



**REHAB VALUATOR**™  
Investment Property Analysis Software

# New Construction Rentals (Start to Finish) with Daniil Kleyman





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## TODAY'S RULES:

- We are going to cover A LOT!
- This will go well over 2 hours
- Commit right now to fully focus and not quit
- I am going to give you HUGE value today and not waste your time
- So don't waste mine by quitting half-way through and then emailing me 5 times asking for a replay 😊
- This will be different: I will pause throughout and take questions, then take questions at the end
- We are going to do math! So get your calculator out, take lots of notes and make sure all your distractions are gone



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## What this is NOT:

- This won't be a surface webinar with lots of fluff or motivational quotes
- This is NOT a recipe for every market or every sub-market – it does NOT work everywhere and is not meant to
- It's not easy
- It's not fast
- It's not for everyone – probably not for you
- It's not a way to “make \$5k in the next 7 days with no money or credit”
- It's not for the faint of heart or those who get frustrated or discouraged easily
- This is Real Estate Development. It's fun and can be very rewarding but it takes lots and lots of work, planning, and analysis!



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# Why I LOVE this business:

- There are opportunities to learn every single day
- You will NEVER ever ever know everything there is to know about rehabbing, construction, or real estate development
- Every single day I am shocked about how much MORE there is to learn, especially as I progress from rehabbing => residential construction => commercial construction



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# Why Rentals?

- Rentals provide residual, steady, predictable cashflow
- Doesn't have to be a lot of work if you put proper systems and management in place
- Doesn't take a lot of properties to replace your current income or create complete financial freedom
- 15-20 units should do it for most people, even leveraged.  
\$400/door cashflow (net) x 20 = \$8k/month.
- In some areas (in path of progress), flipping doesn't make sense yet. Get into the rental market, wait, sell properties when market improves. (Can be a short-term holding play)



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# Why **Build** Rentals?

- “Infill development” not the “other kind”
- In many markets, cheap rehabs that make sense as rentals are harder to come by. But you can still get infill lots that fewer investors are paying attention to
- New Construction = Low to no maintenance first 4-5 years
- New construction is easier than rehabbing in a lot of respects
- Attractive, high-end product that attracts high-quality tenants
- Design great unit layouts, create comfortable spaces that people actually get excited to live in!
- Rewarding to create something from scratch that will outlive you!



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# Why Build Rentals?





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- Can get a bigger chunk of project financed than if were to buy the same property already built. Higher leverage than buying existing buildings. More on this when we talk about Financing.



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## Case Study:

- 6 New Construction Duplexes
- 12 brand new high-end rental units
- ~ \$450,000 in new equity created
- ~ \$5,000 in new net monthly cashflow added to my income
- That's \$60k/year in annual income for life for 6 months of work!
- 20%+ return on my cash invested into the portfolio



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SOURCE LAND

DESIGN PROJECT

FINANCE

PERMIT/BUILD

LEASE/MANAGE



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# I. Sourcing and Valuing Land

- Tax Auctions
  - Lots are often owned free & clear and thus hit tax foreclosure more often than mortgaged properties
  - Call your local county and get list of tax-delinquent properties if you want to market to them prior to foreclosure
- Tear-downs/scrapers
- Direct Mail
  - Tax delinquent lists
  - Buy lists online
  - Vacant Property Software programs (especially for tear-downs) (FindMotivatedSellersNow or Cam Dunlap's program)
  - Online tax records
- Networking
- Wholesalers (this is a biggie!)



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# I. Sourcing and Valuing Land

- 6 lots in this Case Study:
  - 2 were off-market and came from a realtor friend
  - 1 from a local church (relationship with the board)
  - 2 were attached to a commercial property I bought
  - 1 was a tear-down (sourced by mailing the owner)



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# Let's Talk Value

**IT'S ALL ABOUT WHAT YOU PAY FOR THE LAND!! IF  
YOU DON'T BUY THE LAND RIGHT, NOTHING ELSE  
MATTERS!**



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# Let's Talk Value

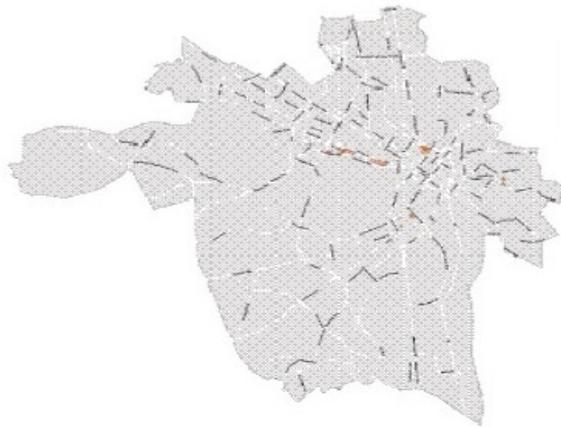
- Start with Zoning. Always. What can you build “by right”? How many units? Determine that first.
- “By right zoning” vs. Changing it: For bigger projects (more units) it makes sense to invest the \$ and money to change the zoning, get special use permits, etc
- But for smaller infill projects, it's usually not worth it so **existing zoning** will drive value



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## What to look for in zoning codes:

- Zoning Clasification (Residential, Commercial, Business, etc)
- Sub-classification within zoning (R-6, R-63, etc)
- Permitted Uses
- Minimum lot area for each use (example: min 3,000 sq ft for single fam)
- Minimum Lot Width for each allowable use
- Other requirements particular to your area
- \*\*Be mindful of “grandfathering”!



## Multi-Family Urban Residential

*The intent of the R-63 Multi-Family Residential district is to encourage development of a medium-density neighborhood comprised of a mix of residential uses while promoting a pedestrian-oriented urban environment. It is intended to be primarily residential in character, but includes limited non-residential uses that serve the day-to-day conveniences for residents.*



# R-63



### Minimum Lot Requirements

#### Lot Area:

• Single-Family (Detached)	3,000 sq. ft.
• Single-Family (Attached)	2,200 sq. ft.
• 2-Family (Detached)	3,200 sq. ft.
• 2-Family (attached)	2,600 sq. ft.
• Multi-Family	4,000 sq. ft. (Min) 1,000 sq. ft./unit

#### Lot Width:

• Single-Family (Detached)	5 ft.
• Single-Family (Attached)	18 ft. (Min) 21 ft. (Avg)
• 2-Family (Detached)	27 ft.
• 2-Family (Attached)	20 ft. (Min) 23 ft. (Avg)

### Minimum Yard (Setback) Requirements

• Front Yard	NONE/15 ft. (Max)
• Side Yard (1 & 2-Family)	3 ft.
• Side Yard (All Other Uses)	5 ft.
• Rear Yard (1- & 2-Family)	5 ft.
• Rear yard (All Other Uses)	15 ft.
• Between Buildings (Dwelling)	15 ft.
• Between Buildings (Non-Dwelling)	10 ft.

### Other Lot Requirements

• Usable Open Space (Multi-Family)	30%
• Lot Coverage (Other Uses)	65%

### Height Requirements

• Main Building	24 ft. (Min) 35 ft.*
• Main Building (Corner lot)	24 ft. (Min) 48 ft. (Max)
• Accessory Building (1- & 2-Family)	20 ft.

\* = Additional height permitted on sites, with conditions.

### Permitted principal uses:

- Any principal use permitted in the R-1 district as set forth in section 114-402.1;
- Single-family attached dwellings;
- 2-family detached dwellings;
- 2-family attached dwellings;
- Multi-family dwellings;
- Dwelling units located in the same building as permitted principal uses on corner lots;
- Live/work units;
- Day nurseries;
- Adult day care facilities;
- Tourist homes situated on federal highways.

### Permitted principal uses on corner lots, subject to being located on the ground floor with a maximum of 2,500 sq. ft. of floor area at the street corner):

- Art galleries, including custom framing;
- Barber shops & beauty, manicure, spa and tanning salons;
- Grocery, convenience, food and beverage stores, including bakeries;
- Laundromats and laundry and dry cleaning pick-up stations;
- Restaurants, cafes, delis, ice cream parlors and similar food and beverage service establishments, including catering in conjunction therewith, and excluding live entertainment;
- Video rental stores.

### Permitted accessory uses and structures:

- Any accessory use or structure permitted in the R-1 district as set forth in section 114-402.2;
- One dwelling unit located in an accessory building, with conditions;
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## Let's Talk Value

- You must know your max “\$ per door” value you’re willing to pay. This # should include new utility costs and sitework.
- Land should cost MAX of 15-20% of ARV of the property
- Duplex ARV \$250k – land shouldn’t cost more than \$50k including water/sewer/gas or \$25k per door.
- Problem: you won’t always know the cost of new utilities or what’s required until you start digging up existing laterals. So drop that \$25k per door by \$5-\$10k to allow for unknowns.
- I generally won’t pay more than \$20k per door for a rental. (I almost never pay that much)



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# Let's Talk Value

- Ballpark ARV on a napkin:
  - Rent \* 12 \* 65% / Cap Rate
  - $\$1300 * 2(\text{units}) * 12(\text{months}) * 65\% / 8\% = \$253,500$
- Max \$ for Land = 20% of \$253,500 = \$50,700
- Max \$ per door =  $\$50,700 / 2 = \$25,350$  (must include utilities)
- *\*\*This method completely ignores financing*



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## Another SIMPLE way to look at #s

- Your total cost basis (land + soft costs + construction) should never ever ever equal more than 100x your gross monthly rents
- *So if your gross rents are \$2500/month, cost basis should be under \$250,000. Ideally less than 80% of that # for more “sweat equity”.*



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## Another SIMPLE way to look at #s

- Generally, easier to make #s work for duplex and higher vs. single fam
- *2400 sq ft duplex in my market = \$2600/month rent*
- *2400 sq ft single fam – max \$1500-\$1600/month rent*



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# Rental Comps:

- Craigslist
- Zillow
- Hotpads
- Rentometer
- *\*\*Pay attention to Sq Ft, Finishes, Age, Onsite Amenities, Utilities to make sure you're comparing apples to apples*



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## My Deals: Cost of Land

- 805 – 805 ½ N. 23<sup>rd</sup>: \$0 (came with commercial building)
- 807 N. 23<sup>rd</sup>: \$30,000 + \$6,000 to tear down (\$18,000 per door)
- 805 N. 24<sup>th</sup> st: \$29,000 (\$14,500 per door)
- 611-613 N. 21<sup>st</sup> \$44,000 (\$11,000 per door)
- 6 lots – average cost: \$9.9k per door (plus utilities / sitework)



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## Site Selection / Utilities:

- Whenever possible, select FLAT lots. Site work, scraping, hauling, grading, retaining walls, etc all will add massively to your costs
- Look for lots with existing water/sewer running to them
  - If possible, map out and camera ahead of time (this costs \$)
  - If scraping the lot, then easier to find existing utilities
- But: if lines are older than 15-20 years, may want to replace to the street or all the way to the main (we go all the way to the main)



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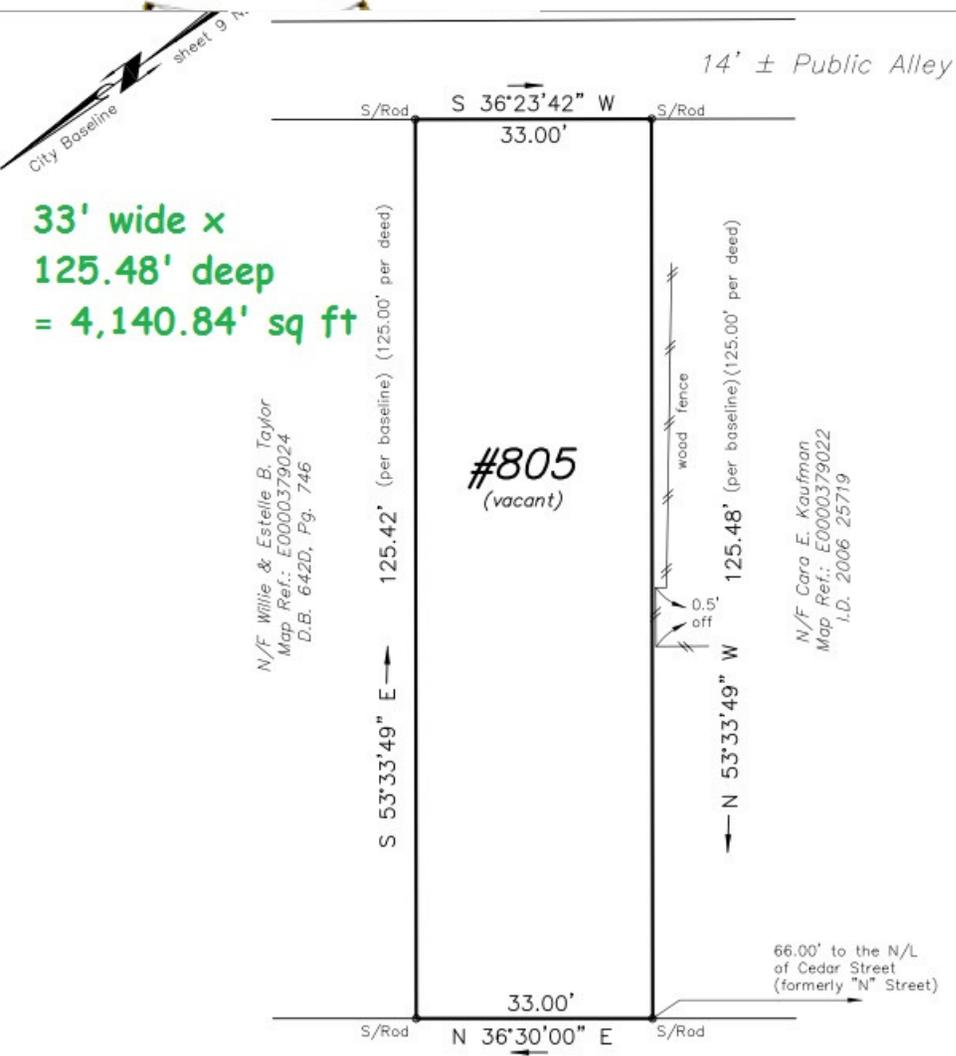
LEASE/MANAGE



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## II. Design

- Again, start with zoning. What can you build and how big?
- *Let's look at an example:*



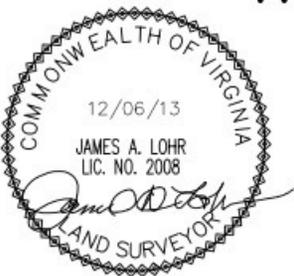
33' wide x  
125.48' deep  
= 4,140.84' sq ft

**#805**  
(vacant)

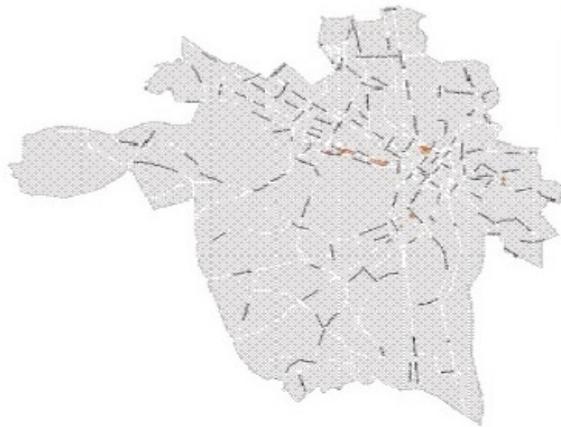
N/F Willie & Estelle B. Taylor  
Map Ref.: E0000379024  
D.B. 642D, Pg. 746

N/F Cara E. Kaufman  
Map Ref.: E0000379022  
I.D. 2006 25719

**N. 24th STREET**



Survey and Plat of  
**The Property Known as  
#805 North 24th Street  
in the City of Richmond, VA**



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# R-63



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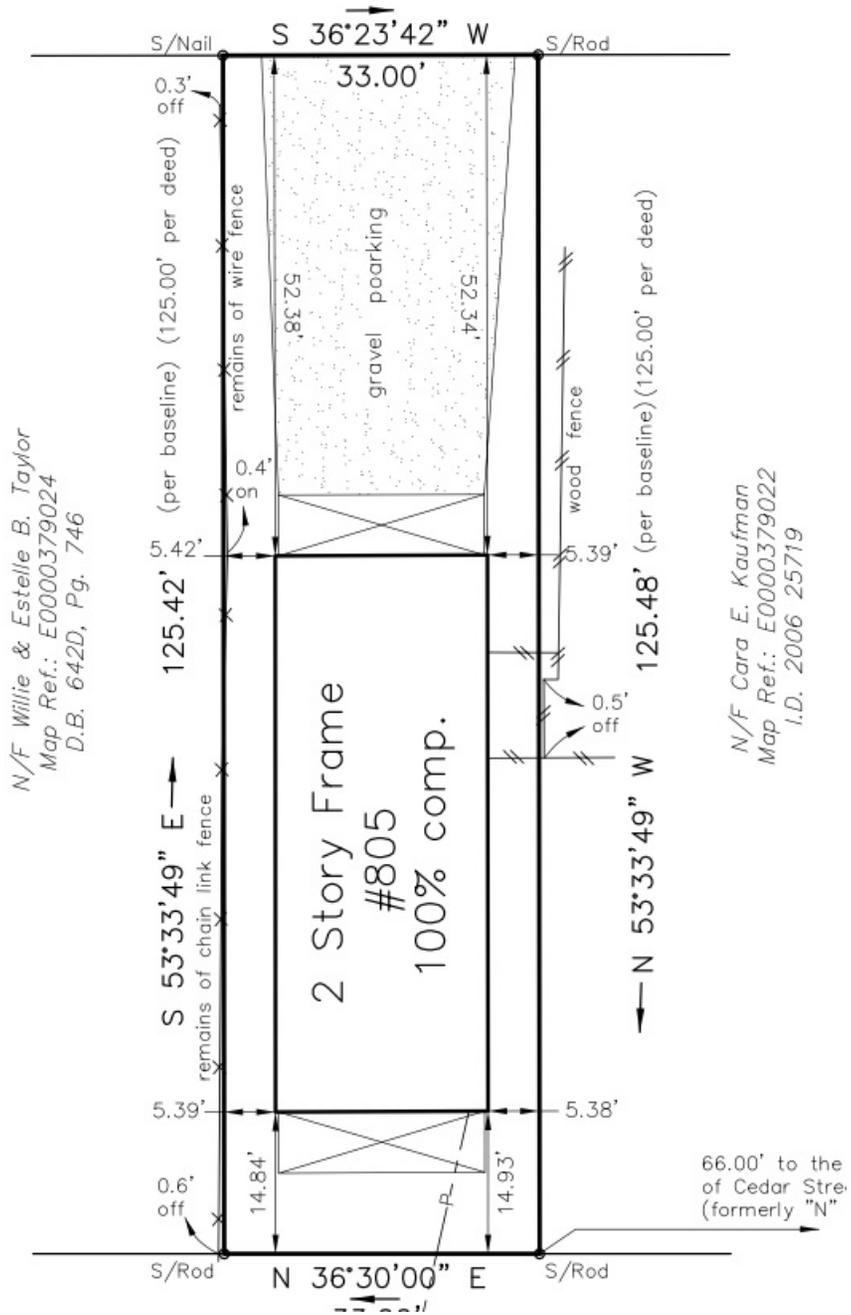
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## II. Design

- Can build up to 4 units
- 27' wide
- Up to 2,691sq ft footprint (65% x 4,140)
  - So 2 story building = up to 5,383 sq ft
- BUT: you don't always want to max out the footprint
  - Won't leave room for open space, decks, off-street parking which may be required
- Other considerations:
  - residential vs. commercial (2 units vs. 4)
  - Fire-rating (3ft setback vs. 5'+ setbacks)
  - Moral: get to know local building codes!



N/F Willie & Estelle B. Taylor  
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## II. Design: Another Example

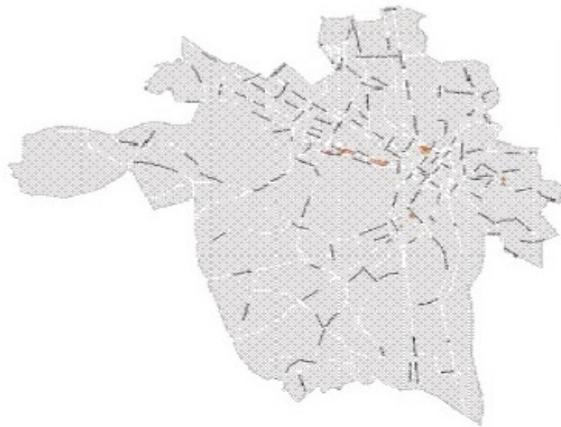




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## II. 611-613 N. 21<sup>st</sup> St

- 2 lots, each a little over 2,700sq ft.
- Too small to build detached (stand-alone) structures on each
  - (Unless grandfathered)
- Can build an attached single fam or duplex on each one
  - So max 4 units total
  - Max footprint of each structure: ~1,755sq ft



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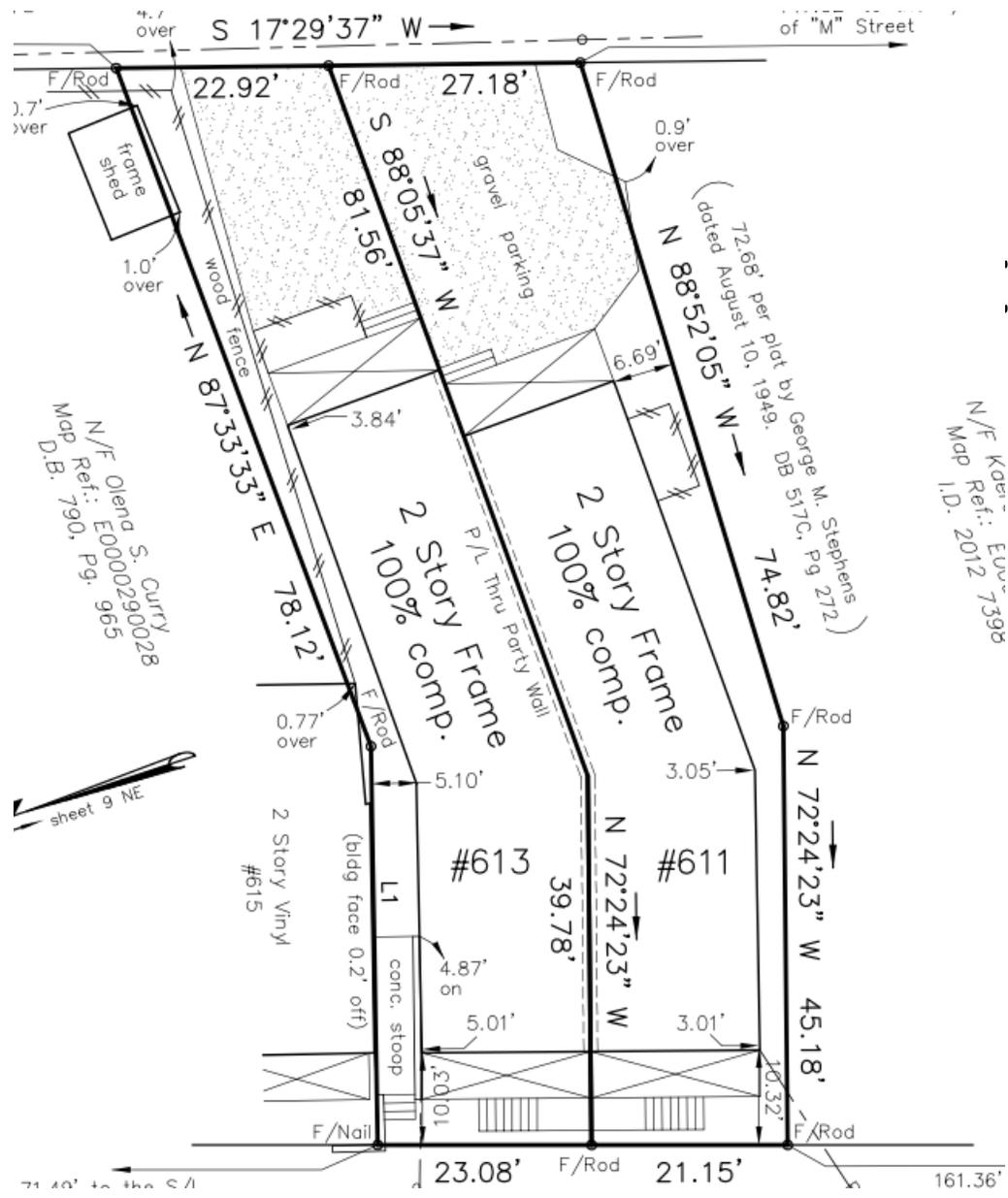
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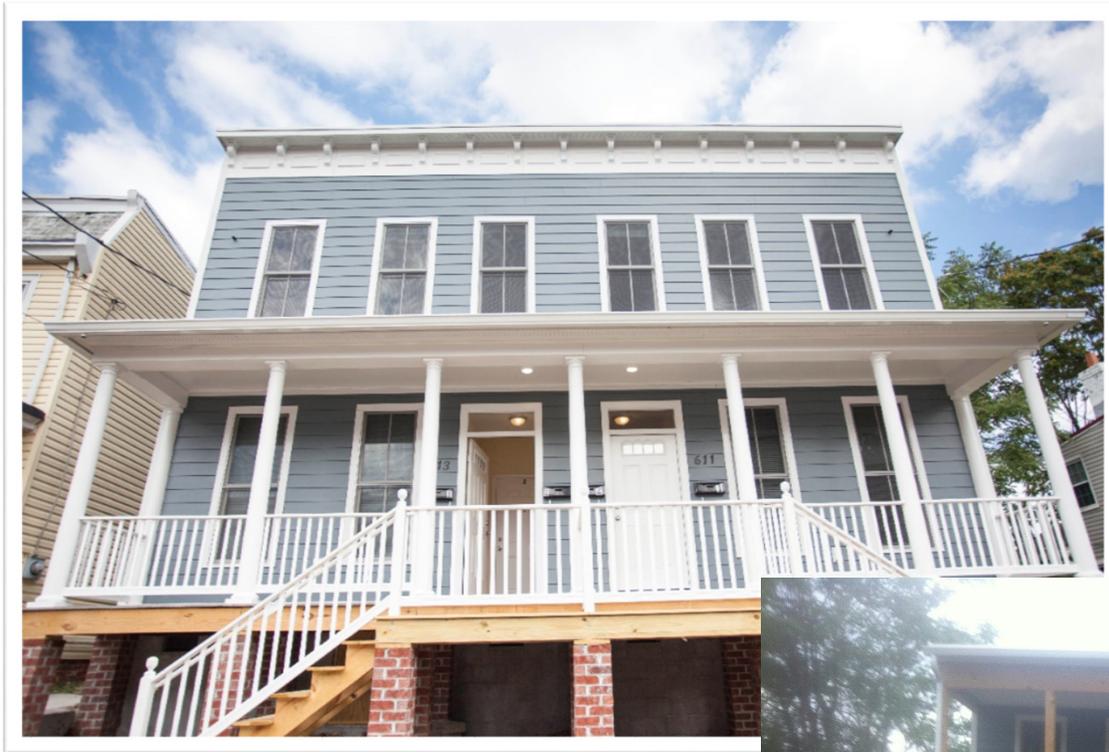
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 D.B. 790, Pg. 965

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 Map Ref.: E0007398  
 I.D. 2012







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## II. Let's Keep Talking Design: Things You MUST Consider Carefully:

- Unit Mix
- Layouts
- Room Sizes
- Amenities
- Finishes
- Soundproofing
- Longevity
- Common space, outdoor space, parking



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## Unit Mix

- Highest # of Bedrooms may mean the highest rent. But it won't always mean you'll make the most money!
- 3 or 4 bedroom units attract roommate-type arrangements. This equals constant turnover. Turnover = leasing fees, lost rent, turnover costs. Also more roommates = higher wear and tear.
- The name of the game in Buy/Hold is RETENTION. You want loyal, long-term tenants.
- This is why I prefer to build 2 bedroom units (and lately 1-bedroom also). Single people, couples, young professionals. Less bedrooms but premium rents.



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## Unit Mix

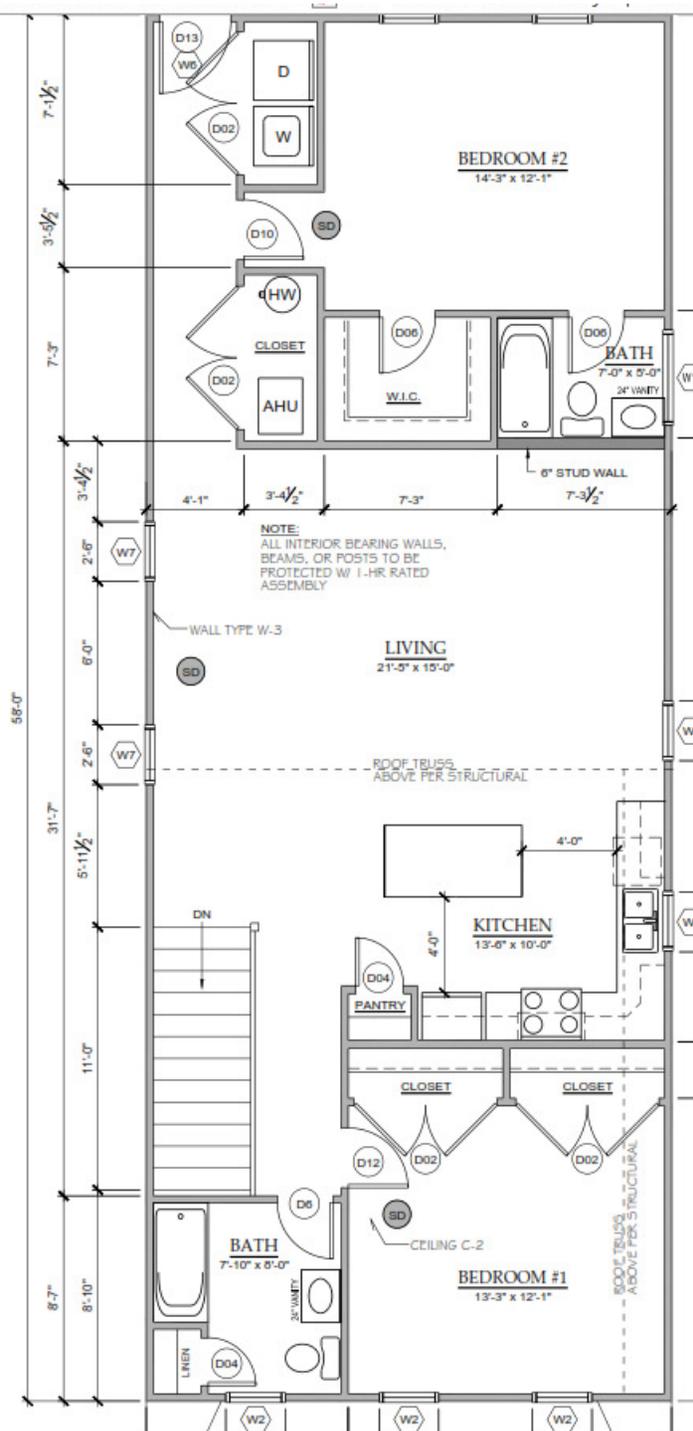
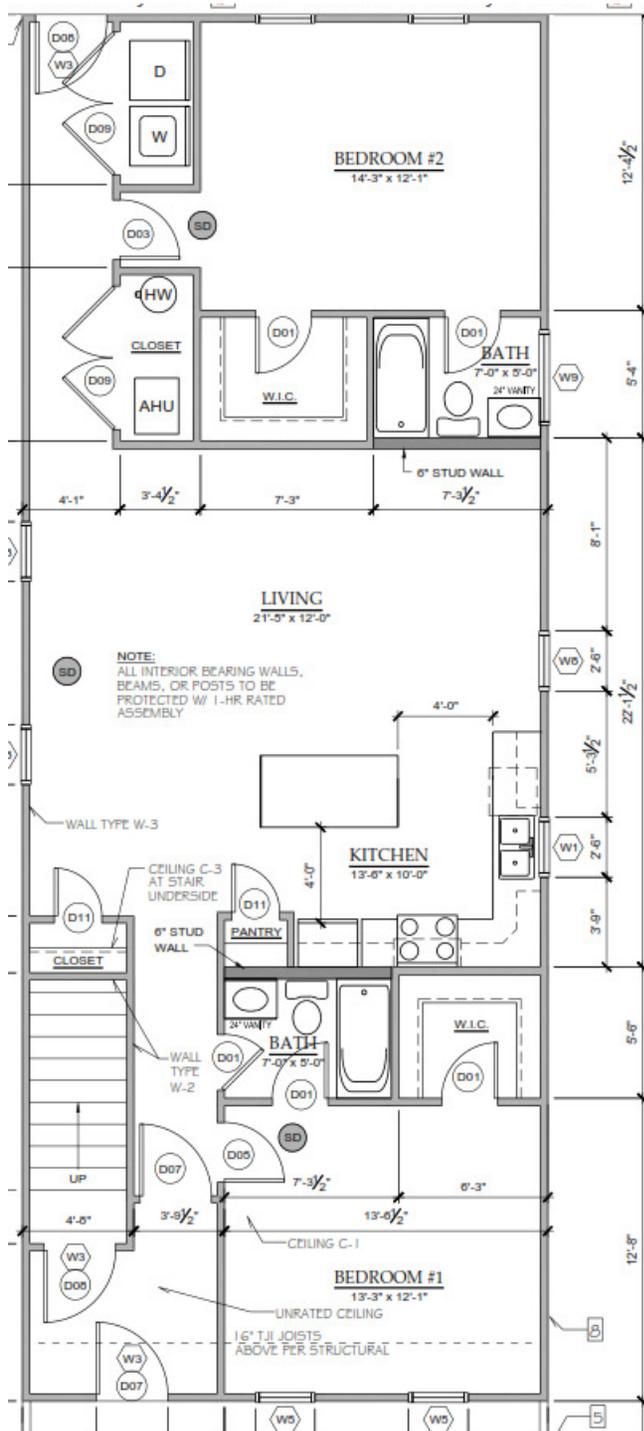
- *Disclaimer: what works and makes sense in my market may not in yours. You may want to build Section 8 4-bedroom houses or apartments. Learn your market and what is in demand.*



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# Layouts

- Minimum bedroom size: 12x12'
- 6-ft closets min or walk-in closets
- 1 full bath per bedroom (No 2/1s – only 2/2s)
- Large kitchens. Usually islands (serve as dining rooms for my generation) 😊
- 9' ceilings. Always.
- Large pantries
- Minimize hallway space as much as possible, build big open spaces
- My best 2-bedroom layouts are laid out like 2 separate suites







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## Amenities/Finishes

- Onsite laundry with lots of storage space
- Large pantries
- Stainless steel appliances. Always include dishwasher, garbage disposal, microwave.
- Granite countertops
- Hardwood floors or stained concrete. Never carpet.
  - Note: Use  $\frac{3}{4}$ " hardwoods, not engineered!
- Energy efficiency is important. Insulate well.
- The beauty of new construction is you get to build a Premium, Energy-Efficient, Sexy product and attract High Quality Tenants.



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# Amenities/Finishes

- Off-street parking
- Outdoor space (decks, balconies, etc)
- Soundproofing between units is HUGE!!
- We use:
  - Rockwool insulation
  - Staggered stud walls
  - Sheetrock hung on RC channels (to create an air barrier)
  - Double 5/8" sheetrock walls



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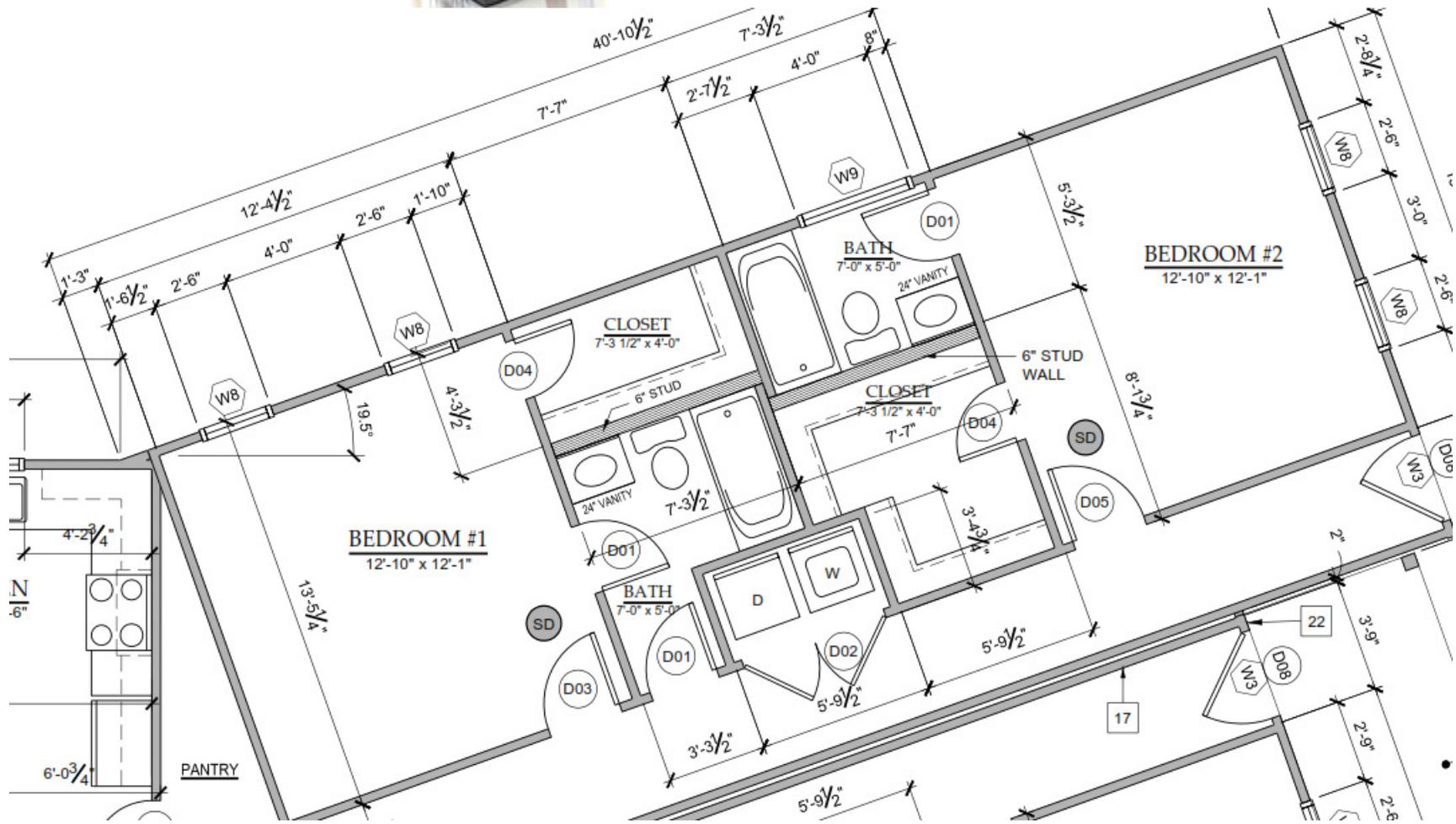
# Amenities/Finishes

- Soundproofing **within each unit** is equally important
- Separate bedroom from living room.
- Isolate bathrooms when next to common areas
- If you're going to put bedrooms next to each other, soundproof that wall and separate bedrooms with baths/closets:



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## Paint/Colors:

- Use the same, flat paint color for all your projects. Consistency is key!
- Don't do cabinets that are too dark (espresso)



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## III. Finance

- Why Build Vs. Buy?
- After all, development takes a lot of work and can take a long time to bring a project from inception to leasing.
- Why go through the trouble when you can just buy apartment buildings?



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## III. Finance

- 1) I hate hate hate buying someone else's renovations.
- 2) There is a shortage of affordable apartments right now – everyone is chasing them and cap rates have compressed in most markets
- 3) You get to design and build a high quality product from scratch that will be very appealing, low-maintenance and easy to lease/manage
- 4) LEVERAGE!



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## III. Finance

- \$250,000 Duplex. To purchase an already existing one you'll need roughly 25% cash w/bank financing or \$62.5k (at least 20% down plus closing costs)
- And then you're probably buying at market value (i.e. no equity)
- Or:



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## III. Finance

- Or:
  - Buy land for \$30k cash
  - Bring that land as equity to a local bank
  - They'll finance up to 85% of total cost of project
  - Your cost to build is \$75/ft x 2400 = \$180k
  - Total cost = \$180k + \$30k = \$210k x 85% = \$178.5k
  - So \$30k cash (plus \$3-5k closing and soft costs) + 100% financing on construction
  - Total cost basis ~ \$210k vs. \$275k value (value higher per new construction) = 23% equity
  - 20-year am note @4.5% interest = ~16% of that note paid off in first 5 years. After 5 years, 40% equity in project plus appreciation, depreciation and monthly cashflow



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## III. Finance

- The big catch with 100% construction financing: fronting the first draw (applies to banks, hard money lenders and some savvy private money lenders)
- If you're short on cash, how do you front it?
  - Receivables. Set up accounts with your suppliers and agree on 30-45 days to pay. Same thing your contractors/subs. Most understand how game is played
  - Credit cards. Put the first batch of materials on your cards
  - Partners/Private Lenders



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## III. Finance

- Instead of going to banks, just finance 100% of the project (land, construction) with a private lender or JV partner
- There are many ways to get into the game
- I'm building 4 houses right now with a JV partner where I'm completely passive, get 50% of profits.
  - Find someone like me to do deals with (NOT me)



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SOURCE LAND

DESIGN PROJECT

FINANCE

PERMIT/BUILD

LEASE/MANAGE



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## Closing Thoughts:

- Focus on one or two areas/neighborhoods/markets max for your development efforts.
  - Easier to manage simultaneous projects
  - Make a bigger impact and can help move the market in the direction you want
- When running multiple projects, use that for negotiating advantage. When dealing with suppliers or subs, never show your cards upfront.



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## Closing Thoughts:

- Residential development is a great way to get your feet wet before doing bigger projects
- Commercial development (in my market anything over 2 units) is more challenging and more expensive
  - Fire suppression, backflow preventers, ADA requirements, engineered trade drawings, plans of development, fire rating, etc etc etc
  - Add another \$10-\$20/sq min for commercial construction





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