appreciation is not guaranteed and is based on speculation.

ASSESSMENT: The local government's required effort to determine a basis of property value for real estate tax purposes. It is performed by an assessor, who may use public records (which can be outdated) rather than visit the property personally. The assessment value is NOT a reliable indicator of sales price or fair market value.

APPRAISAL: An evaluation of value to determine the current market value (sales price) of a specific property at a specific time. An appraiser (who does the appraisal) must be licensed, approved by the bank, and provide a valuation that represents the "fair" sales price of the home.

B

BALLOON LOAN: A type of loan that does not fully amortize over its term, requiring an oversized payment ("balloon payment") at maturity to repay the remaining principal balance of the loan.

BUILDERS RISK INSURANCE: A type of insurance that protects a person's or organization's insurable interest in materials, fixtures, and/or equipment to be installed during the construction or renovation of a building or structure, should those items sustain physical loss or damage from a covered cause.

C

CAPITALIZATION (CAP) RATE: The ratio of Net Operating Income (NOI) to property asset value. An estimated percentage return, it can be used to compare potential deals. Calculated by dividing Net Operating Income by Current Market Value. (For example, for a property listed for sale for $100,000 that generated a NOI of $10,000, the cap rate would be $10,000/$100,000 [or 10%].)

CASH-FLOW: The profits you collect each month from a rental property. You collect the rent from the tenant (a.k.a., gross income) and subtract your expenses (mortgage, taxes, insurance, repairs, management fees, vacancies, etc.) and that leaves you with your cash flow (a.k.a., net income).

CASH-OUT REFINANCE: The instance when a borrower refinances their mortgage at a higher amount than the current loan balance, with the intention of pulling out money.

CLEAR TITLE: A title that is free of liens or legal questions as to ownership of the property.

COLLATERAL: A property or other assets that a borrower offers a lender to secure a loan. If the borrower stops making loan payments, the lender can seize the collateral.

COMPS: "Comparable sales": the recent sales of similar properties in nearby areas, used to help determine the market value of a property.

CONTINGENCY: Money put aside for unforeseen expenses that are possible but cannot be predicted with certainty. (We suggest using a contingency of 15% of construction costs for rehabs. Contingency for new construction is usually lower.)

D

DEBT SERVICE: The cash required for a particular time period to cover the repayment of interest and principal on a debt.
(DCR = Net Operating Income / Debt Service)

DEED: The legal documents that transfer ownership of real property from the old owner to the new. Many types of deeds provide various level of protection to the buyer; the general warranty deed provides the most protection, and the quitclaim deed provides the least.

DUE DILIGENCE: The investigation and review of a property to determine any problems, liabilities, or other issues that a buyer should consider prior to purchasing a property.

E

EARNEST MONEY DEPOSIT: The deposit a buyer makes at the time of submitting an offer to demonstrate the true intent to purchase. Also called a "binder" or "good faith deposit."

ENCUMBRANCE: A claim, lien, charge, or liability attached to and binding upon real property.

ESCROW: An item of value, money, or documents that transacting parties give to a third party, to be delivered upon the fulfillment of a condition.

ESCROW ACCOUNT: An account in which funds are set aside for specific payment(s).

F

FLOATING RATE: Another name for an Adjustable-Rate Mortgage; a type of loan where the interest rate is not fixed but allowed to "float" or vary over time.

FORECLOSURE: When a homeowner is unable to make full loan payments on their mortgage, allowing the lender to seize the property, evict the homeowner, and sell the property.

G

GRANTEE: The person receiving property ownership, commonly known as "the buyer."

GRANTOR: The person or legal entity transferring property ownership to another. The grantor is usually the current property owner.

GROSS LEASE: A lease in which the landlord pays all expenses associated with owning and operating the property.

H

HOLDING COSTS: Costs associated with owning a property during construction. This may include property taxes, interest, insurance and utilities, and/or vacancy.

I

INTEREST-ONLY LOAN: A method of loan amortization in which the borrower pays interest periodically over the term of the loan and pays the entire original loan amount at maturity. (Jumpstart Germantown Loans are interest-only loans.)

L

LIEN: A legal claim against a property that must be paid off when the property is sold. A mortgage or first trust deed is considered a lien.

TOOL 1.1 (CONTINUED)

GLOSSARY OF REAL ESTATE DEVELOPMENT TERMS

M

MATURITY: The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

N

NO CASH-OUT REFINANCE: A refinance that is not intended to put cash in the hands of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. This is also known as a "rate and term refinance."

O

OPEN-ENDED MORTGAGE: A mortgage that may be refinanced without rewriting the mortgage contract.

ORIGINATION FEE: An up-front fee a lender charges for processing a new loan application, used as compensation for putting the loan in place. Also called financing fee or commitment fee.

P

PRE-APPROVAL: A write-up of a loan to show proof of funds without any legal signatures binding the borrower to the loan. It means that a borrower has completed a loan application and the loan provider has preliminarily approved the borrower for a loan.

PRINCIPAL: In a loan, the amount borrowed or the amount still owed on a loan, separate from interest.

PRO-FORMA: A set of calculations that projects the financial return a proposed real estate development is likely to create.

PROMISSORY NOTE: A signed document containing a written promise to pay a stated sum of money to a specified person at a specified date.

PURCHASE OPTION: A lease agreement under which the user/tenant has the option to purchase the leased asset/property at a specified price at the end of the lease term.

R

RIGHT OF FIRST REFUSAL: A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase/lease the property before they sell or lease it to others.

S

SECURED LOAN: A loan that is backed by collateral (a.k.a., a security).

SHORT SALE: A sale of real estate in which the net proceeds from selling the property will fall short of the debts secured by liens against the property.

T

TITLE INSURANCE: Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property or liens against a property.

U

UNDERWRITING: The determination of the risk a lender would take on if the lender were to approve a particular mortgage loan application.

V

VACANCY COST: The cost to an owner of not having a tenant in a rental property. Calculated by multiplying total annual rent by the vacancy rate.

VARIANCE: A specific waiver to allow deviation from current zoning requirements of a property. If granted, it permits the owner to use the land in a manner not normally permitted by zoning law. It does not, however, change the zoning law. A city or town's Zoning Board is generally the grantor of a variance.

TOOL 3.1

AN INTRODUCTION TO RESIDENTIAL ZONING IN PHILADELPHIA

(based on a handout from Steve Masters, Esquire, Just Laws PLLC)

When am I required to get Zoning approval?

Zoning is one of the first steps in the development approval process. Each land use activity must demonstrate that it conforms with the municipality's zoning laws—whether it's simply a change in land use, brand new construction project, or rehabilitation project.

Zoning regulations ensure that the land use, site layout, and building on a parcel of land are compatible with its surrounding conditions.

Will I need a Zoning Permit?

Generally, a project will need a new zoning permit if it involves:

- changes in use
- new construction or additions
- alterations that result in a change in gross floor area
- carports, detached private garages, greenhouses, and rear yard sheds (for homes above a certain size)
- installation of a fence (if it exceeds the height limits the zoning code establishes)
- construction of a deck higher than a certain height
- wind energy conversion systems or ground-mounted/freestanding solar collectors
- creation of off-street parking or reconfiguration of existing parking
- changes to a property's zoning classification ("zoning map revision")

TOOL 3.1 (CONTINUED)

AN INTRODUCTION TO RESIDENTIAL ZONING IN PHILADELPHIA

(based on a handout from Steve Masters, Esquire, Just Laws PLLC)

Who can apply for zoning approval?

Property owners may file a zoning application, as well as agents of the property owner authorized in writing (such as tenants, family members, attorneys, licensed architects, licensed engineers, licensed contractors or licensed expeditors).

Check for:

- allowed ***uses and dimensional standards*** for the base zoning district.
- ***development standards***, such as: form and design, landscape, trees, outdoor lighting, fencing, historic preservation, parking, and signage requirements.
- ***overlay zoning*** district requirements. (An "overlay district" is superimposed on a base district and modifies or supplements the base zoning regulations.)

Using the Zoning Code

1. Look up the base and overlay districts that apply to the subject property.
2. Determine if the proposed use is permitted in the base district by reviewing the applicable ***Use Tables*** for the proposed use.
3. Review ***Dimensional Tables*** to see the permissible lot area, lot width, open area, building height, setbacks, and/or gross floor area for the district.
4. Determine the requirements for vehicle and bicycle ***parking***, as well as off-street ***loading***.
5. Review any sign requirements.
6. Pay special attention to requirements in a historic district or for a historic property.

Permits: How do I get zoning approval?

If zoning approval is needed, there are four main paths to getting a zoning permit in Philadelphia:

- ***by right/as-of-right.*** When the project proposal complies with all zoning provisions applicable to the property, an applicant can get a zoning permit from Licenses and Inspections (L&I) "by-right" without any action by the Zoning Board, Planning Commission, or City Council. Certain large projects must go through an advisory Civic Design Review process.
- by qualifying as a ***nonconforming*** use. Many land uses, buildings, parking areas, lots, signs, and site improvements in the City were established before the adoption of zoning, or they were legal when established but have become nonconforming due to later zoning changes. The Zoning Code regulates the continued existence, use, modification, and expansion of these nonconformities. (Consult §14-305 of the Philadelphia Zoning Code for addition information.)
- by ***special exception***. The Zoning Code permits certain uses and development by special exception, which is granted by the Zoning Board if the project is compatible with the surrounding neighborhood.
- by ***variance***. Sometimes special circumstances prevent projects from conforming to the Zoning Code standards. In these instances, applicants must obtain a variance from the Zoning Board to deviate from the zoning standards. The Zoning Board will verify that there are special circumstances presenting an unnecessary hardship in complying with the Zoning Code.

An application for a variance or special exception requires a ***neighborhood meeting*** with the Registered Community Organizations (RCOs) and then approval by the Zoning Board of Adjustment.

TOOL 3.2

SAMPLE LIST OF "COMPS"*

COMPARABLES				
ADDRESS	PROPOSED SALE PRICE		SF	BR/BA
Subject Property	$250,000		1,550	3/2
SALE VALUE				
ADDRESS	SALE PRICE	DATE SOLD	SF	BR/BA
375 N Main St	$253,000	7/13/2022	1,600	3/2
345 N 1st St	$230,000	11/14/2022	1,312	3/1.5
280 N East St	$270,000	11/7/2022	1,620	3/3
401 N East St	$339,000	2/5/2022	1,800	4/2
RENTAL VALUE				
ADDRESS	RENT	DATE RENTED	SF	BR/BA
350 N Main St	$1,500	1/12/2022	1,200	2/1
400 N 3rd St	$1,600	4/15/2022	1,300	2/2
550 N East St	$1,750	5/10/2022	1,475	3/1
Zillow estimate for property	$1,700		1,550	3/1
Rent-o-meter for property	$1,610		1,550	2/2

* These locations and values are for educational purposes only.

TOOL 3.3

PRO FORMA: BUY AND HOLD PROFIT AND LOSS

*Only complete this statement if you are planning to **hold** the property.*
Download the Excel version at www.jumpstartphilly.com

PURCHASE

PROPERTY COSTS

Purchase Price	$82,000
Construction Costs	$25,300
Total	**$107,300**

PERMANENT BANK LOAN

LTV	85%
Amount	$91,205
Rate	5.00%
Term	25 years

ASSUMPTIONS

1. 4-month rehab
2. 3BR / 2 bath
3. Tenant pays all utilities
4

INITIAL INVESTMENT

Down payment @ 15%	$16,095
Settlement Costs @ 5%	$4,100
Financing Costs @ 2% + $250 +$1,500	$3,644
Holding Costs (utilities, taxes, insurance)	$600
Other?	$
Total	**$24,439**

RENTS (MONTHLY)

Tenant No. 1	$1,350
Tenant No. 2	$
Tenant No. 3	$
Total	**$1,350**

OPERATING BUDGET

3%=annual rent increase; 3%=annual expense increase

YEAR NO.	1	1	2	3	4	5	6	7	8	9	10
	2022 Annual	2022 Monthly	2023	2024	2025	2026	2027	2028	2029	2030	2031
REVENUE											
Gross Income	$16,200	$1,350	$16,686	$17,187	$17,702	$18,233	$18,780	$19,344	$19,924	$20,522	$21,137
Less Vacancy @ 10%	($1,620)	($135)	($1,669)	($1,719)	($1,770)	($1,823)	($1,878)	($1,934)	($1,992)	($2,052)	($2,114)
Effective Gross Income	**$14,580**	**$1,215**	**$15,017**	**$15,468**	**$15,932**	**$16,410**	**$16,902**	**$17,409**	**$17,932**	**$18,470**	**$19,024**
OPERATING EXPENSES											
Management Fees @ 6%	$875	$73	$901	$928	$956	$985	$1,014	$1,045	$1,076	$1,108	$1,141
Insurance	$952	$79	$981	$1,010	$1,040	$1,071	$1,104	$1,137	$1,171	$1,206	$1,242
Real Estate Taxes	$2,320	$193	$2,390	$2,461	$2,535	$2,611	$2,690	$2,770	$2,853	$2,939	$3,027
Alarm Monitoring	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Repairs	$1,000	$83	$1,030	$1,061	$1,093	$1,126	$1,159	$1,194	$1,230	$1,267	$1,305
Trash Removal	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lawn Care & Snow Removal	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Water & Sewer	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gas & Electric	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Rental License	$50	$4	$52	$53	$55	$56	$58	$60	$61	$63	$65
Total Operations	**$5,197**	**$433**	**$5,353**	**$5,513**	**$5,679**	**$5,849**	**$6,025**	**$6,205**	**$6,391**	**$6,583**	**$6,781**
PROFITS											
Net Operating Income	**$9,383**	**$782**	**$9,665**	**$9,955**	**$10,253**	**$10,561**	**$10,878**	**$11,204**	**$11,540**	**$11,886**	**$12,243**
Debt Service	($6,398)	($533)	($6,398)	($6,398)	($6,398)	($6,398)	($6,398)	($6,398)	($6,398)	($6,398)	($6,398)
Net Cash Flow	$2,985	$249	$3,267	$3,557	$3,855	$4,163	$4,480	$4,806	$5,142	$5,488	$5,845
Debt Coverage Ratio	1.47		1.51	1.56	1.60	1.65	1.70	1.75	1.80	1.86	1.91
Return on Investment	12.21%		13.37%	14.55%	15.77%	17.03%	18.33%	19.67%	21.04%	22.46%	23.92%

TOOL 3.4

PRO FORMA: BUY AND SELL PROFIT AND LOSS

Only complete this statement if you are planning to ***sell*** *the property.*
Download the Excel version at www.jumpstartphilly.com

GROSS SALES REVENUE	
Expected Listing Price	$220,000
Realistic Sales Price	**$210,000**

PURCHASE AND REHAB

ACQUISITION & CONSTRUCTION COSTS	
Purchase Price	$103,000
Settlement Costs @ 5%	$5,150
Construction Costs	$34,040
Total	**$142,190**

CASH NEEDED	
Developer's Equity @ 15%	$21,329
Administration Fee	$1,500
Holding Costs (utilities, taxes, insurance)	$1,000
Total	**$23,829**

JUMPSTART GERMANTOWN LOAN	
LTV	85%
Total Project Cost	$120,862
Financing Fee @ 2%	$2,417
Legal Fee	$250
Loan Amount	**$123,529**
Rate	8.46%
Term	Interest only

NET PROFIT ON SALE

REVENUE	
Selling Price	$210,000
Settlement Cost Upon Sale @ 2%	($4,200)
Sales Commission @ 6%	($12,600)
Gross Profit	**$193,200**

EXPENSES	
Acquisition and Construction	($142,190)
Holding Costs	($1,000)
Interest on Loan	($3,127)
Total	**($146,317)**

PROFITS	
Net Profit	**$46,883**
Net Margin on Sale	**24.27%**

ASSUMPTIONS
1. Interest on loan calculated for 9 months at 50% ramp up
2.
3.
4.
5.

TOOL 4.1

BASICS YOU NEED FOR A BANK LOAN APPLICATION

(Adapted from a list supplied by William Pounds, Senior Vice President and Director of Commercial Real Estate, Republic Bank, February 2017.)

1. Copy of ***driver's license***
   (or passport or official ID)
2. Two (2) most recent years completed ***Federal Tax Returns*** (signed).
   Include any extension requests (if applicable)
3. Current Personal ***Financial Statement*** (signed).
   Should be less than six (6) months old
4. If titled in an Entity (LLC, LP, S CORP):
   Two (2) most recent years completed ***Entity Federal Tax Returns*** (signed);
   include any extension requests (if applicable)
5. Copies of ***bank statements***
   to support any liquidity you noted on your personal financial statements
6. Copy of ***organization documents***:
   Partnership Agreement, Operating Agreement, Certificate of Formation (for LP or LLC), Articles of Incorporation and Bylaws, Tax ID Number
7. Copy of ***Lease(s)*** (if applicable)
8. ***Agreement of Sale*** (if applicable)
9. ***Construction Budget*** (if applicable)
   (see JumpStep 5.1)
10. ***Pro forma***
    operating statement for rental, plus information about any historical income and expenses. (Include comparable rents in the area to support your rent estimate.) (see JumpStep 3.4)
11. ***Comparable sales*** in area
    to support your expected sales price (if applicable; see JumpStep 3.3)
12. ***Resume*** showing professional experience

TOOL 4.2

"BRRRR" STRATEGY: BUY; RENOVATE; RENT; REFINANCE (AND REPEAT!)

1. ***B**uy*
   Purchase a house that needs TLC for $50K!

2. ***R**enovate*
   Provide that TLC, along with some dollars (let's say $25K).

$50K	*Acquisition costs*
+ *$25K*	*Construction costs*
$75K	*Total Acquisition & Construction costs*

3. ***R**ent*
   Place happy tenants in your new house and earn rent.

4. ***R**efinance*
   After all your hard work, your house is now worth more because it has been rehabbed and fully rented! Let's say the new appraised value of your rental property is $120K. Cash out refinance at 75% LTV, to pull $90K in equity from the house and pay off $75K acquisition and construction loan.

$90K	*Cash out refinance*
– *$75K*	*Pay off Acquisition & Construction costs*
$15K	*Cash out*

5. ***R**epeat*
   Follow this same strategy with your next property and refinance every five years if the property value has gone up significantly. Your goal should be to have negative equity in your project.

TOOL 5.1

HOW TO WRITE A SCOPE OF WORK

Project Scope of Work - Sample

The work shall include, but not be limited to, all labor, materials, appliances, permits, and other expenses to perform the work as outlined below:

General notes:

1. Contractor has inspected and accepts all existing surfaces and job conditions. Costs associated with these conditions are included within this proposal.
2. Contractor shall field verify locations, sizes, and quantities of work required for the project.
3. Include all required cleanup for work completed under this scope. Contractor will include daily cleanup of all areas where work is performed and prompt disposal of debris.
4. Contractors shall be responsible for all permits and licensing, as required.
5. Contractor shall provide proof of General Liability and Worker's Compensation insurance.

Owner Furnished vs. Contractor Furnished Material Designation

OFCI—Owner Furnished, Contractor Installed.

CFCI—Contractor Furnished, Contractor Installed.

A. Demolition

1. Remove stairwell/kitchen partitions on main level. Temporarily shore ceiling as necessary.
2. Remove walls around staircase to create open stairs. Temporarily shore ceiling as necessary.
3. Remove existing kitchen cabinets.
4. Remove existing gyp board bulkheads & soffits.
5. Remove existing light fixtures.
6. Disconnect/cap plumbing for kitchen sink.

B. Drywall/Carpentry/Insulation (CFCI unless noted)

1. Furnish and install new structural beam between kitchen/stairwell.
   Shore existing ceiling as required to install beam and remove structural walls.
2. Construct half-wall partition (4ft tall) at stairs.
3. Infill existing exterior door with framing, drywall & batt insulation.
   Siding patching in siding scope of work.

HOW TO WRITE A SCOPE OF WORK

4. Infill existing door opening between dining room and master bedroom. Patch bedroom side with salvage wood paneling.
5. Patch ceilings as required where soffit is removed.
6. Install kitchen cabinets per the layout shown.
7. Install countertops and sink. (OFCI)
8. Install crown molding, base molding, filler panels, end panels, & trim pieces.

C. Plumbing (CFCI unless noted)

1. Remove any existing piping as required to complete new plumbing work.
2. Remove existing galvanized waste lines at existing kitchen sink & replace w/ PVC.
3. Provide rough-in for new kitchen layout.
4. Provide water supply and new waste lines to sink.
5. Install new kitchen faucet. (OFCI)
6. Install new garbage disposal and connection to dishwasher discharge. (OFCI)
7. Provide & connect water supply to dishwasher.
8. Provide & connect water supply to refrigerator.
9. Remove and cap existing gas service line to kitchen.

D. Electrical (CFCI unless noted)

1. Replace existing electrical panel with new 200 AMP panel & circuit breakers.
2. Rough-in new power & lighting for kitchen as required by code.
    a. Install new GFI protected outlets along new kitchen cabinet layout as required by code.
    b. Install new outlets for appliances as required by code.
    c. Install (04) new can lights. (OFCI)

TOOL 5.2

SAMPLE CONSTRUCTION BUDGET*

CONSTRUCTION COSTS	
Demolition	$6,320
Drywall	$3,200
Carpentry	$3,455
Insulation	$2,070
Plumbing	$6,950
Electrical	$9,100
Permits	$1,250
Subtotal	$31,250
15% Contingency	$4,688
Total Construction	**$35,938**

* These amounts are for sample purposes only and do not necessarily reflect amounts for accurate estimating.

* Notice how all line items in the budget are specifically addressed in the scope of work from Tool 5.1!

TOOL 6.1

10 TIPS ON SELECTING A CONTRACTOR

Adapted from Joseph Scorese, "10 Tips on How to Hire a Contractor for Your House Flip," LinkedIn, January 23, 2016 (https://www.linkedin.com/pulse/10-tips-how-hire-contractor-your-house-flip-joseph-v-scorese).

Cast a wide net and follow these guidelines:

1. Check references

Ask a contractor to show you his/her work. Or ask them for contact information for 3 to 5 recent clients (not from relatives!). Request "before and after" photos of their construction projects.

2. Get three bids

Ask the same questions of each contractor you interview. Don't automatically go with the lowest bid to save money—or assume the highest bid means higher quality and service. Remember, materials and labor have fixed costs, so be skeptical of any bid that's dramatically lower or higher than the others. Go with your gut—the winning bid should make sense to you and inspire your confidence in the contractor.

3. Compare "apples to apples"

All written bids must cover the EXACT same scope of work, so you can compare the quotes evenly. A contractor should leave nothing off their price quote. If they want to add or subtract items, they must do so by suggesting alternative add ons / subtractions. Create an itemized spreadsheet to compare each contractor's bid.

4. Confirm they're licensed and insured

Don't only ask for proof—go one step further and verify the information they give you with your state or city's contractors' licensing board. It's the only way to ensure they're conducting business legally.

5. Interview them and trust your gut

Treat the meeting like a job interview. Evaluate their professionalism. Were they late? Were they rude over the phone? Prepare specific questions, and notice how thoroughly they address your concerns. Avoid anyone who makes you feel remotely uncomfortable. There are plenty of qualified contractors available.

6. **Be specific about parameters and time frame**

   Communicate clearly about price, payment terms, and job schedule (when the project starts, working hours, number of days per week they will be on site). If possible, write into the contract a grace period and penalty if they don't complete work on time (e.g., deduct $50–$100 from the price for every day past the scheduled completion date). This should be standard operating procedure for experienced, quality contractors who do flips or tenant rehabs.

7. **Be clear on the payment schedule**

   Have the contractor agree to the payment terms in writing. Cover circumstances such as who is providing materials or the process for approving change orders. If possible, do not pay upfront or ahead. Pay only for work that has been completed.

8. **Make sure their expertise fits**

   Just because a contractor did a great job on a friend's house doesn't mean they're right for your project. If you need doors and windows installed, then don't rely on a contractor whose only references are for plumbing and electrical jobs.

9. **Check if you need a permit**

   Be wary of contractors who try to convince you that you don't need a permit for a project. They should help you navigate the process—not be someone you have to second guess. Research permit requirements in your area and confirm with other developers or a local architect whether a permit is needed before proceeding.

10. **Don't rush into anything**

    Renovations can be exciting but be cautious and patient. Always do your due diligence—it will pay off in the end!

TOOL 7.1

YOUR JUMPSTART "TO DO" LIST

- [ ] Attend Training sessions & connect with a mentor
- [ ] Join the Developers' Network & your local Jumpstart Facebook group
- [ ] Determine your investment goals and strategy
- [ ] Identify your team (bankers, investors, advisors, realtors, contractors, lawyer, accountant, designer, etc.)
- [ ] Find a property and put it under agreement of sale
- [ ] Conduct your due diligence
- [ ] Obtain short-term acquisition and construction financing, through Jumpstart or elsewhere
- [ ] Renovate the property
- [ ] Lease, sell, or live in the property
- [ ] If holding the property, obtain long-term financing

CASE STUDY

Assignment #1

Overview: This assignment builds on what you have learned during JumpStep 1.

Review a neighborhood plan and discuss how your development project would fit into that plan. How would you go about engaging the community about your project for support?

Assess the neighborhood landscape:

- What else is being developed?
- Who else is working/developing in the neighborhood?
- What organizations are active in the neighborhood? i.e., civic associations, neighborhood planning council, etc.
- What are the goals you hope to realize through your initial development project? (housing related, community development/stabilization, increasing business opportunities in the neighborhood, personal financial gain, etc.)

Assignment #2

Overview: This assignment builds on what you have learned in JumpSteps 1 and 2.

Identify Niche - type of development

Affordable, market rate, or mixed income?

Workforce housing; housing for extremely low-income households, low-income, moderate income; housing for families or individuals or seniors; housing for those needing various types of support/services

Describe why you are investing in the neighborhood:

- What are the risks and rewards of your investment?
- What will be your strategy?
- What type of ownership structure will you use? Why?

CASE STUDY

Assignment #3

Overview: This assignment builds on what you have learned in JumpSteps 3 and 4.

Identify and research a property.

- Get whatever property information is available – Zillow, assessor website, land bank or city- square footage lot and structure, age, assessor's maps with lot, footprint; building layout if available.
- Document lot and structure features, neighborhood assets and issues (photos, sketches, etc.)

Do Your Due Diligence:

- What are the strengths and weaknesses of the property? Property factors and environmental factors.
- What is the zoning classification? Is it properly zoned? If not, what zoning will it need to be changed to? Is it a historic property?
- What are the comps for this project?
- What sources of funding are available based on the property location?
- What funding resources will you pursue?
- How will you come up with your down payment?

Begin developing a BRRR strategy if you plan to hold the property, or sales strategy if you plan to sell the property after renovation.

CASE STUDY

Assignment #4

Overview: This assignment builds on what you have learned in JumpStep 5.

- Create a scope of work for your property/project.
- Create a construction budget.
- Develop a proforma for this property/project.
- Describe your approach to obtaining a permit.

Assignment #5

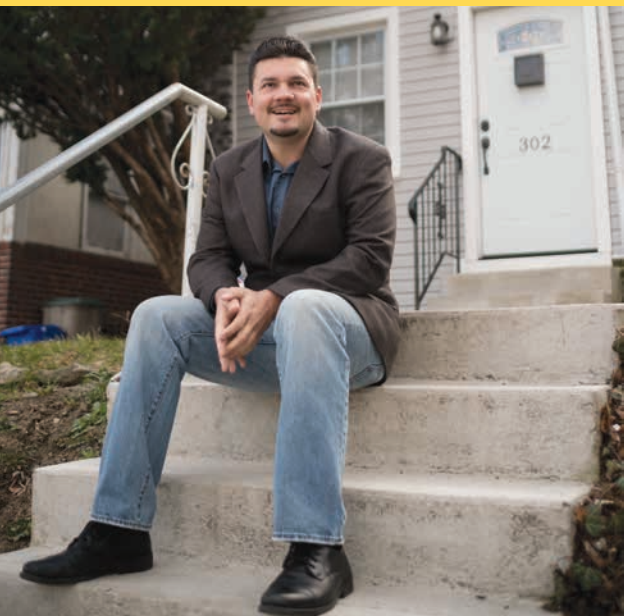
Overview: This assignment builds on what you have learned in JumpSteps 6 and 7.

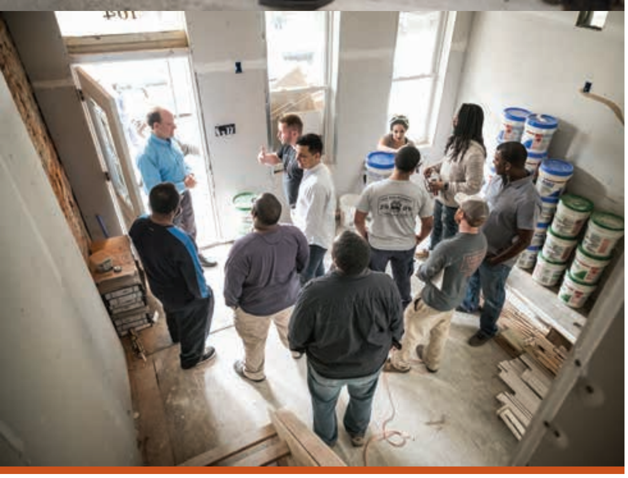
How would you go about selecting a contractor?

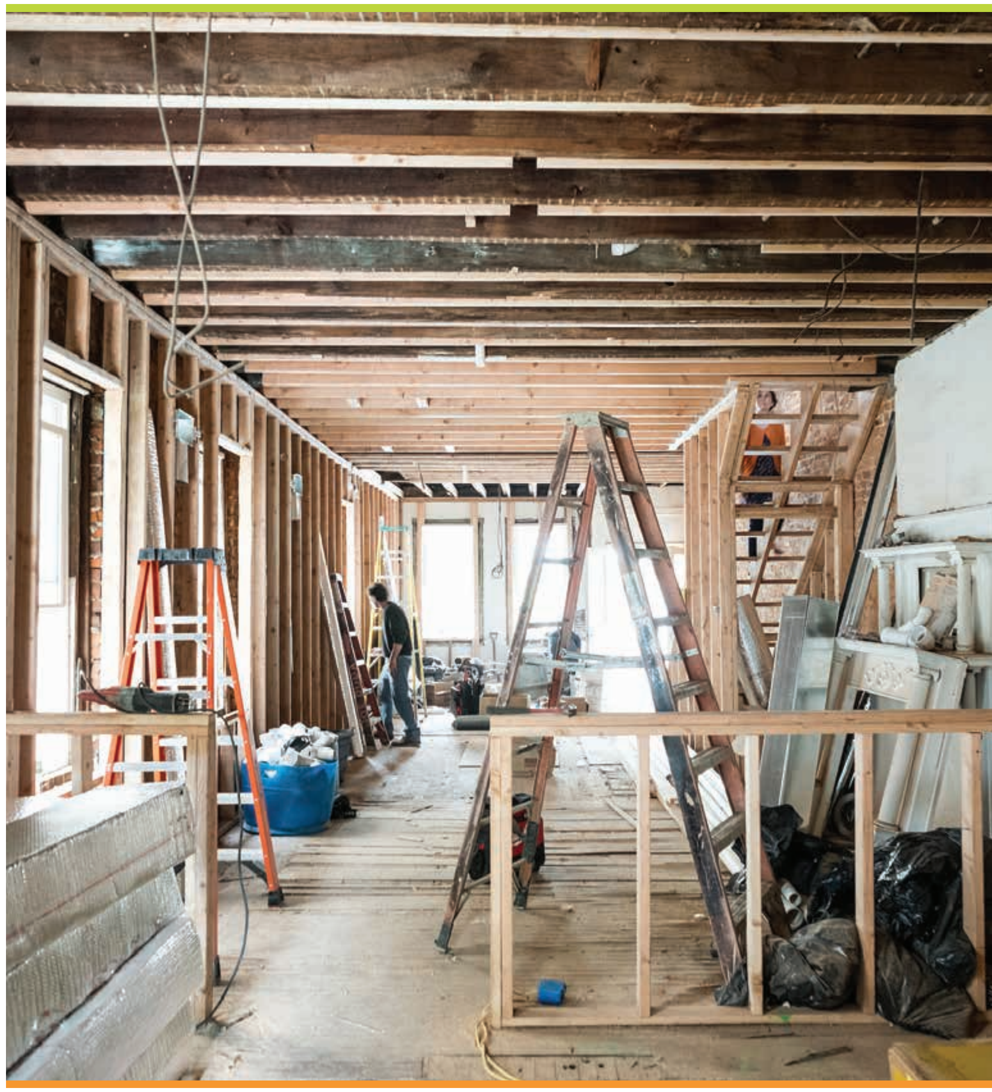
Describe your marketing strategy:

- How will you manage your property, if rental (self-manage or management company)?
- Why did you make this selection and what will be your approach?

Notes







JUMPSTART

Improving Your Community One House at a Time

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