

THE LAUNCH REPORT

1Q23 NEWSLETTER

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GETTING DEALS TO PENCIL IN TEXAS;
LAO MARKETS AT A GLANCE



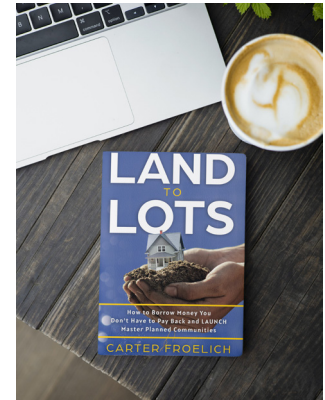
LAUNCH

DEVELOPMENT FINANCE ADVISORS



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How to Borrow Money You Don't Have to Payback
to Launch Master Planned Communities**

In Launch's continued effort to share information and strategies with the development industry, we are proud to announce the release of Land To Lots™ – [How to Borrow Money You Don't Have to Payback to Launch Master Planned Communities](#) ("Land to Lots™")



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2. Financing infrastructure using long term (e.g., 25-30 year) non-recourse, tax exempt financing which will ultimately be paid back by others;
3. Increasing project profitability and nominal dollar or internal rates of return;
4. Reducing, eliminating and/or deferring construction costs;
5. Creating certainty and flexibility to allow you to adapt to changing market conditions;
6. Ensuring that you never lose track of reimbursable costs; and
7. Accelerating cash into the project proforma.

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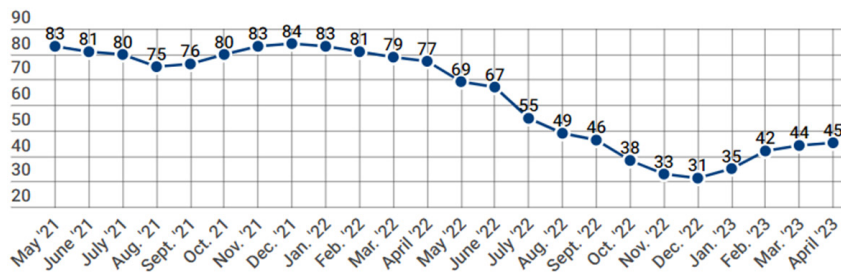


Home Builders Seeing a Light at the End of the Tunnel (and it's Not a Train)

By Nick Kral

Despite the ups and downs of the economy over the past 12 months, homebuilder confidence has increased since the fourth quarter 2022. The National Association of Home Builders' ("NAHB") Housing Market Index ("HMI") has risen over the past three months and is back to approximately the same level as September 2022. With development costs stabilizing, interest rates dropping, and the continued supply constraint and demand from buyers, builders are active in the market and continuing to develop new projects.

NAHB HMI Index



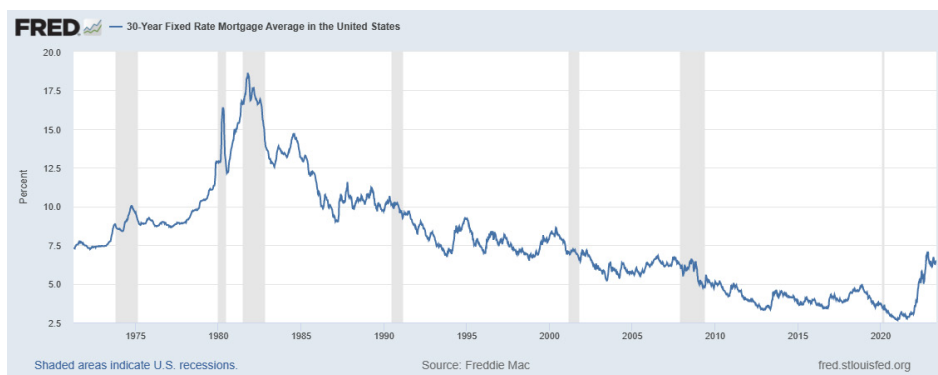
Construction Costs

The Engineering News-Record's monthly Construction Cost Index ("CCI") for April 2023 shows the largest slowdown in cost increases since 2020. With construction costs up approximately 2.5% year over year, compared to the 8.8% increase from April 2021 to April 2022, costs are still rising but are more in line with long-term trends.

The unprecedented rise in construction costs since 2020 had left many developers and builders unable to find suitable projects partially due to the spike in construction costs. The CCI shows a 15.9% construction cost increase since April 2020, causing many projects to no longer "pencil". With the leveling of cost increases developers and home builders can hopefully feel more confident moving forward on future projects.

Interest Rates

Interest rates have risen sharply since November of 2020 when average mortgage rates hit an all-time low of 2.66%, rising to over 7% in November of 2022. Rates have since stabilized around 6.5%, giving buyers the confidence to shop for a home. These are the highest interest rates seen since 2008, but buyers have continued to flood the market leading to consistent demand.





Home Builders Seeing a Light at the End of the Tunnel (and it's Not a Train) - Cont.
 By Nick Kral

Continued Supply Constraints

The supply of homes available on the market is still far below pre-pandemic levels. While the overall supply of homes on the market is up 6.3% year-over-year, we are still 37.4% below pre-pandemic levels on the West Coast. The continued lack of supply in the market has stabilized pricing even in the face of rising interest rates. This lack of supply gives developers and builders the confidence to continue moving forward on long-term projects.

Region	Active Listing Count vs Pre-Pandemic	New Listing Count vs Pre-Pandemic	Median Listing Price vs Pre-Pandemic	Median Listing Price Per SF vs Pre-Pandemic	Median Days on Market vs Pre-Pandemic (Days)
Midwest	-53.90%	-32.90%	30.80%	42.00%	-6
Northeast	-60.50%	-37.80%	35.20%	48.00%	-12
South	-40.60%	-22.00%	33.70%	51.30%	-7
West	-37.40%	-38.50%	36.90%	49.20%	5

Source: April 2023 Housing Overview by Top 50 Largest Metros

Long-Term Builder Outlook

These three long-term market drivers show positive signs for builders and developers. These trends are not likely to change dramatically over the next few years, providing some clarity to the industry. Construction costs are not likely to fall in the near term, if ever, but a predictable increase in pricing can better be accounted for in projections compared to the skyrocketing costs of 2020 and 2021. Mortgage interest rates have stabilized, allowing buyers the confidence to buy new construction without the risk of having the interest rate change to cause them to no longer qualify for the loan. Finally, the long-term supply/demand imbalance will work in favor of builders and developers.

Nick Kral is a Senior Manager in Launch's Irvine, California office specializing in [community facilities district financings](#) for developers and home builders. Nick may be reached at nickk@launch-dfa.com.

Click image to view California CFD Brochure





Getting Deals To Pencil In Texas

By Ryan Mills

Texas continues its enormous population growth with 13.3% growth over the last 10 years to just under 30 million. The population boom has led to a continued demand for housing, pushing home prices, construction costs and land prices higher.

Real estate prices hit their peak in May 2022 before the Federal Reserve began its monetary tapering policy to cool off inflation and asset prices, with most Texas metropolitan housing market prices leveling off or slightly declining over the past year. With real estate costs leveling off, the cost of borrowing on the rise, and construction costs continuing to climb, almost 15% since January 2021 (Turner Construction Cost Index), Texas developers are experiencing constraints getting new projects to “pencil”.

The good news is that Texas has a lot of financial tools in its tool belt and State Agencies and local jurisdictions are typically willing to assist developers to utilize these tools to access non-recourse, long term, tax exempt bond financing via the public debt markets.

The financing districts that we typically assist our clients establish are public improvement districts (“PID”); PIDs along with a Tax Increment Reinvestment Zone (“TIRZ”) and municipal utility districts (“MUD”).

While the purpose of this article is not to get into the details of how these districts work and the various differences between the bond types which each district typically issues to fund public improvements; the point of this article is to shed light on what tools are available in Texas; and how these different districts may offset the rising costs of public infrastructure allowing new project to “pencil” and move forward.

To keep the differences between the various financing structures simple, I offer the following:

PIDs – Issue special assessment bonds secured by a specific lien on a specific parcel or lot. As these bonds are sized on the fair market value of the land, assessment bond proceeds are received much faster in the development cycle. Typically, bonds are issued on a phase-by-phase basis as development moves forward. PIDs are overseen by the jurisdiction in which they are located.

TIRZ – Often times to get a developer to annex into a city’s incorporated area, a city will offer a TIRZ in conjunction with a PID to assist in the funding of public improvements. Under this case, the city and/or county provide a portion of the property tax increment generated by the project over a base year amount. This tax increment is utilized to pay down PID assessments on the project. This often allows the developer to issue a larger bond amount than what would be possible through the PID only structure. A TIRZ is administered by a separate board.



Getting Deals To Pencil In Texas - Cont.

By Ryan Mills

MUD – As MUD bonds are secured by ad valorem property taxes on the assessed valuation of the property contained within the MUD, it can take some time until the assessed valuation has increased to such a level as to allow for large bond issuances. However, unlike the PID bonds which are typically done on a phase-by-phase basis (e.g., one and done); MUD bonds are typically issued every year as assessed valuations grow and bonds are refunded. As such, over time the MUD will generate more proceeds than a PID. However, the developer needs to consider the time value of money when evaluating this alternative. In our experience, most MUDs are done in the County as opposed to an “in city MUD” A MUD is a separate political subdivision of the State and is governed by an independent board.

The table below provides a snapshot as to estimated timing and amount of net construction proceed that can be provided given a PID, PID/TIRZ and MUD. In all examples we have assumed: (i) 900 units; (ii) \$450,000 average home price; (iii) 40% of City / County property tax rate available for TIRZ; (iv) MUD to be established in the County (not City); (v); 173 homes sales per year; and (vi) 2% home price appreciation and annual assessed valuation increase.

Description	PID	PID + TIRZ Subsidy	MUD
Gross Bond Amount (1)	\$ 21,055,000	\$ 39,590,000	\$ 58,675,000
Cost of Issuance (2)(3)	\$ (1,263,291)	\$ (2,375,526)	\$ (2,347,051)
Underwriter Discount (3%)	\$ (631,645)	\$ (1,187,763)	\$ (1,760,288)
Capitalized Interest (12 Months)	\$ (1,158,017)	\$ (2,177,565)	NA
Reserve Fund (Maximum annual debt service)	\$ (1,468,967)	\$ (2,762,284)	NA
Administrative Fund (\$35,000 per Issue)	\$ (70,000)	\$ (70,000)	NA
Est. Net Bond Proceeds	\$ 16,463,081	\$ 31,016,862	\$ 54,567,661
Est. Total Financing Proceeds	\$ 16,463,081	\$ 31,016,862	\$ 54,567,661
Average Lien Per Lot (Over Analysis Period)	\$ 23,394	\$ 43,989	NA
Net Proceeds Per Lot (Over Analysis Period)	\$ 18,292	\$ 34,463	\$ 60,631
Net Present Value Analysis (4)			
12% Discount Rate	\$ 13,178,876	\$ 21,310,009	\$ 23,861,616
14% Discount Rate	\$ 12,743,487	\$ 20,124,934	\$ 21,164,654
16% Discount Rate	\$ 12,333,400	\$ 19,031,710	\$ 18,875,553
Total Lots (5)	900	900	900
Property Tax Rate Payment			
Current Property Tax Rate (6)	\$ 2.668	\$ 2.668	\$ 1.935
Administration Tax Rate Equivalent (7)	\$ 0.007	\$ 0.007	NA
Additional Interest Tax Rate Equivalent (8)	\$ 0.026	\$ 0.026	NA
Debt Service Property Tax Rate Equivalent (9)	\$ 0.349	\$ 0.656	NA
TIRZ Tax Rate Equivalent Credit (10)(11)	NA	\$ (0.307)	NA
MUD Market Driven Tax Rate Equivalent (12)	NA	NA	\$ 0.900
Est. Total Equivalent Property Tax Rate	\$ 3.05	\$ 3.05	\$ 2.84
Home Owner Property Tax Payment			
Weighted Average Unit Price (5)	\$ 450,000	\$ 450,000	\$ 450,000
Current Property Tax Annual Payment	\$ 12,004	\$ 12,004	\$ 8,708
Est. Homeowner Annual District Payment	\$ 1,721	\$ 3,103	\$ 4,050
Est. Annual TIRZ Credit	NA	\$ (1,382)	NA
Est. Net Homeowner Annual Property Tax Payment	\$ 13,725	\$ 13,725	\$ 12,758
Footnotes:			
(1) Assumes the issuance of 2 series of bonds over time with a 29 year bond term, 12 months of capitalized interest, and a 6% interest rate.			
(2) PID Bonds assume 2% fee for Financial Advisor; 2% fee for Bond Counsel; 1% fee for City Attorney; and 1% fee for other professional fees.			
(3) MUD Bonds assume a 4% MUD underwriter discount.			
(4) Assumes NPV as of 1/1/2024.			
(5) Assume 2.0% annual appreciation for all home prices.			
(6) Per XYZ County Appraisal District 2022 Property Tax Rates. Current property tax rate assumes annexation into city. MUD assumes project remains only in county.			
(7) Tax rate equivalent for the annual \$30,000 PID administration fee.			
(8) Tax rate equivalent for the additional 0.50% interest component.			
(9) Derived from the PID target tax rate of \$3.05.			
(10) Assumes 40% of county property tax revenue created from the development will be made available for payment of F			
(11) Assumes 40% of city property tax revenue created from the development will be made available for PID assessment.			
(12) Estimates 33% will be dedicated to maintenance and operations of the district, and the remaining 67% being dedicated to debt service.			



Getting Deals To Pencil In Texas - Cont.

By Ryan Mills

As one will note, while the MUD will generate more nominal dollars over time, the cost of capital along with the location of the project and the supply of water and sewer utilities will determine which financing source is the best fit for the project and/or developer.

For more information on which Texas financing vehicle may be best to get your project to “pencil” as well as a complementary bond sizing for your project, contact Ryan Mills at Ryanm@launch-dfa.com.

Click on images below for Texas Bond Information:

TEXAS INFRASTRUCTURE FINANCING OPPORTUNITIES



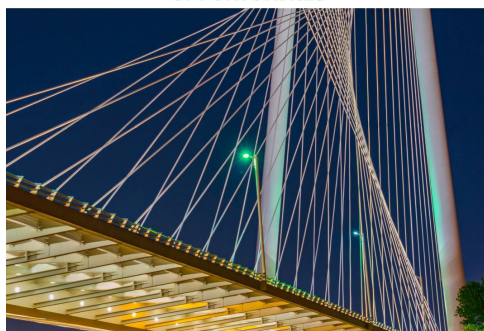
MUNICIPAL UTILITY DISTRICTS

TEXAS INFRASTRUCTURE FINANCING OPPORTUNITIES



PUBLIC INFRASTRUCTURE DISTRICTS

TEXAS INFRASTRUCTURE FINANCING OPPORTUNITIES



TAX INCREMENT REINVESTMENT ZONE



Land to Lots™ Podcast

By Carter T. Froelich, CPA

Land to Lots™ - The Podcast

Over the last quarter we have added the following Land to Lot™ podcasts to our library.

Episode 26 – [Show me the Money](#)

Episode 25 – [NAHB Podcast](#)

Episode 24 – [An Interview with Tripp Davenport of FMS Bonds](#)

Episode 23 – [The Project Diagnostic™ \(Part 3 of 3\)](#)

Episode 22 – [The Project Diagnostic™ \(Part 2 of 3\)](#)

Episode 21 – [The Project Diagnostic™ \(Part 1 of 3\)](#)

Episode 20 – [Launching MPCs with the Launch Sequence™ \(Part 2\)](#)

Episode 19 – [Launching MPCs with the Launch Sequence™ \(Part 1\)](#)



PODCAST HOSTED BY
CARTER T. FROELICH



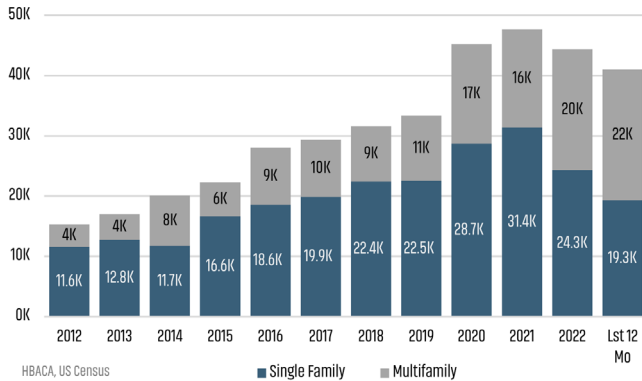
A Land Advisors
Organization Company



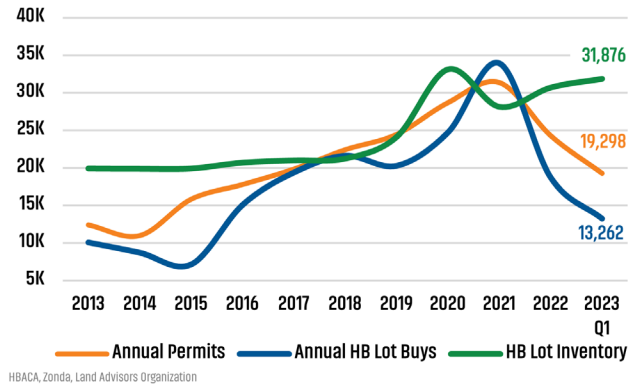


MARKETS AT A GLANCE - PHOENIX, PINAL, NORTHERN AZ, TUCSON (1Q23)

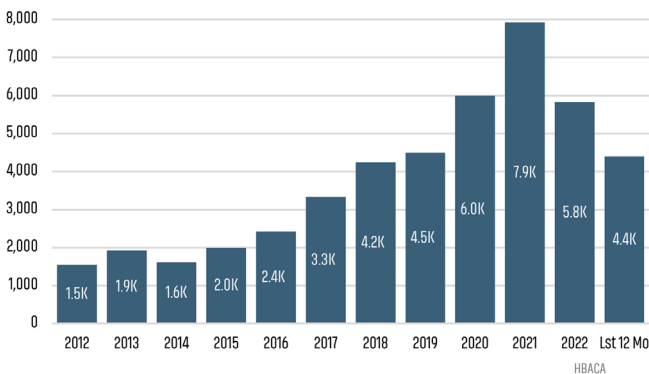
Phoenix Single Family & Multi-Family Permits



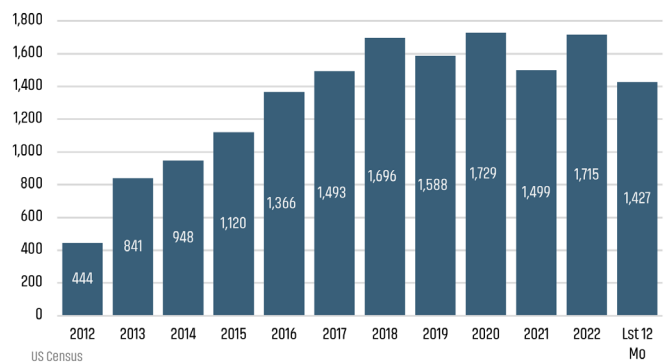
Phoenix Finished Lot Inventory vs. Permits



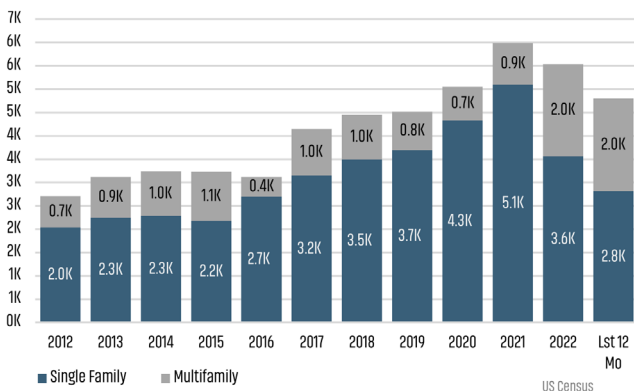
Pinal Single Family & Multi-Family Permits



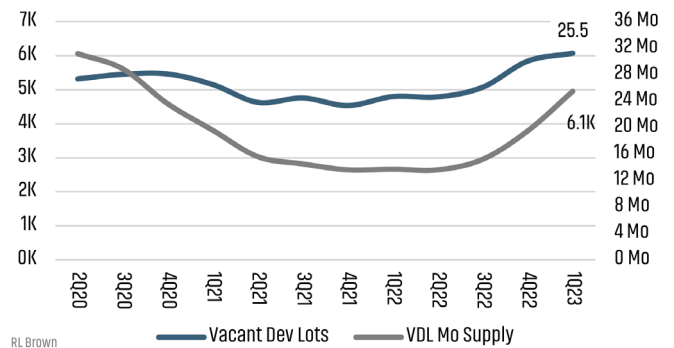
Northern AZ Family & Multi-Family Permits



Tucson Single Family & Multi-Family Permits



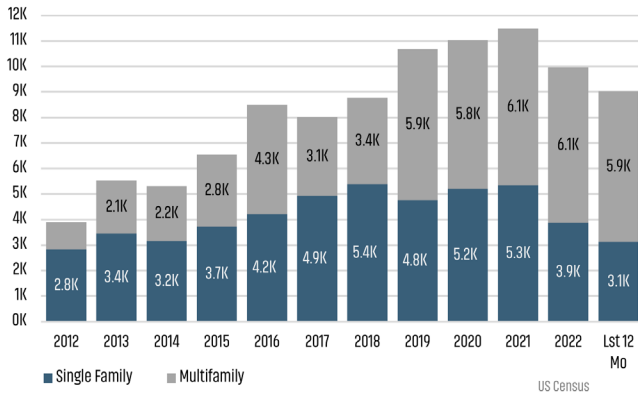
Tucson Vacant Development Lot Supply



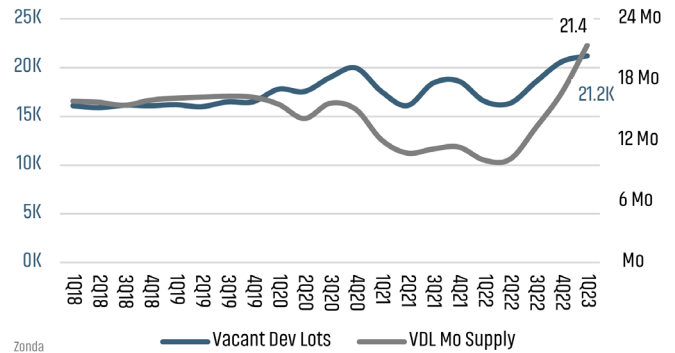


MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (1Q23)

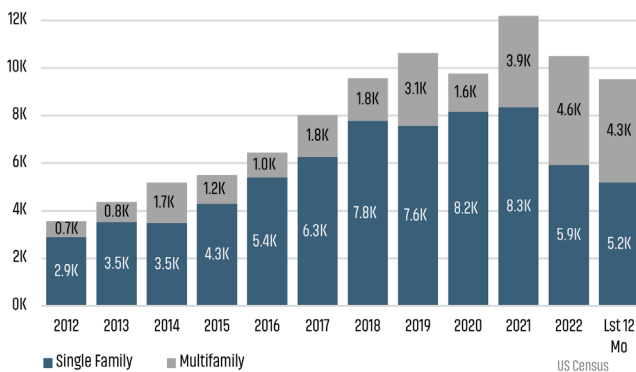
Utah Single Family & Multi-Family Permits



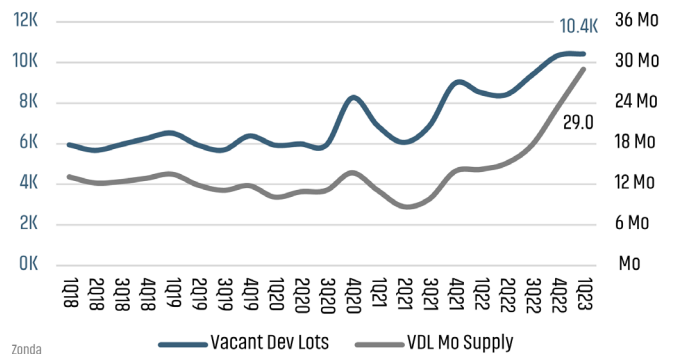
Utah Vacant Development Lot Supply



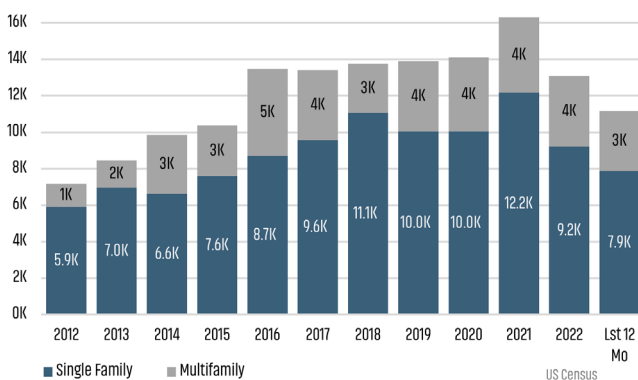
Boise Single Family & Multi-Family Permits



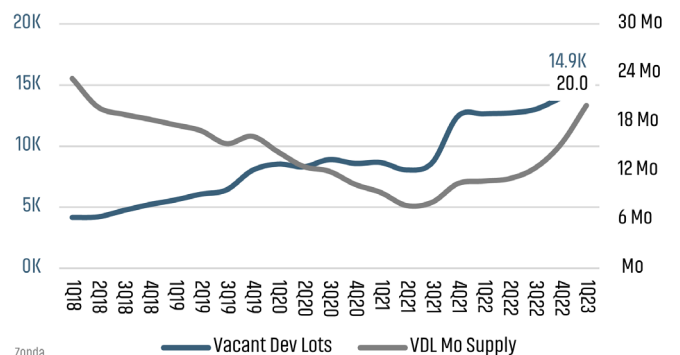
Boise Vacant Development Lot Supply



Las Vegas Single Family & Multi-Family Permits



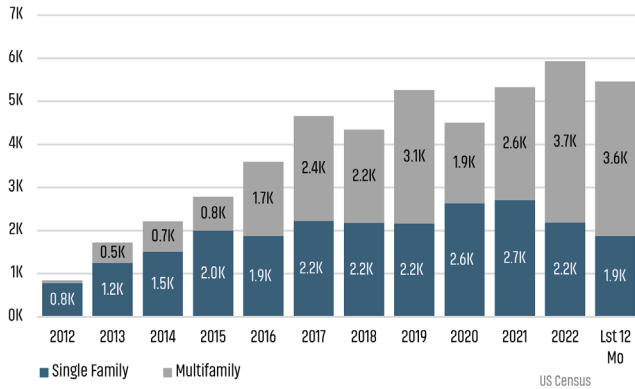
Las Vegas Vacant Development Lot Supply



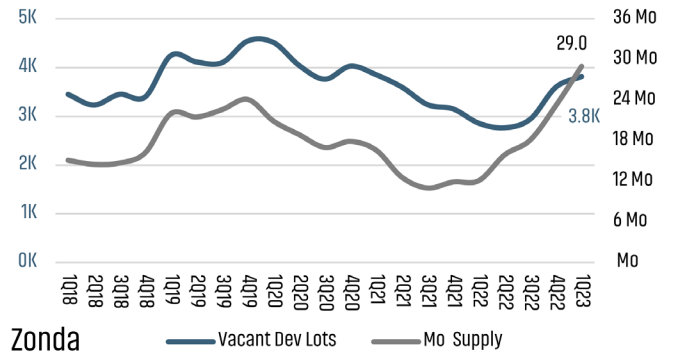


MARKETS AT A GLANCE - RENO, KANSAS CITY, HUNTSVILLE (1Q23)

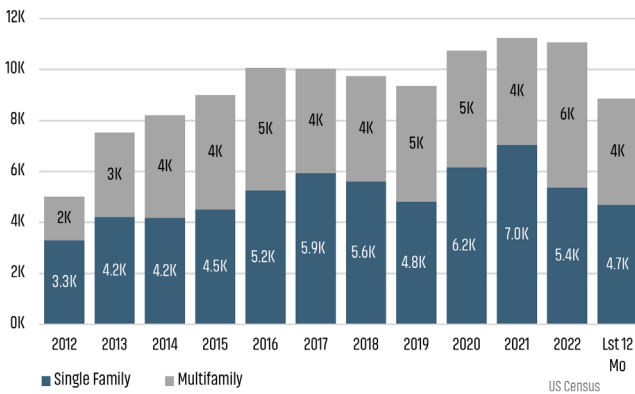
Reno Single Family & Multi-Family Permits



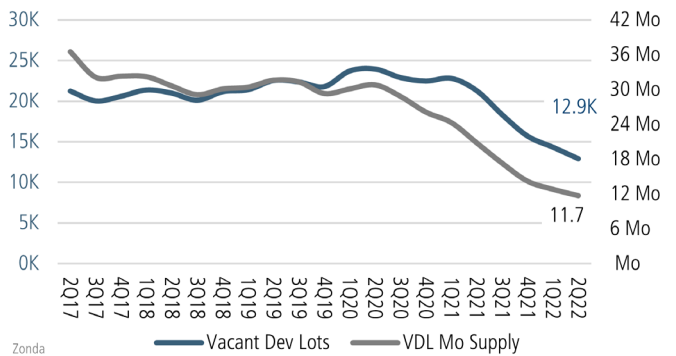
Reno Finished Lot Inventory vs. Permits



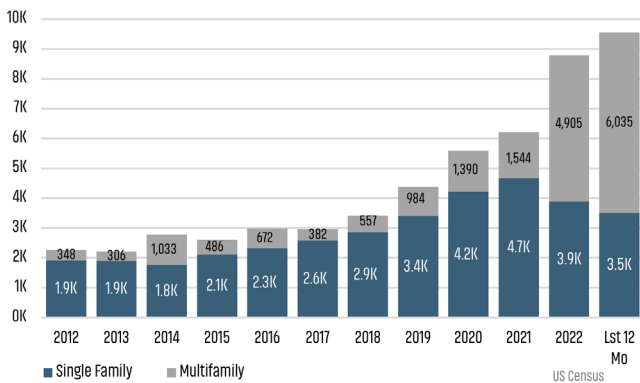
Kansas City Single Family & Multi-Family Permits



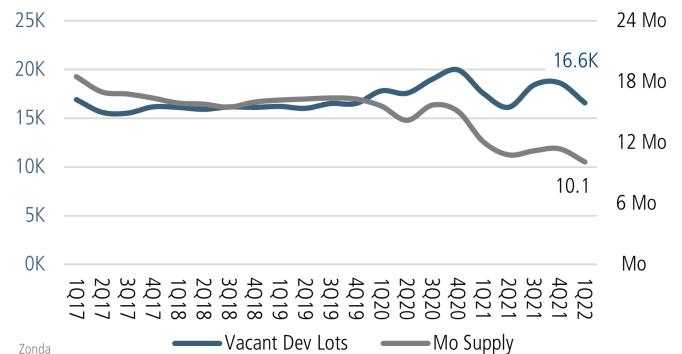
Kansas City New Vacant Developed Lot Supply



Huntsville Single Family & Multi-Family Permits



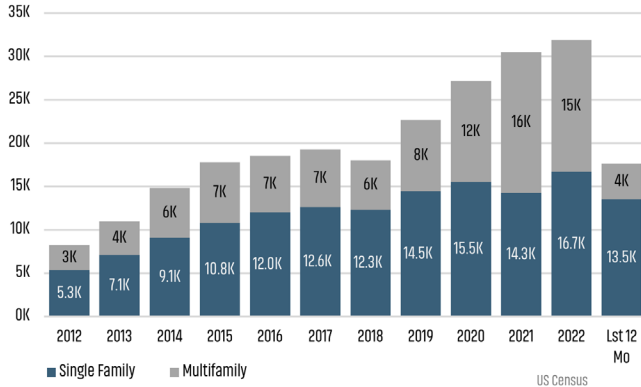
Huntsville Vacant Development Lot Supply



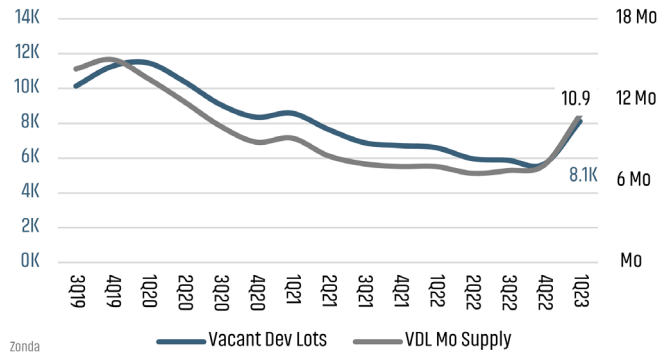


MARKETS AT A GLANCE - NASHVILLE, ATLANTA, CHARLOTTE (1Q23)

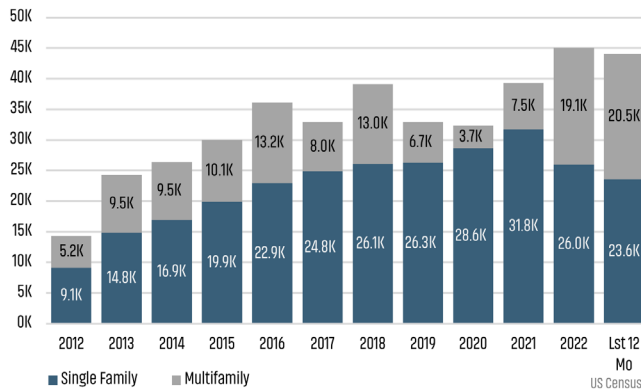
Nashville Single Family & Multi-Family Permits



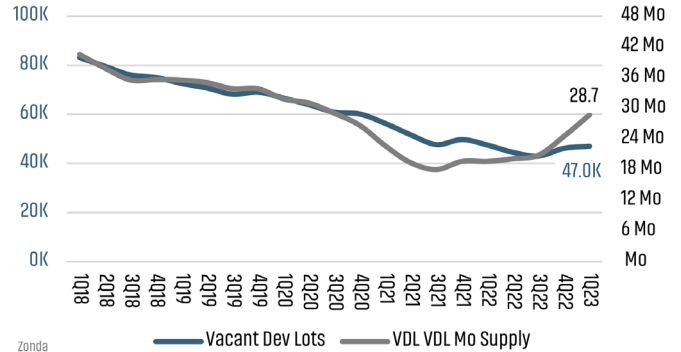
Nashville Vacant Development Lot Supply



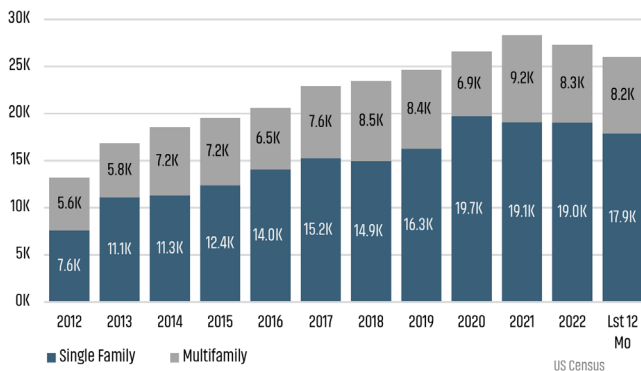
Atlanta Single Family & Multi-Family Permits



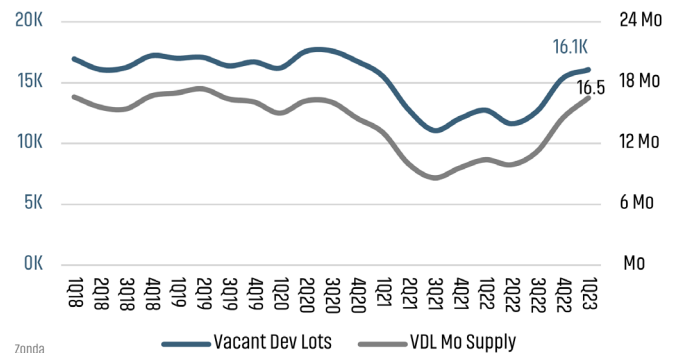
Atlanta Vacant Development Lot Supply



Charlotte Single Family & Multi-Family Permits



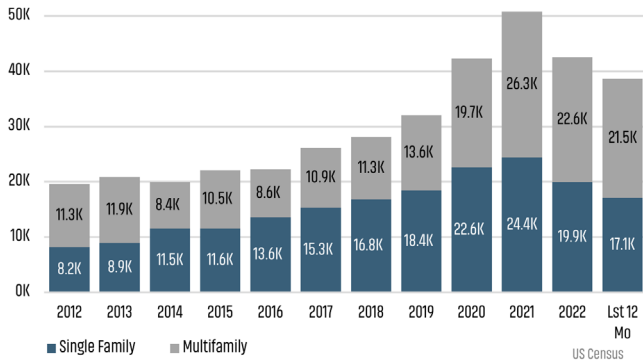
Charlotte Vacant Development Lot Supply



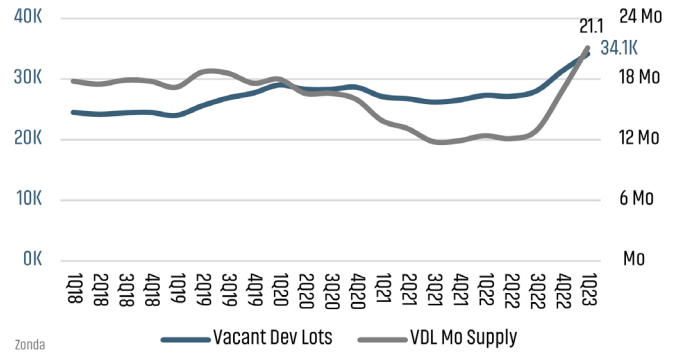


MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (1Q23)

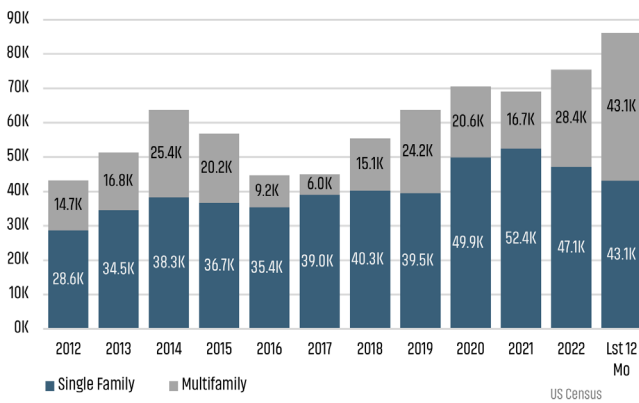
Austin Single Family & Multi-Family Permits



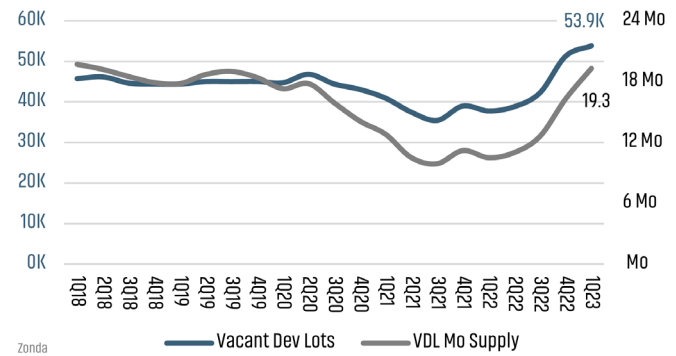
Austin Vacant Developed Lot Supply



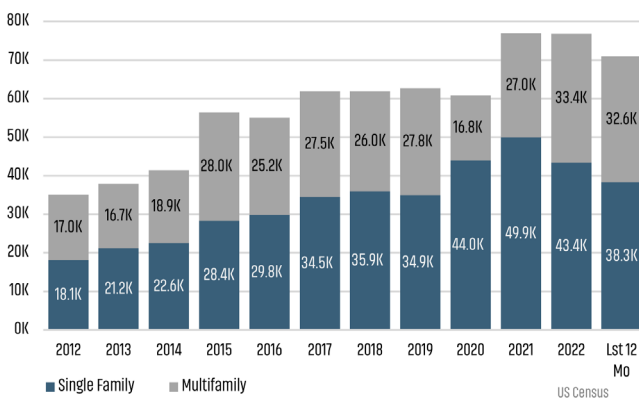
Houston Single Family & Multi-Family Permits



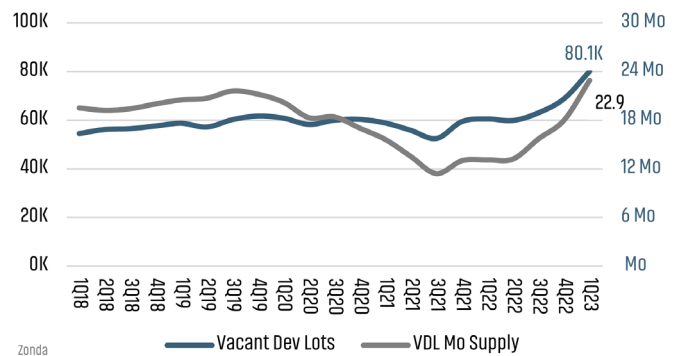
Houston Vacant Developed Lot Supply



Dallas Single Family & Multi-Family Permits



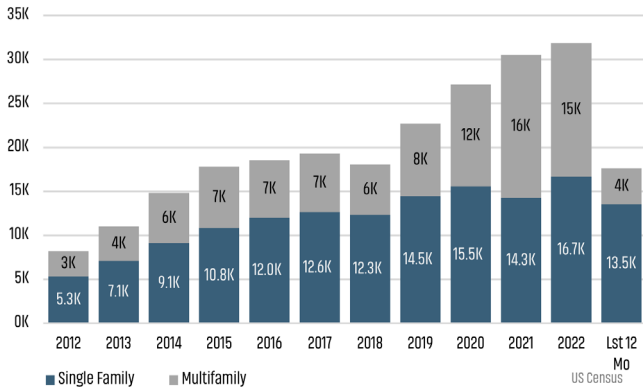
Dallas Vacant Developed Lot Supply



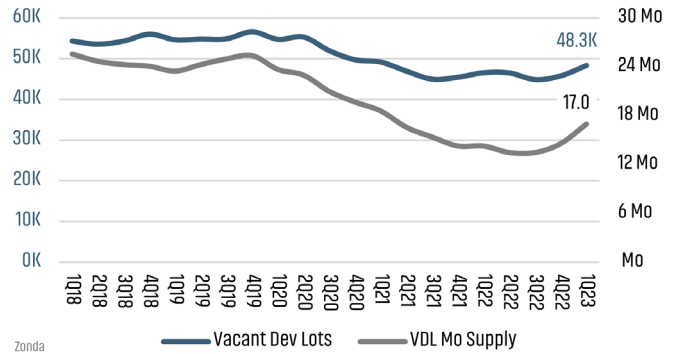


MARKETS AT A GLANCE - ORLANDO, TAMPA, JACKSONVILLE (1Q23)

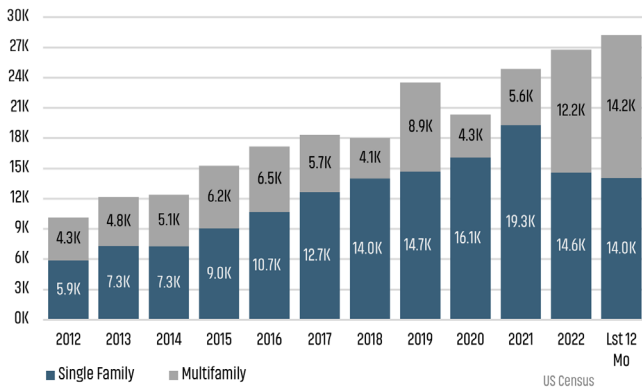
Orlando Single Family & Multi-Family Permits



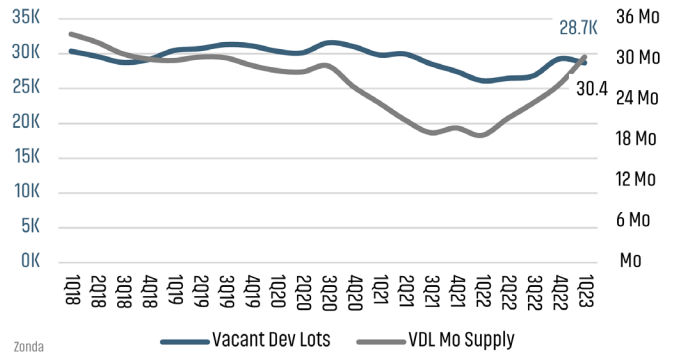
Orlando Vacant Developed Lot Supply



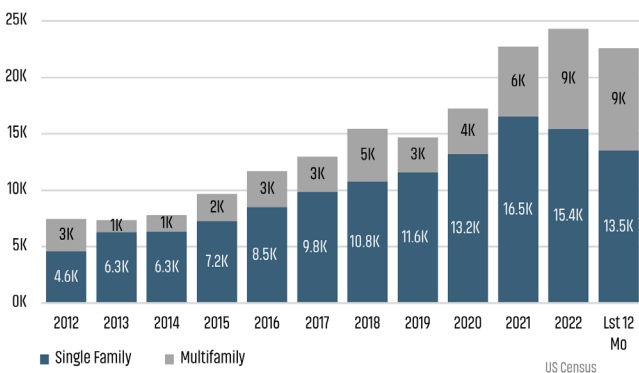
Tampa Single Family & Multi-Family Permits



Tampa Vacant Developed Lot Supply



Jacksonville Single Family & Multi-Family Permits



Jacksonville Vacant Developed Lot Supply

