Executive Summary – Multi-family I-35 & 1604 N

After researching all the market possibilities in San Antonio, we decided upon developing a multifamily residential property. The low vacancy rate, high rents, and high expected future job growth in the city made the multifamily residential market stand out the most to us. We found ten prospective job sites around the city, but finally decided on a property at the intersection of I-35 and 1604 north. This property is located in the east part of the city and is easily viewable and accessible from both major highways. The property is reasonably priced at $2.75 per square foot, is the perfect size at 16.194 acres, and is already zoned for multifamily residential housing. We determined a total project cost of $16,000,547, with construction costs totaling $13,880,400. To finance this property, we would need to obtain both a normal construction loan of $10,695,784 and a mezzanine loan for $3,383,519. This is due to the high price of the project and the low loan to value ratio for construction loans. The construction loan would have a term of 30 years at a rate of six percent, while the mezzanine loan would have a term of 20 years with a rate of twelve percent. After determining the cash flows for the project for the next ten years (including the sale of the property for $25,896,734 at the end of year ten), we calculated the after-tax IRR to be 26.4% and the after-tax NPV to be $3,233,942. While these numbers look excellent on paper, it is highly unlikely we would be able to make it this far into the project in the first place. There is little chance that we could get both the construction lender and the mezzanine lender to give up the money we are asking them for with the economy at the state it is in now. Our land does not provide enough to back our promises. This makes the investment extremely risky. Therefore, we have concluded that our project is not feasible at this point in time and would not advise anyone to move into the construction phase of this project.