Regional Rural Revitalization (R3) Public Private Partnership

Development Models

December 2023

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PUBLIC POLICY ADVISORS

Regional Rural Revitalization (R3) Strategies

- R3 is an intergovernmental agency that facilitates **public-private developments** and joint efforts between rural Oregon cities to address chronic infrastructure, housing, and government innovation deficiencies.
- R3 is funded through a **pilot program** to provide **funding for planning, infrastructure, capital equipment, and predevelopment costs for housing**. This legislation authorizes R3 to award grants and loans to capacity builders and developers of housing and to enter into public-private partnerships for housing development. Housing supported with moneys appropriated under this section may be located in any area of Oregon, except for within the urban growth boundary of a city with a population greater than 50,000.
- R3 may use multiple **P3 models** (described herein) to negotiate agreements that lead to new home production, including:
    - Technical assistance with planning, due diligence, conceptual design, home design, and permitting
    - Infrastructure grants for site improvements
    - Loans and Forgivable loans
    - Cash rebates and other developer incentives
- R3 works in partnership with local jurisdictions and **urban renewal agencies**

How R3 works with Urban Renewal

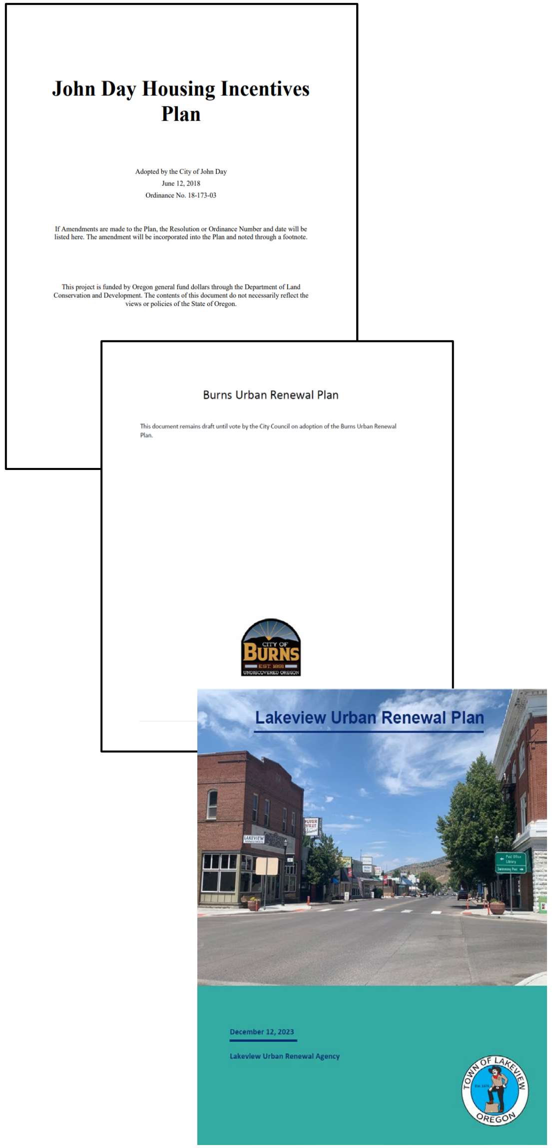
John Day, Burns, and Lakeview have URAs with multiple housing incentive programs

These programs help revitalize their communities through public and private-sector investment

URA programs complement and may be public co-investors with R3 on projects

URA programs include:

1) Planning and code assistance;
2) Land acquisition and due diligence;
3) Predevelopment incentives; an
4) Infrastructure investment program;
5) Land development incentives;
6) System development charge payments;
7) New construction incentives;
8) Renovation incentives;
9) Administration and R&D activities; and
10) Manufactured and Modular Home Preservation and Development Assistance.



John Day Housing Incentives Plan

Adopted by the City of John Day

June 12, 2018

Ordinance No. 18-173-03

If Amendments are made to the Plan, the Resolution or Ordinance Number and date will be listed here. The amendment will be incorporated into the Plan and noted through a footnote.

This project is funded by Oregon general fund dollars through the Department of Land Conservation and Development. The contents of this document do not necessarily reflect the views or policies of the State of Oregon.

Burns Urban Renewal Plan

This document remains draft until vote by the City Council on adoption of the Burns Urban Renewal Plan.

Lakeview Urban Renewal Plan

December 12, 2023

Lakeview Urban Renewal Agency

P3 Models

	Partner	Option 1: Land Purchase and Sale Agreement	Option 2: Landowner Carry + Builder Financing	Option 3: Landowner Carry + Landowner Financing	Option 4: Landowner Carry + Public Agency Financing	Option 5: Landowner Carry + Investor Equity
Private	**Landowner**	Sells the Land	Carries the land as equity	Land as equity + Construction Financing	Land as equity	Land as equity
	Housing Developer	Buys the Land	Finances the home construction	Builds the home (contract fee)	Builds the home (contract fee)	Builds the home (contract fee)
	Homeowner	Buys the Land	Buys the home	N/A	N/A	N/A
Public	**R3**	Grant, loan, or forgivable loan for Infrastructure	Option 1 w or w/o Equity Investment (Cash in Escrow)	Option 1 w or w/o Equity Investment (Cash in Escrow)	Option 1 w or w/o Equity Investment (Cash in Escrow) + Construction Loan Financing	Option 1 w or w/o Equity Investment (Cash in Escrow)
	URA	SDC Payment	SDC Payment + Home Rebate	SDC Payment + Home Rebate	SDC Payment + Home Rebate	SDC Payment + Home Rebate
	City	Infrastructure Financing	Infrastructure Financing	Infrastructure Financing	Infrastructure Financing	Infrastructure Financing
Finance	**Commercial Real Estate (CRE) Lender**	N/A	N/A	Construction Loan Financing	N/A	N/A
	Institutional Equity Investor	N/A	N/A	N/A	N/A	Infrastructure and/or Construction Equity Financing

Basic Process

1) Applicants or R3 communities **identify potential projects**
2) Staff **evaluate project** and present to the board for an initial investment decision (**the pitch**)
3) Board authorizes additional **due diligence** (if needed)
4) Draft **terms and conditions** agreed upon
5) Joint development agreement created, reviewed, and approved
   - Funds transferred and project initiated per agreement
   - Project monitoring, verification, and validation during planning and construction
   - Closeout and case study / after-action report

Think “**Shark Tank**,” not the DMV

Due Diligence & Decision Criteria

1) The **quality of the team**
2) Project **metrics and deal terms**
3) The **overall benefits** to the community and housing market

Property Details	
Total Land Size	1.0 Acres
Gross SF To Be Built	8,000
Sellable SF To Be Built	7,950
Units To Be Built	6
Units/Acre	6.0
Average Unit SF	1,325
Parking Stalls To Be Built	0
Parking Stalls/Unit	0.00
Property Address	Miller Springs - Phase 1
City/State/Zip	Burns, Oregon

Land Acquisition Information	
Land Acquisition Price	$253,800
Land Price/Acre	$253,800
Land Price/Unit	$42,300
Land Price/Gross SF	$32
Land Price/Sellable SF	$32
Closing Costs (as % of Land Price)	0.00%
Closing Costs	$0
Acquisition Fee (as % of Land Price)	0.00%
Land Acquisition Fee	$0
Land Acquisition Date	10/31/2024

Construction Financing Information	
LTC	65%
Loan Amount	$1,135,778
Loan Fees (as % of Loan Amount)	1.00%
Loan Fees	$11,358
Interest Rate Index	1-Month SOFR
Interest Rate Spread	3.50%

Construction Details	
Construction Management Fee	7.00%
Contingency	10.00%
Construction Start Date	11/1/2024
Construction End Date	4/30/2026
Total Months of Construction	18 Months
Hard Costs	$992,000
Soft Costs	$226,133
Contingency	$121,813
Construction Management Fee	$85,269
Total Construction Costs	$1,425,216
Total Construction Costs/Unit	$237,536
Total Construction Costs/Gross SF	$178
Total Construction Costs/Sellable SF	$179

Public Incentives	
URA Rebate	7.00%
Other Incentives (R3)	$0

Total Cost Details	
Total Project Costs	$1,747,350
Total Project Costs/Unit	$291,225
Total Project Costs/Gross SF	$218
Total Project Costs/Sellable SF	$220
Post-Construction Operating Costs	$11,114
Net Profit Margin	8.7%

Sale Details	
Total Sale Proceeds	$2,070,335
Total Sale Costs	$144,923
Net Sale Proceeds	$1,925,412
Average Sale Price/Unit	$345,056
Average Sale Price/Sellable SF	$260
Average Assessed Value/Unit	$251,750
% of Total Units Pre-Sold	10%
% of Deposits Used for Construction Costs	0%
Month of First Closing	Month 12
Final Unit Sold	Month 24
Date of First Closing	10/31/2025
Project Sell-Out Date	10/31/2026

Circuit Breaker	
Circuit Breaker	Off

Sale Details	
Total URA Rebate	$0

Total Sources	
Debt	$1,135,778
Equity	$611,573
Total	$1,747,350

Total Uses	
Land Acquisition Price	$253,800
Closing Costs	$0
Land Acquisition Fee	$0
Hard Costs	$992,000
Soft Costs	$226,133
Contingency	$121,813
Construction Management Fee	$85,269
Loan Fees	$11,358
Capitalized Interest	$56,977
Total	$1,747,350

Unlevered Return Metrics	
Unlevered IRR	15.30%
Unlevered Equity Multiple	1.16x
Unlevered Profit	$235,282

Levered Return Metrics	
Levered IRR	17.91%
Levered Equity Multiple	1.27x
Levered Profit	$166,947

Equity Split		%
Land	$253,800	41%
Cash	$357,773	59%
Total Equity	$611,573	100%

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P3 Model Descriptions

	Partner	Option 1: Land Purchase and Sale Agreement
Private	**Landowner**	Sells the Land
	Housing Developer	Buys the Land
	Homeowner	Buys the Land
Public	**R3**	Grant, loan, or forgivable loan for Infrastructure
	URA	SDC Payment
	City	Infrastructure Financing
Finance	**Commercial Real Estate (CRE) Lender**	N/A
	Institutional Equity Investor	N/A

Option 1 – Land Purchase and Sale Agreement

- **Description:** This approach is the most conventional. A landowner develops property for sale to housing developers or homeowners who will contract with their own builder.
- **What's unique:** One or more public agencies invests in the public improvements (water, sewer, streets, broadband, etc.) to reduce the cost and make the land developments pencil.
- **Examples:**
  - Ironwood Estates (John Day) = $749,900 infrastructure investment
  - The Ridge (John Day) = $749,900 infrastructure investment
  - Holmstrom Heights (John Day) = ~$400,000 infrastructure investment
- Two of these examples were Privately Engineering Public Improvements (PEPI) and one was Publicly Engineered
- Difference is the contracting authority on the project and whether it is subject to Prevailing Wage Rates (PWR)
- URA contributes SDC costs (fees paid to city) which are another developer incentive (effectively a credit)

P3 Model Descriptions

	Partner	Option 2: Landowner Carry + Builder Financing
Private	Landowner	Carries the land as equity
	Housing Developer	Finances the home construction
	Homeowner	Buys the home
Public	R3	Option 1 w or w/o Equity Investment (Cash in Escrow)
	URA	SDC Payment + Home Rebate
	City	Infrastructure Financing
Finance	Commercial Real Estate (CRE) Lender	N/A
	Institutional Equity Investor	N/A

Option 2 – Landowner Carry + Builder Financing

- **Description:** In this approach, a landowner develops property for sale to housing developers who bring their own financing and are building spec homes (homes without a dedicated buyer). Instead of selling the land outright at the start of the project, the landowner is carrying the land and contributing it toward the equity needed to underwrite the financing or to entice an equity investment from the builder, who brings their own capital for construction.
- **What's unique:** In this scenario, you have two equity investors: the landowner, and the builder.
- **Example:**
  - Hayden Homes contracts with R3 and a City to build X units in a community. They mobilize their builder teams, bring their own plans, and use their regional buyer network to the sell the housing (ideally before it's finished)
  - City's can still contribute to infrastructure financing for the horizontal improvements if needed
  - URA's can issue SDC credits and home rebates on new construction
  - R3 can invest as in Option 1 for the horizontal improvements or can provide equity in an escrow account as a builder incentive for vertical improvements (housing and community facilities)

	Partner	Option 3: Landowner Carry + Landowner Financing
Private	Landowner	Land as equity + Construction Financing
Private	Housing Developer	Builds the home (contract fee)
Private	Homeowner	N/A
Public	R3	Option 1 w or w/o Equity Investment (Cash in Escrow)
Public	URA	SDC Payment + Home Rebate
Public	City	Infrastructure Financing
Finance	Commercial Real Estate (CRE) Lender	Construction Loan Financing
Finance	Institutional Equity Investor	N/A

P3 Model Descriptions

Option 3 – Landowner Carry + Landowner Financing

- **Description:** This option is similar to Option 2, except that instead of a homebuilder financing a project, the landowner brings the financing.
- **What's unique:** The builder does not have equity in this scenario; they are working on a contract with a set price or fee structure for each unit built. The landowner assumes all of the risk in the deal because they are investing 100% of the private equity, usually through a commercial real estate (CRE) loan
- **Examples:**
  - Landowner contracts with Simplicity, Adair, a local GC, or another "Build on your own lot" builder to build X number of spec units
  - Landowner is responsible for sales
  - Landowner gets the full benefits
- This option may be the most likely initial foray into the markets because rural-frontier communities have no commercial builders and are unproven
- Public agencies have all the same investment options as they do in Option 2

P3 Model Descriptions

	Partner	Option 4: Landowner Carry + Public Agency Financing
Private	Landowner	Land as equity
Private	Housing Developer	Builds the home (contract fee)
Private	Homeowner	N/A
Public	R3	Option 1 w or w/o Equity Investment (Cash in Escrow) + Construction Loan Financing
Public	URA	SDC Payment + Home Rebate
Public	City	Infrastructure Financing
Finance	Commercial Real Estate (CRE) Lender	N/A
Finance	Institutional Equity Investor	N/A

Option 4 – Landowner Carry + Public Agency Financing

- **Description:** This is the same as option 3, except instead of a private landowner assuming the CRE loan and investment risk, the risk of the project (and its benefits) are undertaken by a public agency.
- **What's unique:** The public agency provides 100% of the financing, assumes 100% of the risk, and gets 100% of the reward
- **Examples:**
  - Rural markets where no landowners are available or no land is improved and ready for home construction
  - Public agency takes on the role of land developer and GC for the homebuilding process to prove the market
- Needed in less mature markets
- Good option for Tribes where the PWR is paid to the tribal members, who provide the labor
- Good option for sweat equity projects where future homeowner provides the labor
- Good option for housing the homeless
- In most cases, PWR laws will be applicable because the public agency is the contracting authority or the total public funds invested are $750,000 or more

P3 Model Descriptions

	Partner	Option 5: Landowner Carry + Investor Equity
Private	Landowner	Land as equity
	Housing Developer	Builds the home (contract fee)
	Homeowner	N/A
Public	R3	Option 1 w or w/o Equity Investment (Cash in Escrow)
	URA	SDC Payment + Home Rebate
	City	Infrastructure Financing
Finance	Commercial Real Estate (CRE) Lender	N/A
	Institutional Equity Investor	Infrastructure and/or Construction Equity Financing

Option 5 – Landowner Carry + Investor Equity

- **Description:** This is similar to option 4, except the big investor is an institution, typically through an investment vehicle like an opportunity zone fund. Rather than a construction loan or public improvement loan, the equity investor funds the project in exchange for the lion's share of the returns from the appreciation and any future income streams from leases.
- **What's unique:** This approach has the potential to scale more than the others, with net investments of $10M or more without triggering PWR
- **Example:**
  - Opportunity Zone Fund invests $50M in housing and infrastructure for 200 units of multifamily or single family rentals; Fund grows tax exempt and exits with no capital gains after 10 years invested
- Most use cases will require a "for lease" rather than "for sale" model so the investors get the benefits of the rental income as a going concern plus the tax abatement and appreciation in the market

Summary

- Each option has a specific use case and potential investor
- Each option has a unique risk and reward profile for the public, private, and financing agencies
- Each option can be financially modeled to help create the deal terms and conditions as well as the equity or distribution waterfalls so each party knows what their role is, what they are responsible for, and when and how they exit
- Having options is a good thing, but…
- We must know when and how to use them.

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