IBI GROUP

SR-15 Mid-City Station Area Planning Study

Economic Feasibility Analysis Final Report

Submitted to City of San Diego Development Services Department

by IBI Group

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1. INTRODUCTION AND PURPOSE

New bus rapid transit (BRT) facilities and services are being planned for SR-15 in Mid-City as part of the region's efforts to enhance the performance and attractiveness of transit. Included in the improvements are new transit stations at El Cajon Boulevard and University Avenue. The Mid-City Station Area Planning Study is being undertaken by the City of San Diego to take advantage of the planned transit facilities and services to spur land use improvements in the areas near the stations in support of Transit-Oriented Development (TOD).

Funded by a Smart Growth Incentive Program grant from the San Diego Association of Governments (SANDAG), the study aims to develop a vision and identify implementation actions to foster TOD in the study area on both sides of SR-15. The study includes a planning analysis of land use, mobility, and economic considerations to develop plans and policies to support development that makes the most of the increased travel options within this BRT corridor.

This report presents the findings from an economic feasibility analysis for a range of prototype development projects that could be developed in the Plan area, based on the size and configuration of existing lots, market conditions, and development standards envisioned for the Plan. The purpose of this analysis is to identify whether envisioned prototype projects are economically feasible, i.e. can private developers and investors successfully develop these projects, or if they are economically infeasible what changes in market conditions and/or potential City assistance with feasibility gaps or other constraints would be needed to enable them to become feasible.

2. SUMMARY OF ECONOMIC FEASIBILITY ANALYSIS FINDINGS

A total of four prototype projects were formulated and evaluated. These four prototype projects are considered to represent the basic types of development that are most likely to occur in the Plan area. Actual projects at individual sites are anticipated to be consistent with these prototypes, with the actual size of the project and mix of uses tailored to meet the size of the site and the applicable development standards.

Three of the prototype projects involve market-rate mixed-use rental residential development in a podium building, with ground floor retail space and residential above, at varying densities. Two of the mixed-use projects include an additional building on an adjacent lot for residential uses. Parking for the mixed-use projects is provided pursuant to City zoning code requirements for projects in TOD areas, and is located in the podium between the retail and residential space and/or in a structure between two residential buildings. The fourth prototype project involves the development of stacked for-sale townhouses, with parking provided on the ground floor of units and in surface spaces within the project, along with utilization of street parking in front of the project. The development program for the prototype projects are summarized below (site designations correspond to the land use plan):

1. **Sites MA-S1 + TA1**. Mixed Use Development, Podium Project with Ground Floor Retail and Adjacent Stacked Flats. Total of 96 dwelling units and 31,600 square feet of retail.

2. **Site MB-S1**. Mixed-Use Development, Podium Project with Ground Floor Retail. Total of 56 dwelling units and 32,100 square feet of retail.

3. **Sites MA5 + TA11**. Mixed-Use Development, with Adjacent Residential Building, Shared Parking Structure. Total of 44 dwelling units and 8,300 square feet of retail.

4. Site RA2. Stacked For-Sale Townhouses. Total of 32 dwelling units.

Table 1 below summarizes the key aspects of the development program, rents and sale prices, development costs, and the resulting Residual Land Value. Residual Land Value is a measure of what developers can afford to pay for a site and still have a feasible development project. The relationship between Residual Land Value and the current market value for land determines whether a project is feasible.

Table 1 Summary of Pro Forma Findings for Prototype Development Projects

Project No. / Site per IBI	1 MA-S1 + TA1	2 MB-S1	3 MA5 + TA11	4 RA2
Product Types	Apartments, Retail Stacked Flats	Apartments, Retail	Apartments, Retail	Townhouses
FAR	2.5 / 1.0	2.0	2.0 / 1.0	0.75
Total Dwelling Units	96	56	44	32
Retail Space - Gross Sq. Ft.	31,600	32,100	8,300	0
Sale Prices / Rents	$1,000 - $1,400/mo.	$1,000 - $1,400/mo.	$1,000 - $1,400/mo.	$180,000 - $315,000
Total Development Cost	$27,900,000	$18,700,000	$11,300,000	$7,300,000
Residual Land Value (a)	**$7,800,000**	**$4,500,000**	**$3,700,000**	**($2,300,000)**
RLV per Site Sq. Ft.	$106	$105	$94	($53)

(Negative numbers in parentheses.)

(a) Residual Land Value (RLV) represents the amount the project can support for site acquisition based on the pro forma analysis, including purchase of land, vacant or improved, and any extraordinary site-related costs.

Source: BAE, 2012.

The detailed pro formas for each of the prototype projects is contained in Appendix A to this report. Key findings from the pro forma analysis, based on current market rents and sale prices and construction costs, include:

- **The three mixed-use prototype projects all appear to be feasible**. This includes projects that combine higher density multifamily units with frontage on El Cajon Boulevard or University Avenue, with lower density stacked flats behind them to create an appropriate transition to adjacent lower density existing residential neighborhoods.

- **Supportable land values for the three sites ranges from $94 per site square foot to $106 per site square foo**t, based on residual land value analysis. These figures are approximately $15 to $30 per square foot above the current high market values for vacant land in the City Heights area. However many development sites will require land assembly that includes existing properties, and the higher price that has to be paid for improved properties makes such land assembly more expensive on a per square foot basis than if it involves only vacant land. (The cost impact of land assembly with improved properties will vary based on the particulars of the subject properties, i.e. the square footage of existing buildings, their current use, and the current rental income. As a general rule of thumb, for an already improved property with an existing use, such as residential, new development would need to at least double the built area, or more, in

order to create a sufficient increase in value to justify the risks and costs associated with new development).

- **Pairing lower density rental stacked flats with denser multifamily units can enhance its feasibility**. The rental stacked flats product, at approximately 45 units per acre density, supports a lower residual land value of $81 per site square foot, which is still feasible. Combining it with the denser podium residential units provides a cross-subsidy from those units to the stacked flats units, leading to an overall supportable land value of $106 per site square foot.

- **The townhouse prototype project is not feasible**, even with small units and use of street parking, resulting in a substantial negative residual land value. Estimated current market sale prices for townhouse units would have to rise approximately 75 percent for this product type to generate a residual land value that reflects the current value of land zoned for this use. For similar reasons, for-sale condo units are not feasible due to current low market sale prices.

- **The feasibility of mixed-use development is sensitive to the cost of land assembly with existing improved properties**. The scope for this analysis did not include valuation of existing improvements on the subject sites. A review of current assessed values for these sites suggests that the cost of land assembly for one of the sites could make that project marginally feasible. Thus, a key factor for making TOD feasible is to focus development on sites with no or minimal value for existing improvements.

- **Retail space, based on current market rents, has a slight negative impact on economic feasibility**. A couple of the mixed-use projects have large floorplates for ground floor retail that may present some market risk due to the limited number of potential tenants. This may result in future developers proposing a lesser amount of retail space, and configured in smaller spaces, than is shown. For example, for the larger mixed-use projects, the ground floor retail component may be closer to 15,000 to 20,000 square feet total rather than the 30,000 square feet shown here.

- **Allowing street parking in front of buildings to count for required parking spaces enhances feasibility**. For three of the prototype projects doing so would allow the addition of one or two additional residential units, which would increase the project value by up to $4 per site square foot, or approximately six percent. This amount of increase, along with other changes in project costs, can be significant for projects that are struggling with feasibility. This can be particularly applicable when trying to assemble expensive, already-improved sites.

- **Denser multifamily or mixed-use development should be feasible**, provided it is done on sites that avoid high costs to acquire existing improved properties, and **on sites that are large enough to allow efficient designs for podium- or above-grade parking** (typically three-quarters per acre or more).

- **Townhouse units should only be considered in the near- to medium-term as affordable homeownership units**, assuming available funding for such projects.

3. METHODOLOGY

The preparation of the economic feasibility analysis included the following steps:

- Formulation of development programs for each prototype project (as described in the next section of this report) that describes site, development density, uses, mix of uses and unit types, and parking requirements.

- Estimation of hard and soft construction costs for the development program, including on- and off-site costs, in-lieu fees for inclusionary housing, City impact fees, financing costs, and required developer rates of return.

- Calculation of total development costs based upon the development program, financing cost, and developer profit.

- Estimation of the sale proceeds from for-sale projects (e.g., condominiums) and for rental projects the value of completed investment properties (e.g., apartments, commercial space) whose value is based upon their net operating income.

- Calculation of the amount by which total sale proceeds and the value of completed projects exceeds total development cost, representing the "residual" land value or how much a developer could afford to pay for a site for the project (irrespective of whether that site is vacant, has improvements, or any extraordinary site development costs).

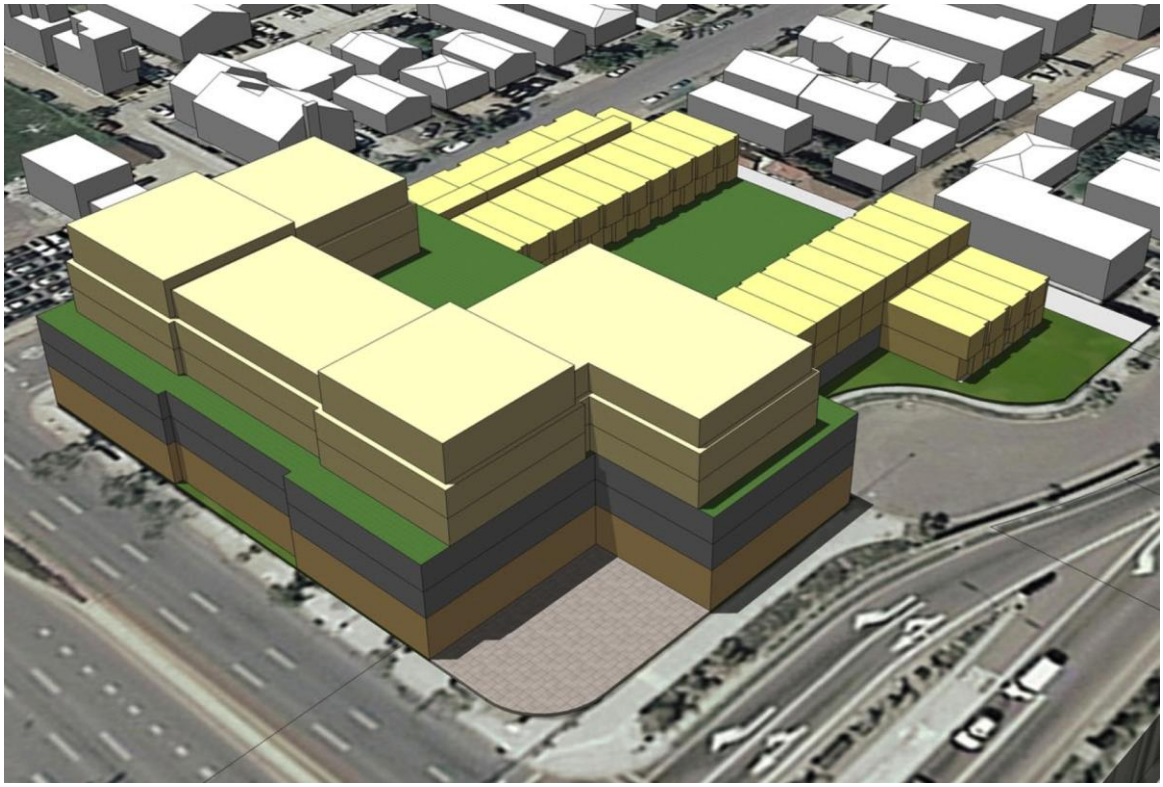
Should the relationship between the value of a completed project and its total development cost be infeasible, because it cannot pay current fair market value for land for development (including the value of existing improvements on that land), there is a "feasibility gap". Quantifying the size of any feasibility gaps informs consideration of potential public/private partnerships or other City policy actions to help make targeted projects feasible.

The economic feasibility analysis was performed through the creation of a series of static pro formas (projections) that use the development program for each prototype project, and a series of cost, financing, and rental rate and sale price assumptions to calculate the total development cost for the project, and then the sale proceeds and/or capitalized value of the completed project at stabilization (full lease up). This is the same approach that would be used by a developer in determining whether to go ahead with a project. The pro forma for each alternative is contained in Appendix A as Tables 2 through Table 5.

4. PROTOTYPE PROJECTS ANALYSIS

The following four prototype projects were formulated, with associated development envelope calculations and parking requirements per the City's TOD parking requirements. These served as the beginning point for the pro forma analysis. A massing drawing for each prototype project is presented below, with notes on additional considerations.

Figure 1 MA-S1+TA1: Mixed-Use with Apartments Above Retail (2.5 FAR); Stacked Flats Behind (1.0 FAR)

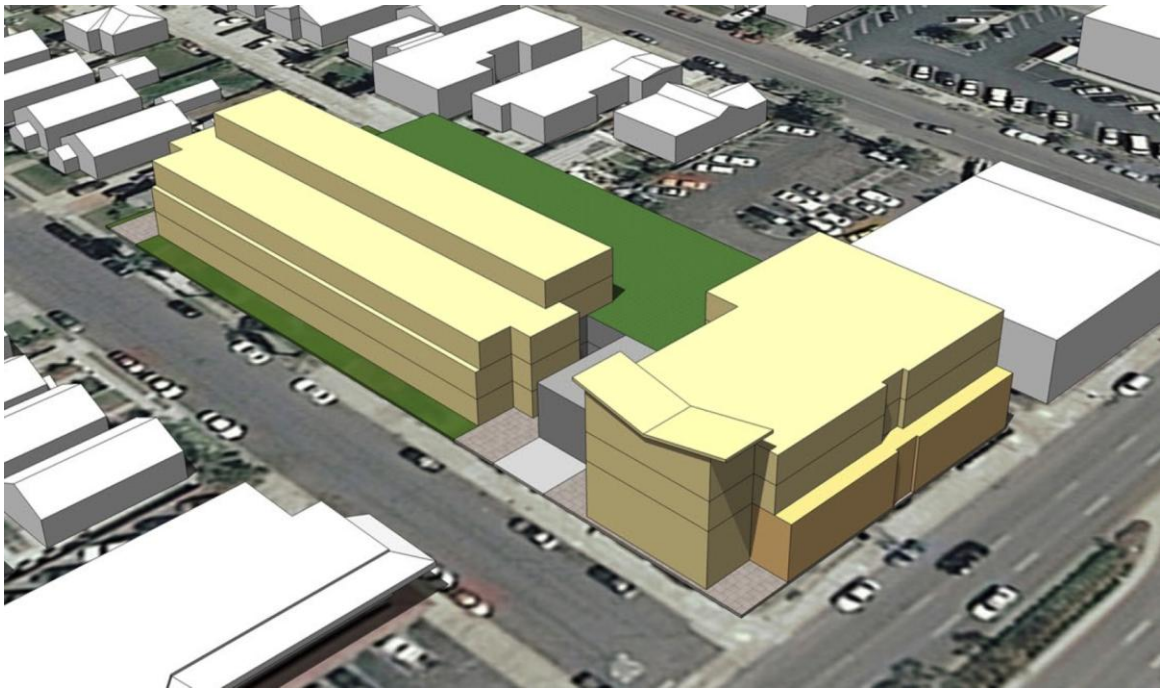


This site is located at the northwest corner of El Cajon Boulevard and SR-15, and features two components. The first component, along El Cajon Boulevard, features approximately 30,000 square feet of ground floor retail, with two-levels of parking above, and atop that three levels of rental multifamily residential with 56 units (this includes an additional unit assumed by allowing four street parking spaces to be counted towards parking requirements). The second component, to the rear, is lower density to better match the adjacent neighborhood. It contains 40 stacked flat rental units of up to three stories (including an additional unit by adjusting parking design to provide an additional parking space), arranged above and next to a parking deck (this could also be done as a podium project with parking a half-level below grade).

Figure 2 MB-S1: Mixed-Use with Apartments Above Retail (2.0 FAR)

This project, at the southwest corner of University Avenue of SR-15, includes 30,500 square feet of ground floor retail, with two floors of parking above, and three floors of rental multifamily above that, for a total of 56 units (this includes two additional units assumed by allowing three street parking spaces to be counted towards parking requirements).

Figure 3 MA5+TA11: Mixed-Use with Apartments Above Retail (2.5 FAR); Apartments Behind (1.0 FAR)



This project, at the northeast corner of El Cajon Boulevard and 41st Street, involves a smaller mixed-use project than the first two prototype projects, with two multifamily rental structures sharing a common parking structure. The building with frontage on El Cajon Boulevard includes 7,800 square feet of retail space, with 17 units above. The building with 41st Street frontage contains a total of 27 units.

Figure 4 RA2: For-Sale Townhouses (.75 FAR)

This project, along Polk Street between Central Avenue and 41st Street and across the street from the park that spans SR-15, consists of 32 for-sale stacked townhouse units. For analysis purposes, these are assumed to consist of a ground floor with two parking spaces (one per unit), interior stairs, and ground floor space assigned to one of the units. Two upper levels are assumed to be split between the two units. Additional parking spaces to meet the City's TOD parking code requirement of 1.5 parking spaces per dwelling unit are assumed to be accommodated through surface on-site parking, as well as through credit for street parking spaces in front of the development.

5. KEY ASSUMPTIONS

The following paragraphs outline significant pro forma assumptions.

Research was conducted to formulate assumptions for the alternative development projects. This included a review of construction cost estimates adjusted for the San Diego area as published for the construction industry by R.S. Means Company, as well as interviews with developers. Knowledge gained from experience other projects was also used to estimate financing costs and required developer rates of return.

Unit sizes and efficiency factors were calculated based on the building envelope for the rental buildings (including stacked flats), with rental unit 1-bedroom/1-bath units estimated to be on average approximately 550 square feet; 2-bedroom/1.5-bath units approximately 920 square feet; and 3-bedroom/2-bath units approximately 1,100 square feet. For the for-sale stacked townhouses, unit sizes are slightly larger, with 2-bedroom units approximately 1,008 square feet; 3-bedroom units approximately 1,368 square feet; and 4-bedroom units approximately 1,665 square feet. While these units are at the smaller end of the scale for comparable units in the local market, the opportunity to rent new units in a convenient location should create an offsetting advantage. The mix of rental units is assumed to be approximately one-quarter 1- and 3-bedroom units, and one-half 2-bedroom units. The for-sale townhouses are all assumed to be 2-bedroom units, based on the identified program.

Research on local market conditions and sale prices for new and existing development was used to estimate the sales price for townhouse units at $180,000 for a 2-bedroom unit, $265,000 for a 3-

bedroom unit, and $315,000 for a 4-bedroom unit. Based on research for new and existing rental multifamily units, rental rates are assumed to be $1,000 per month for a 1-bedroom unit, $1,200 per month for a 2-bedroom unit, and $1,400 per month for a 3-bedroom unit. Retail rents (whether used for retail, service, or other commercial uses) are assumed to be $21 per square foot per year ($1.75 per square foot per month), triple-net (tenant pays all expenses)

Hard construction costs for the for-sale townhouse units are estimated at approximately $115 per square foot, with costs for rental multifamily at approximately $125 per square foot (and $130 per square foot for the lower density stacked flat units). Cost estimates for retail space on the ground floor of mixed-use developments, including appropriate levels of tenant improvements, are $135 per square foot. These costs assume that prevailing wage requirements do not apply, as the project would not directly receive assistance from City.

The hard cost of each structured parking space in the parking structure between the ground floor commercial and upper floor residential units in the mixed-use buildings is estimated to be $20,000 per space. The cost for podium-type units under the stacked flat rental product is assumed to be $25,000 per space, which would include excavation to place parking a half-level below grade.

Soft costs, including architect and engineer fees, legal, insurance, all other City planning and permit fees, and miscellaneous costs, are estimated at 20 percent of total hard construction costs. Developer profit is estimated at eight percent of total sales proceeds or the capitalized value of the completed project. Construction financing costs assume a seven percent interest rate, two points, and a one-year construction period. Capitalization rates, for valuation of income-generating properties, are assumed to be 7.0 percent for rental residential and 8.0 percent for the retail space.

6. CONCLUSIONS AND RECOMMENDATIONS

The economic feasibility analysis shows strong potential for new market-rate multifamily rental development of three stories or higher above parking, including projects with ground floor commercial space. This suggests that other factors are behind the lack of this type of development in the study area, potentially including a lack of available sites; no interest from developers and/or a lack of understanding of the area's potential to support new development; inability to obtain investor equity and/or bank debt; lack of demonstrated market interest (including for larger retail spaces); or other factors.

New market-rate for-sale townhouse development, however, is not feasible. This is due to the larger size of these units relative to the relatively modest sale prices. Additionally, the RA2 site includes existing residential units whose acquisition could cost $1 to $2 million or more above the fair market value of the land value if it were vacant. This extra cost, combined with the potential delays associated with voluntary land assembly, makes this prototype project impractical at present. This is because the incremental value from new townhouses is unlikely to exceed the existing value of properties with residential on them, even if those properties are in poor condition. The best opportunity for townhouse units in the near-term will be affordable homeownership units that can benefit from assistance from affordable or workforce housing funders, developed on vacant land. Such a townhouse project, with a tenant mix that allows more 3- and 4-bedroom units that match local household needs, could cover most of its construction costs (but not land costs).

Flexibility in the application of development regulations could enhance feasibility of some projects. For example, allowing street parking spaces in front of a project to be counted in parking requirements can allow a couple additional residential units to be built in a project. Any project or other requirements for ground floor retail space should be flexible so that larger users can be targeted by developers if there is market support, or if not, a lesser amount of smaller spaces can be

built that could accommodate tenants as small as 2,000 square feet or smaller. Depending on site configuration and current market conditions, ground floor retail in multi-story mixed-use developments could range from 10,000 square feet or less to up to 30,000 square feet or more.

Another key factor for near-term projects will be to focus on development sites, and potential land assemblages, with minimal or low-value existing improvements. This includes sites used for auto-related purposes, older shed-type structures, or low density vacant commercial space. By comparison, sites with residential buildings, even if those structures are in poor condition, will be very expensive to acquire and likely to require large amounts of public subsidy even if owners can be convinced to sell.

7. LIMITING CONDITIONS

The analysis of sales prices and rental rates is based upon a market research prepared by BAE in May, 2011. Changes in market demand, prices, and other market factors, as well as City zoning requirements could have a material effect and alter BAE's findings. Total development costs can be significantly affected by relatively modest changes in material costs, labor rates, building code requirements, parking requirements, and other factors. Prevailing wage requirements are assumed to not be applicable to the projects described for this analysis. Project financing is assumed to be available at the rates and terms and conditions assumed in the pro formas. Because all of these factors are subject to potentially significant changes at any time, updated project-specific feasibility analysis should be conducted before considering whether to proceed with a particular development project.

8. APPENDIX A: PRO FORMAS FOR PROTOTYPE PROJECTS

Table 2: Pro Forma for Mixed-Use Development with Rental Residential, Mid-City Study Area (MA-S1 Site, 2.5 FAR)

Podium Portion Only of Project on MA-S1+TA1 Site.

Major Assumptions

Characteristics of Project		
Site, gross acres		0.79
Commercial net leaseable area, square feet (sf)		30,022
Dwelling units (du)		56
1 bedroom - number / average size	15	550
2 bedroom - number / average size	27	920
3 bedroom - number / average size	14	1,100
Parking ratio per du/1,000 sf (resid/comm'l)	1.5	2.1
Street parking spaces (credited in count)	-	-
Surface parking spaces	-	-
Above-grade garage spaces	84	60
Podium parking spaces (1/2 level down)	-	-
Total parking spaces	84	60
Size of average parking space, with circulation, sf		351
Common area sf: residential / commerical (a)	5,819	1,580
Total leaseable sf - residential / comm'l	54,309	31,602
Parking sf - residential / commercial	29,484	21,060
Total gross area by use, sf	83,793	52,662
Total project gross area, sf		136,455
Development Costs		
Demolition costs, per site sf		$5
Construction hard costs, per sf - resid/comm'l	$125	$115
On and off-site costs, per site sf		$5
Appliance costs, per du		$3,500
Impact fees (b)		$543,146
Projected ADT per ITE for du/1,000sf retail	1.5	41
Tenant improvements, per commercial sf		$20
Soft costs, % of hard costs		20%
Parking construction cost, per space:		
Surface parking spaces		$5,000
Above-grade garage spaces		$20,000
Podium parking spaces (1/2 level down)		$25,000
Developer profit, % of total project value		8%
Revenues and Operating Expenses		
Commercial rental rate, sf/yr, NNN		$21.00
Residential rental rate per du/mo:		
1 bedroom		$1,000
2 bedroom		$1,200
3 bedroom		$1,400
Below market rate residential units as % of total		0%
Annual op. cost - per du / comm'l % rev	$4,500	2%
Vacancy rate - residential / commercial	5%	10%
Financing		
Construction loan to cost ratio		80%
Loan fees		2%
Interest rate		7%
Period of initial loan (months)		12
Drawdown factor		60%
Total hard + soft construction costs		$17,640,017
Total loan amount		$14,112,013
Capitalization Rate - Residential / Retail	7.00%	8.00%
(a) Common area % resid'l / comm'l:	12%	5%
(b) Includes following impact fees for Mid-City per City FY2012 impact fee schedule:		
Applied to du / retail sf:	56	31,602
Inclusionary housing in-lieu fee:	$4.98	per sf
Housing impact fee/sf - office/retail	$1.06	$0.64
Development impact fee	$2,483	per multifamily du
Transportation - commercial/industrial	$77	per avg daily trip
Fire impact fee - commercial/industrial	$5	per 1,000 sf GBA
RTCIP	$1,979	per multifamily du

(c) Calculation of impact of cross-subsidy from denser MA-S1 site to TA1 site.

Pro Forma Analysis

Development Costs (Excludes Land)	
Demolition costs	$172,062
Residential construction costs	$6,788,600
Commercial construction costs	$3,634,230
On and off-site costs	$172,062
Tenant improvements	$600,438
Parking costs	$2,880,000
Soft costs	$2,849,478
Impact fees	$543,146
Total construction costs	$17,640,017
Total cost, per rentable sf	$205
Interest on construction loan	$592,705
Points on construction loan	$282,240
Total financing costs	$874,945
Total development costs	**$18,514,962**
Projected Income	
Residential	
Gross scheduled rents	$804,000
Less vacancy	($40,200)
Gross annual rents	$763,800
Less operating expenses	($252,000)
Net operating income (NOI)	$1,275,600
Retail	
Gross scheduled rents	$630,460
Less vacancy	($63,046)
Gross annual rents	$567,414
Less operating expenses	($12,609)
Net operating income (NOI)	$554,805
Total net operating income	**$1,830,405**
Development Feasibility MA-S1 Site Only	
Capitalized value	$25,157,916
Less development costs	($18,514,962)
Less developer profit	($2,012,633)
Residual land value	**$4,630,321**
Residual land value, per site sf	$135
Combined Feasibility MA-S1+TA1 Site (c)	
Capitalized value	$38,155,630
Less development costs	($27,283,288)
Less developer profit	($3,052,450)
Residual land value	**$7,819,892**
Residual land value, per site sf	$106

Note: Residual land value represents the amount available for purchase of vacant sites, improved sites with improvements to be demolished, and/or extraordinary site development costs such as those associated with environmental remediation, stabilization, off-site improvements, or other factors.

Sources: RS Means, 2010; IBI, 2011; BAE, 2011.

Table 3 Pro Forma for For-Sale Townhouses, Mid-City Study Area (TA1 Site, 1.0 FAR)

Stacked Flat Portion Only of Project on MA-S1+TA1 Site.

Major Assumptions		
Characteristics of Project		
Site Size (acres)		0.90
Total Number of Units / Mix:		40
1-Bedroom Stacked Flat	11	
2-Bedroom Stacked Flat	19	
3-Bedroom Stacked Flat	10	
Density (Units/Acre)		44
Commercial Sq. Ft.		0
Average Unit Size (Sq. Ft.)		
1-Bedroom Stacked Flat		550
2-Bedroom Stacked Flat		920
3-Bedroom Stacked Flat		1,100
Podium Parking		347
Tuck Under Parking Spaces per Unit		1.5
On-Site/Street Parking Spaces per Unit (a)		0.0
Total Parking Spaces		60
Project Size (Sq. Ft.):		
Total Residential, Including Common Area at 12%		38,674
Commercial		0
Total		38,674
Development Costs		
Demoliltion Costs, per Site Sq. Ft.		$5
Residential Construction Costs/Sq.Ft.		$130
Commercial Construction Costs/Sq.Ft.		$0
On and Off-Site Costs per Site Sq. Ft.		$5
Podium Parking Cost per Space		$25,000
Impact Fees per Unit (b)		$350,439
Other Soft Costs (as a % of hard costs)		20%
Developer profit, % of total project value		8%
Revenues and Operating Expenses		
Commercial rental rate, sf/yr, NNN		$21.00
Residential rental rate per du/mo:		
1 bedroom		$1,000
2 bedroom		$1,200
3 bedroom		$1,400
Below market rate residential units as % of total		0%
Annual op. cost - per du		$4,500
Vacancy rate - residential		5%
Financing Costs		
Loan to Cost Ratio		80%
Loan Fees		2%
Interest Rate		7%
Period of Initial Loan (months)		12
Drawdown Factor		60%
Total Hard & Soft Construction Costs		$8,353,969
Amount of Loan		$6,683,175
Capitalization Rate - Residential		7.00%

Pro Forma Analysis	
Development Costs, Not Including Land	
Demolition Costs	$196,020
Residential Construction Costs	$5,027,568
Commercial Construction Costs	$0
On and Off-Site Costs	$196,020
Parking	$1,500,000
Impact Fees	$350,439
Other Soft Costs	$1,083,922
	$8,353,969
Finance Costs:	
Interest on Construction Loan	$280,693
Points on Construction Loan	$133,664
Total Development Costs	**$8,768,326**
Projected Income	
Gross scheduled rents	$573,600
Less vacancy	($28,680)
Gross annual rents	$544,920
Less operating expenses	($180,000)
Net operating income (NOI)	$909,840
Development Feasibility	
Capitalized value	$12,997,714
Less development costs	($8,768,326)
Less developer profit	($1,039,817)
Residual land value	**$3,189,571**
Residual land value, per site sf	$81

Note: Residual land value represents the amount available for purchase of vacant sites, improved sites with improvements to be demolished, and/or extraordinary site development costs such as those associated with environmental remediation, stabilization, off-site improvements, or other factors.

(a) All parking accommodated on-site in this model.
(b) Includes following impact fees for Mid-City per City FY2012 impact fee schedule:

Applied to du / retail sf:	40		0
Inclusionary housing in-lieu fee:	$4.98	per sf	
Development impact fee	$2,483	per multifamily du	
RTCIP	$1,979	per multifamily du	

Sources: RS Means, 2010; IBI, 2011; BAE, 2011.

Table 4 Pro Forma for Mixed-Use Development with Rental Residential, Mid-City Study Area (MB-S1 Site, 2.0 FAR)

Major Assumptions

Characteristics of Project		
Site, gross acres		0.98
Commercial net leaseable area, square feet (sf)		30,475
Dwelling units (du)		56
1 bedroom - number / average size	15	550
2 bedroom - number / average size	27	920
3 bedroom - number / average size	14	1,100
Parking ratio per du/1,000 sf (resid/comm'l)	1.5	2.1
Street parking spaces (credited in count)	-	-
Surface parking spaces	-	-
Above-grade garage spaces	84	61
Podium parking spaces (1/2 level down)	-	-
Total parking spaces	84	61
Size of average parking space, with circulation, sf		351
Common area sf: residential / commerical (a)	5,819	1,604
Total leaseable sf - residential / comm'l	54,309	32,079
Parking sf - residential / commercial	29,484	21,411
Total gross area by use, sf	83,793	53,490
Total project gross area, sf		137,283
Development Costs		
Demolition costs, per site sf		$5
Construction hard costs, per sf - resid/comm'l	$125	$115
On and off-site costs, per site sf		$5
Appliance costs, per du		$3,500
Impact fees (b)		$543,491
Projected ADT per ITE for du/1,000sf retail	1.5	41
Tenant improvements, per commercial sf		$20
Soft costs, % of hard costs		20%
Parking construction cost, per space:		
Surface parking spaces		$5,000
Above-grade garage spaces		$20,000
Podium parking spaces (1/2 level down)		$25,000
Developer profit, % of total project value		8%
Revenues and Operating Expenses		
Commercial rental rate, sf/yr, NNN		$21.00
Residential rental rate per du/mo:		
1 bedroom		$1,000
2 bedroom		$1,200
3 bedroom		$1,400
Below market rate residential units as % of total		0%
Annual op. cost - per du / comm'l % rev	$4,500	2%
Vacancy rate - residential / commercial	5%	10%
Financing		
Construction loan to cost ratio		80%
Loan fees		2%
Interest rate		7%
Period of initial loan (months)		12
Drawdown factor		60%
Total hard + soft construction costs		$17,841,714
Total loan amount		$14,273,371
Capitalization Rate - Residential / Retail	7.00%	8.00%
(a) Common area % resid'l / comm'l:	12%	5%
(b) Includes following impact fees for Mid-City per City FY2012 impact fee schedule:		
Applied to du / retail sf:	56	32,079
Inclusionary housing in-lieu fee:	$4.98	per sf
Housing impact fee/sf - office/retail	$1.06	$0.64
Development impact fee	$2,483	per multifamily du
Transportation - commercial/industrial	$77	per avg daily trip
Fire impact fee - commercial/industrial	$5	per 1,000 sf GBA
RTCIP	$1,979	per multifamily du

Pro Forma Analysis

Development Costs (Excludes Land)	
Demolition costs	$214,000
Residential construction costs	$6,788,600
Commercial construction costs	$3,689,085
On and off-site costs	$214,000
Tenant improvements	$609,501
Parking costs	$2,900,000
Soft costs	$2,883,037
Impact fees	$543,491
Total construction costs	$17,841,714
Total cost, per rentable sf	$207
Interest on construction loan	$599,482
Points on construction loan	$285,467
Total financing costs	$884,949
Total development costs	**$18,726,663**
Projected Income	
Residential	
Gross scheduled rents	$804,000
Less vacancy	($40,200)
Gross annual rents	$763,800
Less operating expenses	($252,000)
Net operating income (NOI)	$1,275,600
Retail	
Gross scheduled rents	$639,976
Less vacancy	($63,998)
Gross annual rents	$575,978
Less operating expenses	($12,800)
Net operating income (NOI)	$563,179
Total net operating income	**$1,838,779**
Development Feasibility	
Capitalized value	$25,262,594
Less development costs	($18,726,663)
Less developer profit	($2,021,007)
Residual land value	**$4,514,923**
Residual land value, per site sf	$105

Note: Residual land value represents the amount available for purchase of vacant sites, improved sites with improvements to be demolished, and/or extraordinary site development costs such as those associated with environmental remediation, stabilization, off-site improvements, or other factors.

Sources: RS Means, 2010; IBI, 2011; BAE, 2011.

Table 5 Pro Forma for Mixed-Use with Rental Residential, Mid-City Study Area (MA5+TA11 Site, 2.0+1.0 FAR)

Major Assumptions

Characteristics of Project		
Site, gross acres		0.91
Commercial net leaseable area, square feet (sf)		7,845
Dwelling units (du)		44
1 bedroom - number / average size	10	550
2 bedroom - number / average size	22	920
3 bedroom - number / average size	12	1,100
Parking ratio per du/1,000 sf (resid/comm'l)	1.5	2.1
Street parking spaces (credited in count)	-	-
Surface parking spaces	-	-
Above-grade garage spaces	66	16
Podium parking spaces (1/2 level down)	-	-
Total parking spaces	66	16
Size of average parking space, with circulation, sf		351
Common area sf: residential / commerical (a)	4,673	413
Total leaseable sf - residential / comm'l	43,613	8,258
Parking sf - residential / commercial	23,166	5,616
Total gross area by use, sf	66,779	13,874
Total project gross area, sf		80,653
Development Costs		
Demolition costs, per site sf		$5
Construction hard costs, per sf - resid/comm'l	$125	$115
On and off-site costs, per site sf		$5
Appliance costs, per du		$3,500
Impact fees (b)		$419,482
Projected ADT per ITE for du/1,000sf retail	1.5	41
Tenant improvements, per commercial sf		$20
Soft costs, % of hard costs		20%
Parking construction cost, per space:		
Surface parking spaces		$5,000
Above-grade garage spaces		$20,000
Podium parking spaces (1/2 level down)		$25,000
Developer profit, % of total project value		8%
Revenues and Operating Expenses		
Commercial rental rate, sf/yr, NNN		$21.00
Residential rental rate per du/mo:		
1 bedroom		$1,000
2 bedroom		$1,200
3 bedroom		$1,400
Below market rate residential units as % of total		0%
Annual op. cost - per du / comm'l % rev	$4,500	2%
Vacancy rate - residential / commercial	5%	10%
Financing		
Construction loan to cost ratio		80%
Loan fees		2%
Interest rate		7%
Period of initial loan (months)		12
Drawdown factor		60%
Total hard + soft construction costs		$10,732,964
Total loan amount		$8,586,371
Capitalization Rate - Residential / Retail	7.00%	8.00%
(a) Common area % resid'l / comm'l:	12%	5%
(b) Includes following impact fees for Mid-City per City FY2012 impact fee schedule:		
Applied to du / retail sf:	44	8,258
Inclusionary housing in-lieu fee:	$4.98	per sf
Housing impact fee/sf - office/retail	$1.06	$0.64
Development impact fee	$2,483	per multifamily du
Transportation - commercial/industrial	$77	per avg daily trip
Fire impact fee - commercial/industrial	$5	per 1,000 sf GBA
RTCIP	$1,979	per multifamily du

Pro Forma Analysis

Development Costs (Excludes Land)	
Demolition costs	$198,198
Residential construction costs	$5,451,600
Commercial construction costs	$949,670
On and off-site costs	$198,198
Tenant improvements	$156,902
Parking costs	$1,640,000
Soft costs	$1,718,914
Impact fees	$419,482
Total construction costs	$10,732,964
Total cost, per rentable sf	$207
Interest on construction loan	$360,628
Points on construction loan	$171,727
Total financing costs	$532,355
Total development costs	**$11,265,319**
Projected Income	
Residential	
Gross scheduled rents	$638,400
Less vacancy	($31,920)
Gross annual rents	$606,480
Less operating expenses	($198,000)
Net operating income (NOI)	$1,014,960
Retail	
Gross scheduled rents	$164,747
Less vacancy	($16,475)
Gross annual rents	$148,272
Less operating expenses	($3,295)
Net operating income (NOI)	$144,977
Total net operating income	**$1,159,937**
Development Feasibility	
Capitalized value	$16,311,647
Less development costs	($11,265,319)
Less developer profit	($1,304,932)
Residual land value	**$3,741,396**
Residual land value, per site sf	$94

Note: Residual land value represents the amount available for purchase of vacant sites, improved sites with improvements to be demolished, and/or extraordinary site development costs such as those associated with environmental remediation, stabilization, off-site improvements, or other factors.

Sources: RS Means, 2010; IBI, 2011; BAE, 2011.

Table 6 Pro Forma for For-Sale Townhouses, Mid-City Study Area (Portion of RA2 Site. 0.75 FAR)

Major Assumptions		
Characteristics of Project		
Site Size (acres)		0.99
Total Number of Units / Mix:		32
2-Bedroom Townhouse	32	
3-Bedroom Townhouse	0	
4-Bedroom Townhouse	0	
Density (Units/Acre)		32
Commercial Sq. Ft.		0
Average Unit Size (Sq. Ft.)		
2-Bedroom Townhouse		1,008
3-Bedroom Townhouse		1,368
4-Bedroom Townhouse		1,665
Tuck Under Parking, Interior Stairs		379
Tuck Under Parking Spaces per Unit		1.0
On-Site/Street Parking Spaces per Unit (a)		0.5
Project Size (Sq. Ft.):		
Total Residential (Including Parking)		44,368
Commercial		0
Total		44,368
Development Costs		
Demolilton Costs, per Site Sq. Ft.		$5
Residential Construction Costs/Sq.Ft.		$115
Commercial Construction Costs/Sq.Ft.		$0
On and Off-Site Costs per Site Sq. Ft.		$5
Impact Fees per Unit (b)		$303,419
Other Soft Costs (as a % of hard costs)		20%
Profit as a % of Sales Price		8%
Sale Prices		
2-Bedroom Townhouse		$180,000
3-Bedroom Townhouse		$265,000
4-Bedroom Townhouse		$315,000
Financing Costs		
Loan to Cost Ratio		80%
Loan Fees		2%
Interest Rate		7%
Period of Initial Loan (months)		12
Drawdown Factor		60%
Total Hard & Soft Construction Costs		$6,942,203
Amount of Loan		$5,553,762

Pro Forma Analysis	
Development Costs, Not Including Land	
Demolition Costs	$215,000
Residential Construction Costs	$5,102,320
Commercial Construction Costs	$0
On and Off-Site Costs	$215,000
Impact Fees	$303,419
Other Soft Costs	$1,106,464
	$6,942,203
Finance Costs:	
Interest on Construction Loan	$233,258
Points on Construction Loan	$111,075
Total Development Costs	**$7,286,536**
Sale Proceeds	
Gross Sales	$5,760,000
Less Marketing, Sales Costs at 5%	($288,000)
Net Proceeds	**$5,472,000**
Development Feasibility	
Net Proceeds	$5,472,000
Less: Development Costs	($7,286,536)
Less: Developer Profit	($460,800)
Residual Land Value	**($2,275,336)**
Residual Land Value per site sf	($53)

Note: Residual land value represents the amount available for purchase of vacant sites, improved sites with improvements to be demolished, and/or extraordinary site development costs such as those associated with environmental remediation, stabilization, off-site improvements, or other factors.

(a) Townhouse unit footprint accommodates 1 space/unit; .5 space/unit to meet code are surface on-site or street.
(b) Includes following impact fees for Mid-City per City FY2012 impact fee schedule:

Applied to du / retail sf:	32		0
Inclusionary housing in-lieu fee:	$4.98	per sf	
Development impact fee	$2,483	per multifamily du	
RTCIP	$1,979	per multifamily du	

Sources: RS Means, 2010; IBI, 2011; BAE, 2011.