

THE LAUNCH REPORT™

4Q23 NEWSLETTER

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LAND ADVISORS ORGANIZATION'S MARKETS AT A GLANCE



LAUNCH

DEVELOPMENT FINANCE ADVISORS



Impacting Your Project's IRR

by Carter Froelich, CPA

One of the first questions we ask our clients during The Project DOS™ meeting is whether they are an internal rate of return (“IRR”) or nominal dollar driven. We only allow one of the two selections as a choice otherwise they all would say “yes” to both.

While the results are unscientific, I would estimate that 95 percent of our clients are IRR driven.

In this article we are going to explore: (i) what is an IRR, (ii) the three components of IRR and, (iii) how a developer can positively impact a project's IRR.

What is IRR?

The IRR is a standard financial metric in real estate investing, providing an estimate related to a development project's potential financial return. The IRR is actually the discount rate that makes the net present value (“NPV”) of all project estimated future cash flows equal to zero. In simpler terms, it tells you the annualized rate of return your investment is expected over the analysis period.

Why is IRR Important?

The IRR analysis holds significant importance for developers as follows:

- Compares Investments: The IRR allows the comparison of different investment options regardless of their size or holding period. This assists in the selection of the project with the highest potential financial return.
- Risk Assessment: By factoring in all projected cash flows, the IRR incorporates risk into its calculations, painting a more realistic picture of the potential return compared to static metrics like return on cash.
- Investment Analysis: The IRR helps assess the feasibility of a project by revealing the minimum acceptable hurdle rate, ensuring your investment decisions are aligned with your financial goals.





Impacting Your Project's IRR

Continued by Carter Froelich, CPA

Three Key Components Impacting IRR

While IRR offers valuable insights, it's important to understand the three key components that influence a project's overall IRR.

- Margins: This refers to the profit generated on each unit of investment or in our case, a parcel sale, finished lot sale or home sale. Higher margins lead to a higher IRR, as each dollar invested translates to a larger profit return.
- Velocity: This represents the speed at which you receive your investment return. Faster cash positive inflows, signifying quicker project completion or quicker land/lot/home sales, result in a higher IRR.
- Duration: This refers to the total time of the investment. Longer duration projects tend to have lower IRRs, as developers / builders are required to wait longer time periods to realize their returns.

Understanding these three components allows you to analyze and improve the profitability of your real estate investments. By focusing on increasing margins, accelerating velocity, and minimizing duration, you can maximize your project's IRR and more likely achieve your project's financial goals.

Additional Points to Consider

IRR should be used in conjunction with other metrics like NPV, peak capital, ROI and ROE to gain a comprehensive understanding of a project's financial potential.

IRR can be sensitive to changes in assumptions, so it's crucial to use realistic and well-researched data. Don't fool yourself...It will always end up badly.

IRR alone shouldn't be the sole basis for investment decisions. Qualitative factors like market conditions, location and investment strategy should also be carefully considered.



Impacting Your Project's IRR

Continued by Carter Froelich, CPA

Definitions of Margin, Velocity, and Duration

Margin

Margin refers to the profit generated on each unit of investment. It is calculated as the difference between the final selling price and the total cost of ownership (including acquisition, development, and holding costs). Margin is often expressed as a percentage of the purchase price.

Formula: $\text{Margin} = (\text{Selling Price} - \text{Total Cost of Development/Ownership}) / \text{Purchase Price} * 100\%$

Impact on IRR: Higher margins directly lead to a higher IRR. This is because each dollar invested translates to a larger profit, leading to a higher overall return on investment.

Velocity

Velocity represents the speed at which you receive your investment return. In real estate, velocity can be influenced by:

- **Project Completion Time:** How quickly you can complete renovations or construction projects affects the speed of rental income generation.
- **Lease-up Time:** The time it takes to find tenants and fill vacant units directly impacts rental income generation.
- **Exit Strategy:** A faster exit strategy, such as flipping properties quickly, can lead to higher velocity.

Formula: $\text{Velocity} = \text{Total Project Profit} / \text{Investment Period}$

Impact on IRR: Faster velocity leads to a higher IRR. This is because you receive your return on investment quicker, meaning you can reinvest the capital sooner and potentially generate further returns.

Duration

Duration refers to the total holding period of the investment, from acquisition to exit. A longer holding period typically results in a lower IRR, as investors need to wait longer to realize their returns.

Impact on IRR: Longer duration projects tend to have lower IRRs. However, this can be offset by other factors, such as high margins or strategic repositioning of the property over time.

Understanding the interplay between these three components is crucial for maximizing your IRR in real estate investing. By focusing on increasing margins, accelerating velocity, and minimizing duration, you can optimize your project's profitability and impact your project's IRR.



Launch Strategies to Impact IRR

The table below outlines some of the more common financial tools we utilize at Launch Development Finance Advisors with our clients to favorable impact margin, velocity and duration.

Launch Development Finance Advisors™ Selected Strategies to Impact Internal Rates of Return

	Description		Impacts		
			Margin (1)	Velocity (2)	Duration (3)
1	Consider the use of land purchase options and/or a joint venture structure to limit the amount of initial land investment	Initial Purchase		X	X
2	Outline Company/Project Business Plan (The Launch Plan™)	Planning	X	X	X
3	Add favorable financing language to Pre-Annexation and/or Development Agreements.	Entitlement	X	X	X
4	Review all previous legal / entitlement agreements to ensure all reimbursable costs have been received or engage Launch to conduct The Lookback Diagnostic Review™	Entitlement	X	X	
5	Request jurisdiction/agency to fund infrastructure	Entitlement	X	X	
6	Request jurisdiction to pay its prorata share of oversizing charges	Entitlement	X	X	
7	Require benefiting land owners to pay for their prorata share of infrastructure	Entitlement	X	X	
8	Reduce, Eliminate or Defer (The RED Analysis™) Infrastructure spending requirements	Entitlement	X	X	X
9	Maintain flexibility with very broad language in development agreements to allow for changing market conditions over the project's life cycle.	Entitlement	X	X	X
10	Request reimbursement of eligible infrastructure costs via property tax increment	Entitlement	X	X	X
11	Request reimbursement of eligible infrastructure costs via transaction privilege tax reimbursements	Entitlement	X	X	X
12	Partner with reputable companies, consultants and builders and benefit from their expertise and experience.	Entitlement / Construction	X	X	X
13	Reduce Borrowing Costs	Financing	X		
14	Competitively Bid Construction Projects to reduce costs.	Construction	X		
15	Consider performance bonus' for early completion of infrastructure	Construction		X	X
16	Improve construction efficiencies and optimize construction times lines to bring projects to market sooner	Construction		X	X
17	Create Special Districts to finance public infrastructure	Special District	X	X	X
18	Maximize Special District bond funding via The Market Driven Bond Sizing Analysis™	Special District	X	X	
19	Maximize Special District financing alternatives using The Eligible Cost & Fee Analysis™	Special District	X	X	X
20	Construct public infrastructure with special district bond proceeds	Special District	X	X	X
21	Using The Launch Reimbursement System™ to accelerate the receipt of Special District bond reimbursements	Special District		X	X
22	Utilize The Forward Funding MUD Launch Bond™ (Tax Exempt - Texas Only)	Special District	X	X	X
23	Utilization of The Land Secured Launch Bond™ (Taxable - All States)	Special District		X	X
24	Establish Development Impact Fee Service ("DIF") Area to finance public infrastructure not funded and/or reimbursed via a Special District	Development Impact Fees	X	X	
25	If constructing DIF eligible public infrastructure, determine that all appropriate DIF credits are being received.	Development Impact Fees	X	X	
26	Add favorable appraisal valuation methodology language in development / financing agreements to ensure highest land valuations	Entitlement / Special District		X	X
27	Structure lot sales to allow for value creation via sharing a percentage of home sales prices above certain return thresholds	Lot Sales	X		

Footnotes

- (1) Increase the gross margin of land / lot sales that flow into the cash flow.
- (2) Increase the speed of cash receipts in to the cash flow.
- (3) Shorten the timeframe in which project revenues are to be received.



For more information on how the professionals at Launch may assist in your project's IRR enhancement, contact Carter Froelich, CPA at carter@launch-dfa.com.



The Texas MUD Forward Funding Launch Bond™ Continues to Gain Traction – Launch’s \$500 Million Goal for 2024

By Carter Froelich, CPA

On December 2023, the professionals at Launch closed the second MUD Forward Funding Launch Bond™ totaling \$40,790,000 (“Bond”).



The specifics of the transaction are as follows:

Par Amount: \$40,790,000

Net Proceeds: \$36,217,846

Coupon Rate: 6.125%

Yield: 6.25%

Term: 6 years

The non-recourse, tax-exempt Bond is collateralized by the assignment of future MUD bond proceeds until the principal and accrued interest is retired. There are no encumbrances on the property and the developer is not providing any additional security related to the transaction.



The Texas MUD Forward Funding Launch Bond™ Continues to Gain Traction – Launch’s \$500 Million Goal for 2024 (Cont.)

The Bond proceeds in this transaction will be utilized to reimburse the developer for \$32 million in eligible MUD improvements and \$4.2 million will be set aside to complete the construction of a major roadway and other MUD eligible utilities, while \$2.5 million will be set aside as a debt service reserve fund. As MUD bonds are issued and utilized to pay down the outstanding principal balance of the Bond, to the extent that the reserve fund holds more that one year of interest payments on the outstanding Bond principal balance, such excess reserve funds will be utilized to call additional Bonds.

This is the second MUD Forward Fund Launch Bond™ with the first ever, being a capital appreciation bond done for the Lariat project in Williamson County.



The table below illustrates the MUD Forward Funding Launch Bonds™ issued to date.

Launch Development Finance Advisors, LLC
The Launch Bond
MUD Forward Funding Launch Bond Matrix

Date	Developer	Project	Location	Launch Bond - Type / Structure (1)	Bond Par Amount	Issuance Discount / (Premium)	Underwriter Discount / Cost of Issuance	Capitalized Interest Fund	Reserve Fund (1)	Net Bond Proceeds for Acquisition Fund	Coupon Interest Rate	Yield
12/20/2023	Johnson Dev. Services	Candela	Fort Bend Cty., TX	Current Pay	\$40,790,000	\$252,082	\$1,821,684	\$0	\$2,498,388	\$36,217,846	6.125%	6.250%
6/28/2023	Randolph Texas	Lariat	Williamson Cty., Tx	Capital Appreciation Bond	\$35,500,630	\$523,458	\$1,798,356	\$0	\$0	\$33,178,816	7.500%	7.760%
	Total				\$76,290,630	\$775,540	\$3,620,040	\$0	\$2,498,388	\$69,396,662		

Footnotes

- (1) The current pay structure requires an annual interest payment. The capital appreciation bond structure does not require a current annual interest payment.
- (2) To the extent that the Reserve Fund exceeds one year’s debt service, excess Reserve Fund proceeds are used to call bonds.



The Texas MUD Forward Funding Launch Bond™ Continues to Gain Traction – Launch’s \$500 Million Goal for 2024 (Cont.)

At present, Launch is in the process of moving forward with an additional \$300 million in additional MUD Forward Funding Launch Bonds™ which are expected to close by July 2024. It is our goal to assist our land developer and home builder clients forward fund over \$500 million in capital costs prior to the close of 2024.

For more information on how *The Launch Bond™* can accelerate the receipt of your future MUD bond proceeds, contact Carter Froelich, CPA at carter@launch-dfa.com or Ryan Mills at ryanm@launch-dfa.com, respectively.

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 Lots™ podcasts to our library. Subscribe to the Land to Lots™ Podcast wherever you get your Podcasts.



New

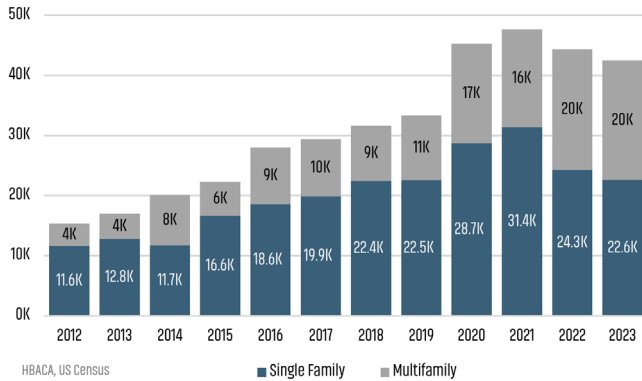
- Episode 43 – [The Launch Sequence - Implementing A Special District Financing \(2 of2\)](#)
- Episode 42 – [The Launch Sequence - Implementing A Special District Financing \(1 of2\)](#)
- Episode 41 – [An Interview with Rick Severance of Whelld Park \(Mattamy Homes\) on Placemaking](#)
- Episode 40 – [An Interview with Chris Biley of IHP Capital Partners on Private Equity](#)
- Episode 39 – [An Interview with Tom Woliver of the Oxland Group on MPC Amenities](#)



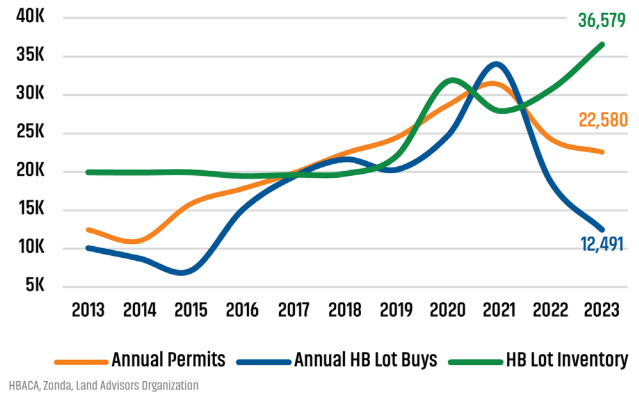


MARKETS AT A GLANCE - PHOENIX, PINAL, NORTHERN AZ, TUCSON (4Q23)

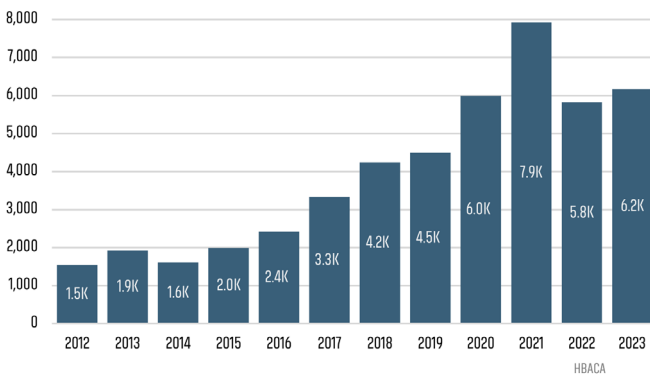
Phoenix Single Family & Multi-Family Permits



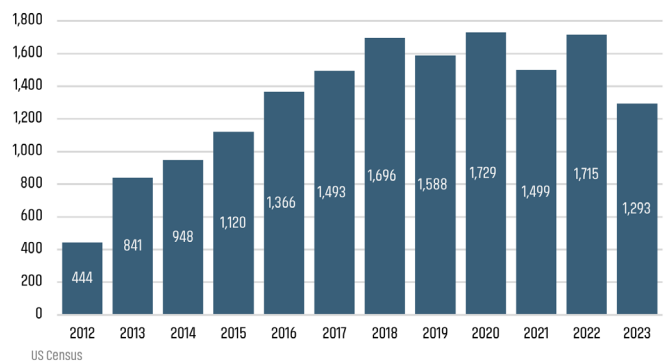
Phoenix Finished Lot Inventory vs. Permits



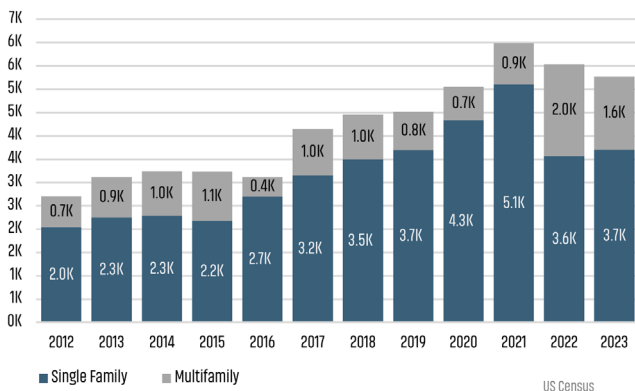
Pinal Single Family & Multi-Family Permits



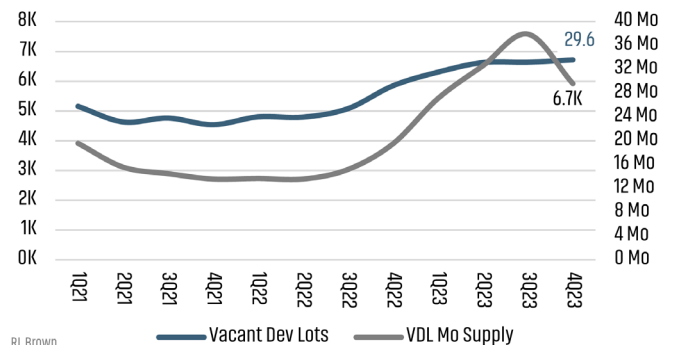
Northern AZ Family & Multi-Family Permits



Tucson Single Family & Multi-Family Permits



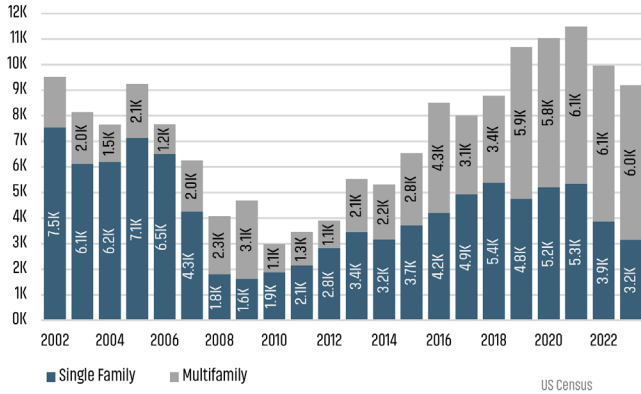
Tucson Vacant Development Lot Supply



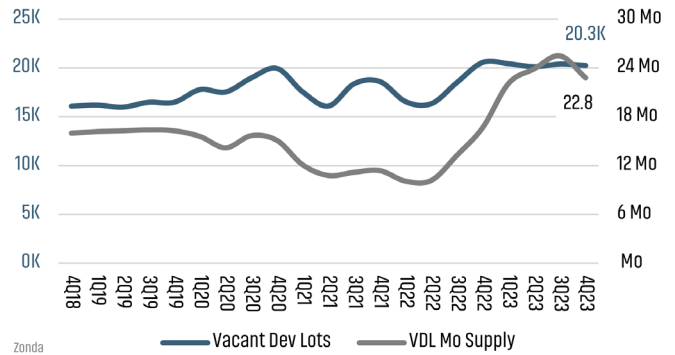


MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (4Q23)

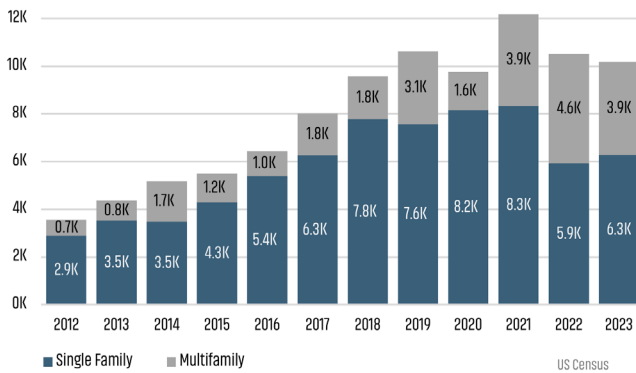
Utah Single Family & Multi-Family Permits



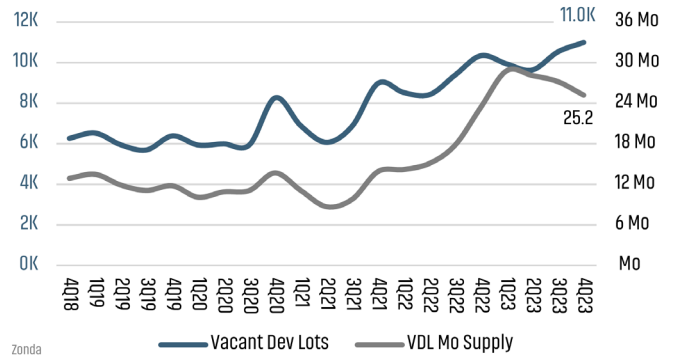
Utah Vacant Development Lot Supply



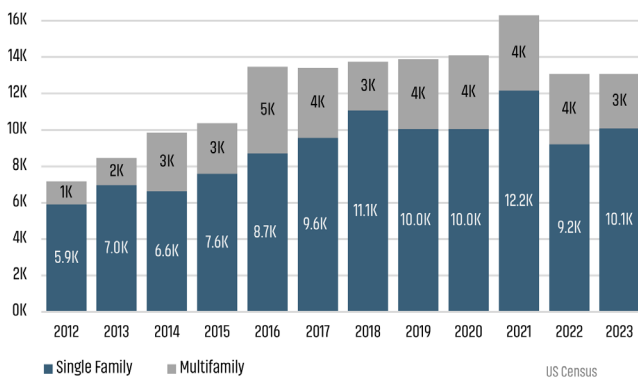
Boise Single Family & Multi-Family Permits



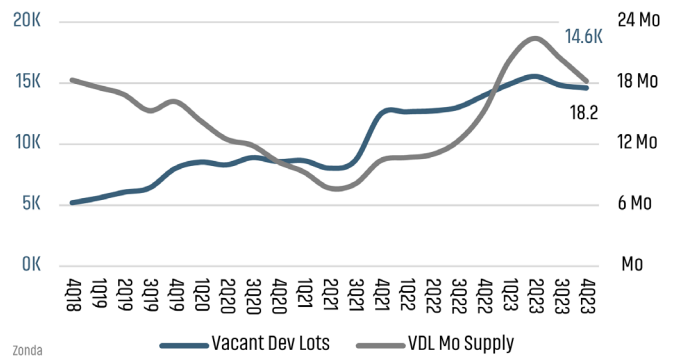
Boise Vacant Development Lot Supply



Las Vegas Single Family & Multi-Family Permits



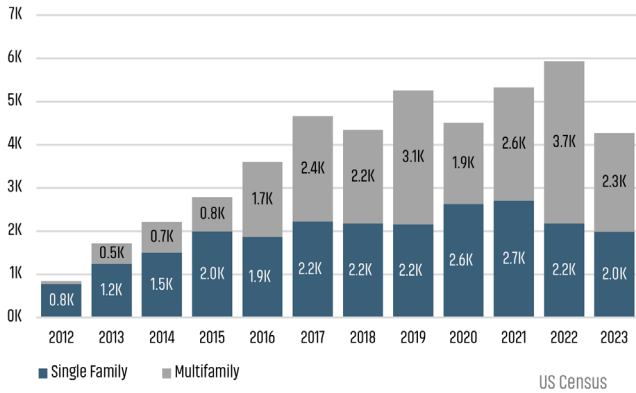
Las Vegas Vacant Development Lot Supply



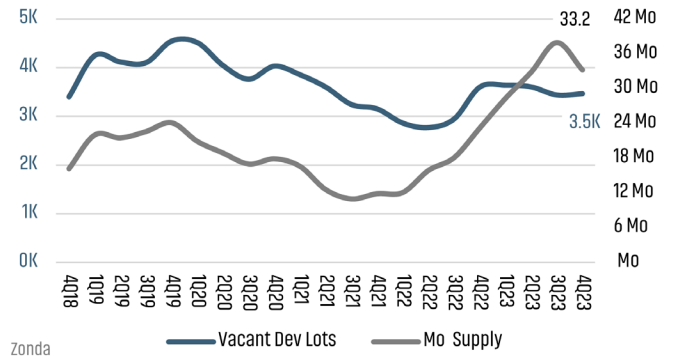


MARKETS AT A GLANCE - RENO, KANSAS CITY, HUNTSVILLE (4Q23)

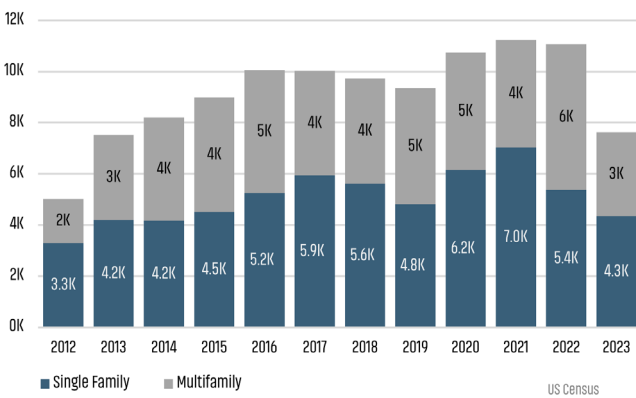
Reno Single Family & Multi-Family Permits



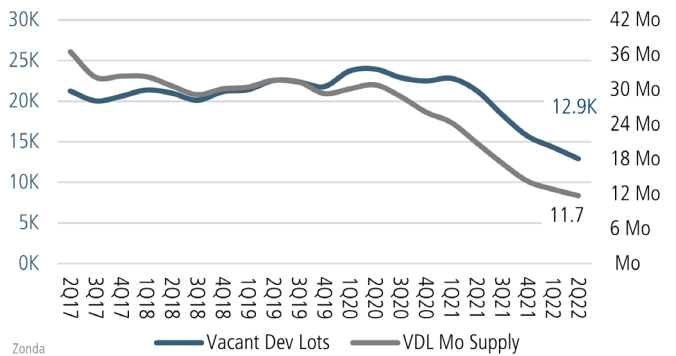
Reno Finished Lot Inventory vs. Permits



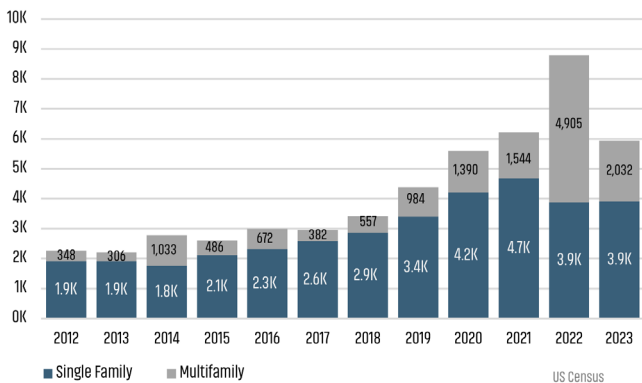
Kansas City Single Family & Multi-Family Permits



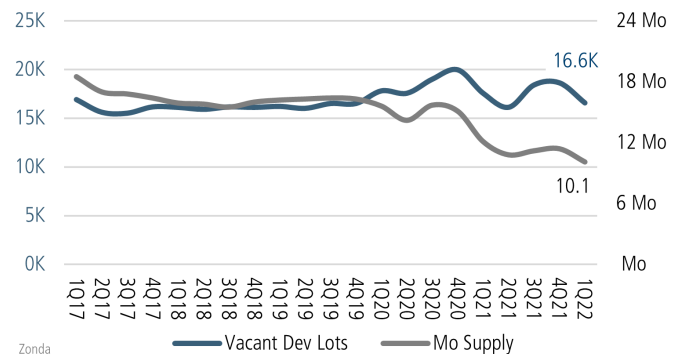
Kansas City New Vacant Developed Lot Supply



Huntsville Single Family & Multi-Family Permits



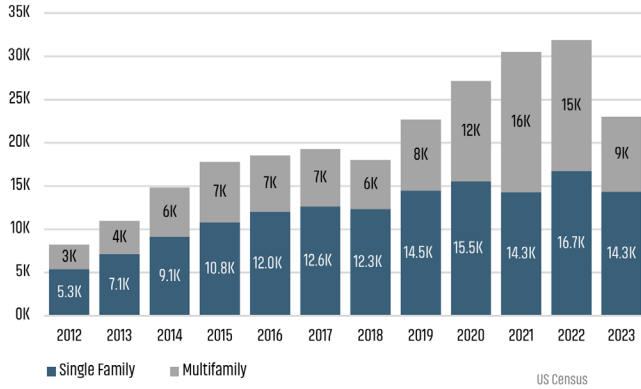
Huntsville Vacant Development Lot Supply



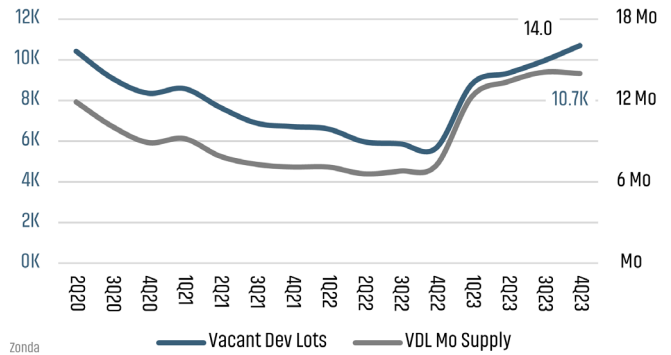


MARKETS AT A GLANCE - NASHVILLE, ATLANTA, CHARLOTTE (4Q23)

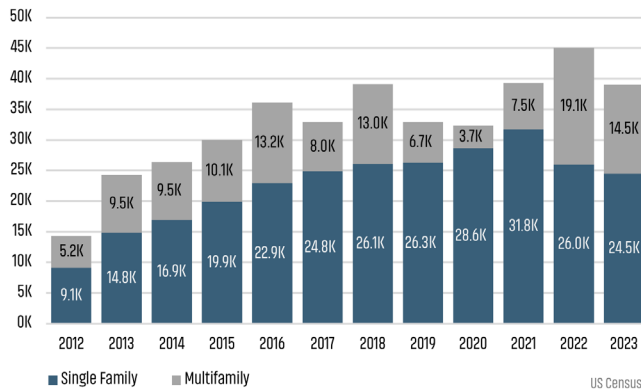
Nashville Single Family & Multi-Family Permits



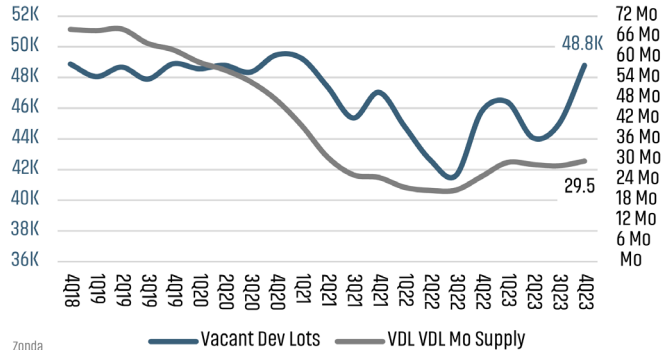
Nashville Vacant Development Lot Supply



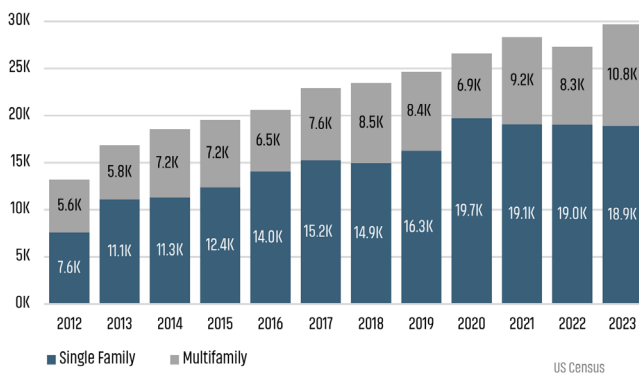
Atlanta Single Family & Multi-Family Permits



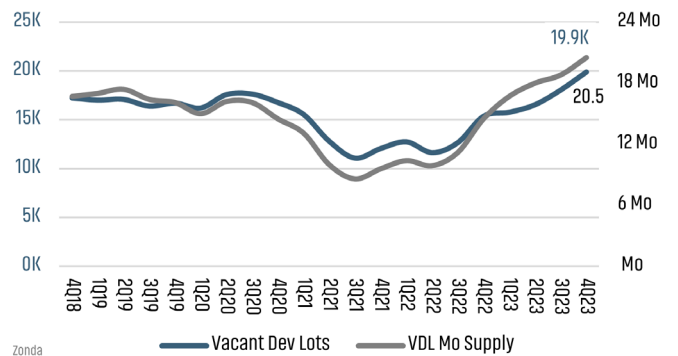
Atlanta Vacant Development Lot Supply



Charlotte Single Family & Multi-Family Permits



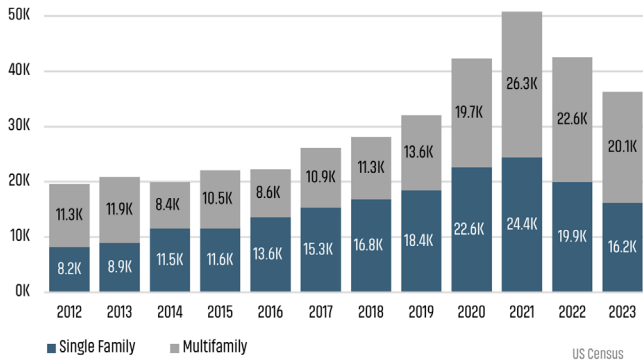
Charlotte Vacant Development Lot Supply



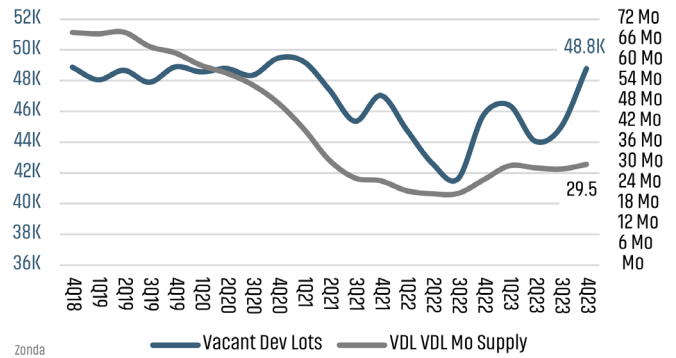


MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (4Q23)

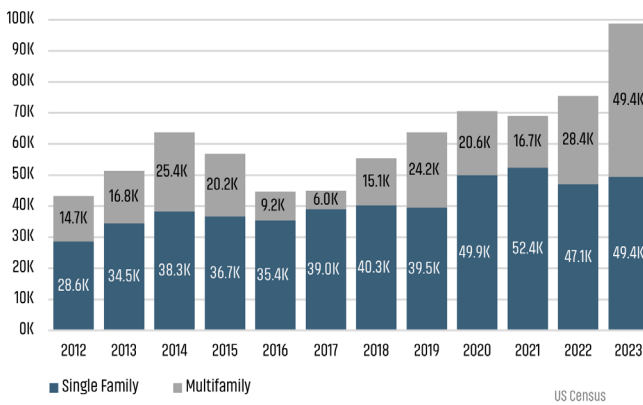
Austin Single Family & Multi-Family Permits



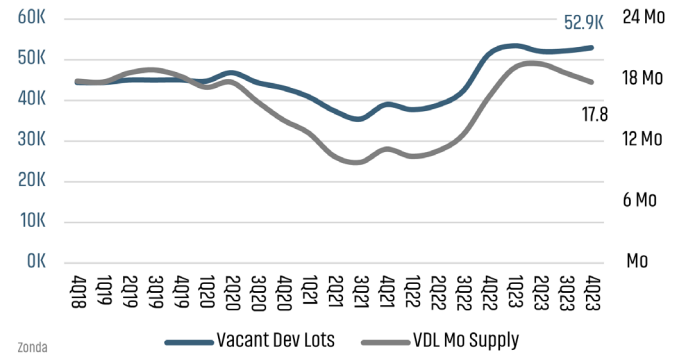
Austin Vacant Developed Lot Supply



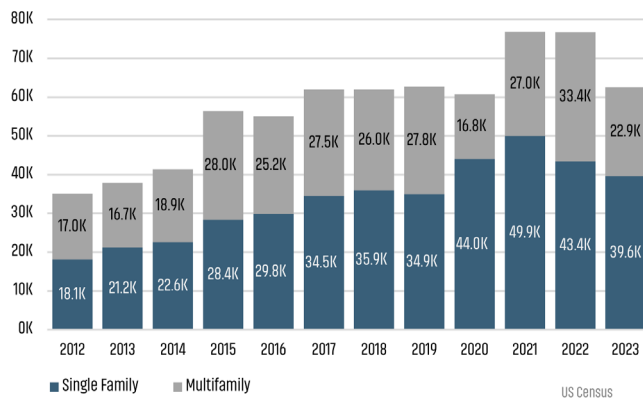
Houston Single Family & Multi-Family Permits



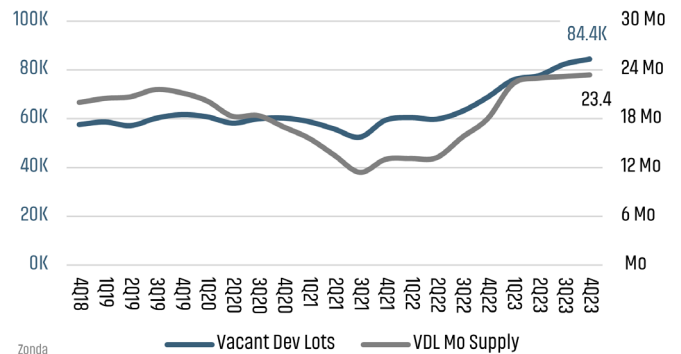
Houston Vacant Developed Lot Supply



Dallas Single Family & Multi-Family Permits



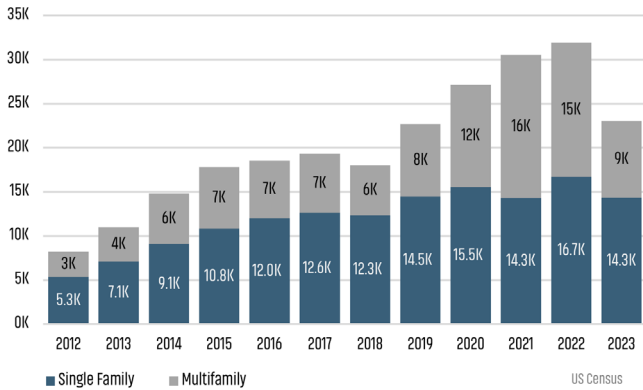
Dallas Vacant Developed Lot Supply



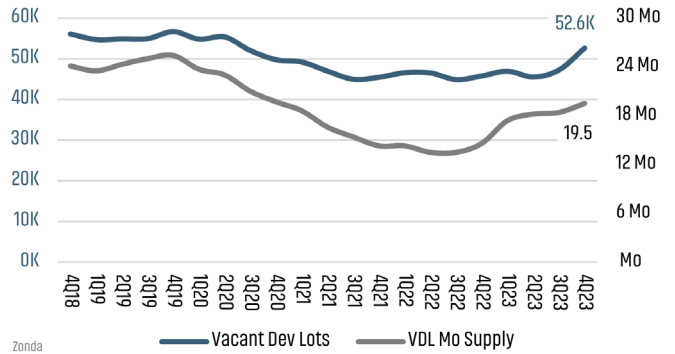


MARKETS AT A GLANCE - ORLANDO, TAMPA, JACKSONVILLE (4Q23)

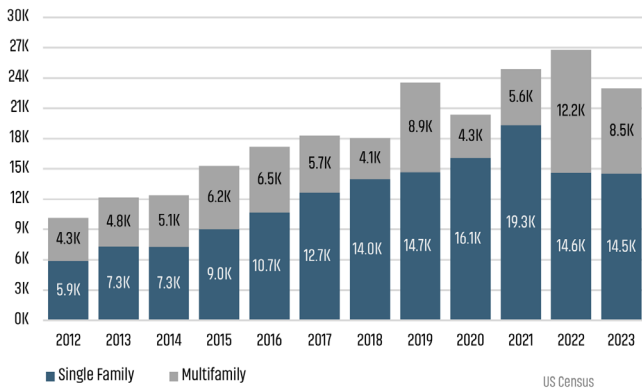
Orlando Single Family & Multi-Family Permits



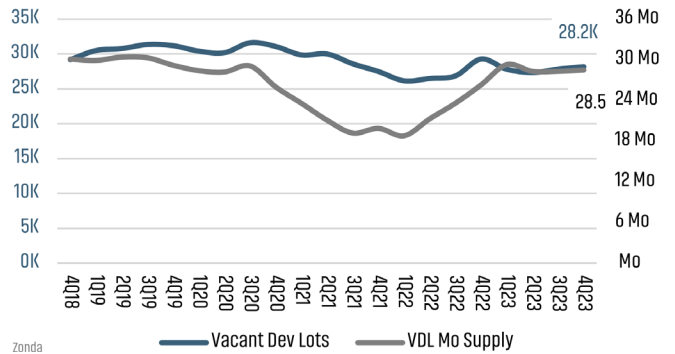
Orlando Vacant Developed Lot Supply



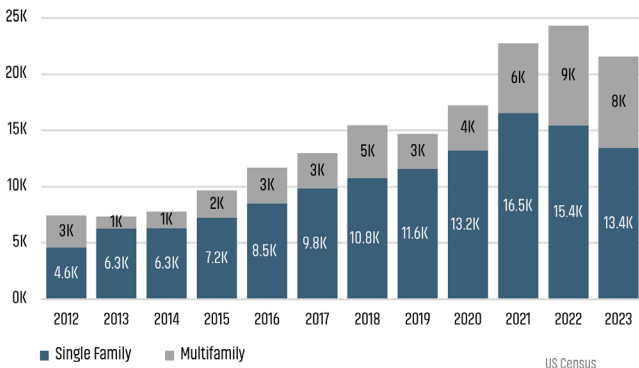
Tampa Single Family & Multi-Family Permits



Tampa Vacant Developed Lot Supply



Jacksonville Single Family & Multi-Family Permits



Jacksonville Vacant Developed Lot Supply

