

CAPITOL BOULEVARD PLAN FEASIBILITY ANALYSIS

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INTRODUCTION

Successful redevelopment of the Capitol Boulevard Corridor will require significant investment by private property owners and developers. Such investment can only be attracted if there is adequate entrepreneurial return on that investment. Several opportunity sites have been identified along the Corridor as candidate sites to serve as a catalyst for new development. These sites have been subjected to a feasibility analysis to determine whether development is feasible in the near-term, and what are the conditions that are necessary for feasibility. This report documents the results of the feasibility analysis for representative sites.

OPPORTUNITY SITES AND DEVELOPMENT CONCEPTS

Two opportunity sites are considered in this analysis.

**Table 1.
Characteristics of Development Concepts**

	DOT Site		Bakery Site	
	3 over 1 Residential	4 over 1 Residential	Reuse	New Mixed Use
Site Area (SF)	508,400	508,400	34,850	34,850
Gross Building Area (SF)				
Residential	327,600	378,000	-	36,000
Commercial	55,000	55,000	7,150	9,000
Subtotal				
Residential Units	312	360	-	36
Parking Spaces				
Surface	371	371	35	54
Structure	212	212	-	18
Subtotal	583	583	35	72

The **DOT** site includes the DOT ownership as well as properties to the north that might be interested in redevelopment because of the opportunity created by the adjacent development. An illustrative plan for the site identifies six structures. The two buildings that front on Capitol are one story retail buildings with surface parking. The two buildings farther to the east are mixed use buildings with residential over a base with retail and one level of structured parking. A surface parking lot provides the balance of the parking required for the uses. The amount of surface parking available for this portion of the site is adequate to serve either three floors or four floors of residential development. The eastern-most buildings are single purpose residential buildings. Structured parking at the ground floor level would be adequate to serve three floors of apartments.

The **Bakery** site is the vacated Hostess outlet. The analysis looks at both reuse of the existing building and development of a mixed use building with four floors of apartments over one floor of retail and parking.

FEASIBILITY ANALYSIS

METHOD

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 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. While 15% is a preferred rate, 10% is considered a hurdle rate for this analysis.

The ratio of operating income to development cost, or yield to cost, is a related measure of performance. The threshold for feasibility is 6.55 to 8.5% depending on the uses considered.

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 rental rate for a 10% entrepreneurial return, assuming all other conditions remain unchanged.

Variations on the physical concepts are considered.

Reduced Impact Fees

Current impact fees are:

	Multifamily (/unit)	Single Family (/unit)	Retail (/sq. ft.)
Traffic Impact Fee	\$1,836	\$2,828	\$5.00
School Impact Fee	635	3,496	
Park Impact Fee	2,413	3,727	

Reductions of 50% are considered for purposes of identifying sensitivity.

Multifamily Tax Exemption

Tumwater meets the minimum population eligibility threshold of 15,000 for a multifamily tax exemption program. The City could establish such a program for the entire city or designated districts. 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 8 years. The estimated present value of this exemption is equivalent to reduced operating costs of \$.90 per square foot per year for the 8 year case and \$1.05 per year for the 12 year case. Affordable rents are defined by state statute as affordable to households making 80% or less of the median household income for the area. The median income for Thurston County is identified by the federal department of Housing and Urban Development (HUD). This average affordable rent for one and two bedroom units is approximately \$1.29 per square foot per month, only slightly below the assumed market rents of \$1.40 used in the analysis.

The analysis shows the impact on feasibility of the application of several tools available to the City.

ASSUMPTIONS

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

**Table 2
Key Financial Assumptions**

Rent (/sq. ft./yr.)	
Apartment	\$16.80
Affordable Apartment	\$15.50
Office	\$21.00
Retail	\$21.00
Operating Expense (/sq. ft./yr)	
Apartment	\$6.60
Apartment w/ Tax Exemption	\$5.70
Office	\$1.00
Retail	\$1.00
Land Cost (\$/sq. ft.)	
Redevelopment Commercial	\$20.00
Redevelopment Vacant	\$14.00
Multifamily	\$10.00
Construction Cost	
Apartments (/sq. ft.)	\$90.00
Office (/sq. ft.)	\$180.00
Retail (/sq. ft.)	\$110.00
Aboveground Parking (/sp)	\$21,000
Soft Costs (excl. Impact Fees)	28.0%
Capitalization Rates	
Apartments	6.0%
Office	7.5%
Retail	7.5%

Operating expenses reflect gross leases (landlord pays expenses) for residential uses, and office and retail leases are net (tenant pays expenses). Rents are assumed at current rates plus 8% over the period up to stabilization. In the case of residential, the \$16.80 future

rent per square foot per year is equivalent to \$1.30 per square foot per month currently. Such rate is at the upper end of current apartment rental rates.

RESULTS

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

DOT SITE

Table 3
Feasibility Analysis of Opportunity Projects
DOT Site Summary Comparison

Description	Base	2 4/1 Buildings	Lower Impact Fees	MFTE 12 Years	MFTE 8 years	Lower Fees MFTE & 2 4/1
Description						
Site Area (SF)	508,400	508,400	508,400	508,400	508,400	508,400
Gross Building Area (SF)						
Residential	327,600	378,000	327,600	327,600	327,600	378,000
Commercial	55,000	55,000	55,000	55,000	55,000	55,000
Residential Units	312	360	312	312	312	360
Designated Affordable Units	-	-	-	62	-	-
Parking Spaces	583	583	583	583	583	583
Estimated Capital Investment						
Land Acquisition and TDR's	\$5,419,417	\$5,381,231	\$5,419,417	\$5,419,417	\$5,419,417	\$5,381,231
Construction	43,455,500	47,991,500	43,455,500	43,455,500	43,455,500	47,991,500
Soft Costs	13,456,294	14,957,188	12,556,950	13,456,294	13,456,294	13,940,637
Total	\$62,331,211	\$68,329,919	\$61,431,866	\$62,331,211	\$62,331,211	\$67,313,368
Financial Performance						
Annual Operating Income	\$3,648,636	\$4,049,618	\$3,648,636	\$3,872,239	\$3,899,250	\$4,338,788
Capitalized Value and Sales Proceeds	\$57,336,427	\$64,019,467	\$57,336,427	\$61,063,150	\$61,513,327	\$68,838,967
Entrepreneurial Return	(\$4,994,784)	(\$4,310,452)	(\$4,095,440)	(\$1,268,061)	(\$817,884)	\$1,525,599
Return as Percent of Investment	-8.01%	-6.31%	-6.67%	-2.03%	-1.31%	2.27%
Operating Income as % of Investment	5.85%	5.93%	5.94%	6.21%	6.26%	6.45%
Necessary Condition for 10% Return						
Necessary Apartment Rent (/SF/Yr)	19.83	19.49	\$19.64	\$18.73	\$18.89	\$18.35
Assumed Apartment Rent (/SF/Yr)	\$16.80	\$16.80	\$16.80	\$16.80	\$16.80	\$16.80

The base case provides a negative rate of return as the project value falls short of the development cost. With application of the multifamily tax exemption program and lower impact fees, the return becomes positive but still falls short of the threshold rate for feasibility. However, an annual rental rate in the stabilized year of \$18.35 (equivalent to \$1.40 per square foot in today's dollars) would result in a feasible project.

Thus the feasibility will depend upon both use of public tools and also rental rates that are at or above the top of the market in Thurston County (but below rates in other areas of the region). In order to achieve this rent level, the project will have to capitalize upon and market aggressively the following features:

- Location within identifiable neighborhood of City.

- Location in area with attractive streetscape and public amenities.
- Location within walking distance of commercial and public services.

BAKERY SITE

**Table 4
Feasibility Analysis of Opportunity Projects
Bakery Site Summary Comparison**

	Release	Renovate	Mixed Use	MFTE 12 Years	MFTE 8 years	Mixed Use Lower Fees MFTE
Description						
Site Area (SF)	34,850	34,850	34,850	34,850	34,850	34,850
Gross Building Area (SF)						
Residential	-	-	36,000	36,000	36,000	36,000
Commercial	7,150	7,150	9,000	9,000	9,000	9,000
Residential Units	-	-	36	36	36	36
Designated Affordable Units	-	-	-	7	-	-
Parking Spaces	35	35	72	72	72	72
Estimated Capital Investment						
Land Acquisition and TDR's	\$675,045	\$675,045	\$675,045	\$675,045	\$675,045	\$675,045
Construction	159,000	373,500	4,917,250	4,917,250	4,917,250	4,917,250
Soft Costs	49,290	115,785	1,581,250	1,581,250	1,581,250	1,470,845
Total	\$883,335	\$1,164,330	\$7,173,545	\$7,173,545	\$7,173,545	\$7,063,140
Financial Performance						
Annual Operating Income	\$47,190	\$74,360	\$413,874	\$441,934	\$441,414	\$446,004
Capitalized Value and Sales Proceeds	\$629,200	\$991,467	\$6,414,900	\$6,882,570	\$6,873,900	\$6,950,400
Entrepreneurial Return	(\$254,135)	(\$172,863)	(\$758,645)	(\$290,975)	(\$299,645)	(\$112,740)
Return as Percent of Investment	-28.77%	-14.85%	-10.58%	-4.06%	-4.18%	-1.60%
Operating Income as % of Investment	5.34%	6.39%	5.77%	6.16%	6.15%	6.31%
Necessary Condition for 10% Return						
	Retail	Retail	Apartment	Apartment	Apartment	Apartment
Necessary Rent (/SF/Yr)	11.78	15.19	\$19.48	\$18.38	\$18.53	\$18.18
Assumed Rent (/SF/Yr)	8.00	12.00	\$16.20	\$16.20	\$16.20	\$16.20

Releasing of the existing building as-is is not feasible at the current asking price for building sale. Renovation of the existing building with leasing at higher market rates could generate the highest yield on cost, but still would not provide a positive return. The base mixed use provides a negative rate of return as the project value falls short of the development cost. With application of the multifamily tax exemption program and lower impact fees, the return is still negative. However, an annual rental rate in the stabilized year of \$18.18 (equivalent to \$1.40 per square foot in today's dollars) would result in a feasible project.

Thus the feasibility will depend upon both use of public tools and also rental rates that are at or above the top of the market in Thurston County (but below rates in other areas of the region). In order to achieve this rent level, the project will have to capitalize upon and market aggressively the following features:

- Location within identifiable neighborhood of City.
- Location in area with attractive streetscape and public amenities.
- Location within walking distance of commercial and public services.

SUMMARY OF CONCLUSIONS

1. Feasibility of higher density development along the Corridor will require a combination of public regulatory actions, investment in infrastructure and public amenities, and creative design to maximize the attractiveness of projects given the site opportunities and constraints.
2. The City can enhance the feasibility of investment by reducing impact fees, and designating the area as eligible for the Multifamily Tax Exemption Program. These actions are justifiable because of availability of public facilities and services and the desirability of accommodating growth along the Corridor.
3. There are a variety of public improvements that have been identified and which will enhance the desirability of the area and the feasibility of development:
 - Pedestrian improvements.
 - Expanded bike lanes and trails.
 - Streetscape improvements at select locations.
 - Community open space and park improvements.
4. Existing developed sites offer challenges for redevelopment because the existing improvements have significant potential value in a renovation concept. Higher on-site density through mixed use development offers the potential to offset this challenge.