OLYMPIA DOWNTOWN STRATEGY FEASIBILITY ANALYSIS

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SEPTEMBER 2016

INTRODUCTION AND SUMMARY

PURPOSE OF ANALYSIS AND ORGANIZATION OF REPORT

The Olympia Downtown Strategy will set priority actions for the next five to six years, illustrate desired design elements and future conditions, guide City budgets, work plans and partnerships, and help to market downtown. In order to identify realistic economic opportunities for Downtown, the Strategy includes a feasibility analysis for development of potential catalyst projects on key sites. The analysis will identify whether the vision for private development is realistic. It will also identify the conditions necessary for feasible development and what public actions might facilitate those conditions.

This report documents the results of the feasibility analysis, and is organized in five sections: introduction and summary, development concepts, method and assumptions, results, and conclusions.

SUMMARY OF ANALYSIS

Summary of Opportunity Sites

Five illustrative sites were evaluated to reflect a range of residential density, existing site condition and building reuse potential.

Quarter Block Site is intended to be representative of a multi-story mixed use building on a vacant site. The base case is four floors of residential over a ground floor of parking and retail and a second floor of parking.

Half Block Site is intended to be representative of a multi-story mixed use building on a half block redevelopment site. The base case is five floors of residential over a ground floor of parking and commercial and a second floor of parking.

Parking Lot Site is intended to be representative of a mixed use building on a full block vacant site. The building would include five floors of residential over commercial space, at grade structured parking and a partial level of underground parking.

Full Block Site is intended to be representative of a residential building on a full block redevelopment site with partially underground parking. The building would include five floors of residential (one concrete and four wood frame) over a single level of partially underground parking.

Low-rise Residential Infill is intended to be representative of a single use three story garden-style apartment with surface parking.

Summary of Financial Analysis Method

Development scenarios are identified for each site and subjected to a financial feasibility analysis. The proforma feasibility analysis compares the cost of development to completed value to determine the entrepreneurial profit. Entrepreneurial profit is considered the compensation to a developer for incurring the risk of undertaking and completing a project. Entrepreneurial profit for any development plan is compared to a target rate to identify whether that option is feasible. Entrepreneurial return of 15% or more of the development cost is within the typical range for feasible development.

Each case for each site can be evaluated according to two measures:

Does the **entrepreneurial return** exceed 15% of development cost? If so, that case is considered feasible, and could attract private investment.

If a case isn't feasible given the base assumptions, what conditions would be necessary for feasibility and are they achievable? The **necessary conditions** can reflect a combination of higher rents, lower construction costs, lower land costs, and available development incentives.

Summary of Financial Results

The results can be summarized as the entrepreneurial profit as a percent of development cost for each site as shown in the following table. The cases include a base case; cases with the multifamily property tax exemption, both eight year (with no dedicated affordable housing) and 12 year (with 20% of units as affordable at 80% of median income levels for the county); and cases with lower impact fees. The cases that represent acceptable rates of return are highlighted in the following table.

Summary of Financial Analysis Results
Entrepreneurial Return as Percent of Development Cost
(Highlighted cells indicate return equal to or greater than 15%)

	Base	MFTE 8 year	MFTE 12 year	No Impact Fees
Quarter Block	13.32%	18.56%	10.10%	15.42%
Half Block	13.19%	18.50%	9.93%	15.05%
Parking Lot Site	11.93%	17.12%	8.82%	13.91%
Full Block Site	9.17%	14.90%	5.20%	11.30%
Low-rise Residential Infill	6.67%	12.16%	14.15%	12.07%

For the **Quarter Block** site, the eight year exemption case and the no impact fee case both achieve the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

For the **Half Block** site, the results are similar to the Quarter Block case. The eight year exemption case and the no impact fee case both achieve the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

For the **Parking Lot** site, the eight year exemption case achieves the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

The **Full Block with Underground Parking** site performs slightly worse than the Parking Lot scenario. While the lack of retail and its associated parking cost favor this scenario, the higher cost of underground parking and the higher land cost for a developed property offset this advantage. The eight year exemption case almost achieves the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

For the **Low-rise Residential Infill** site, the Twelve Year Exemption case achieves returns close to the target return of 15%. The reduced operating costs under the twelve year case improve the operating income and rate of return and there is no foregone income from the affordability requirement.

Summary of Conclusions

1. Based on the results of the analysis, it's likely that six or seven story mixed use buildings are feasible under current market conditions in conjunction with the eight year tax exemption.

2. The required rents for feasibility of all the mixed use scenarios are close to the necessary rates, and are likely to be achievable within the near future.

3. The use of the eight year tax exemption enhances the feasibility of the mixed use concepts because it provides lower operating expenses without any loss of income associated with an affordability requirement.

4. The use of the 12 year tax exemption enhances the feasibility of the garden apartment concept because it provides lower operating expenses and market rents meet the affordability requirement.

5. The City already charges impact fees at lower rates Downtown than in other areas of the City. While further reductions would improve rates of return, incentives beyond the tax exemptions don't appear to be necessary to provide for feasible development.

6. The retail component of the mixed use scenarios does not enhance the feasibility. The likely rents don't cover the overall investment, particularly structured parking at typical parking ratios. If there were no requirement to include retail, developers would probably not include retail on sites without strong retail locational attributes.

7. The additional cost of site acquisition under a redevelopment scenario (versus a vacant site) provides an additional challenge for feasibility, but the cost premium isn't assumed to be great in this analysis.

8. The larger sites provide additional flexibility in unit and parking layouts, but the increased value is not assumed to be great in this analysis.

9. Improvements to public property and parks along the waterfront as part of the overall Downtown Strategy will enhance the desirability of the area and the feasibility of development.

DEVELOPMENT CONCEPTS

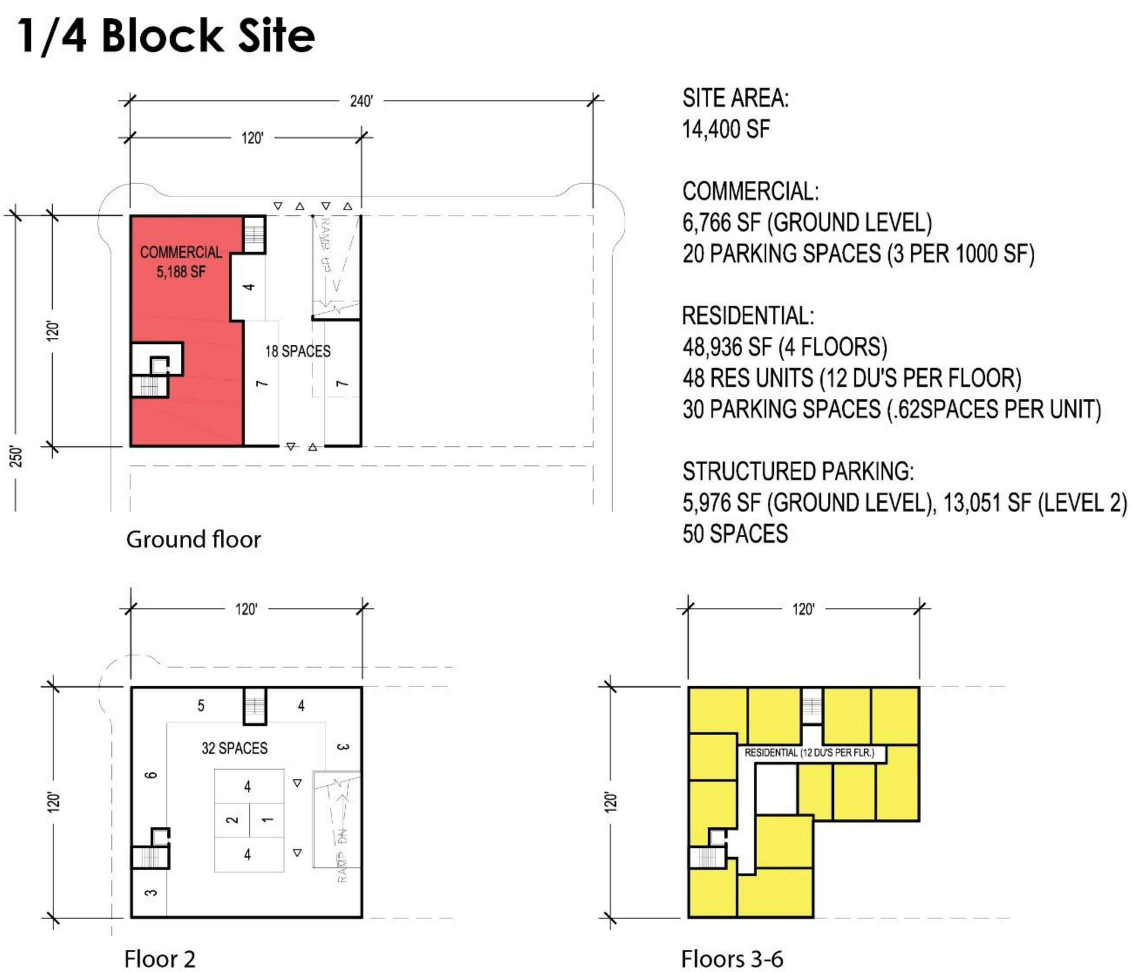
Five sites and development concepts are considered in this analysis as summarized in the following table. While they are based on characteristics of specific sites, they are intended to be representative of opportunities on other sites Downtown.

Table 1.
Characteristics of Development Concepts

	Quarter Block Mixed Use Vacant Site	Half Block Mixed Use Redevelopment Site	Parking Lot Site Mixed Use Vacant Site	Full Block Site Mixed Use Redevelopment Site	Low-rise Infill Mixed Use 45' Height
Site Area (SF)	14,400	30,000	55,539	62,500	14,400
Floors	6	7	7	5	3
Gross Building Area (SF)					
Residential	48,936	122,500	212,815	208,834	21,628
Commercial	6,766	14,800	24,058	-	-
Subtotal	55,702	137,300	236,873	208,834	21,628
Residential Units	48	105	205	225	20
Parking Spaces					
Surface	-	-	-	-	24
Above Ground Structure	50	124	177	-	-
Underground Structure	-	-	83	182	-
Subtotal	50	124	260	182	24

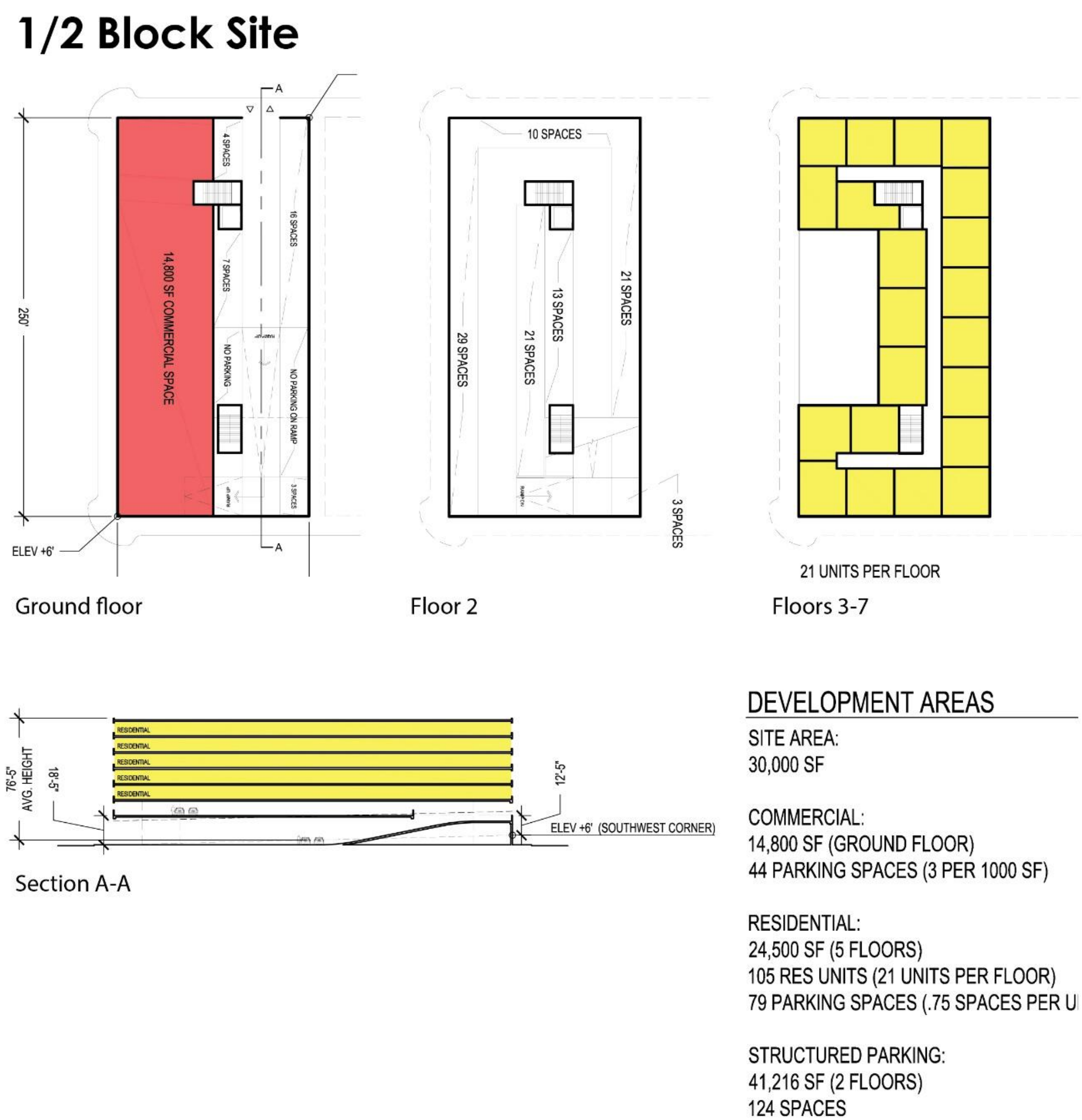
Quarter Block Site is intended to be representative of a multi-story mixed use building on a vacant site. The base case is four floors of residential over a ground floor of parking and retail and a second floor of parking. The new building would provide 48 residential units, 6,766 square feet of retail, and 50 parking spaces. The parking ratio for the base case is .62 spaces per residential unit.

Figure 1



Half Block Site is intended to be representative of a multi-story mixed use building on a redevelopment site. The base case is five floors of residential over a ground floor of parking and commercial and a second floor of parking. The new building would provide 105 residential units, 14,800 square feet of retail, and 124 parking spaces. The parking ratio for the base case is .75 spaces per residential unit.

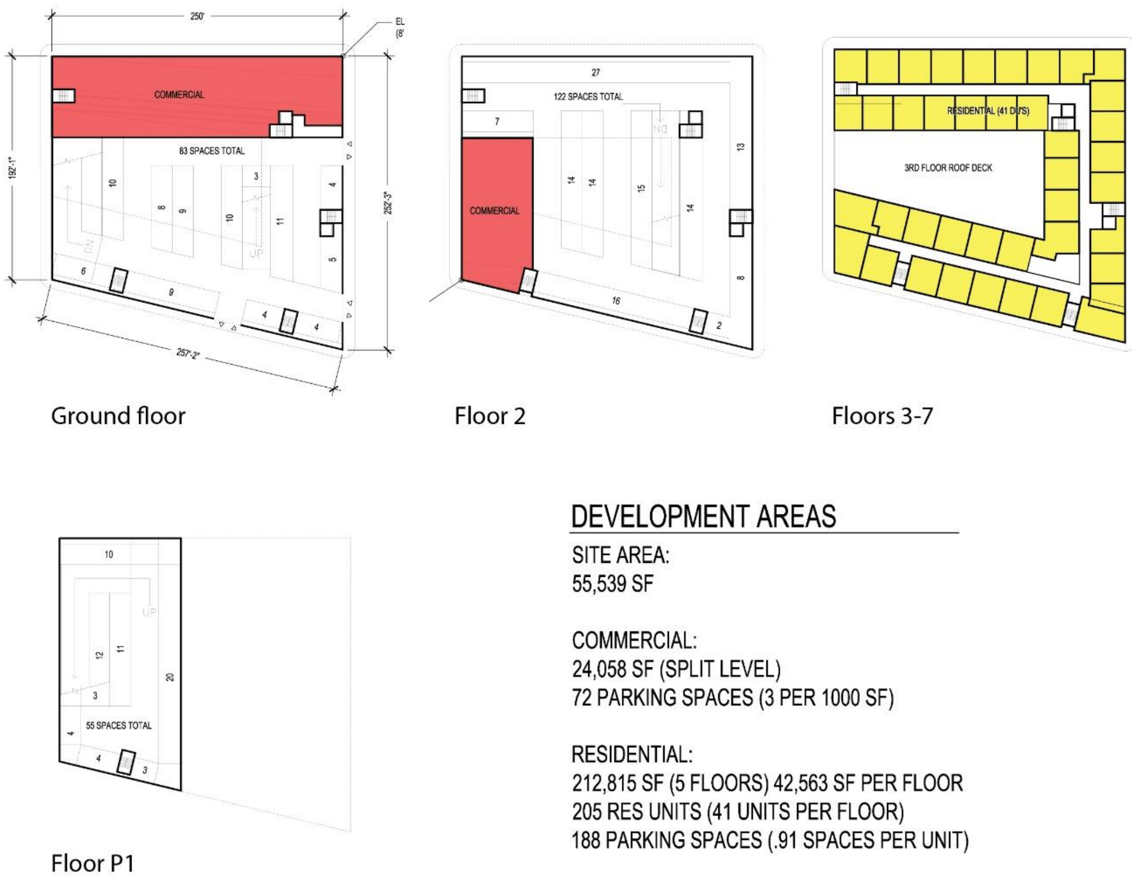
Figure 2



Parking Lot Site is intended to be representative of a mixed use building on a full block vacant site. The building would include five floors of residential over commercial space, at grade structured parking and a partial level of underground parking. The new building would provide 205 residential units, 24,058 square feet of retail, and 260 parking spaces. The parking ratio is .91 spaces per residential unit.

Figure 3

Parking Lot Site



DEVELOPMENT AREAS

SITE AREA:
55,539 SF

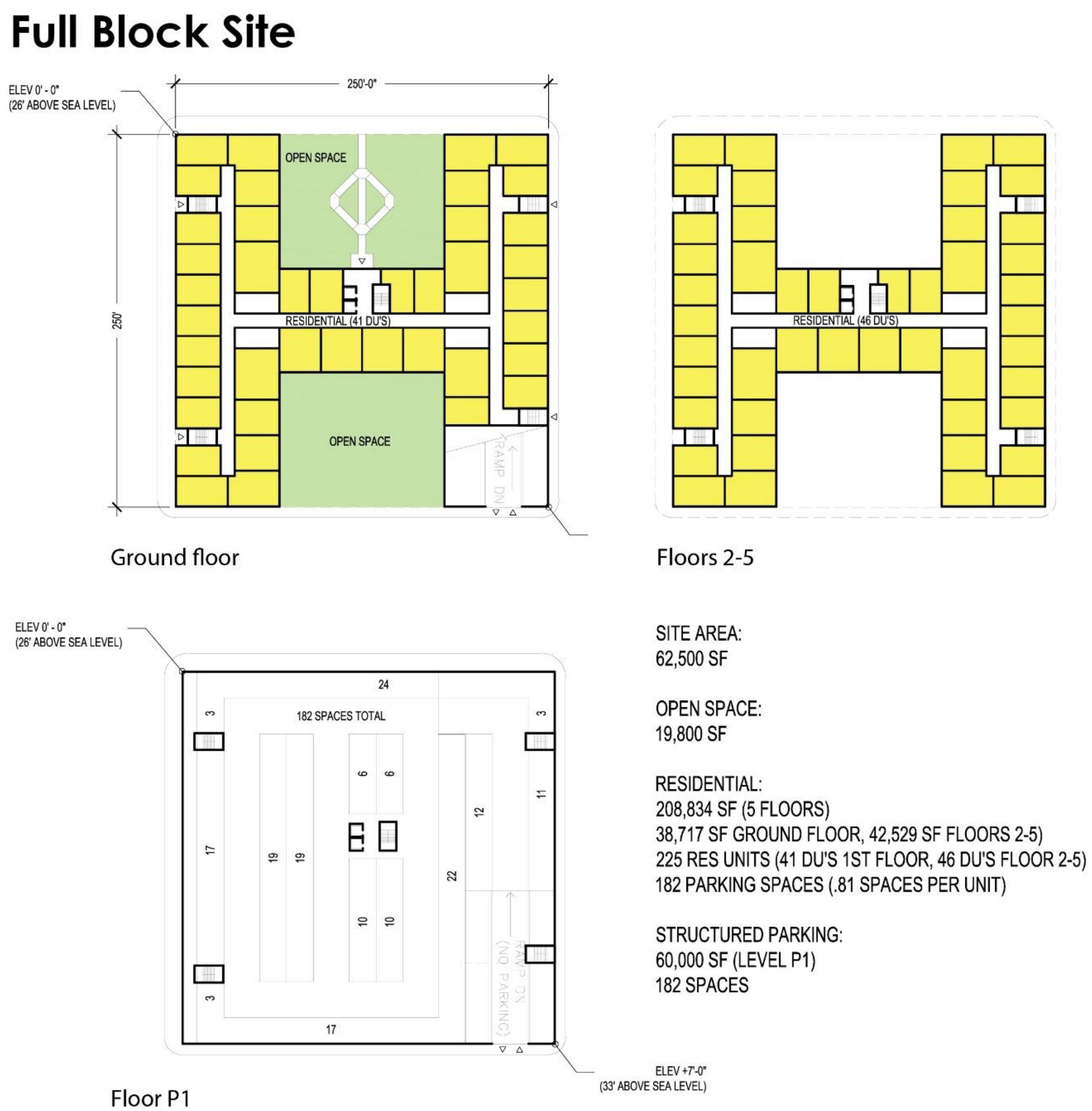
COMMERCIAL:
24,058 SF (SPLIT LEVEL)
72 PARKING SPACES (3 PER 1000 SF)

RESIDENTIAL:
212,815 SF (5 FLOORS) 42,563 SF PER FLOOR
205 RES UNITS (41 UNITS PER FLOOR)
188 PARKING SPACES (.91 SPACES PER UNIT)

STRUCTURED PARKING:
104,614 SF (3 FLOORS)
260 SPACES
FLOOR 1 38,039 SF ; FLOOR 2 47,537 SF ; P1 19,038 SF

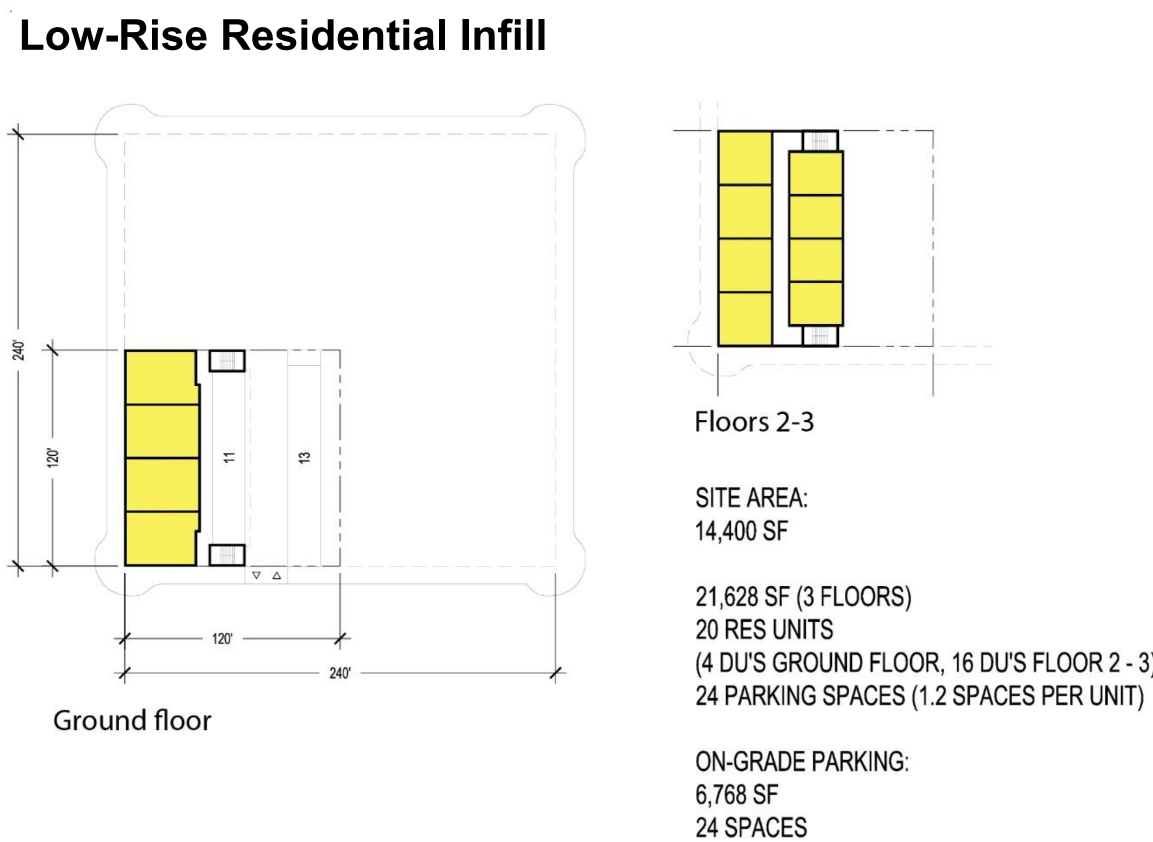
Full Block Site with Underground Parking is intended to be representative of a residential building on a full block redevelopment site with underground parking in areas where the water table allows. The building would include five floors of residential (one concrete and four wood frame) over a single level of underground parking. The new building would provide 225 residential units and 182 parking spaces. The parking ratio is .81 spaces per residential unit.

Figure 4



Low-rise Residential Infill is intended to be representative of a single use three story garden-style apartment with surface parking. There are 20 residential units and 24 parking spaces.

Figure 5



METHOD AND ASSUMPTIONS

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the cost of development to completed value to determine the entrepreneurial profit. Entrepreneurial profit is considered the compensation to a developer for incurring the risk of undertaking and completing a project. Entrepreneurial profit for any development plan is compared to a target rate to identify whether that option is feasible. A 15% rate for return as a percentage of development cost is considered a typical rate falling within a range of 10% to 20%. Such a rate provides adequate incentive for a developer to assume the risk associated with development.

The value of the completed development is estimated as the capitalized value of the operating income in a stabilized year for a rental project. The capitalized value is calculated by dividing the operating income in a stabilized year by a capitalization rate that reflects investor expectations for projects with a comparable level of risk. The stabilized year is three or more years in the future, after construction and lease-up. Developer cost is calculated as the sum of land acquisition, building construction, and soft costs. Development costs are expressed in today's dollars, as if the development proceeds immediately.

The feasibility analysis is intended to evaluate the feasibility of a base case, and if the project isn't currently feasible, what are the necessary conditions for it to be feasible. While the necessary conditions can reflect a combination of higher rents, lower construction costs, and lower land costs, for this analysis we estimated the necessary apartment rental rate for a 15% entrepreneurial return, assuming all other conditions remain unchanged.

POSSIBLE INCENTIVES

Application of the Multifamily Tax Exemption is evaluated in additional cases to reflect the impact of such incentives. The program is available within Downtown Olympia for projects resulting in four or more units. Any qualifying project is exempt from taxes on the value of property improvements. 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. Affordable rents are specified as affordable to households making 100% or less of the median household income for the area The estimated present value of this exemption is equivalent to reduced operating costs of $.47 to $.71 per square foot per year for the eight year case depending on the residential investment, and $.64 to $.97 per year for the 12 year case. The median income for Thurston County is identified by the federal department of Housing and Urban Development (HUD) as $73,600. This average affordable rent for one and two bedroom units for households with incomes less than 80% of median is approximately $1.30 to $1.60 per square foot per month, above the assumed market rents of $1.30 used in the analysis for garden style apartments, but less than the rents of $1.92 per square foot used for mixed use projects.

Business surveys and workshops have identified high impact fees as an impediment to Downtown development. Olympia charges impact fees for transportation, parks and schools. The impact fees for Downtown are lower than the fees charged elsewhere in the City as shown below.

	Downtown	Elsewhere in City
Transporation Impact Fee		
Multifamily (/unit)	$913	$2,227
Services/Retail (/gross Sq. ft.)*	$3.85	$6.52 -$19.78
Hotel (/room)	$1,699	$2,292
Park Impact Fee		
Multifamily (/unit)	$2,827	$3,698
School Impact Fee		
Multifamily (/unit)	$0	$2,498
* Rates for Elsewhere reflect range from misc. retail to restaurants.		

The analysis considers the impact of elimination of fees altogether to indicate the relative effect of impact fees.

CONSTRUCTION COSTS

Construction cost estimates are based on unit costs that are reflective of similar new projects. The assumed unit costs were confirmed with developers and architects who are active in the local market.

Assumed construction costs can be summarized as:

Apartments Garden (/sq. ft.)	$95.00
Apartments Mixed Use (/sq. ft.)	$135.00
Office (/sq. ft.)	$180.00
Retail (/sq. ft.)	$120.00
Surface Parking (/sp.)	$5,000
Above Ground Parking Structure (/sp.)	$17,500
Underground Parking Structure (/sp)	$22,750

The costs are based on gross square feet and include all contractor charges as well as state and local sales tax.

LAND PRICE ASSUMPTIONS

A property price is assumed for each of the development sites in order to make an initial determination of feasibility. The value of a redevelopment parcel is determined by its value in its current use. Current assessed land values in the downtown core are $35 per square foot. A premium is assumed for redevelopment sites to account for the value of existing improvements. The value of multifamily sites reflects some value to existing improvements.

Land Cost ($/sq. ft.)	
Redevelopment Core	$45.00
Vacant Core	$35.00
Multifamily	$15.00

APARTMENT RENT ASSUMPTIONS

Assumed apartment rents are derived from a review of current market rents. Rents are assumed at three different levels:

Rent (/sq. ft./yr.)	
Apartment Garden	$15.60
Apartment Mixed Use	$23.00
Affordable Apartment	$15.60
Office	$25.00
Retail	$20.00

The assumed market rent for garden apartments of $15.60 peer square foot per year ($1.30 per square foot per month) is equivalent to the current average rent for newer apartments in Olympia built since 2008 plus escalation to stabilized occupancy of 3% per year. The assumed market rents for the mixed use buildings are equivalent to the low end of the asking price range for the 123 4th building in Olympia. The affordable apartment rent is lower than the amount calculated from the median household income for the county, but is at a rate equal to the market rent for garden apartments.

OTHER ASSUMPTIONS

The other primary assumptions in the analysis are summarized in the following table.

Table 2.
Other Financial Assumptions

Operating Expense (/sq. ft./yr)	
Apartment Garden	$6.24
Apartment Mixed Use	$9.36
Garden Apt w/ 12 yr. Tax Exemption	$5.60
Garden Apt w/ 8 yr. Tax Exemption	$5.77
MU Apt w/12 yr Tax Exemption	$8.40
MU Apt w/8 yr Tax Exemption	$8.65
Office	$1.00
Retail	$1.00
Parking Rent	
Apartments Secure (/sp./mo.)	$85.00
Apartments Open (/sp./mo.)	$35.00
Office (/sp./mo.)	$85.00
Retail	$0.00
Soft Costs	
Apartments (% of constr.)	28.0%
Office (% of constr.)	31.0%
Retail (% of constr.)	31.0%
Capitalization Rates	
Apartments	5.0%
Office	6.5%
Retail	6.5%

Operating expenses reflect gross leases (landlord pays expenses) for residential uses, and office and retail leases are net (tenant pays expenses).

RESULTS

The results of the analysis are summarized for each site in the following tables.

QUARTER BLOCK SITE

The 4 over 2 mixed use building is evaluated for the base case, two tax exemption cases, and a no impact fee case.

Table 3
Feasibility Analysis of Development Concepts
Quarter Block Vacant Site

	Base	MFTE 8 year	MFTE 12 year	No Impact Fees
Description				
Site Area (SF)	14,400	14,400	14,400	14,400
Gross Building Area (SF)				
Residential	48,936	48,936	48,936	48,936
Commercial	6,766	6,766	6,766	6,766
Residential Units	48	48	48	48
Parking Spaces	50	50	50	50
Estimated Capital Investment				
Land Acquisition	$504,000	$504,000	$504,000	$504,000
Construction	8,245,600	8,245,600	8,245,600	8,245,600
Soft Costs	2,530,447	2,530,447	2,530,447	2,324,966
Total	$11,280,047	$11,280,047	$11,280,047	$11,074,566
Financial Performance				
Annual Operating Income	$665,828	$695,361	$647,693	$665,828
Capitalized Value	$12,782,559	$13,373,217	$12,419,870	$12,782,559
Entrepreneurial Return	$1,502,513	$2,093,170	$1,139,823	$1,707,994
Return as Percent of Investment	13.32%	18.56%	10.10%	15.42%
Necessary Condition for 15% Return				
Necessary Apartment Rent (/SF/Yr)	$23.03	$22.28	$22.01	$22.77
Assumed Apartment Rent (/SF/Yr)	$23.00	$23.00	$23.00	$23.00

Considering the Return as % of Investment line, the eight year exemption case and the no impact fee case both achieve the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

The necessary condition line for the residential uses compares assumed residential rents to the rents that would be necessary to achieve a 15% return with all other assumptions held constant. As shown, the necessary rent for all cases is close to the assumed market rent. With reasonable increases in market rates, all the cases could ultimately be feasible.

Based on these results any one of the following incentives would provide for a feasible project: eight year tax exemption with no affordability requirement or elimination of impact fees. Given that the City already offers the tax exemption program, no additional incentives would be necessary under these assumptions.

HALF BLOCK SITE

The 5 over 2 mixed use building is evaluated for the base case, two tax exemption cases, and a no impact fee case.

Table 4
Feasibility Analysis of Development Concepts
Half Block Redevelopment Site

	Base	MFTE 8 year	MFTE 12 year	No Impact Fees
Description				
Site Area (SF)	30,000	30,000	30,000	30,000
Gross Building Area (SF)				
Residential	122,500	122,500	122,500	122,500
Commercial	14,800	14,800	14,800	14,800
Residential Units	105	105	105	105
Parking Spaces	124	124	124	124
Estimated Capital Investment				
Land Acquisition	$1,350,000	$1,350,000	$1,350,000	$1,350,000
Construction	20,331,000	20,331,000	20,331,000	20,331,000
Soft Costs	6,179,908	6,179,908	6,179,908	5,730,360
Total	$27,860,908	$27,860,908	$27,860,908	$27,411,360
Financial Performance				
Annual Operating Income	$1,635,201	$1,709,130	$1,589,803	$1,635,201
Capitalized Value	$31,535,963	$33,014,538	$30,627,993	$31,535,963
Entrepreneurial Return	$3,675,055	$5,153,630	$2,767,085	$4,124,603
Return as Percent of Investment	13.19%	18.50%	9.93%	15.05%
Necessary Condition for 15% Return				
Necessary Apartment Rent (/SF/Yr)	$23.06	$22.32	$22.04	$22.84
Assumed Apartment Rent (/SF/Yr)	$23.00	$23.00	$23.00	$23.00

Generally, the half block case performs similarly to the quarter block case. The larger site provides some efficiencies in residential and parking layouts.

Considering the Return as % of Investment line, the eight year exemption case and the no impact fee case both achieve the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

The necessary condition line for the residential uses compares assumed residential rents to the rents that would be necessary to achieve a 15% return with all other assumptions held constant. As shown, the necessary rent for all cases is close to the assumed market rent. With reasonable increases in market rates, all the cases could ultimately be feasible.

Based on these results any one of the following incentives would provide for a feasible project: eight year tax exemption with no affordability requirement or elimination of impact fees. Given that the City already offers the tax exemption program, no additional incentives would be necessary under these assumptions.

PARKING LOT SITE

The 5 over 2 mixed use building is evaluated for the base case, two tax exemption cases, and a no impact fee case.

Table 5
Feasibility Analysis of Development Concepts
Parking Lot Vacant Site

	Base	MFTE 8 year	MFTE 12 year	No Impact Fees
Description				
Site Area (SF)	55,539	55,539	55,539	55,539
Gross Building Area (SF)				
Residential	212,815	212,815	212,815	212,815
Commercial	24,058	24,058	24,058	24,058
Residential Units	205	205	205	205
Parking Spaces	260	260	260	260
Estimated Capital Investment				
Land Acquisition	$1,943,865	$1,943,865	$1,943,865	$1,943,865
Construction	36,404,105	36,404,105	36,375,055	36,404,105
Soft Costs	11,104,530	11,104,530	11,096,396	10,245,204
Total	$49,452,500	$49,452,500	$49,415,316	$48,593,174
Financial Performance				
Annual Operating Income	$2,862,502	$2,990,936	$2,783,633	$2,862,502
Capitalized Value	$55,351,314	$57,919,991	$53,773,929	$55,351,314
Entrepreneurial Return	$5,898,813	$8,467,491	$4,358,613	$6,758,140
Return as Percent of Investment	11.93%	17.12%	8.82%	13.91%
Necessary Condition for 15% Return				
Necessary Apartment Rent (/SF/Yr)	$23.27	$22.53	22.25	$23.02
Assumed Apartment Rent (/SF/Yr)	$23.00	$23.00	$23.00	$23.00

Considering the Return as % of Investment line, the eight year exemption case achieves the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

The necessary condition line for the residential uses compares assumed residential rents to the rents that would be necessary to achieve a 15% return with all other assumptions held constant. As shown, the necessary rent for all cases is close to the assumed market rent. With reasonable increases in market rates, all the cases could ultimately be feasible.

Based on these results, the eight year tax exemption with no affordability requirement would provide for a feasible project. Given that the City already offers the tax exemption program, no additional incentives would be necessary under these assumptions.

FULL BLOCK SITE

The five story apartment building is evaluated for the base case, two tax exemption cases, and a no impact fee case.

Table 6
Feasibility Analysis of Development Concepts
Full Block Redevelopment Site

	Base	MFTE 8 year	MFTE 12 year	No Impact Fees
Description				
Site Area (SF)	62,500	62,500	62,500	62,500
Gross Building Area (SF)				
Residential	208,834	208,834	208,834	208,834
Commercial	-	-	-	-
Residential Units	225	225	225	225
Parking Spaces	182	182	182	182
Estimated Capital Investment				
Land Acquisition	$2,812,500	$2,812,500	$2,812,500	$2,812,500
Construction	31,601,420	31,601,420	31,601,420	31,601,420
Soft Costs	9,602,396	9,602,396	9,602,396	8,760,898
Total	$44,016,316	$44,016,316	$44,016,316	$43,174,818
Financial Performance				
Annual Operating Income	$2,402,726	$2,528,757	$2,315,214	$2,402,726
Capitalized Value	$48,054,523	$50,575,150	$46,304,285	$48,054,523
Entrepreneurial Return	$4,038,207	$6,558,834	$2,287,970	$4,879,706
Return as Percent of Investment	9.17%	14.90%	5.20%	11.30%
Necessary Condition for 15% Return				
Necessary Apartment Rent (/SF/Yr)	$23.76	$23.01	22.74	$23.47
Assumed Apartment Rent (/SF/Yr)	$23.00	$23.00	$23.00	$23.00

Generally, this full block scenario performs site performs slightly worse than the Parking Lot scenario. While the lack of retail and its associated parking cost favor this scenario, the higher cost of underground parking and the higher land cost for a developed property offset this advantage.

Considering the Return as % of Investment line, the eight year exemption case achieves the target return of 15%. The 12 year exemption case does not achieve the target rate. The reduced operating costs under the eight year exemption improves the operating income and rate of return. With the 12 year exemption, the operating costs are further reduced, but the foregone rental revenue from the affordable units more than offsets that benefit.

The necessary condition line for the residential uses compares assumed residential rents to the rents that would be necessary to achieve a 15% return with all other assumptions held constant. As shown, the necessary rent for all cases is close to the assumed market rent. With reasonable increases in market rates, all the cases could ultimately be feasible.

Based on these results, the eight year tax exemption with no affordability requirement would provide for a feasible project. Given that the City already offers the tax exemption program, no additional incentives would be necessary under these assumptions.

LOW-RISE RESIDENTIAL INFILL SITE

The three story apartment building is evaluated for the base case, two tax exemption cases, and a no impact fee case.

Table 7
Feasibility Analysis of Development Concepts
Low-rise Residential Infill Redevelopment Site

	Base	MFTE 8 year	MFTE 12 year	No Impact Fees
Description				
Site Area (SF)	14,400	14,400	14,400	14,400
Gross Building Area (SF)				
Residential	21,628	21,628	21,628	21,628
Commercial	-	-	-	-
Residential Units	20	20	20	20
Parking Spaces	24	24	24	24
Estimated Capital Investment				
Land Acquisition	$216,000	$216,000	$216,000	$216,000
Construction	2,246,660	2,246,660	2,246,660	2,186,660
Soft Costs	683,704	683,704	683,704	592,105
Total	$3,146,364	$3,146,364	$3,146,364	$2,994,765
Financial Performance				
Annual Operating Income	$167,813	$176,453	$179,579	$167,813
Capitalized Value	$3,356,260	$3,529,068	$3,591,573	$3,356,260
Entrepreneurial Return	$209,896	$382,704	$445,209	$361,495
Return as Percent of Investment	6.67%	12.16%	14.15%	12.07%
Necessary Condition for 15% Return				
Necessary Apartment Rent (/SF/Yr)	$16.35	$15.86	15.68	$15.85
Assumed Apartment Rent (/SF/Yr)	$15.60	$15.60	$15.60	$15.60

Considering the Return as % of Investment line, the twelve year exemption case achieves returns close to the target return of 15%. The reduced operating costs under the twelve year case improve the operating income and rate of return and there is no foregone income from the affordability requirement.

A single use apartment building with surface parking is feasible in conjunction with a 12 year tax exemption.

CONCLUSIONS

1. Based on the results of the analysis, it's likely that six or seven story mixed use buildings are feasible under current market conditions in conjunction with the eight year tax exemption.

2. The required rents for feasibility of all the mixed use scenarios are close to the necessary rates, and are likely to be achievable within the near future.

3. The use of the eight year tax exemption enhances the feasibility of the mixed use concepts because it provides lower operating expenses without any loss of income associated with an affordability requirement.

4. The use of the 12 year tax exemption enhances the feasibility of the garden apartment scenarios because it provides lower operating expenses and market rents meet the affordability requirement.

5. The City already charges impact fees at lower rates Downtown than in other areas of the City. While further reductions would improve rates of return, incentives beyond the tax exemptions don't appear to be necessary to provide for feasible development.

6. The retail component of the mixed use scenarios does not enhance the feasibility. The likely rents don't cover the overall investment, particularly structured parking at typical parking ratios. If there were no requirement to include retail, developers would probably not include retail on sites without strong retail locational attributes.

7. The additional cost of site acquisition under a redevelopment scenario (versus a vacant site) provides an additional challenge for feasibility, but the cost premium isn't assumed to be great in this analysis.

8. The larger sites provide additional flexibility in unit and parking layouts, but the increased value is not assumed to be great in this analysis.

9. Improvements to public property and parks along the waterfront as part of the overall Downtown Strategy will enhance the desirability of the area and the feasibility of development.