

Development Analysis of an 18-Unit Affordable Housing Rental Apartment Project

DCG Corplan Consulting LLC
623 Eagle Rock Ave., Ste. 102
West Orange, NJ 07052

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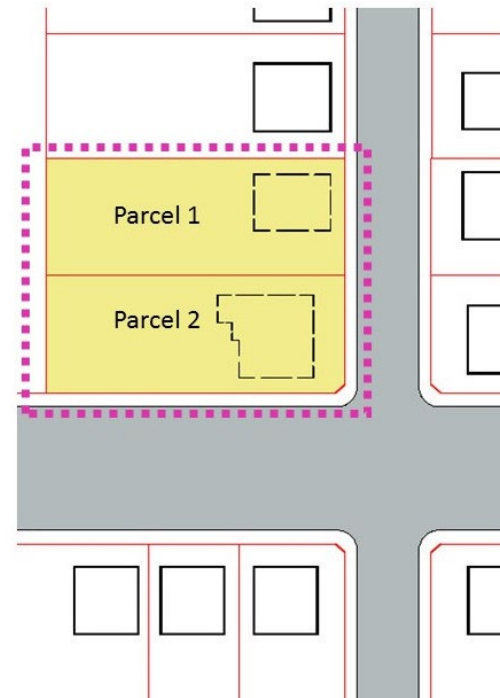
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Introduction

Affordable housing is a pressing need throughout the country. It is estimated that in 13 of the 50 largest metropolitan areas in the country, the absolute shortage of affordable and available homes for extremely low-income renters exceeds 100,000 units¹. To meet this need, developers must be able to produce rental housing at a scale and price point that can justify the investment.

Affordable projects are often mega-scale developments in dense urban settings, with major inducements added to justify economic viability. However, smaller projects can achieve similar outcomes with carefully planned programs. For affordable housing, the goal is to maximize dwelling development that has efficiency of land use, provide welcoming design aesthetics, and limit the amount of superfluous non-productive common areas in favor of larger unit size to accommodate families.

In this model we explore a hypothetical property in a suburban town. The site is a corner property consisting of two 100x200 ft parcels assembled into a single lot. Actual site area is 39,900 square feet or 0.92 acres. Zoning for the property is Business/Multi-family Residential with a maximum height of three-stories and a development



intensity of 1 unit per 3,000 square feet of site area. As-of-right development would have allowed 12 units to be developed. However, density relief has been granted by the Zoning Board for a higher use of 18 units.

¹ National Low Income Housing Coalition

Market Analysis Summary

The U.S. Department of Housing and Urban Development defines “affordable housing” as housing on which the occupant is paying no more than 30 percent of gross income for housing costs, including utilities². Affordable housing typically serves households earning between 30% and 80% of the Area Median Income (AMI), with **60%** being a common benchmark for rental projects.

To qualify for use of Low Income Housing Tax Credits (LIHTC), the project is designated as serving households not exceeding 60% of the Area Median Income (AMI). While this model does not identify a specific metropolitan area, it will be assumed that the site falls within one of the OMB’s Difficult to Develop Area (DDA)³

The US Census national median income figures for various household types are as follows:

Household Type	Median HH Income (2024)
All households	\$81,604
Families	\$101,265
Married-couple families	\$120,217
Non-family households	\$71,542

As the development concept is that of maximizing unit size, the study will average the AMI for Families (\$101,265) and Married-couple families (\$120,217) to arrive at the figure of \$110,741 as the base AMI. Using the 60% allocation for affordable housing, the target median household income will be **\$66,440**.

Affordable rent minus an estimated 5% utility cost must not exceed **25%** of the household income, therefore, rent for an affordable unit in this model will be **\$1,380** per month.

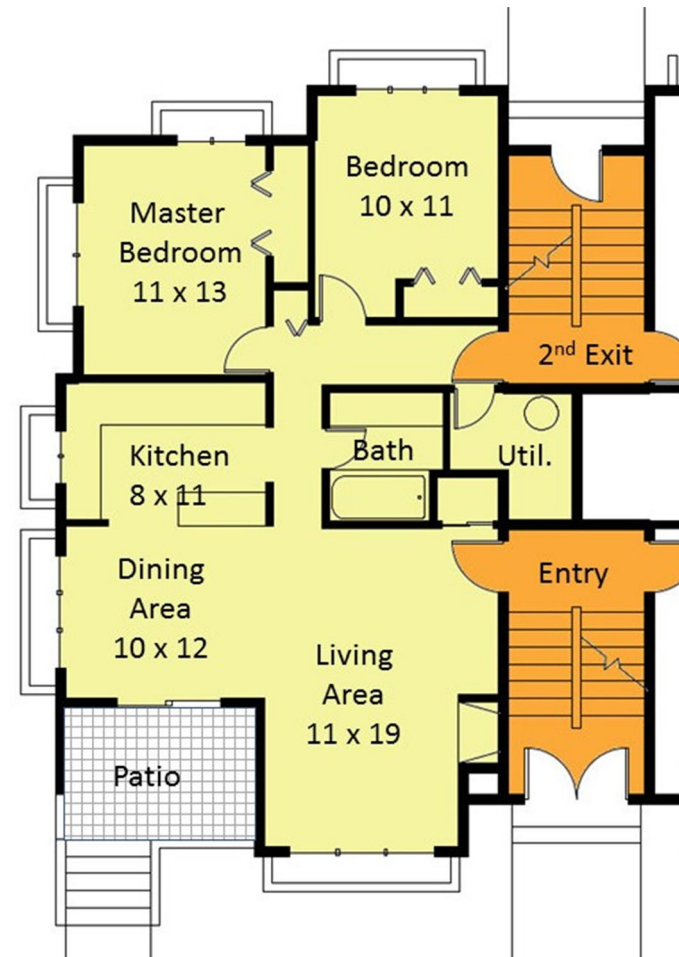
² Affordable Housing definition; National league of Cities

³ HUD Office of Policy Development and Research (PD&R)

Development Program

The project consists of 18 two-bedroom-one bath rental apartments configured into two three-story buildings. The typical unit is **931 sf** in net floor area. For interior units, the floor area is slightly smaller at **912 sf**. The floors are designed as split-level, with a lower-level one-half flight of stairs below the entry, and the first floor at one-half above entry. The second floor will be one full flight of stairs above the first. Each unit will feature an 11 ft x 19 ft living area, a 10 ft x 12 ft dining area, an 8 ft x 11 ft kitchen, an 11 ft x 13 ft master bedroom, and a 10 ft x 11 ft second bedroom. A full bath is provided as is a utility room with laundry facility. Each unit has two means of egress which satisfies fire safety requirements. The buildings are non-sprinklered. Parking on-site for 36 cars is required by zoning at 2 spaces per unit.

Ground floor/lower level units will have a private patio accessed from the dining area through sliding glass doors and upper floor units will feature balconies. Windows near grade will be provided with areaway enclosures. Corner units will have windowed kitchens and dining areas plus increased master bedroom windows which will not be accommodated for interior units. Upper floor units will feature vaulted ceilings.



Typical Unit Plan
931 sf

Site plan

The site plan provides parking for 36 cars and buildings are set back from the front and side property lines. Waste facilities are located at the lot rear corner.

Total building footprint is 7,465 sf, or 20 percent of the lot area. Overall impervious coverage is 72 percent. Other than bulk usage (units per thousand sf of lot area), all other as-of-right zoning measures are met.



Visualization



View from Southeast

Visualization



View from Northeast

Visualization



View from parking area

Visualization



Aerial view

Project Costs

Overall site acquisition costs are **\$650,000**, inclusive of approval fees, titles and escrow payments. Hard costs for the dwelling construction are based on **\$150** per square foot, excluding general contractor overhead. Building hard costs are **\$2.829 million**.

Site demolition of the existing structures and clearing and grading of the lot and construction of on- and off-site improvements total **\$240,000**. Total hard costs including a 5% contingency allowance equal **\$3.222 million**.

Soft costs including architectural/engineering design, general contractor overhead, developers fee (**\$318,500**) and all associated fees total **\$1.224 million**. Included in the soft costs are the municipality’s Development Impact Fees of **\$100,800**.

In aggregate, the Total Project cost is **\$5.098 million**, or **\$283,300** per dwelling unit (**\$129.58 per square foot**).

Development Impact fees		
Item	Total Cost	Cost per DU
Transportation	\$9,000	\$500
Fire	\$9,000	\$500
School	\$18,000	\$1,000
Water Capacity Charge	\$27,000	\$1,500
Sewer System & Water Treatment Charge	\$36,000	\$2,000
Plan Check & Inspection	\$1,800	\$100
Total Development Impact Fees	\$100,800	\$5,600

Project Expenses			
Expense	Monthly Cost	Annual Cost	Cost Per Unit
Water/Sewer	\$350	\$4,200	\$19.44
Site Lighting, electrical	\$750	\$9,000	\$41.67
Trash services	\$300	\$3,600	\$16.67
Insurance	\$650	\$7,800	\$36.11
Property Taxes*	\$2,750	\$33,000	\$152.78
Maint./Replacement Reserves	\$1,250	\$15,000	\$69.44
Property Management	\$1,500	\$18,000	\$83.33
Marketing/Advertising	\$250	\$3,000	\$13.89
Totals	\$7,800	\$93,600	\$419.44

Project Costs				
		Total	Per Unit	Per Sf
Land Costs				
Land Acquisition		\$650,000	\$36,100	\$34.47
Title and Escrow		\$2,300	\$100	\$0.12
Subtotal Land Costs		\$652,300	\$36,200	\$34.59
Hard Construction Costs				
Cost of Dwellings Construction		\$2,828,700	\$157,200	\$150.00
Site Improvements				
Demolition/clearing		\$35,000	\$1,900	\$1.86
Grading		\$80,000	\$4,400	\$4.24
Retaining Walls		\$25,000	\$1,400	\$1.33
Onsite Surface Improvements		\$40,000	\$2,200	\$2.12
Offsite Improvements		\$50,000	\$2,800	\$2.65
Landscaping		\$10,000	\$600	\$0.53
Subtotal Site Improvements		\$205,000	\$11,400	\$240,000
Hard Costs Contingency	5% of hard costs	\$151,700	\$153,400	\$8,500
Subtotal Hard Costs		\$3,222,100	\$179,000	\$170.86
Soft Construction Costs				
			\$0	
Site testing (estimated)		\$5,000	\$300	\$0.27
Arch'l/Civil Engineering/Planning/Legal	7% of hard costs	\$223,000	\$225,500	\$12,500
Insurance	0.25% of hard costs	\$8,000	\$8,100	\$500
General Contractor O&P	15% of hard costs	\$477,800	\$483,300	\$26,900
Developer's Fee	10% of hard costs	\$318,500	\$322,200	\$17,900
Permit Fees	0.5% of hard costs	\$15,900	\$16,100	\$900
Misc. Inspection Fees (estimated)		\$5,000	\$300	\$0.27
Development Impact fees		\$100,800	\$5,600	\$5.35
Soft Costs Contingency	5% of soft costs	\$57,700	\$58,300	\$3,200
Subtotal Soft Costs		\$1,224,300	\$68,000	\$64.92
Total Project Costs		\$5,098,700	\$283,300	\$129.58

Development Financing

The project financing assumptions and overall summaries are shown in this table. All costs and fees have been escalated at 2.5% from the base year.

The basic unit rent will be **\$1,380** per month with a slight discount to **\$1,350** per month for interior units. Stabilized occupancy levels will be set at 95%.

Capitalization rate for this project type **5.5%**. A two-year construction cycle is estimated financed by interest-only loan at 7.0% with a loan-to-Value (LTV) of 80%. Permanent financing at 6.0% for 30 years is the successor loan.

Low Income Housing Tax Credits (LIHTC) are a key component to the capital stack. Total eligible basis is computed at **\$4.446 million**, with a basis boost of **30%** due to the project location in a DDA. The Adjusted Basis is **\$5.780 million**.

The fixed Credit Rate of 9% will generate tax credits of \$520,200 for 10 years, totaling \$5.202 million. Sale of the tax credits at 90% will net a Generated Equity of **\$4.682 million**. Total Invested equity is lowered to **\$146,400**.

Sample 18-Unit Apartment Project - Financial Analysis				
Monthly Rent Schedule				
Type of Unit	Units	Square Feet	Rent per Unit	Total Rent
2 BR/1 Bath - 1st Fl. - Corner	4	931	\$1,380	\$5,500
2 BR/1 Bath - 1st Fl. - Middle	2	912	\$1,350	\$2,700
2 BR/1 Bath - 2nd Fl. - Corner	4	931	\$1,380	\$5,500
2 BR/1 Bath - 2nd Fl. - Middle	2	912	\$1,350	\$2,700
2 BR/1 Bath - 3rd Fl. - Corner	4	931	\$1,380	\$5,500
2 BR/1 Bath - 3rd fl. - Middle	2	912	\$1,350	\$2,700
Common area		2,214		
Totals	18	18,858		\$24,600
Assumptions				
Land Acquisition Cost				\$650,000
Inflation rate				2.5%
Stabilized occupancy Rate				95%
Capitalization rate				5.50%
Realtor Commission				4%
Costs of Sales				0.5%
Construction Loan (LTV)				80%
Construction Loan Interest rate				7.5%
Permanent Loan Interest rate				6.0%
Construction Loan term yrs.				2
Permanent Loan term yrs.				30
Finance origination fee rate				2.0%
Accruing Net Proceeds Interest Rate				4.0%

Predevelopment & Low-Income Housing Tax Credits Calculation

Predevelopment				
	Project Data	Investor Equity	Construction Financing	Permanent Financing
Land Purchase	\$650,000	\$10,000	\$640,000	
Subtotal Soft costs	\$1,224,300	\$15,000	\$1,209,300	
Subtotal Hard Costs	\$3,222,100		\$3,222,100	
Total Development Cost	\$5,098,700	\$25,000	\$5,071,400	
Low Income Housing Tax Credits - equity generated*	\$4,681,800			
Net Development cost	\$416,900			
Construction Loan LTV	80%			
Construction Loan	\$333,500		\$333,500	
Construction Loan Equity	\$83,400	\$83,400		
Financing Fees - Construction Loan	\$6,700		\$6,700	
Interest on Construction Loan	\$38,000	\$38,000		
Construction Loan total	\$340,200	\$121,400	\$340,200	
Loan LTV	100%			
Permanent Loan(including Equity)	\$340,200			\$340,200
Loan Equity	\$0			
Financing Fees - Loan	\$6,800			\$6,800
Permanent Loan total	\$347,000			\$347,000
Annual Debt Service	\$25,200			\$25,200
Total Investor Equity	\$146,400	\$146,400		\$146,400

Low Income Housing Tax Credits Calculation	
Total eligible basis (construction cost minus land purchase)	\$4,446,400
Basis Boost (Location within DDA)	30%
Adjusted basis	\$5,780,300
Credit rate (fixed)	9%
Credit term	10 yrs.
Annual credit	\$520,200
Total credits	\$5,202,000
Equity pricing (per \$1.00 of tax credit)	\$0.90
*Total equity generated	\$4,681,800

Cash Flows

Cash Flows											
Period (Yr.)	Constr.	Operating Yr. 1	Operating Yr. 2	Operating Yr. 3	Operating Yr. 4	Operating Yr. 5	Operating Yr. 6	Operating Yr. 7	Operating Yr. 8	Operating Yr. 9	Operating Yr. 10
Inflation Factor	2.5%	1.00	1.03	1.05	1.08	1.10	1.13	1.16	1.19	1.22	1.25
Occupancy		70%	80%	90%	95%	95%	95%	95%	95%	95%	95%
Gross Operating Income		\$206,600	\$242,100	\$279,100	\$302,000	\$309,600	\$317,300	\$325,200	\$333,400	\$341,700	\$350,200
Less: Operating Expenses		(\$93,600)	(\$95,900)	(\$98,300)	(\$100,800)	(\$103,300)	(\$105,900)	(\$108,500)	(\$111,300)	(\$114,000)	(\$116,900)
Less: Realtor Commission	4%	(\$8,300)	(\$1,000)	(\$1,100)	(\$600)	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$104,700	\$145,200	\$179,700	\$200,600	\$206,300	\$211,400	\$216,700	\$222,100	\$227,700	\$233,300
Less: Annual Debt Service		(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)	(\$25,200)
Cummul. Cash Flow Before Taxes		\$79,500	\$120,000	\$154,500	\$175,400	\$181,100	\$186,200	\$191,500	\$196,900	\$202,500	\$208,100
Invested Equity Value Payback		(\$79,500)	(\$66,900)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Invested Equity Value (Running)	(\$147,000)	(\$66,900)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$0	\$53,100	\$154,500	\$175,400	\$181,100	\$186,200	\$191,500	\$196,900	\$202,500	\$208,100
Net Operating Income (Running)		\$0	\$53,100	\$209,700	\$393,500	\$590,300	\$800,100	\$1,023,600	\$1,261,400	\$1,514,400	\$1,783,100
Fair Market Sales Price		\$0	\$965,500	\$2,809,100	\$3,189,100	\$3,292,700	\$3,385,500	\$3,481,800	\$3,580,000	\$3,681,800	\$3,783,600
Less: Realtor Commission	4%	\$0	(\$38,600)	(\$112,400)	(\$127,600)	(\$131,700)	(\$135,400)	(\$139,300)	(\$143,200)	(\$147,300)	(\$151,300)
Less: Loan Balance		\$0	(\$342,620)	(\$337,977)	(\$333,056)	(\$327,839)	(\$322,310)	(\$316,448)	(\$310,235)	(\$303,649)	(\$296,668)
Net Sale Proceeds		\$0	\$584,280	\$2,358,723	\$2,728,444	\$2,833,161	\$2,927,790	\$3,026,052	\$3,126,565	\$3,230,851	\$3,335,632
Multiple on Invested Equity (ROE)		0.00	3.99	16.11	18.64	19.35	20.00	20.67	21.36	22.07	22.78

The table provides a 10-year horizon of revenue, expenses and profitability. Stabilized occupancy is achieved by Operating Year 4 when sale is recommended.

Sale to new owner will be contingent on the new owner maintaining the deed-restricted affordability requirements to avoid recapture of tax credits by the IRS.

Equity investment is repaid by year 2, and a Fair Market Value in year 4 will bring a sales price of **\$3.189 million**. After deduction of realtor commission and outstanding loan balance, the Net Sale Proceeds of **\$2.728 million** will generate a Return on Invested Equity Multiple of **18.64** , making this an excellent investment candidate.

For an indefinite hold, the 10-year Net Proceeds total of **\$1.549 million** will generate a Net Present Value (NPV) of **\$1.039 million** (6.5% discount rate). With invested equity of **\$146,400**, the Multiple on Invented Equity (Return) will be **7.10**. Year 10 Cash in Hand from accruing proceeds will be **\$1.783 million**.

10-Yr. Pro Forma	
Net Annual Proceeds (Profit)	\$1,549,300
Net Annual Proceeds (Profit) NPV	\$1,038,800
Investment equity	\$146,400
Multiple on Invested Equity (ROE)	7.10
Year 10 Cash-on-Hand	\$1,783,100

About DCG Corplan

DCG Corplan Consulting LLC (DCG Corplan) is a national leader in economic development strategic planning, corporate site selection and location intelligence, and real estate development feasibility studies and market analysis. DCG Corplan's principals have counseled nearly 25% of the Fortune 500 corporations, assisted with more than 2,600 location decisions, as well as hundreds of assignments for public development agencies in the United States, Europe and the Caribbean.

The firm provides strategic guidance to public agencies with practical business attraction/retention programs and implementation. Public sector clients include regional, state, county and municipalities who seek economic development and diversification in specific industrial, commercial, trade, and tourism activities, as well as development entities who seek assistance on positioning surplus or underutilized facilities into positive cash flows.

For private sector assignments, the firm is dedicated to helping corporations or private investors improve their bottom-line results and capitalize on growth opportunities through geographic repositioning of their capacity. Corporate clients include major industrial and service companies for whom DCG Corplan provides guidance on expansion, consolidation, or reconfiguration of administrative, marketing, production, research, and distribution facilities, including: headquarters and field offices, manufacturing plants, data centers, laboratories, telemarketing centers, and warehouses.

The firm combines the talents of experienced professionals in the three practice areas: Economic Development, Corporate Site Selection, and Real Estate Development.