

APPENDIX 5: Development Opportunity Studies

Memorandum

SERA

ARCHITECTURE
URBAN DESIGN + PLANNING
INTERIOR DESIGN

To: Tim Smith (City of Tumwater)
From: Matthew Arnold & Gary Golla (SERA); Anne Fifield (ECONorthwest)
Date: 26 September 2013
Re: Financial Feasibility Analysis of Tumwater Development Opportunity Sites - DRAFT
Project Name: Tumwater Brewery District Planning Project
Project Number: 1201021

This memorandum describes the key assumptions that affect costs and revenues and describes the different measures of financial feasibility. It is organized into the following sections:

- **Site 1: Brew Pub Restaurant.** This shows a wholly commercial development located on the southwest corner of Custer Way and Capitol Blvd.
- **Site 2: Mixed-Use Development.** This section analyzes a mix of residential and retail development in four different ways—three and four stories, and ownership and rental residential units. The site is located on the east side of Cleveland Ave between Custer Way and Capitol Blvd.
- **Site 2: Townhouse Residential.** This section analyzes a wholly residential development on the east side of Cleveland Ave between Custer Way and Capitol Blvd.



Tumwater Brewery District Plan Development Opportunity Sites

FREQUENTLY USED DEFINITIONS

Net operating income (NOI) The NOI equals gross rent minus non-debt operating costs.

Debt coverage ratio (DCR) is a benchmark used by lenders to limit default risk. It equals the NOI divided by the debt service. Lenders want the DCR to show there is a cushion so in the event the NOI is lower than expected, the borrower will be able to make debt payments. Lenders prefer a DCR of at least 1.2, giving them a 20% cushion.

Loan-to-Value Ratio (LTV) is the loan amount divided by the estimated property value. It is a benchmark used by lenders to ensure that if the lender defaults, they can sell the property and recover their loss. For commercial properties, lenders prefer the loan be 70% to 75% of the property value.

Internal rate of return (IRR) is a measure of financial return generated by private equity. Every private equity provider has his or her own threshold, but 10% is considered a low return for real estate investment, as it tends to be riskier than other investment opportunities.

Site 1: Brew Pub / Restaurant

The pro forma model assumes that the building owner leases the building out to a single tenant—it calculates the costs and revenues associated with constructing and operating the building. The restaurant is designed to be a brew pub, which will require brewing equipment. The pro forma assumes the tenant, not the building owner, pays for that equipment.

Site 1 Program: Brew Pub / Restaurant (South Pacific site)

- 3,650sf (gross) pub / restaurant with commercial kitchen, bar, and modest brewing capacity.
- Seats ~95 patrons, all indoors.
- Commercial kitchen is ~730sf (gross)
- Brewing area is ~585sf (gross)
- One-story structure with public entrances from both Custer/Capitol intersection and parking lot.
- Plan primarily utilizes existing site development area, but accommodates plans for Custer / Capitol roundabout. Plan does not assume any cantilevering of structures or outdoor seating area over the slopes that define the western and southern borders of the site.
- Accommodates ~23 parking spaces. Current Tumwater code requires 33 parking spaces.

Table 1 shows the cost categories. Total development costs equal \$747,000.

Table 1. Cost categories, brew pub / restaurant

Source	Amount	Explanation
Land	\$0	We assume the land is already owned by the developer.
Demolition	\$22,500	The existing structure will need to be removed.
Structure	\$565,800	Costs include \$125/SF for hard costs and \$30/SF for tenant improvements.
Parking	\$32,000	We assume that about 2/3 of the existing parking area will be re-used.
Other Costs	\$127,000	Contractor fees, architectural and planning fees, and a 5% contingency.
Total Costs	\$747,000	

To estimate revenues, we assume the building generates \$14.00/SF in annual rent and it is fully occupied in Year 1 and beyond.

To finance construction, the pro forma uses an even mix of a bank loan and private equity⁴. The bank loan has a 30-year term at 7%. Interest rates are trending up and are expected to continue in that direction.

Table 2 summarizes our measures of viability.

Table 2. Measures of viability - brew pub / restaurant

Measure	Amount	Viability
DCR in Year 1	1.6	Good.
LTV in Year 1	63%	Good. A lender would also take into account the fact that the owner owns the land, further reducing the LTV.
IRR at Year 10	5.9%	Weak. Unlikely to appeal to an investor.

Using this mix of assumptions, the development is potentially viable. It would be well positioned to obtain a commercial loan. The IRR is low, but possibly high enough for an owner-investor. It may be possible to improve the IRR by lowering construction costs. Another possible cost-saving measure would be to re-use existing kitchen equipment.

⁴Equity refers to funds invested by an owner or investor.

Site 1: Brew pub restaurant at the SW corner of Custer Ave and Capitol Blvd.



Site 2: Mixed-Use Development

A. Three stories, owner-occupied residential

The pro forma model assumes that the building owner leases the ground floor to retail tenants, but the upper portion is a condominium, where the occupants own the residential units.

Site 2, Option A: Mixed-Use Development Program (Masons’ former Key Bank and medical office site)

- Mixed-use commercial building with condominiums above on western (former Key Bank) portion of site.
 - Two retail spaces: 7,300sf (gross) along Cleveland; 1,000sf (gross) along Blass Ave connector
 - Parking lot serving both retail and residential with 79 parking spaces
 - Program for residential component
 - 2 levels of residential (3 stories total)
 - 32 units: 8 two-bedroom, 16 one-bedroom, 8 studios
 - 42,900 (gross) - 85% efficiency on the residential floors
 - Code requires 77 parking spaces

Table 3 shows the cost categories. Total development costs equal \$7.97 million.

Table 3. Cost categories, mixed-use with three floors and owner-occupied residential

Source	Amount	Explanation
Land	\$0	We assume the land is already owned by the developer.
Demolition	\$20,000	The existing structure will need to be removed.
Structure	\$5,293,000	Costs include \$105/SF for residential hard costs; \$85 for retail hard costs; and \$10/SF for retail tenant improvements.
Parking	\$316,000	We assume that parking will cost \$4,000/space.
Other Costs	\$2,343,000	Contractor fees, architectural and planning fees, and a 5% contingency.
Total Costs	\$7,972,000	

The commercial portion accounts for 15% of hard construction costs. To estimate retail revenues, we assume the building generates \$16.00/SF in annual rent. This is slightly above existing rents in the study area, but the space will be new. We assume a 15% vacancy rate in Year 1, 10% in Year 2, and 5% in Year 3 and into the future.

To estimate revenue from the residential portion, we assume that half the units sell in Year 1 and half sell in Year 2. We assume the studios sell for \$150,000; the one-bedroom units for \$200,000; and the two-bedroom units sell for \$250,000.

To finance the development costs, the pro forma uses a mix of private equity and bank loans.

- The retail portion uses a bank loan with a 30-year term at 7%. It accounts for 8% of all financing.
- The residential portion uses a short-term construction loan, accounting for 59% of development costs. We assume a two-year term at 7%. We assume the construction loan is an interest-only loan and the principal is paid in full in Year 2.
- Private equity funds the remaining 33% of costs.

Table 4 summarizes our measures of viability. Using this mix of assumptions, the development is potentially viable. It would be well positioned to obtain a commercial loan. The IRR is low, and may require some other financial support to appeal to equity investors.

Table 4. Measures of viability - mixed-use with three floors and owner-occupied residential

Measure	Amount	Viability
DCR in Year 1	1.9	Good.
LTV for retail portion in Year 1	52%	Good.
LTV for combined short and long-term loans in Year 1	70%	Good. A lender would also take into account the fact that the owner owns the land, further reducing the LTV.
IRR at Year 10	4.2%	Weak. Unlikely to appeal to an investor.

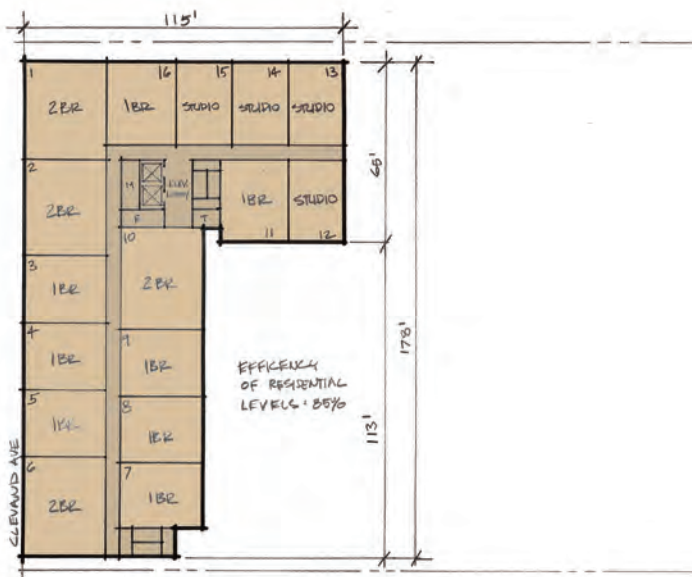
Site 2, Option A: Mixed-use retail and two floors of owner-occupied residential on the east side of Cleveland Ave. between North St. and Capitol Blvd.



SERA

SITE 2 STUDY - LEVEL 1

9.12.13



SERA

SITE 2 STUDY - UPPER FLOORS

9.12.13

Site 2: Mixed-Use Development

B. Four stories, owner-occupied residential

This option is the same as A, but we assume the building has four floors (three floors of residential, one floor of retail). The pro forma model assumes that the building owner leases the ground floor to retail tenants, but the upper portion is a condominium, where the occupants own the residential units.

Site 2, Option B: Mixed-Use Development Program (Masons' former Key Bank and medical office site)

- Mixed-use commercial building with condominiums above on western (former Key Bank) portion of site.
 - Two retail spaces: 7,300sf (gross) along Cleveland; 1,000sf (gross) along Blass Ave connector
 - Parking lot serving both retail and residential with 79 parking spaces
 - Program for residential component
 - 3 levels of residential (4 stories total)
 - 48 units: 12 two-bedroom, 24 one-bedroom, 12 studios
 - 57,600 (gross) – 85% efficiency on the residential floors
 - Code requires 100 spaces; code allows for some reduction in required parking based on proximity to transit and for mixed-use projects – but this is not formula-based and needs to be negotiated with City.

Table 5 shows the cost categories. All costs are the same as in Option A, except we increase the cost of residential construction by \$5/SF. Total development costs equal \$10.57 million.

Table 5. Cost categories, Mixed-use with four floors and owner-occupied residential

Source	Amount	Explanation
Land	\$0	We assume the land is already owned by the developer.
Demolition	\$20,000	The existing structure will need to be removed.
Structure	\$7,460,000	Costs include \$110/SF for residential hard costs (\$5 more per foot than three floors); \$85 for retail hard costs; and \$10/SF for retail tenant improvements.
Parking	\$316,000	We assume that parking will cost \$4,000/space.
Other Costs	\$3,107,000	Contractor fees, architectural and planning fees, and a 5% contingency.
Total Costs	\$10,568,000	

We make the same assumptions about retail revenues, vacancy rates, residential sales values, and operating cost as in Option A.

To finance the development costs, the pro forma uses a mix of private equity and bank loans.

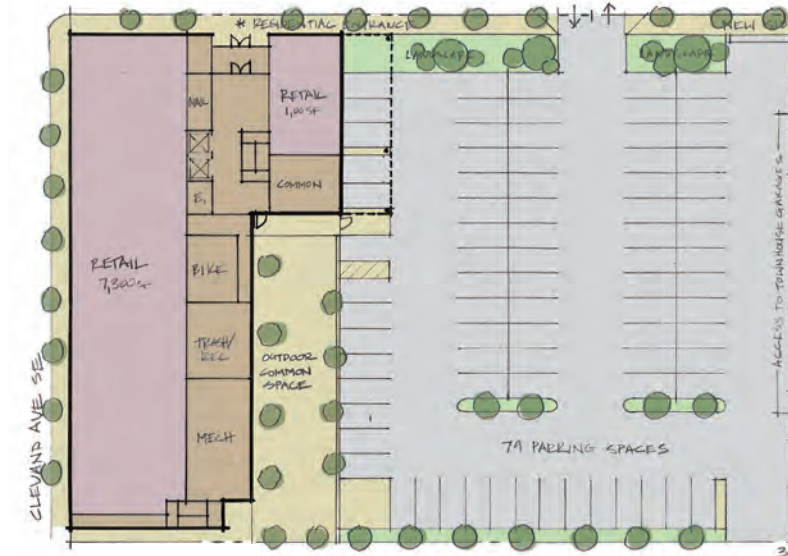
- The retail portion uses a bank loan with a 30-year term at 7%. It accounts for 9% of all financing.
- The residential portion uses a short-term construction loan, accounting for 58% of development costs. We assume a two-year term at 7%. We assume the construction loan is an interest-only loan and the principal is paid in full in Year 2.
- Private equity funds the remaining 33% of costs.

Table 6 summarizes our measures of viability. Using this mix of assumptions, the development is potentially viable. It would be well positioned to obtain a commercial loan. The IRR is low, and may require some other financial support to appeal to equity investors.

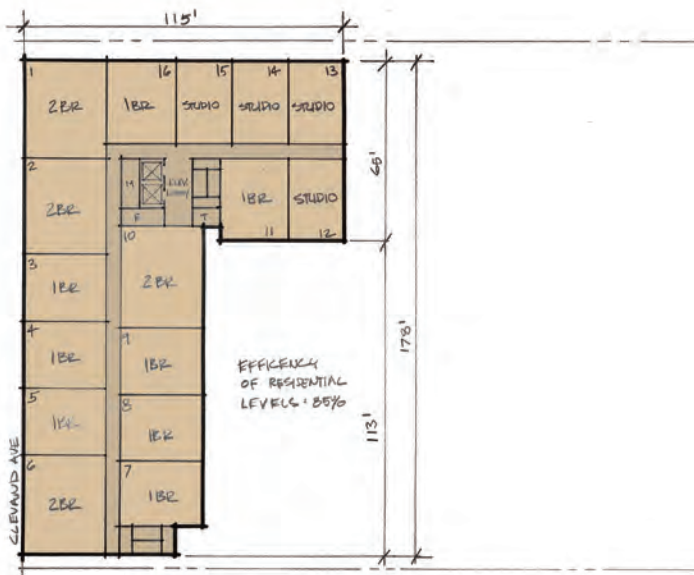
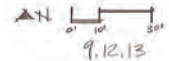
Table 6. Measures of viability - Mixed-use with four floors of owner-occupied residential

Measure	Amount	Viability
DCR in Year 1	1.3	Good.
LTV for retail portion in Year 1	78%	Good.
LTV for combined short and long-term loans in Year 1	65%	Good. A lender would also take into account the fact that the owner owns the land, further reducing the LTV.
IRR at Year 10	9.1%	Slightly weak.

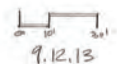
Site 2, Option B: Mixed-use retail and three floors of owner-occupied residential on the east side of Cleveland Ave. between North St. and Capitol Blvd.



SITE 2 STUDY - LEVEL 1



SITE 2 STUDY - UPPER FLOORS



Site 2: Mixed-Use Development

C. Three stories, renter-occupied residential

The pro forma model assumes that the building owner leases the ground floor to retail tenants, and the upper two floors are rental apartments.

Site 2, Option C: Mixed-Use Development Program (Masons' former Key Bank and medical office site)

- Mixed-use commercial building with apartments above on western (former Key Bank) portion of site.
 - Two retail spaces: 7,300sf (gross) along Cleveland; 1,000sf (gross) along Blass Ave connector
 - Parking lot serving both retail and residential with 79 parking spaces
 - Program for residential component
 - 2 levels of residential (3 stories total)
 - 32 units: 8 two-bedroom, 16 one-bedroom, 8 studios
 - 42,900 (gross) - 85% efficiency on the residential floors
 - Code requires 77 parking spaces

Table 7 shows the cost categories. Total development costs equal \$7.67 million.

Table 7. Cost categories, Mixed-use with three floors and renter-occupied residential

Source	Amount	Explanation
Land	\$0	We assume the land is already owned by the developer.
Demolition	\$20,000	The existing structure will need to be removed.
Structure	\$5,0798,000	Costs include \$100/SF for residential hard costs; \$85 for retail hard costs; and \$10/SF for retail tenant improvements. We assume the residential portion costs \$5 less/SF than in the ownership scenario.
Parking	\$316,000	We assume that parking will cost \$4,000/space.
Other Costs	\$2,253,000	Contractor fees, architectural and planning fees, and a 5% contingency.
Total Costs	\$7,667,000	

The commercial portion accounts for 15% of hard construction costs. To estimate retail revenues, we assume the building generates \$16.00/SF in annual rent, the same rent we assumed in Options A and B.

Rents for the residential portion are:

- Studio-\$800;
- 1-Bedroom-\$900; and
- 2-Bedroom-\$1,100.

We expect this development to achieve high rents based on its appeal as a new development type in Tumwater and because it will be newly constructed. For both the retail and residential portions, we assume a 15% vacancy rate in Year 1, 10% in Year 2, and 5% in Year 3 and into the future.

To finance the development costs, the pro forma uses a mix of private equity and bank loans.

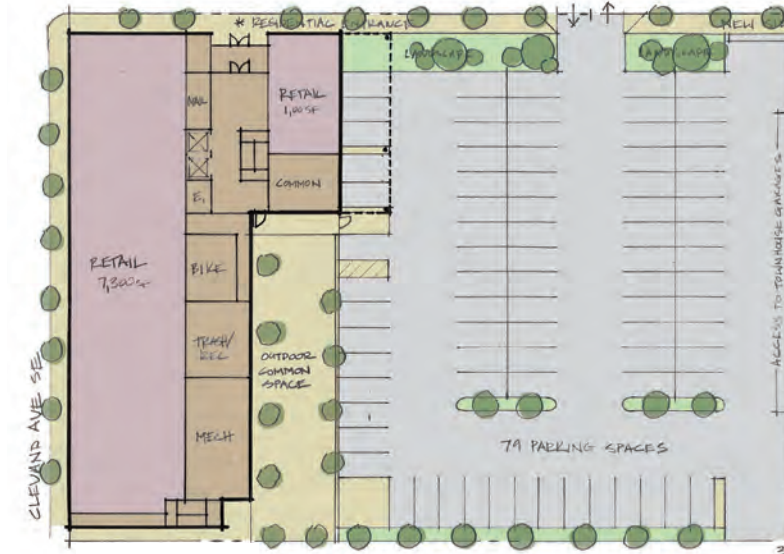
- The bank loan has a 30-year term at 7%. It accounts for 50% of all financing.
- Private equity funds the remaining 50% of costs.

Table 8 summarizes our measures of viability. Using this mix of assumptions, the development is potentially viable. It would be well positioned to obtain a commercial loan. The IRR is low, and may require some other financial support to appeal to equity investors.

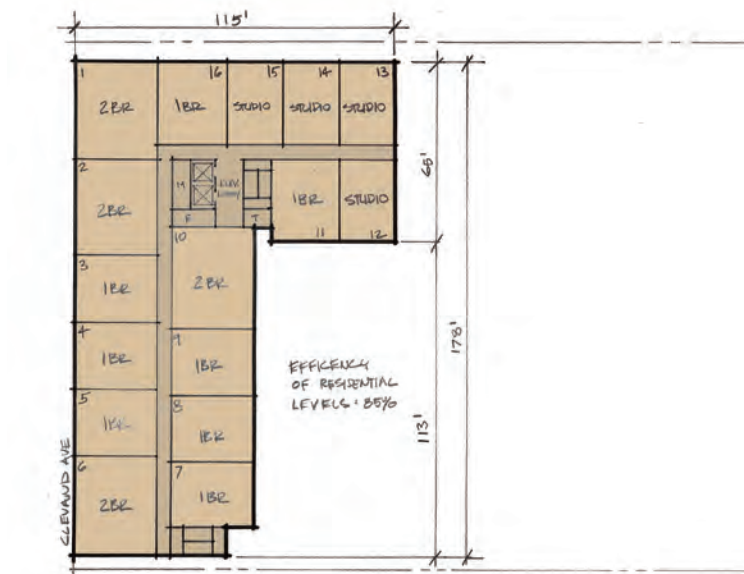
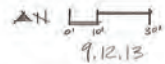
Table 8. Measures of viability - Mixed-use with three floors and renter-occupied residential

Measure	Amount	Viability
DCR in Year 1	1.2	Good.
LTV in Year 1	75%	Good.
IRR at Year 10	2.7%	Weak.

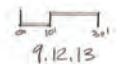
Site 2, Option C: Mixed-use retail and two floors of renter-occupied residential on the east side of Cleveland Ave. between North St. and Capitol Blvd.



SERA SITE 2 STUDY - LEVEL 1



SERA SITE 2 STUDY - UPPER FLOORS



Site 2: Mixed-Use Development

D. Four stories, renter-occupied residential

The pro forma model assumes that the building owner leases the ground floor to retail tenants, and the upper two floors are rental apartments.

Site 2, Option D: Mixed-Use Development Program (Masons' former Key Bank and medical office site)

- Mixed-use commercial building with apartments above on western (former Key Bank) portion of site.
 - Two retail spaces: 7,300sf (gross) along Cleveland; 1,000sf (gross) along Blass Ave connector
 - Parking lot serving both retail and residential with 79 parking spaces
 - Program for residential component
 - 3 levels of residential (4 stories total)
 - 48 units: 12 two-bedroom, 24 one-bedroom, 12 studios
 - 57,600 (gross) – 85% efficiency on the residential floors
 - Code requires 100 spaces; code allows for some reduction in required parking based on proximity to transit and for mixed-use projects – but this is not formula-based and needs to be negotiated with City.

Table 9 shows the cost categories. Total development costs equal \$10.16 million.

Table 9. Cost categories, Mixed-use with four floors and renter-occupied residential

Source	Amount	Explanation
Land	\$0	We assume the land is already owned by the developer.
Demolition	\$20,000	The existing structure will need to be removed.
Structure	\$6,837,000	Costs include \$105/SF for residential hard costs; \$85 for retail hard costs; and \$10/SF for retail tenant improvements. We assume the residential portion costs \$5 more than the three-floor Option, but \$5/SF less than in the ownership scenario.
Parking	\$316,000	We assume that parking will cost \$4,000/space.
Other Costs	\$2,987,000	Contractor fees, architectural and planning fees, and a 5% contingency.
Total Costs	\$10,160,000	

The commercial portion accounts for 15% of hard construction costs. To estimate retail revenues, we assume the building generates \$16.00/SF in annual rent, the same rent we assumed in Options A and B.

We assume the rents are the same as in Option C:

- Studio-\$800;
- 1-Bedroom-\$900; and
- 2-Bedroom-\$1,100.

These rents are just over the high end of rents in multi-family properties in Tumwater. We expect this development to achieve high rents based on its appeal as a new development type in Tumwater and because it will be newly constructed. For both the retail and residential portions, we assume a 15% vacancy rate in Year 1, 10% in Year 2, and 5% in Year 3 and into the future.

To finance the development costs, the pro forma uses a mix of private equity and bank loans.

- The bank loan has a 30-year term at 7%. It accounts for 50% of all financing.
- Private equity funds the remaining 50% of costs.

Table 10 summarizes our measures of viability. Using this mix of assumptions, the development is potentially viable. It would be well positioned to obtain a commercial loan. The IRR is somewhat low, but if costs could be reduced, it would become viable.

Table 10. Measures of viability - Mixed-use with four floors and renter-occupied residential

Measure	Amount	Viability
DCR in Year 1	1.2	Good.
LTV in Year 1	73%	Good.
IRR at Year 10	3.5%	Weak.

Site 2, Option D: Mixed-use retail and two floors of renter-occupied residential on the east side of Cleveland Ave. between North St. and Capitol Blvd.

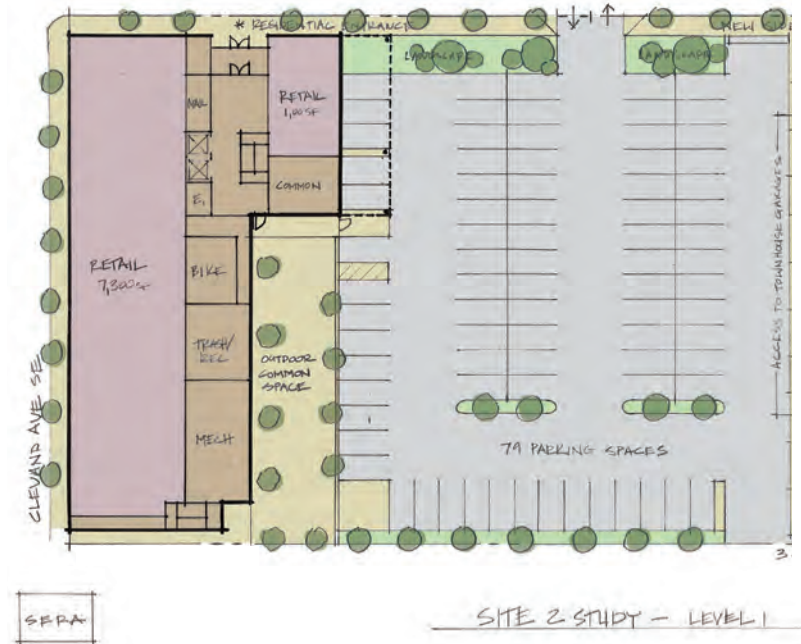


Table 11 shows the four different options for the mixed-use development, the total estimated costs, and the estimated IRR in Year 10. The table shows that the four-story option is more financially viable than the three-story option, and that the ownership options are more viable than the renter options.

Table 11. Summary of mixed-use development options

Option	Floors	Residential Element	Total Cost	IRR
A	3	Owner	\$7,971,758	4.2%
B	4	Owner	\$10,567,909	9.1%
C	3	Renter	\$7,667,704	2.7%
D	4	Renter	\$10,159,669	3.5%

Site 2: Townhouse Residential

The pro forma model assumes that the 19 townhouses are a for-sale product. Table 7 shows the cost categories. Total development costs equal \$5.61 million, about \$295,000 per unit.

Site 2: Townhouse residential on eastern (current medical office) portion of site:

- 19 townhouses, each with two bedrooms, two baths, and a two-car tuck under garage
- Each unit is 2,700sf (gross)
- All units 'front' on a shared common space
- Garage access is either from parking area at center of site or from N-S access way b/tw North Street and Blass

Consultants conducted a preliminary analysis of the financial feasibility (pro forma analysis) of the three different building types for the Tumwater Brewery District. The pro forma analysis models the costs of development and the expected cash flow from rents or sales, to determine if the development type is financially feasible.

Table 12. Cost categories, Mixed-use with four floors and renter-occupied residential

Source	Amount	Explanation
Land	\$0	We assume the land is already owned by the developer.
Demolition	\$109,000	The existing structure will need to be removed. The two medical buildings are about 21,800 SF.
Structure	\$3,876,000	Costs include \$100/SF for residential hard costs. The garage makes up most of the ground floor, minimizing per-foot costs for the whole unit.
Parking	\$0	We assume there are no parking spaces associated with the development.
Other Costs	\$1,623,000	Contractor fees, architectural and planning fees, and a 5% contingency.
Total Costs	\$5,609,000	

We estimated the units could sell at \$325,000 per unit. To estimate revenue and cash flow, we assume that the units sell over a three-year period.

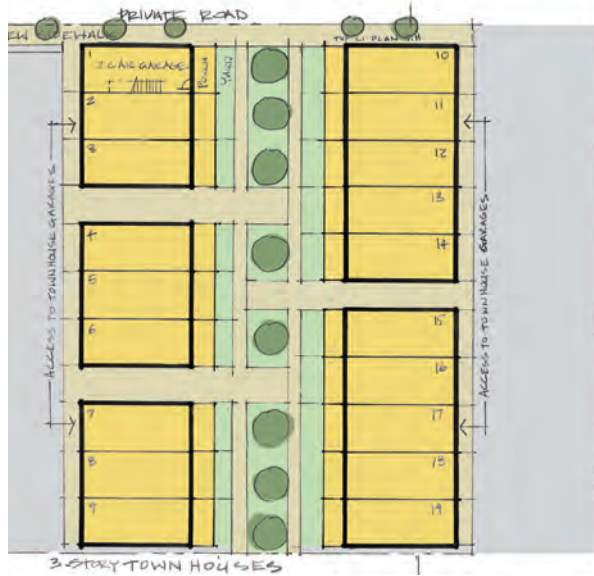
To finance the development costs, the pro forma uses a mix of private equity and bank loans. We assume a short-term construction loan accounts for 70% of development costs, with a three-year term at 7%. We assume the construction loan is an interest-only loan, and the principal is paid in full in Year 3.

Table 13 summarizes our measures of viability. If the townhouses are able to achieve the estimated price point, the development type is financially feasible.

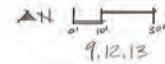
Table 13. Measures of viability - Mixed-use with four floors and renter-occupied residential

Measure	Amount	Viability
LTV in Year 1	64%	Good. A lender would also take into account the fact that the owner owns the land, further reducing the LTV.
IRR at Year 10	12.5%	Good

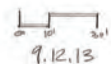
Site 2, Option D: Mixed-use retail and two floors of renter-occupied residential on the east side of Cleveland Ave. between North St. and Capitol Blvd.



SITE 2 STUDY - LEVEL 1



SITE 2 STUDY - UPPER FLOORS



Other Financing Tools

The development opportunities are, for the most part, on the edge of financial viability. If our estimates have over-estimated revenues or under-estimated costs, the proposals will not be viable. In the event that the development type is not financially feasible, the City and the property owners have some alternatives to consider.

The following table provides a brief summary of tools that could be applied to the development opportunity sites.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Property or other tax abatements and credits				
Low Income Housing Tax Credits	Federal tax program provides tax credits for acquisition, rehabilitation, new construction of rental housing targeted to lower-income households.	Tax credit investors	<ul style="list-style-type: none"> Developer or operating business receives discounted financing typically in the form of equity 	At least 20% of residential units must be restricted to low income residents with income less than 50% median gross income of the area—or at least 40% of the units must be restricted to low income residents with income of 60% or less of the median gross income of the area.
Low interest grants/loans				
CDBG Grants and Loans	Community Development Block Grants provide communities with resources to address a wide range of community development needs, including affordable housing and service provision, targeted to benefit low- and moderate-income persons. HUD Section 108 is one mechanism that increases the capacity of block grants to assist with economic development projects..	Federal HUD funds	<ul style="list-style-type: none"> Funds are fairly flexible in application Program has been run since 1974, and is seen as being fairly reliably 	<ul style="list-style-type: none"> Competitive process to secure loans/grants for individual projects Administration and projects must meet federal guidelines Amount of federal funding for CDBG has been diminishing over the past few years CDBG program is run through Thurston County and is not in the control of the City.
EB-5	Investment dollars for new commercial enterprises that will benefit the US economy and create at least 10 full-time jobs for every \$500,000 invested by foreigners seeking US citizenship.	Foreign investors	<ul style="list-style-type: none"> Relatively low-cost source of capital for appropriate projects 	<ul style="list-style-type: none"> Must fall in an EB-5 eligible “targeted employment area” Must meet job generation requirements
Reduces business operation or capital costs				
Multifamily Tax exemption	If 20% or more of the units are affordable, the value of improvements can be exempt from property taxes for 12 years. For market-rent projects, improvements can be exempt for eight years.	General Fund	<ul style="list-style-type: none"> Reduces costs for business 	<ul style="list-style-type: none"> Tumwater would need to establish such a program. The City meets the minimum population threshold of 15,000.
Business License Fee Reduction	A reduction in or waiver of business license fees	General Fund	<ul style="list-style-type: none"> Reduces costs for business 	<ul style="list-style-type: none"> Relatively small incentive that may not greatly affect a business' bottom line
Tenant Improvement Grants/Loans	Assist property owners and new business owners with tenant improvements to the interiors of commercial spaces. Used for office and industrial assistance in addition to retail.	CDBG loans or grants, tax exempt revenue bonds	<ul style="list-style-type: none"> Reduces costs of tenant improvements 	<ul style="list-style-type: none"> Often tied to job goals In some cases prevailing wage would apply
Microenterprise and Small Business Loans	Direct loans to help start-ups, micro-enterprises and small businesses expand or become established.	CDBG	<ul style="list-style-type: none"> Targeted to support small businesses and start-ups Can be tailored to support local economic development strategies 	<ul style="list-style-type: none"> Requires careful underwriting and program administration to reduce public sector risk

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Reduces development costs				
Land Assembly	Assistance with the process of combining parcels together into one developable site. Sometimes takes the shape of technical assistance or expedited process. Other times, the public sector acquires the parcels, combines them, and sells to private party.	General Fund	<ul style="list-style-type: none"> Can help overcome development feasibility challenges by creating more viable redevelopment sites. In some cases, assembling the land increases its value on the open market for UR Agencies looking to re-sell 	<ul style="list-style-type: none"> Public agencies sometimes pay high appraised value for land because they often want to achieve multiple goals – this can impact costs of future public and private acquisitions
Property Price Buy-down	A public agency may chose to sell a property to qualifying developers at a price lower than fair market value to induce development.	General Fund	<ul style="list-style-type: none"> Increases development feasibility by reducing development costs Gives the public sector leverage to achieve its goals for the development via development agreement process with developer 	<ul style="list-style-type: none"> Requires careful underwriting and program administration to reduce public sector risk and ensure program compliance
Reduced Building Permit/Planning Fees or Impact buy down / waiver	Reduce various development fees as an incentive to induce qualifying types of development or building features (e.g., stormwater improvements through the Commercial Stormwater Fee Reduction).	General Fund or Impact Fee fund, respectively	<ul style="list-style-type: none"> Increases development feasibility by reducing soft costs for developers. Fee cost structures are within City control and can be easier to manipulate than other components of the development cost structure. 	<ul style="list-style-type: none"> Reduces revenues to provide permitting and compliance services If Impact Fees are reduced for some developments, that revenue burden will be shifted to others.
Pre-development Assistance	Grants or low interest loans for evaluation of site constraints and opportunities, development feasibility, conceptual planning, etc. to reduce pre-development costs	CDBG	<ul style="list-style-type: none"> Reduces what are often risky pre- development costs for developments that fulfill community goals. Enables developers and communities to explore wider range of project possibilities 	<ul style="list-style-type: none"> Can be perceived as favoring particular developers or property owners.
Impact Fee Financing or credits	Impact Fee financing enables developers to stretch their Impact Fee payment over time, thereby reducing upfront costs. Alternately, allows developers to make necessary improvements to the site in lieu of paying Impact Fees.	Impact Fee fund / general fund. In some cases, there may be no financial impact	<ul style="list-style-type: none"> Reduced up-front costs for developers can enable quicker development timeframe and availability of property to be taxed. 	<ul style="list-style-type: none"> Reduces availability of Impact Fee funds over the short term.
Expedited / Fast-Tracked Building Permits	Expedite building permits for pre-approved development types or green buildings	Limited costs.	<ul style="list-style-type: none"> Can be targeted to a specific development type that is incented. Can save projects time in development process, which produces financial savings 	<ul style="list-style-type: none"> May not have a large enough impact on development bottom line to change financial viability of project.
Spurs investment in a specific area				
Façade Improvement Grants/Loans	Commonly used as part of the Main Street approach to economic development, these are low or no interest loans, or matching grant funds to improve the façade of a building.	CDBG loans or grants	<ul style="list-style-type: none"> A relatively low-cost approach to assisting property owners with improvements that creates a stronger environment for retail. 	<ul style="list-style-type: none"> Can be perceived as favoring some businesses or business areas over others.
Sole Source Impact Fees	Retains Impact Fees paid by developers within a limited geographic area that directly benefits from new development, rather than being available for use city-wide	Impact Fee funds	<ul style="list-style-type: none"> Enables Impact Fee eligible improvements within smaller areas which can enhance catalytic and redevelopment value of area 	<ul style="list-style-type: none"> Reduces resources for Impact Fee-funded projects in a broader geography Small geographic areas may not have sufficient Impact Fee revenues to support bonds

Site 1 Financing: Brew Pub / Restaurant

Legend

= input

Variables that Affect Costs

Land and Preparation	Acres	\$/Acre	\$/SF		Total Land Cost
Parcel	0.0				\$0
Demolition	4,500	-	-	\$5	\$22,500
Total Land and Preparation					\$22,500
Construction	Gross SF	Leasable Portion	Leasable SF	Cost Per SF	Total Hard Costs
1-Story Restaurant-Hard Cost	3,650	100%	3,650	\$125	\$456,250
Tenant Improvements			3,650	\$30	\$109,500
Total Structure					\$565,750
Parking	Spaces	Hard Cost/Space			Total Hard Costs
Surface Parking	8	\$4,000			\$32,000
Total Land + Hard Costs					\$620,250
Other Cost Factors	%	Cost			
Contractor fee (% of construction)	25%	\$45,625			
Soft costs (% of construction)	10%	\$45,625			
Contingency (% of soft & hard)	5%	\$35,575			
Total Other Costs		\$126,825			
Total Development Costs		747,075			

Assumptions about Capital Resources

Resource Mix		% of Total Dev't Costs
Bank Loan	\$373,538	50%
Private Equity	\$373,538	50%
Other Sources	\$0	0%
Total	\$747,075	100%
Bank Loan Details		
Interest rate	7.00%	
Term	30	
Principal	\$373,538	
Annual Pmt	\$30,102	

Variables that Affect Revenues

	Per SF per Month	Per SF per Year	Monthly Rent	Annual Gross Rent
Restaurant (NNN)	\$1.17	\$14.00	\$4,258	\$51,100
Restaurant (NNN)				
Other Revenue Factors				
Variable				
Rent increase / year	2%			
Operating cost increase/year	2%			
Vacancy, Yr 1	0%			
Vacancy, Yr 2	0%			
Vacancy, Yr 3 +	0%			
Capitalization Rate	8.0%	<<based on sales data of retail buildings in Tumwater		
Mgt/operations (% of revenue)	5%			

204.6780822

Measures of Financial Viability

	Year 1	Year 3	Year 10
Net Operating Income (NOI)	\$47,523	\$49,443	\$56,794
Annual Debt Service	\$30,102	\$30,102	\$30,102
Value at 8% cap rate	\$594,038	\$618,037	\$709,930
DCR (NOI / Total Debt Service)	1.6	1.6	1.9
LTV (Bank loan / Value)	63%	59%	46%
IRR in 10 years at, 8% cap rate			5.9%

Site 2 Financing: Mixed-use retail with two floors condominiums

Legend

= input

Variables that Affect Costs

Land and Preparation	Acres	\$/Acre	\$/SF		Total Land Cost
Parcel	0.0				\$0
Demolition	4,000	-	-	\$5	\$20,000
Total Land					\$20,000
Construction	Gross SF	Efficiency Ratio	Net SF	Cost Per SF	Total Hard Costs
Residential	42,900	85%	36,465	\$105	\$4,504,500
Retail	8,300	100%	8,300	\$85	\$705,500
Tenant Improvements			8,300	\$10	\$83,000
Total Structure					\$5,293,000
Parking	Spaces	Hard Cost/Space			Total Hard Costs
Surface Parking	79	\$4,000			\$316,000
Total Land + Construction + Parking					\$5,629,000
Other Cost Factors	%	Cost			
Contractor fee (% of construction)	25%	\$1,402,250			
Soft costs (% of construction)	10%	\$560,900			
Contingency (% of soft & hard)	5%	\$379,608			
Total Other Costs		\$2,342,758			
Total Development Costs		\$7,971,758			

Assumptions about Capital Resources

Resource Mix		% of Total Dev't Costs
Construction Loan - Residential	\$4,703,337	59%
Bank Loan - Retail Portion	\$637,741	8%
Private Equity	\$2,630,680	33%
Other Sources	\$0	0%
Total	\$7,971,758	100%

Construction Loan - Residential Details	
Interest rate	7.00%
Term	2
Principal	\$4,703,337
Annual Pmt	\$2,601,377

Bank Loan - Retail Portion Details	
Interest rate	7.00%
Term	30
Principal	\$637,741
Annual Pmt	\$51,393

Variables that Affect Revenues

	# Units	Unit Mix	Sale Price per Unit	Total Value
Residential				
studio	8	25%	\$150,000	\$1,200,000
1-Bedroom	16	50%	\$200,000	\$3,200,000
2-Bedroom	8	25%	\$250,000	\$2,000,000
Total	32	100%	\$600,000	\$6,400,000
	Per SF per Month	Per SF per Year	Monthly Rent	Annual Gross Rent
Retail (NNN)	\$1.33	\$16.00	\$11,067	\$132,800
Other Revenue Factors - Retail				
Variable				
Rent increase / year	2%			
Operating cost increase/year	2%			
Vacancy, Yr 1	15%			
Vacancy, Yr 2	10%			
Vacancy, Yr 3 +	5%			
Capitalization Rate	8.0%	<<based on sales data of retail buildings in Tumwater		
Mgt/operations (% of revenue)	10%			

Measures of Financial Viability

	Year 1	Year 3	Year 10
Net Operating Income (NOI)-Retail	\$97,342	\$114,815	\$131,887
Annual Debt Service	\$380,627	\$51,393	\$51,393
Value at 8% cap rate-Retail	\$1,216,780	\$1,435,190	\$1,648,582
DCR (=NOI / Total Debt Service)-Retail	1.9	2.2	2.6
LTV ([Bank loan] / Value)-Retail	52%	43%	34%
IRR in 10 years at, 8% cap rate			4.2%

Site 2 Financing: Mixed-use retail with three floors condominiums

Legend

 = input

Variables that Affect Costs

Land and Preparation				Total Land Cost	
	Acres	\$/Acre	\$/SF		
Parcel	0.0				\$0
Demolition	4,000	-	-	\$5	\$20,000
Total Land					\$20,000
Construction				Total Hard Costs	
	Gross SF	Efficiency Ratio	Net SF	Cost Per SF	
Residential	57,600	85%	48,960	\$110	\$6,336,000
Retail	8,300	100%	8,300	\$85	\$705,500
Tenant Improvements			8,300	\$10	\$83,000
Total Structure					\$7,124,500
Parking				Total Hard Costs	
	Spaces	Hard Cost/Space			
Surface Parking	79	\$4,000			\$316,000
Total Land + Construction + Parking					\$7,460,500
Other Cost Factors			Cost		
	%				
Contractor fee (% of construction)	25%	\$1,860,125			
Soft costs (% of construction)	10%	\$744,050			
Contingency (% of soft & hard)	5%	\$503,234			
Total Other Costs		\$3,107,409			
Total Development Costs		\$10,567,909			

Assumptions about Capital Resources

Resource Mix		% of Total Dev't Costs
Construction Loan - Residential	\$6,129,387	58%
Bank Loan - Retail Portion	\$951,112	9%
Private Equity	\$3,487,410	33%
Other Sources	\$0	0%
Total	\$10,567,909	100%

Construction Loan - Residential Details		
Interest rate	7.00%	
Term	2	
Principal	\$6,129,387	
Annual Pmt	\$3,390,114	

Bank Loan - Retail Portion Details		
Interest rate	7.00%	
Term	30	
Principal	\$951,112	
Annual Pmt	\$76,647	

Variables that Affect Revenues

	# Units	Unit Mix	Sale Price per Unit	Total Value
Residential				
studio	12	25%	\$150,000	\$1,800,000
1-Bedroom	24	50%	\$200,000	\$4,800,000
2-Bedroom	12	25%	\$250,000	\$3,000,000
Total	48	100%	\$600,000	\$9,600,000
	Per SF per Month	Per SF per Year	Monthly Rent	Annual Gross Rent
Retail (NNN)	\$1.33	\$16.00	\$11,067	\$132,800
Other Revenue Factors - Retail				
Variable				
Rent increase / year	2%			
Operating cost increase/year	2%			
Vacancy, Yr 1	15%			
Vacancy, Yr 2	10%			
Vacancy, Yr 3 +	5%			
Capitalization Rate	8.0%	<<-based on sales data of retail buildings in Tumwater		
Mgt/operations (% of revenue)	10%			

Measures of Financial Viability

	Year 1	Year 3	Year 10
Net Operating Income (NOI)-Retail	\$97,342	\$114,815	\$131,887
Annual Debt Service	\$505,704	\$76,647	\$76,647
Value at 8% cap rate-Retail	\$1,216,780	\$1,435,190	\$1,648,582
DCR (=NOI / Total Debt Service)-Retail	1.3	1.5	1.7
LTV ([Bank loan] / Value)-Retail	78%	65%	50%
IRR in 10 years at, 8% cap rate			9.1%

Site 2 Financing: Mixed-use retail with two floors apartments

Legend

= input

Variables that Affect Costs

Land and Preparation	Acres	\$/Acre	\$/SF		Total Land Cost
Parcel	0.0				\$0
Demolition	4,000	-	-	\$5	\$20,000
Total Land					\$20,000
Construction	Gross SF	Efficiency Ratio	Net SF	Cost Per SF	Total Hard Costs
Residential	42,900	85%	36,465	\$100	\$4,290,000
Retail	8,300	100%	8,300	\$85	\$705,500
Tenant Improvements			8,300	\$10	\$83,000
Total Structure					\$5,078,500
Parking	Spaces	Hard Cost/Space			Total Hard Costs
Surface Parking	79	\$4,000			\$316,000
Total Land + Construction + Parking					\$5,414,500
Other Cost Factors	%	Cost			
Contractor fee (% of construction)	25%	\$1,348,625			
Soft costs (% of construction)	10%	\$539,450			
Contingency (% of soft & hard)	5%	\$365,129			
Total Other Costs		\$2,253,204			
Total Development Costs		\$7,667,704			

Assumptions about Capital Resources

Resource Mix		% of Total Dev't Costs
Construction Loan - Residential	\$0	0%
Bank Loan - Retail Portion	\$3,833,852	50%
Private Equity	\$3,833,852	50%
Other Sources	\$0	0%
Total	\$7,667,704	100%

Bank Loan - Retail Portion Details		
Interest rate	7.00%	
Term	30	
Principal	\$3,833,852	
Annual Pmt	\$308,956	

Variables that Affect Revenues

	# Units	Unit Mix	Monthly Rent/Unit	Annual Gross Rent
Residential				
studio	8	25%	\$800	\$76,800
1-Bedroom	16	50%	\$900	\$172,800
2-Bedroom	8	25%	\$1,100	\$105,600
Total	32	100%		\$355,200
	Per SF per Month	Per SF per Year	Monthly Rent	Annual Gross Rent
Retail (NNN)	\$1.33	\$16.00	\$11,067	\$132,800
Other Revenue Factors				
Variable				
Rent increase / year	2%			
Operating cost increase/year	2%			
Vacancy, Yr 1	15%			
Vacancy, Yr 2	10%			
Vacancy, Yr 3 +	5%			
Capitalization Rate	7.0%	<<based on sales data of residential buildings in Tumwater		
Mgt/operations (% of revenue)	10%			

Measures of Financial Viability

	Year 1	Year 3	Year 10
Net Operating Income (NOI)-Retail	\$357,704	\$421,911	\$484,643
Annual Debt Service	\$308,956	\$308,956	\$308,956
Value at 7% cap rate-Retail	\$5,110,057	\$6,027,305	\$6,923,479
DCR (=NOI / Total Debt Service)-Retail	1.2	1.4	1.6
LTV ([Bank loan] / Value)-Retail	75%	62%	48%
IRR in 10 years at, 7% cap rate			2.7%

Site 2 Financing: Mixed-use retail with three floors apartments

Legend

 = input

Variables that Affect Costs

Land and Preparation	Acres	\$/Acre	\$/SF		Total Land Cost
Parcel	0.0				\$0
Demolition	4,000	-	-	\$5	\$20,000
Total Land					\$20,000
Construction	Gross SF	Efficiency Ratio	Net SF	Cost Per SF	Total Hard Costs
Residential	57,600	85%	48,960	\$105	\$6,048,000
Retail	8,300	100%	8,300	\$85	\$705,500
Tenant Improvements			8,300	\$10	\$83,000
Total Structure					\$6,836,500
Parking	Spaces	Hard Cost/Space			Total Hard Costs
Surface Parking	79	\$4,000			\$316,000
Total Land + Construction + Parking					\$7,172,500
Other Cost Factors	%	Cost			
Contractor fee (% of construction)	25%	\$1,788,125			
Soft costs (% of construction)	10%	\$715,250			
Contingency (% of soft & hard)	5%	\$483,794			
Total Other Costs		\$2,987,169			
Total Development Costs		\$10,159,669			

Assumptions about Capital Resources

Resource Mix		% of Total Dev't Costs
Construction Loan - Residential	\$0	0%
Bank Loan - Retail Portion	\$5,079,834	50%
Private Equity	\$5,079,834	50%
Other Sources	\$0	0%
Total	\$10,159,669	100%

Bank Loan - Retail Portion Details	
Interest rate	7.00%
Term	30
Principal	\$5,079,834
Annual Pmt	\$409,366

Variables that Affect Revenues

	# Units	Unit Mix	Monthly Rent/Unit	Annual Gross Rent
Residential				
studio	12	25%	\$800	\$115,200
1-Bedroom	24	50%	\$900	\$259,200
2-Bedroom	12	25%	\$1,100	\$158,400
Total	48	100%		\$532,800
	Per SF per Month	Per SF per Year	Monthly Rent	Annual Gross Rent
Retail (NNN)	\$1.33	\$16.00	\$11,067	\$132,800
Other Revenue Factors				
Variable				
Rent increase / year	2%			
Operating cost increase/year	2%			
Vacancy, Yr 1	15%			
Vacancy, Yr 2	10%			
Vacancy, Yr 3 +	5%			
Capitalization Rate	7.0%	<<based on sales data of residential buildings in Tumwater		
Mgt/operations (% of revenue)	10%			

Measures of Financial Viability

	Year 1	Year 3	Year 10
Net Operating Income (NOI)-Retail	\$487,885	\$575,459	\$661,022
Annual Debt Service	\$409,366	\$409,366	\$409,366
Value at 7% cap rate-Retail	\$6,969,783	\$8,220,848	\$9,443,171
DCR (=NOI / Total Debt Service)-Retail	1.2	1.4	1.6
LTV ([Bank loan] / Value)-Retail	73%	60%	47%
IRR in 10 years at, 7% cap rate			3.5%

Site 2 Financing: Townhouse residential

Legend

 = input

Variables that Affect Costs

Land and Preparation	Acres	\$/Acre	\$/SF	Total Land Cost	
Parcel	0.0			\$0	
Demolition	21,800	-	-	\$5	
Total Land				\$109,000	
Construction	SF per Unit	Number of Units	Total SF	Cost Per SF	Total Hard Costs
Residential	2,040	19	38,760	\$100	\$3,876,000
Total Structure					\$3,876,000
Parking	Spaces	Hard Cost/Space	Total Hard Costs		
Surface Parking	-	\$4,000	\$0		
Total Land + Construction + Parking			\$3,985,000		
Other Cost Factors	%	Cost			
Contractor fee (% of construction)	25%	\$969,000			
Soft costs (% of construction)	10%	\$387,600			
Contingency (% of soft & hard)	5%	\$267,080			
Total Other Costs		\$1,623,680			
Total Development Costs		\$5,608,680			
Development Cost per Unit		\$295,194			

Assumptions about Capital Resources

Resource Mix		% of Total Dev't Costs
Construction Loan - Residential	\$3,926,076	70%
Private Equity	\$1,682,604	30%
Other Sources	\$0	0%
Total	\$1,682,604	100%
Construction Loan - Residential Details		
Interest rate	7.00%	
Term	3	
Principal	\$3,926,076	
Annual Pmt	\$1,496,038	

Bank Loan - Retail Portion Details	
Interest rate	7.00%
Term	30
Principal	\$0
Annual Pmt	\$0

Variables that Affect Revenues

	# Units	Unit Mix	Sale Price per Unit	Total Value
Residential				
Townhouse	19	100%	\$325,000	\$6,175,000
Total	19	100%	\$325,000	\$6,175,000
	Per SF per Month	Per SF per Year	Monthly Rent	Annual Gross Rent
Retail (NNN)	\$1.33	\$16.00	\$0	\$0
Other Revenue Factors - Retail				
Variable				
Rent increase / year	2%			
Operating cost increase/year	2%			
Vacancy, Yr 1	15%			
Vacancy, Yr 2	10%			
Vacancy, Yr 3 +	5%			
Capitalization Rate	8.0%	<<based on sales data of retail buildings in Tumwater		
Mgt/operations (% of revenue)	10%			

Measures of Financial Viability

	Year 1	Year 3	Year 10
Net Operating Income (NOI)	NA	NA	NA
Annual Debt Service	\$274,825	\$3,926,076	\$0
Value at 8% cap rate	\$0	\$0	\$0
DCR (=NOI / Total Debt Service)	NA	NA	NA
LTV ([Bank loan] / Value)	64%	64%	0%
IRR in 10 years at, 8% cap rate			12.5%

DEVELOPMENT OPPORTUNITY STUDY PROTOTYPE:
TOWNHOMES CLUSTER



DEVELOPMENT OPPORTUNITY STUDY PROTOTYPE:
MIXED-USE COMMERCIAL/RESIDENTIAL

