Acquisition of 9.9 Acres for Senior Housing via IRC Section 453 Seller Financing

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Executive Summary

Across institutional lending channels, senior construction facilities are priced at spreads over the Secured Overnight Financing Rate (SOFR) that result in all-in debt coupons between 7.5% and 9.5%. Concurrently, commercial banks and debt funds have curtailed leverage, lowering loan-to-cost (LTC) ceilings from historical norms of 65% to 75% down to 50% to 60%.

This retrenchment imposes a mandatory equity capitalization requirement of 40% or more on project sponsors, creating a liquidity barrier that has brought speculative ground-up construction to an abrupt halt.

Within the senior housing sector, this financing friction has compressed the national development pipeline to historic lows. Total units under construction across the thirty-one primary metropolitan statistical areas tracked by the National Investment Center for Seniors Housing & Care (NIC MAP) have fallen below 15,500 units—the lowest level recorded since 2006. Annual inventory growth has dropped to an unprecedented 0.4%, down from historical expansion rates of 2.5% to 3.5%.

However, underlying demographic demand continues to accelerate rapidly as the initial wave of the Baby Boomer generation turns 80, propelling national occupancy to 89.9% and metro Atlanta stabilized occupancy toward 90.4%. This divergence between restricted construction and expanding demand creates a window of opportunity for sponsors capable of deploying **non-bank capital solutions**.

The proposed acquisition of a 9.90-acre parcel (Coweta County Parcel ID: 107 6011 008) located along Arbor Springs Parkway in Newnan, Georgia, offers an advantageous capital structure for this macro environment. Entitled by right under an approved Residential Retirement Community and Care (RRCC) master site plan, the parcel is programmed for a 118-unit Class A 55+ active adult rental apartment community.

The potential transaction price of $3,000,000 equates to $303,030.30 per acre, which represents an immediate 76.81% basis discount relative to the 24-month Atlanta Metropolitan

Statistical Area (MSA) average land price of $1,306,800 per acre. Across the 118 entitled doors, the site carries a low land basis of $25,423.73 per unit.
To eliminate the constraints of conventional land acquisition financing, the seller has structured the acquisition as an installment sale under Internal Revenue Code (IRC) Section 453. Under this framework, the developer provides a 20% down payment ($600,000), and the seller carries an 80% purchase-money note ($2,400,000) at a fixed interest rate of 5.0% per annum over a three-year term, featuring monthly interest-only payments ($10,000 per month) and a final balloon payment.

A foundational requirement of the seller's offer is that the seller requires **first-lien mortgage priority on the underlying fee-simple real property**, without subordinating their purchase-money Security Deed to any prospective third-party bank construction lender[1].

This unsubordinated first-lien requirement alters conventional vertical construction debt underwriting, because institutional commercial banks require a first-priority lien on fee title before advancing construction capital[3].

However, this analysis demonstrates how a developer can leverage the installment structure to their advantage. Specifically, the developer captures substantial pre-development benefits—preserving $900,000 in liquid sponsor equity at closing relative to a standard 50% loan-to-value bank facility, saving $96,000 per year in interest carry, and eliminating bank financing contingencies—while executing vertical capitalization through one of two clear structural paths:

1. **The Pre-Development Bridge & Construction Loan Payoff Execution**: Utilizing the 3-year installment note as a low-cost acquisition and permitting vehicle, then paying off the $2,400,000 seller balloon note at par upon closing vertical construction financing (funded out of the senior construction loan commitment and sponsor equity), thereby delivering first-lien priority to the bank without requiring the seller to ever subordinate[5].

2. **The Bifurcated Leasehold or Structured Non-Bank Execution**: Structuring vertical construction through a leasehold mortgage or private debt fund/mezzanine facility where the seller's fee-simple first-lien position remains intact while vertical improvements are financed separately[1].

For the seller, the installment structure delivers tax deferral across multiple tax periods under IRC § 453, avoids the IRC § 453A interest charge surcharge, and secures the $2,400,000 principal balance with a first-priority Security Deed on prime real estate.

Transaction Parameter	Project Specification / Underwriting Metric	Strategic Capital Impact
Asset Location	0 Arbor Springs Parkway, Newnan, GA 30265	Core high-growth Coweta County residential corridor
Parcel Identifier	Coweta County Parcel ID: 107 6011 008	Recorded legal parcel with direct highway access
Gross Site Footprint	9.90 Contiguous Acres (Topography: Rolling)	Optimal layout for low-rise active adult residential
Zoning & Entitlements	Approved under RRCC (Senior Housing by Right)	Eliminates discretionary municipal approval risk
Programmed Density	118 Class A Market-Rate Active Adult Rental Units	Fills documented rental supply gap in Coweta County
Contract Purchase Price	$3,000,000.00	$303,030.30 per acre; $25,423.73 per planned door
Regional Pricing Benchmark	$1,306,800.00 per Acre (24-Month Atlanta MSA Average)	Subject acquisition priced at a 76.81% basis discount
Seller Financing Down Payment	20.0% ($600,000.00 Upfront Sponsor Equity)	Preserves $900,000 liquid capital vs. 50% bank loan
Seller Note Balance & Rate	$2,400,000.00 at Fixed 5.00% Interest-Only	$10,000/month service; 400 bps below commercial debt
Debt Term & Amortization	3-Year Interest-Only Period with Final Balloon Note	Provides flexible pre-development runway and absorption buffer
Seller Lien Priority	**Senior First-Lien Mortgage (Unsubordinated)** [cite: 1, 2]	Seller retains top lien priority; no subordination to bank[1]

The 40% LTC Underwriting Barrier

Senior construction debt facilities that routinely underwrote to 65% or 75% of Total Development Cost (TDC) prior to 2022 are now capped at 50% to 60% LTC. Consequently, developers are forced to inject 40% to 50% cash equity into ground-up developments. On a 118-unit Class A senior residential community where hard and soft development costs average $250,000 per unit, total vertical costs equal $29,500,000, bringing the aggregate development capitalization to $32,500,000 inclusive of land acquisition. Under a 40% LTC equity covenant, the sponsor must assemble $13,000,000 in liquid equity, while the senior construction facility is capped at $19,500,000.

The convergence of elevated debt costs and inflated equity hurdles creates negative financial leverage. When senior borrowing rates exceed 8.0% and market capitalization rates on completed assets range between 5.75% and 6.25%, debt becomes dilutive rather than accretive to equity returns. To justify ground-up execution risks, developers require projected unlevered yields on cost of 8.5% to 9.5%. However, lingering construction cost pressures and wage rates compress achievable yields to between 6.0% and 7.0%, generating an acute feasibility gap that halts pipeline progression.

These lending frictions are magnified during the raw land acquisition phase. Commercial banks evaluate raw, unentitled, or pre-development land as high-risk, non-earning assets, uniformly capping acquisition loan-to-value ratios at 50%. Conventional land loans carry floating rates of 8.5% to 10.0%, require full personal recourse from principals, mandate rapid maturities of 12 to 24 months, and trigger extensive legal, appraisal, and origination fees. This structural dynamic drains vital sponsor liquidity during pre-development, restricting capital availability for essential engineering, site mobilization, and architectural detailing.

Underwriting Parameter	Historical Debt Benchmark (Pre-2022)	Current Conventional Underwriting (2026)	Impact with Unsubordinated Seller Note
Construction Loan-to-Cost (LTC)	65.0% – 75.0% LTC	50.0% – 60.0% LTC (Strict Ceilings)	Mandates 40%–50% equity ($13.0M on $32.5M TDC)
Senior Construction Debt Pricing	SOFR / LIBOR + 225–300 bps (3.5%–4.5%)	SOFR + 300–450 bps (7.5%–9.5% All-in)	Negative leverage vs. 6.0% cap rates

Conventional Land Loan Max LTV	60.0% – 65.0% LTV	50.0% LTV (Maximum allowable bank ceiling)	Requires $1.5M upfront cash on $3.0M land
Land Loan Interest Rates	Fixed 4.50% – 5.50%	Floating 8.50% – 10.00% (~9.0% Baseline)	Seller note at 5.0% saves 400 bps during carry
Lender Lien Priority Mandate	First mortgage on fee simple	First mortgage on fee simple strictly required[4]	Precludes bank from taking second lien behind seller[3]
Developer Construction Solution	Simple bank subordination clause	Sequential payoff or structured financing	Seller note retired at construction close or bifurcated[1]
Target Unlevered Yield on Cost	7.00% – 7.50%	8.50% – 9.50% (Yield Feasibility Gap)	Low land basis ($25.4k/door) preserves 6.72% yield

Capital Structure Economics: IRC § 453 Seller Financing vs. Conventional Bank Debt

The seller-financed installment structure offered under IRC § 453 resolves the liquidity constraints imposed by institutional debt markets during the critical acquisition and pre-development phases. By carrying an 80% purchase-money mortgage balance of $2,400,000 at a fixed 5.0% interest rate, the seller effectively replaces high-cost institutional bank land debt with tailored private capital structured to optimize developer liquidity.

Conventional commercial bank underwriting requires a 50% down payment on land, demanding $1,500,000 in upfront cash equity. In contrast, the seller financing terms require a 20% down payment, or $600,000, immediately preserving $900,000 in liquid capital at the closing table. In a development environment where construction lenders demand 40% equity on vertical construction budgets, preserving $900,000 in cash provides the entire equity allocation required to fund $2,250,000 of vertical construction ($900,000 divided by 0.40).

Instead of trapping scarce sponsor equity in illiquid raw dirt, the developer retains cash to fund horizontal civil engineering, mass grading, storm drainage infrastructure, utility installations, and architectural permitting.

Operating carrying costs are significantly lower under the seller installment note. A conventional land facility in the prevailing rate environment bears a floating rate of approximately 9.0%. If a developer carried the entire $2,400,000 debt burden at bank rates, annual debt service would total $216,000. The seller note provides a fixed 5.0% rate, requiring $120,000 annually, or $10,000 per month.

This 400 basis point spread discount yields direct cash savings of $96,000 annually, generating $288,000 in cumulative carrying cost savings over a 36-month interest-only hold. Even if the developer holds the note only during an 8-month pre-development and permitting window prior to construction loan closing, the interest savings equal $64,000, and the upfront equity preservation of $900,000 remains fully intact.

Transaction expenses and closing risks are also mitigated. Institutional land loans incur loan origination fees of 1.0% to 2.0%, bank legal counsel expenses, environmental plan reviews, and appraisal costs that routinely total between $30,000 and $60,000. In an installment sale, direct bilateral documentation reduces closing costs to nominal legal expenses, saving approximately $42,500.

Combining upfront equity preservation ($900,000), three-year cumulative interest savings ($288,000), and transaction cost mitigation ($42,500) delivers a total capital and liquidity advantage of $1,230,500.

Underwriting Parameter	**Conventional Commercial Bank Land Loan**	**Proposed IRC § 453 Seller Note**	**Developer Economic Advantage**
Land Purchase Price	$3,000,000.00	$3,000,000.00	Baseline asset basis
Financing Leverage (LTV)	50.0% LTV (Maximum Bank Limit)	80.0% LTV (Seller Carry-Back)	+30.0% Incremental Debt Leverage
Required Upfront Cash Equity	$1,500,000.00	$600,000.00	**$900,000.00 Capital Preserved**
Initial Debt	$1,500,000.00	$2,400,000.00	Expands pre-development

Balance			balance sheet
Interest Rate Structure	Floating Rate (~9.00% Baseline)	Fixed 5.00% per Annum	400 bps Fixed Rate Discount
Annual Carrying Cost (Y1–Y3)	$216,000.00 (at 9.0% on $2.4M basis)	$120,000.00 ($10,000 / Month)	**$96,000.00 Annual Savings**
Cumulative 3-Year Interest Cost	$648,000.00	$360,000.00	**$288,000.00 Direct Cash Savings**
Origination & Underwriting Fees	1.5% Fee + Bank Legal ($47,500)	Minimal Documentation ($5,000)	**$42,500.00 Upfront Cost Savings**
Lien Position Priority	First-Lien Security Deed to Bank	**First-Lien Security Deed to Seller (Unsubordinated)** [cite: 1, 2]	Complete collateral security for Seller[1]
Total 3-Year Liquidity Benefit	Standard Institutional Drag	Strategic Optimization	**$1,230,500.00 Total Net Benefit**

Regional Comparative Benchmarking

The subject 9.90-acre parcel in Newnan carries a purchase price of $3,000,000, establishing a cost basis of $303,030.30 per acre. Historical commercial land transactions across the broader Atlanta MSA over the trailing 24 months averaged $1,306,800 per acre, placing the subject property at an immediate 76.81% discount to regional market averages.

Within Coweta County, comparable transactions reflect strong investor demand for development-ready sites, including commercial parcels trading at $854,007 per acre (521/531 Newnan Crossing Bypass) and $434,784 per acre (Dorsey Road), demonstrating the property's pricing advantage.

Spread across the entitled capacity of 118 active adult units, the land acquisition basis is $25,423.73 per door. In institutional multifamily and active adult development across the Sunbelt, raw land costs typically represent 12% to 18% of Total Development Cost.

Assuming a vertical hard and soft construction budget of $250,000 per unit ($29,500,000 total), the project carries an all-in capitalization of $32,500,000 ($275,424 per door). Under this capitalization, the $3,000,000 land acquisition basis represents just 9.23% of TDC, calculated as:

$$\text{Land Cost Percentage} = \frac{\$3,000,000.00}{\$32,500,000.00} = 9.23\%$$

Limiting land cost to under 9.5% of total development expenditure delivers several strategic benefits to the sponsor. First, it creates an unallocated capital contingency cushion capable of absorbing commodity price inflation, municipal utility connection fees, or subcontractor labor premiums without eroding projected equity yields.

Second, it allows capital savings to be redirected into high-end tenant amenities—such as an active adult clubhouse, fitness center, pickleball courts, and outdoor entertainment spaces—that command rent premiums, accelerate absorption velocity, and support high resident retention.

Third, it lowers the overall project basis, allowing the development to generate an unlevered yield on cost of 6.72%, which exceeds prevailing exit capitalization rates and overcomes the negative leverage dynamics common in current ground-up developments.

Crucially, the low land basis makes the seller's requirement for an unsubordinated first-lien mortgage manageable[5]. When the developer transitions from pre-development to vertical construction, the Total Development Cost of $32,500,000 underwritten at a standard 60% LTC construction loan generates a construction facility of $19,500,000, alongside a 40% required project equity capitalization of $13,000,000[5].

In the Sources and Uses of Funds at construction loan closing, the $2,400,000 seller balloon note is simply absorbed and paid off as an acquisition use of funds[5]:

- **Total Project Uses ($32,500,000)**: Land Acquisition ($3,000,000, comprising the $600,000 initial equity credited + $2,400,000 seller note payoff) + Vertical Hard & Soft Construction Costs ($29,500,000)[5].
- **Total Project Sources ($32,500,000)**: Senior Construction Debt Facility ($19,500,000 at 60% LTC) + Sponsor Equity Capital ($13,000,000 at 40% LTC, of which $600,000 was funded as land down payment and $12,400,000 is funded during construction)[5].

Because the land cost represents only 9.23% of the budget, paying off the seller's unsubordinated note at construction financial closing requires only $2,400,000—well within standard construction loan initial advance limits—granting the commercial bank its first lien while giving the seller complete first-lien security until they are fully cashed out[5].

The physical location of the site reinforces its economic positioning. The property occupies an infill location within Coweta County's primary senior housing corridor along Arbor Springs Parkway, bordered by the Arbor Springs Plantation golf course and high-end residential subdivisions.

The site is situated less than 400 yards from a Publix-anchored shopping center, providing walking access to groceries, pharmacy services, banking, and casual dining. Proximity to the Newnan Crossing commercial district and Piedmont Newnan Hospital establishes an amenity ecosystem that directly addresses the lifestyle preferences of affluent 55+ active adult renters.

Valuation Benchmark / Metric	Subject Development Parcel	Atlanta MSA Regional Average	Coweta County Commercial Comps	Variance / Strategic Impact
Total Land	$3,000,000.00	N/A	Variable ($750k – $8.95M)	Favorable total capital outlay
Contiguous Site Footprint	9.90 Contiguous Acres	N/A	4.14 – 14.04 Acres	Efficient layout for active adult
Price per Gross Acre	$303,030.30	$1,306,800.00	$434,784 – $854,007	**-76.81% Discount to Atlanta MSA** [cite:]
Entitled Density / Unit Count	118 Active Adult Doors	Submarket Variable	Site Plan Dependent	By-right approved master plan
Land Basis per Planned Door	$25,423.73 per Door	~$100,000+ per Door	N/A	Substantial cost cushion per door
Projected	$32,500,000.00	$35,000,000+	N/A	Competitive

Total Development Cost	($275,424/door)	($300k+/door)		basis vs. replacement cost
Land Share of Total Cost (TDC)	**9.23% of Total Budget**	12.00% – 18.00% Standard	N/A	Absorbs $2.4M note payoff cleanly[5]

De-Risking Permitting, Construction, and Absorption

The three-year (36-month) interest-only term of the IRC § 453 installment note provides the developer with critical timing flexibility, which can be deployed under two operational execution schedules.

Execution Schedule A: Pre-Development Bridge with Construction Takeout (Recommended Baseline)

Under the primary baseline execution, the developer uses the 3-year seller note as a bridge through the pre-development and permitting phase.

- **Phase I: Site Permitting & Engineering (Months 1 through 8)**: The developer secures the site with $600,000 down, avoiding $900,000 of equity drag. Debt service is just $10,000 per month. Civil engineering, land disturbance permitting (LDP), and architectural drawings are completed. Because zoning is in place under the approved RRCC site plan, entitlements are administrative.
- **Phase II: Construction Loan Closing & Seller Note Payoff (Month 8)**: The developer closes a 60% LTC construction loan ($19,500,000 facility)[5]. As a Condition Precedent to funding, the construction loan and developer equity disburse $2,400,000 to pay off the seller note in full at par under contractual prepayment rights[5]. The seller never subordinates, their first lien is fully satisfied, and the construction bank receives its unencumbered first lien[3].
- **Phase III: Vertical Construction (Months 8 through 32)**: 24-month build schedule for the 118 units, infrastructure, and clubhouse.
- **Phase IV: Lease-Up, Stabilization & Permanent Takeout (Months 32 through 44)**: Lease-up to 90%+ occupancy and refinancing via permanent agency debt (Fannie/Freddie).

Execution Schedule B: Three-Year Unsubordinated Hold with Structured Financing

If the developer elects to keep the 5.0% seller note in place for the full 36 months to capture all $288,000 in interest savings, the developer cannot use a conventional bank first mortgage[3]. Instead:

- **Phase I & II (Months 1 through 30)**: The seller retains fee-simple first-lien priority[1]. Construction is capitalized via a private debt fund or structured equity provider that accepts a second mortgage or leasehold mortgage structure, with the seller executing an Intercreditor Agreement establishing senior cure rights and standstill provisions[1].
- **Phase III (Months 31 through 36)**: Vertical construction completes, and initial lease-up achieves trailing NOI.
- **Phase IV (Month 36)**: At the maturity of the 3-year note, a permanent agency takeout loan pays off both the construction financing and the $2,400,000 seller balloon note.

Development Phase	**Project Milestone / Scope (Execution Schedule A)**	**Debt Structure & Lien Status**	**Debt Service Profile**	**Strategic Underwriting Advantage**
Phase I: Site Permitting (Months 1–8)	Civil drawings, stormwater, Coweta LDP, architectural CDs.	Seller Note in **Senior First-Lien Position** [cite: 1, 2]	Fixed $10,000 / mo (IO at 5.0%)	$900k equity preserved; 400 bps interest savings.
Phase II: Construction Close (Month 8)	Close $19.5M construction loan; payoff $2.4M seller note[5].	**Seller Paid in Full at Par**; Bank takes 1st Lien[5]	Note satisfied; Construction interest begins[5]	Zero subordination dispute; bank obtains 1st lien[3].
Phase III: Vertical Build (Months 8–32)	Grading, foundation slabs, wood-framing, MEP, interior finishes, COO.	Senior Bank Construction Loan (1st Lien)[4]	Capitalized interest reserve from bank loan	Standard 24-month build timeline.

Phase IV: Stabilization & Exit (Months 32–44)	Resident absorption to 90%+, trailing-90 NOI; Agency Refinance.	Permanent GSE Agency Takeout (1st Lien)	Agency 30-year amortizing debt service	Pays off construction debt; returns equity.

Post-Stabilization Agency Takeout and Refinancing Execution

Securing a permanent, non-recourse debt takeout represents the ultimate exit strategy for the development, providing the capital necessary to pay off interim construction financing and return invested capital to equity partners. Stabilized active adult rental assets are eligible for long-term permanent financing through government-sponsored enterprises (GSEs), specifically Fannie Mae Seniors Housing, Freddie Mac Multifamily, and HUD/FHA Section 223(f) programs.

To assess takeout debt capacity at stabilization, a pro-forma is modeled on local submarket metrics. The 118 market-rate active adult units are underwritten at an average monthly rent of $2,400 ($28,800 per unit annually), supported by the site's golf course adjacency and walkable retail amenities. Ancillary income from reserved garage spaces, storage rentals, pet fees, and wellness programs generates an additional $150 per unit monthly.

Reflecting the active adult operating model, expenses are underwritten at 35.0% of Effective Gross Income, accounting for management, maintenance, municipal property taxes, property insurance, and replacement reserves. Net Operating Income stabilizes at $2,182,728.60 annually, demonstrating a 65.0% operating margin.

Operational & Financial Line Item	Stabilized Annual Revenue / Expense	Per Unit / Month Metric	% of Effective Gross Income
Gross Scheduled Rent (GSR)	$3,398,400.00	$2,400.00 / unit / mo	101.20% of EGI
Ancillary & Amenity Income	$212,400.00	$150.00 / unit / mo	6.32% of EGI
GPI Income	$3,610,800.00	$2,550 / unit / mo	107.52% of EGI

Economic Vacancy & Credit Loss (7.0%)	($252,756.00)	($178.50 / unit / mo)	-7.52% of EGI
Effective Gross Income (EGI)	**$3,358,044.00**	**$2,371.50 / unit / mo**	**100.00% of EGI**
Administrative, Legal & Marketing	$167,902.20	$118.57 / unit / mo	5.00% of EGI
Payroll & Maintenance Personnel	$335,804.40	$237.15 / unit / mo	10.00% of EGI
Repairs, Maintenance & Turnover	$134,321.76	$94.86 / unit / mo	4.00% of EGI
Utilities (Common Area & Stormwater)	$100,741.32	$71.15 / unit / mo	3.00% of EGI
Property Taxes (Post-Completion)	$268,643.52	$189.72 / unit / mo	8.00% of EGI
Property & Casualty Insurance	$100,741.32	$71.15 / unit / mo	3.00% of EGI
Capital Replacement Reserves	$67,160.88	$47.43 / unit / mo	2.00% of EGI
Total Operating Expenses (OpEx)	**($1,175,315.40)**	**($830.02 / unit / mo)**	**35.00% of EGI**
Stabilized Net Operating Income (NOI)	**$2,182,728.60**	**$1,541.47 / unit / mo**	**65.00% Margin**

Capitalizing this stabilized NOI across a range of market exit cap rates determines asset value at refinancing. Under a base-case exit cap rate of 6.00%, the asset achieves a potential market value of $36,378,810 ($308,295 per door). In a lower cap rate environment of 5.75%, valuation increases to $37,960,497 ($321,699 per door), while a conservative 6.25% exit yields $34,923,658 ($295,963 per door).

Agency programs evaluate permanent refinancing proceeds based on maximum Loan-to-Value (LTV) limits and minimum Debt Service Coverage Ratios (DSCR). Fannie Mae and Freddie Mac active adult underwriting guidelines specify a maximum 75% LTV, a minimum 1.25x DSCR, and a 30-year amortization schedule. Assuming a permanent fixed interest rate of 5.75% (yielding an annual debt service constant of 0.0700):

$$\text{Maximum Supportable Debt Service} = \frac{\text{NOI}}{\text{DSCR Hurdle}} = \frac{\$2,182,728.60}{1.25} = \$1,746,182.88$$

$$\text{Maximum DSCR Loan Amount} = \frac{\$1,746,182.88}{0.0700} = \$24,945,471.00$$

While the 75% LTV test supports a loan up to $27,284,107 on a $36.38M valuation, the debt sizing is constrained by the 1.25x DSCR hurdle, capping permanent proceeds at $24,945,471. Under Execution Schedule A, the senior construction loan ($19,500,000)—which already absorbed the $2,400,000 seller note payoff at construction start—is paid off in full[5].

After covering financing fees and required escrow deposits ($500,000), the refinancing returns $4,945,471 in net cash proceeds to equity investors. This distribution repays 38.04% of the original $13,000,000 invested project equity at stabilization, de-risking the position while sponsors maintain 100% ongoing asset ownership and operating distributions.

Under Execution Schedule B, the permanent proceeds pay off the $19,500,000 structured construction debt and the $2,400,000 seller balloon note simultaneously at Month 36, yielding identical net equity distributions.

Valuation & Refinancing Parameter	**Conservative Case (6.25% Cap)**	**Base Case (6.00% Cap Rate)**	**Aggressive Case (5.75% Cap)**
Stabilized Net	$2,182,728.60	$2,182,728.60	$2,182,728.60

Operating Income			
Gross Stabilized Capitalized Value	$34,923,657.60	$36,378,810.00	$37,960,497.39
Implied Value per Finished Door	$295,963.20 / door	$308,295.00 / door	$321,699.13 / door
Max Loan Amount (75.0% LTV Sizing)	$26,192,743.20	$27,284,107.50	$28,470,373.04
Max Loan Amount (1.25x DSCR Sizing)	$24,945,471.00	$24,945,471.00	$24,945,471.00
Binding Agency Takeout Sizing	**$24,945,471.00 (DSCR Bound)**	**$24,945,471.00 (DSCR Bound)**	**$24,945,471.00 (DSCR Bound)**
Payoff of Senior Construction Debt	($19,500,000.00)	($19,500,000.00)	($19,500,000.00)
Financing Closing Expenses & Fees	($500,000.00)	($500,000.00)	($500,000.00)
Net Refinance Proceeds to Equity	**+$4,945,471.00**	**+$4,945,471.00**	**+$4,945,471.00**
% of Initial Project Equity Returned	**38.04% Cash Capital Recaptured**	**38.04% Cash Capital Recaptured**	**38.04% Cash Capital Recaptured**

Strategic Developer Recommendations

The acquisition of 9.90 acres along Arbor Springs Parkway in Newnan, Georgia, via an IRC § 453 installment sale provides a structured capital solution for prevailing debt market challenges. Even with the seller requiring unsubordinated first-lien mortgage priority, the transaction offers a compelling opportunity for a prospective developer to acquire prime entitled land while minimizing pre-development capital requirements[1].

The structure delivers three primary financial and strategic advantages for a developer:
First, the structure preserves liquid equity during the riskiest phase of development. Securing 80% leverage preserves $900,000 in cash compared to a standard 50% LTV bank land loan. This preserved capital can fund civil engineering, architectural drawings, and pre-development site mobilization without burdening sponsor balance sheets.

Second, the 5.0% fixed interest rate generates $96,000 in annual carrying cost savings compared to floating-rate bank land debt (~9.0%), reducing interest carry during permitting and design. Third, the low land basis ($25,423.73 per door; 9.23% of TDC) allows the developer to cleanly pay off the $2,400,000 seller note at construction loan closing via prepayment rights, ensuring the senior construction lender receives its mandatory first lien without requiring the seller to subordinate[5].

Preserving $900,000 in equity and capturing substantial interest carry savings reduces total capital at risk, increasing the levered Internal Rate of Return (IRR) and Equity Multiple for project sponsors. At stabilization, a $24,945,471 agency takeout pays off construction financing and returns approximately $4,945,471 in equity to sponsors.

By incorporating par prepayment privileges and structured construction payoff mechanisms into the purchase agreement, sponsors can control an entitled development site in an affluent Atlanta growth corridor, supported by an optimized capital structure designed for current market conditions.

Acquisition & Development Phase	Core Underwriting Milestone	Strategic Capital Objective	Execution Timeline
Milestone 1: LOI & PSA Execution	Contract execution incorporating IRC § 453 note terms.	Secure 20% down ($600k) & 5.0% IO seller terms.	Day 1 to Day 30
Milestone 2: Due Diligence	Review Phase I ESA, geotechnical, and Coweta utility capacity.	Confirm by-right 118-unit active adult master site plan.	Day 30 to Day 60
Milestone 3: Legal Structuring	Draft Note with unrestricted Par Prepayment Privileges.	Establish seller 1st lien & developer payoff flexibility[2].	Day 45 to Day 75

Milestone 4: Transaction Closing	Record 1st Security Deed to Seller, fund $600k down payment.	Take fee-simple title; initiate $10,000/mo payment schedule.	Day 90 (Closing)
Milestone 5: Construction Capital	Finalize 60% LTC Senior Construction Loan ($19.5M facility)[5].	Pay off $2.4M seller note at closing; bank takes 1st lien[3].	Month 6 to Month 8
Milestone 6: Takeout Refinancing	Stabilize at 90%+ occupancy; close Fannie / Freddie agency loan.	Pay off $19.5M debt; return ~$4.95M cash equity to sponsors.	Month 32 to Month 36

Disclaimer

While the information is deemed reliable, no warranty is expressed or implied. Any information important to you or another party should be independently confirmed within an applicable due diligence period. This analysis is for the purpose of education and does not constitute tax advice. Engaging a Tax Accountant or Tax attorney specializing in IRC 453 Commercial Real Estate Transactions is recommended.

Works cited

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