

# Ryan Frey's Presentation Notes from the Missoula Real Estate Meetup

11/16/22

Notes were taken by Keith Miller, any mistakes or omissions are his fault

- Ryan owns Saddle Mountain Construction, and has been involved in a variety of different partnerships, including the Continuum Building Group.
- He has at least a decade and a half of construction and development experience.
- He stressed that being a developer is not the same thing as a General Contractor. The General Contractor only comes in when it is ready to build. A Developer does everything else leading up to the groundbreaking, and often managing it after completion as well.
- To summarize what development is, it's taking dirt and turning it into something.
- Land costs are what make or break a project.
- Zoning is key when determining the value of a parcel.
- Development is a process that you cannot do by yourself. You're going to need a team, and the tricky part is that you have to pay those team members up front, before you've even broken ground, that's where the risk in development comes from. Your team must include at least the following members:
  - Lawyer
  - Agent- On very large projects, lawyers can be used instead of an agent, but that's typically only done with multi-million dollar development projects.
  - Title Company- Usually an ALTA survey is done for development projects, which is a step above a basic title report. It collects all relevant information about a site, including easements, and much more.
  - Civil Engineers- You can pay civil engineers to do the site management on larger development projects.
  - Architects
  - General Contractors.
- It is harder to get investors on board before the project is "Shovel Ready", meaning you have a permit and are ready to begin construction. When it's only a piece of dirt and an conceptual idea, many investors want an equity stake in the project in order to commit their funds.
- Developers are really visionaries, in that they can see a completed building or an entire neighborhood in their minds when it's only dirt. They must put their net worth on the line with every project, as banks almost always want a personal guarantee. That means that if the project fails, the bank can foreclose on all your other properties to get their money back.
- The single trait that is needed to be a developer is grit.
- There is no template for development, each municipality has a different set of departments that you must get approval from to move forward.
- But it has it's benefits, you can name a street (haha)
- Getting the land at the right price is the number one most challenging task.
- Around \$35K per unit for the land is roughly the current going rate (Meaning the land for a 10-unit apartment building should cost roughly \$350K to make it pencil).
- The land makes the deal, because it's really hard to reduce your cost of building the structure, so if you want to cut costs, it usually has to come from the land cost.

- Standalone ADUs usually don't pencil, but internal ADUs usually do. It's just a lot of work (Excavation, plumbing, electrical, etc.), that only results in one housing unit. It's far more efficient to build a five or ten unit building.
- With larger land purchases, you can usually get six months of due diligence, which allows you to decide if you have a viable project before you close.
- Banks will want to know your vision when you buy the land. Land that is not able to connect to city or county sewer lines will usually require a 50% down payment, whereas land that can be on sewer can usually be bought with a 25% down payment.
- Boundary line relocations are a great way to split a lot, but they are now taking a year for the city to approve, which really slows down development.
- Ryan sees Missoula as being so far behind on building, that a major drop in occupancy rates as being unlikely. He doesn't see the upcoming apartment projects as having a very large effect on vacancy, as there is so much built up demand.
- When doing the math on a development project, the cost per unit is the standard for multifamily. When it comes to single family, cost per square foot is the standard. The cost per square foot for a single family is pushing \$300.
- The major area of growth for Missoula is moving West.
- Form based code is currently being used in the new Sx<sup>w</sup>tpqyen – (pronounced S-wh-tip-KAYN)-Neighborhood. It's very complicated, I (Keith) had a hard time taking notes on Ryan's explanation. More info can be found [here](#).
- Ryan doesn't see the housing recession hitting Missoula very hard at all, because there's so much demand built up.
- When asked about insurance a developer should have, he said liability for sure, as well as errors and omissions if you're taking investor money. Builders risk insurance once you break ground as well.
- It's really hard to sell investors on appreciation, and Ryan recommends strongly against counting on it, especially right now. A project must cash flow to make sense, unless you are very well capitalized. In addition, in order to get investors on board, a project must cash flow. By year three at the latest a project should be making money.
- Remember, developers always get paid last.