

## **8. Appendices**

### **8.1 Pro Forma Analysis**



# Martin Way Corridor

## Pro Forma Analysis FINAL

PREPARED FOR



PREPARED BY

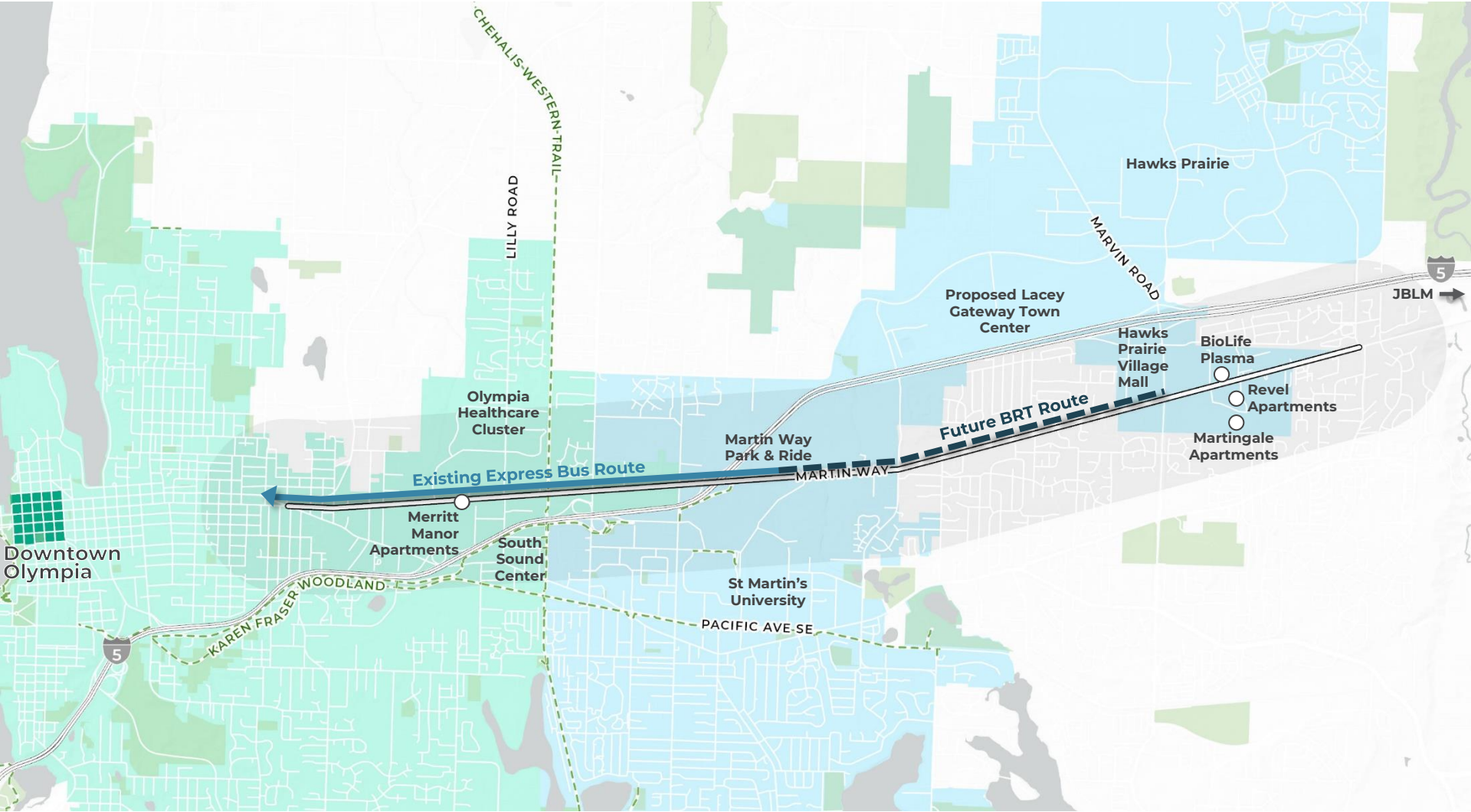


October 11, 2021

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# Introduction

## Martin Way Corridor Study Area & Local Context



# Introduction

## Purpose & Methodology

**Martin Way Corridor Study.** Martin Way is a major regional thoroughfare and corridor serving the communities of Olympia, Lacey, and Thurston County. The former state highway serves as the area's primary alternative to Interstate 5, has frequent transit service, and is home to a variety of business activities and destinations. Looking forward, the corridor is forecast to grow in importance into the future as a strategic transportation link and business destination. A comprehensive review of Martin Way's current conditions and future opportunities is underway to help guide growth to better serve the needs of the community.

Led by Thurston Regional Planning Council, the Martin Way Corridor Study will identify a common vision, as well as opportunities to develop the identity and character of the Martin Way Corridor (MWC) as it grows into the future.

**Pro Forma Analysis.** This pro forma financial analysis uses a range of inputs (land acquisition, site preparation costs, hard/construction costs, parking costs, soft costs, operating revenues and expenses, target return threshold, etc.) to calculate the target and projected return-on-investment and the resulting financial feasibility gap, if any, for a series of residential/mixed-use, office, and retail typologies. The pro forma analysis will help indicate whether there is a need for new tools and incentives to impact developer's investment decisions and encourage different or more desirable typologies in the corridor.

# Introduction

## Vision

The shared vision for the Martin Way Corridor is as an:

“Attractive mixed-use, high-density residential and commercial area where people enjoy walking, shopping, working and living.

Over time, it will transition away from automobile-dominated use to a more pedestrian-friendly streetscape that also encourages bicycling and supports high-capacity transit.”

Many cities in the Puget Sound region have experienced the type of development that aligns with this vision. In the Case Studies section, we document some of the efforts that have been made by cities to transition an auto-oriented highway corridor to a mixed-use, more walkable environment.

### Contents:

- Financial Analysis Key Findings
- Development Context and Development Prototypes
- Development Feasibility Inputs
- Development Alternatives
- Conclusions and Recommendations



# Financial Analysis

## Key Findings – Pro Forma

The text below and in the following three pages explain the findings of LCG’s pro forma analysis.

**Summary.** In general, housing rents on the corridor are lower than some nearby high-demand areas (e.g., Downtown Olympia) and the cost to acquire land—most of which is already developed and therefore valuable to sellers—is relatively high. In many cases, redevelopment would involve land acquisition, as well as demolition, site preparation and infrastructure development, and then vertical development. The combination of **high land costs and moderate rents (indicative of moderate demand) will make most development challenging**, particularly for the types of development consistent with the vision. However, **there are incentives and investments that public partners involved in this study can make that should make the desired development types feasible.**

**Development Prototypes.** LCG tested the financial feasibility of a series of different development prototypes under different conditions and assumptions. LCG uses a series of discrete development prototypes to define the characteristics of typical housing, retail/commercial, and office development. Housing and mixed-use prototypes, for example, range from two to four story types (townhomes and garden apartments) to seven-plus story types (mid-rise or podium projects). **As the scale and density of projects increases, the cost of development also tends to increase** because of more expensive parking (surface vs. structured), more ground floor commercial space, more unleaseable interior common areas, more costly structural components (e.g., more concrete and steel), and higher design and engineering costs, among other factors. The same is true for office development as it becomes denser. Standalone retail/commercial buildings are almost always one story, so density is not a critical factor; instead, this analysis looks at both retail renovation (adaptive reuse) and new, ground-up retail development.

**Development Scenarios.** LCG’s analysis encompasses 10 different development scenarios, each involving different assumptions about the current use and cost of the land that would be acquired by a developer (variations include free, vacant, industrial, or commercial land); whether developers take advantage of a multifamily tax exemption (“MFTE,” 8 year); whether there is a rent premium above current rent levels; and whether there is a parking reduction available below the required standard amount of parking spaces. **The current use and cost of land has a significant impact on financial feasibility**, since it is much more expensive for developers to acquire some properties (e.g., those with existing commercial buildings and tenants) than others (free, vacant or underutilized land), and when costs are lower, more projects are feasible (all other things equal). Rent is also a critical input to development. **When rents per square foot are higher (reflecting a higher level of demand to live or work in a place) more types of development are feasible.** When and if more development is completed in a certain high-rent location, supply will increase, and rents should eventually level out or decrease on an inflation-adjusted basis.

# Financial Analysis

## Key Findings – Pro Forma

**Impact of Land on Feasibility.** The pro forma analysis shows that townhomes, garden apartments (generally, 3-4 stories, wood framed, and surface parked), and retail renovations (also known as adaptive reuse or retenanting) are feasible when land is free or vacant. The analysis indicates that urban garden apartments (generally, 3-5 stories with a small amount of commercial space and a mix of surface and tuck-under parking) are marginally feasible (i.e., could potentially be value engineered or adjusted towards feasibility) if land is free or vacant. The feasibility of townhome, garden apartment, and urban garden apartment development becomes marginal or challenging (more difficult/impossible) when the existing land is industrial or commercial.

**Impact of Land and MFTE on Feasibility.** Scenarios 5A, B, and C test the viability of development assuming free land, an 8-year MFTE program, and other development incentives. By reducing the cost of land, expanding or adopting MFTE programs, and reducing parking requirements (5B) townhome, garden apartment, and urban garden apartment projects become feasible, though wrap and podium projects are not. If we assume that rents increase by 10% (5C), then wrap and podium projects become feasible. This suggests that some policy approaches for the project partners may be to adopt or expand existing MFTE programs, dispose of existing publicly-owned land, or acquire additional land and then dispose of it via competitive TOD (transit-oriented development) developer solicitation processes. Reductions in parking requirements are also typically beneficial as they allow more development on the same amount of land and enable developers to adjust their provision of parking to account for better quality transit. Under these scenarios, the most likely development types include a mix of townhome, garden apartment, potentially urban garden apartment, and retail renovation projects. Residential development can be a mix of market rate and affordable (more on affordable housing development is below). Some examples of these projects are shown in the Findings section. While these projects do not fit everyone's ideal vision of TOD or mixed-use development, they can be attractive, create a sense of place and a walkable node, and serve as a first phase of a new type of development that sets the stage for additional, future phases. In some cases, successful early phases can create more interest and market demand, and therefore increase the feasibility of future higher-density, mixed-use development scenarios.

**Infeasible Development.** Scenarios 3 and 4 indicate that many types of development are infeasible under current conditions, and for at least the next five to 10 years assuming no incentives are provided, and developers must acquire industrial or commercial land. This includes "wrap" and "podium" style housing development (which include structured parking and commercial space, sometimes referred to as mixed-use projects) in all but the most optimistic scenarios, new commercial development, and new speculative office development. However, using a multi-phase strategy described above, some of these development types could become feasible.

# Financial Analysis

## Key Findings – Pro Forma & Focus Areas

Wrap and podium residential projects are more challenging to develop, except in the most optimistic scenarios that are detailed below, because of their higher construction costs and the current residential rents in the corridor (an average of \$1.70 per square foot and a high of \$2.40 per square foot). [Using the assumptions of Scenario 8 \(commercial land acquisition, available multifamily tax exemption, a rent premium of 20%, and parking ratios that are 33% less than those now allowed in the corridor\), the wrap and podium projects \(along with the garden and urban garden apartment projects\) become feasible.](#) This scenario reflects something like the recent economics of development in Downtown Olympia and other “urban centers” north of Thurston County (e.g., Downtown Tacoma), where residential rents are considerably higher, tax exemption is available, and parking demands are lower because of a high-quality multi-modal environment. It will likely take many years until rents and parking demand in the corridor are similar to what Downtown Olympia’s are today.

**Housing Affordability.** Declining housing affordability is an issue of great concern for Martin Way communities, increasing the need for new affordable housing projects. [The feasibility of affordable housing projects depends more on the availability of Federal and State subsidy sources \(primarily, the 4% and 9% Low Income Housing Tax Credit \(LIHTC\) program, and other programs\) and the availability of low- or no-cost land with a low cost of site preparation,](#) than the private market rents discussed here.

LCG’s assumption—based on conversations with those active in affordable housing development in Thurston County and our review of development data—is that [affordable housing will continue to be feasible in the corridor,](#) particular when the above conditions are met. Specifically, 17% of the rental units (558 total units over the past five years) surveyed by LCG in the Lacey-Olympia area are regulated affordable units, and LCG expects that LIHTC and other programs should continue to result in a similar proportion of regulated affordable housing in the future. [LCG recommends that the project partners seek ways to pair affordable and market-rate projects together, particularly on publicly owned land.](#) (The 12-year MFTE program is sometimes used to generate affordable units in market-rate projects; however, this approach tends not to work outside of very specific areas such as Downtown Seattle.)

# Financial Analysis

## Key Findings – Pro Forma & Focus Areas

**Office Feasibility.** Even under the assumptions of Scenario 8, office development remains infeasible, because office rents in the corridor are low compared to construction costs. This reflects the observed reality of office development over the past decade, during which office development has been minimal outside of very concentrated “hot” markets (e.g., parts of the central Puget Sound). Specialty employment uses—such as healthcare and State of Washington office development—are not speculative office development and do not depend on private developers reacting to market conditions. As such, they are not evaluated in this analysis and may be feasible subject to the opportunities and constraints affecting those industries.

**Focus Areas.** Because public resources—such as staff time and funds for capital investments—are finite, and redevelopment on this long corridor is likely to take time, LCG recommends focusing public investments in focus areas if possible. One approach that other agencies have used to is focus on the “five Ps”—locations that have high levels of activity (people), amenities (place), connectivity (physical form), performance (transit service), and market and development potential, and are therefore best-positioned to support walkable mixed-use development in the future.

The following page describes recommended primary and secondary focus areas and nodes along the corridor.

# Financial Analysis

## Key Findings – Focus Areas

In terms of focus areas, LCG believes that the Pacific, Lilly, Carpenter, and Marvin Road nodes or focus areas are appealing as potential focal points for different reasons and are identified in the map below as “primary” focus nodes. The Lilly area has a high concentration of jobs, large employment institutions (healthcare), and transit ridership, and therefore could attract more housing. This is a location that scores well on a number of Ps—people, place, and transit performance. Carpenter Road does not have such a strong set of existing uses but does contain a number of public-owned land and other vacant parcels (“potential”), which could be leveraged to create desirable outcomes. The Marvin Road intersection is an opportunity, but clearly poses challenges as well. The Marvin Road area has seen the greatest amount of recent development. It’s high residential and commercial rents suggest strong market interest in this location, potentially because of its direct freeway access to job sites. LCG anticipates additional future interest in residential development in this area. However, current land uses are not pedestrian- or transit-oriented, and land (acquisition) costs will be high, so creating change in this environment will not be easy. Some Marvin Road property owners, however, may be open to mixed-use development on their sites that reflects more contemporary, 21<sup>st</sup>-century development patterns and consumer preferences.

There are numerous secondary focus areas scattered throughout the corridor. However, where the people, place amenities, physical form, and potential (particularly rents) are low, public investments in transportation improvements and development preparation activities are less likely to lead to private sector responses in the near term. In these locations, Martin Way partners may make investments for reasons that are not closely tied to near-term land use outcomes; for example, a commitment to transportation improvements and equity.



# **Development Context & Development Prototypes**

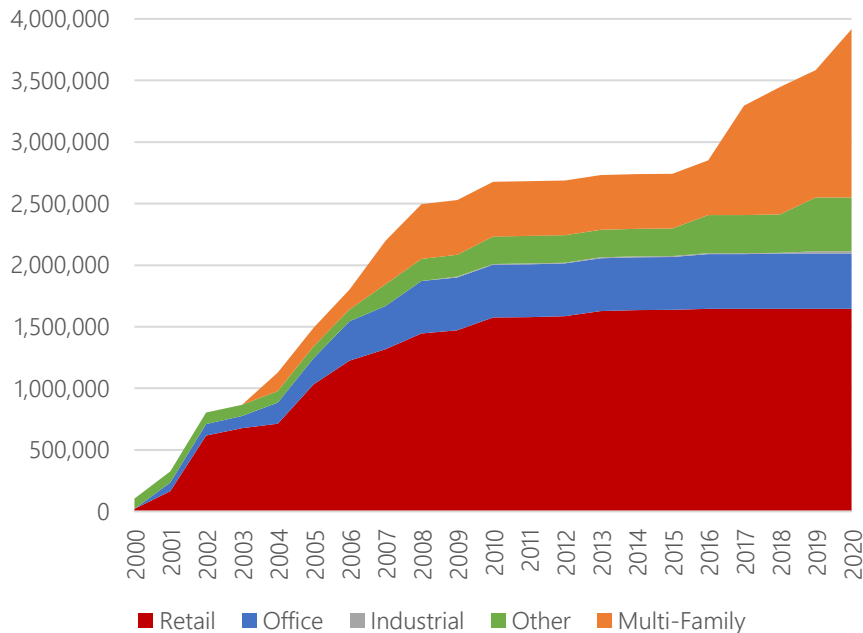
# Development Over Time

## Within ½ mile of Corridor

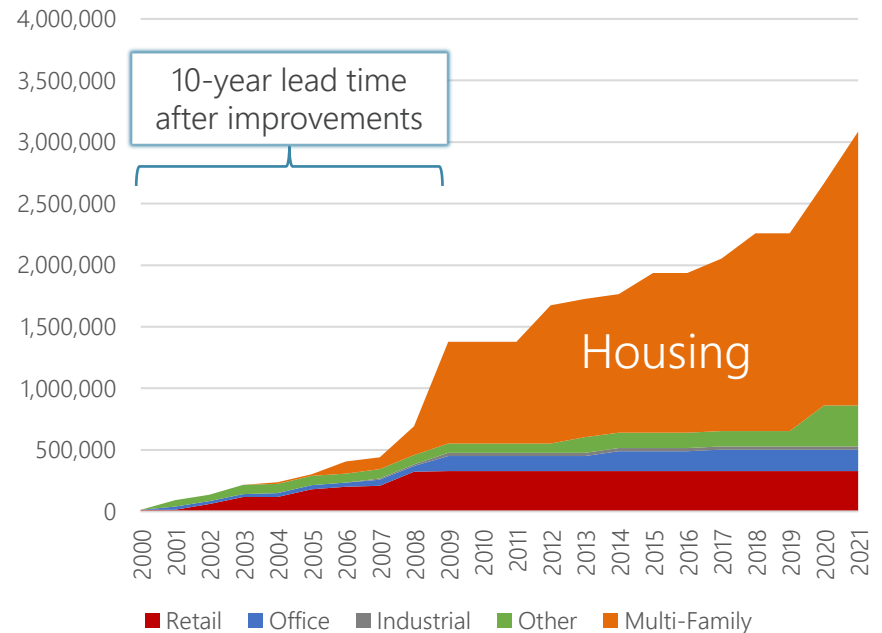
Shown below are charts demonstrating development trends in the Martin Way Corridor and the Aurora Boulevard Corridor in Shoreline, Washington. The City of Shoreline made substantial improvements to Aurora Blvd in the late 1990s. Little private development followed until about 10 years after, led primarily by new multifamily housing projects. Nationally, housing has led the post-recession recovery for the past decade.

While improvements are not yet implemented in the MWC, the chart shows similar trends. Substantial retail developments in the 2000s slowed post-recession, while housing development activity increased from 2008 and then increased dramatically from 2017. These trends are set to continue.

### Martin Way Corridor



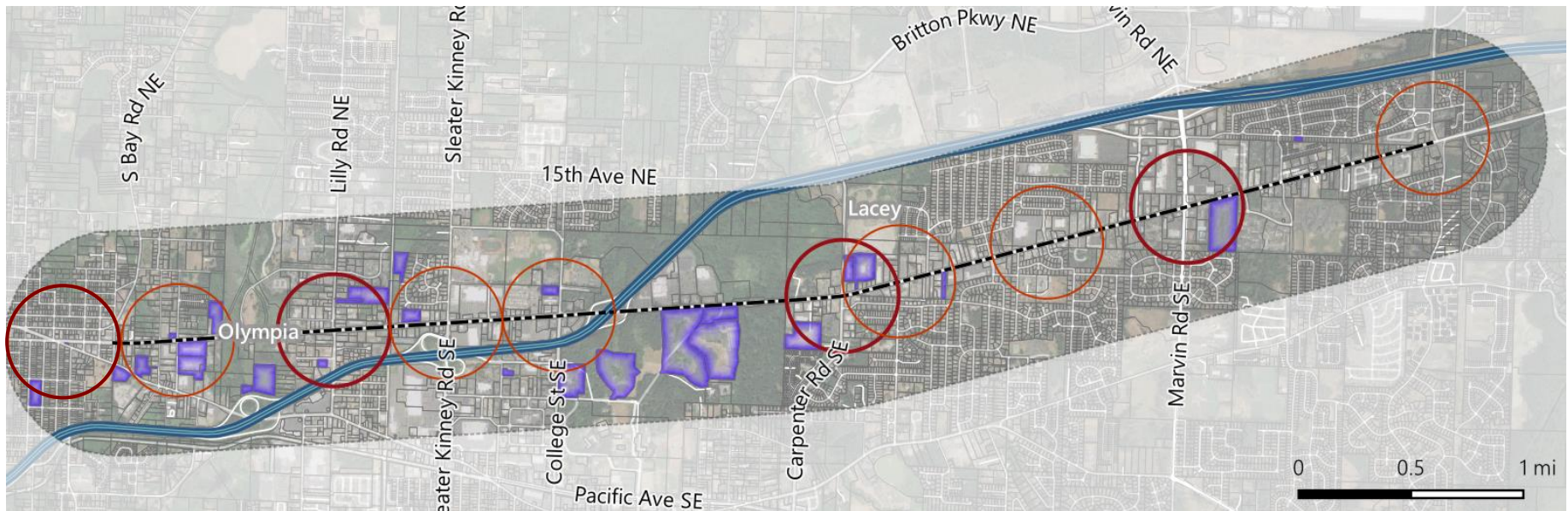
### Aurora Blvd, Shoreline



# Publicly-Owned Land Within ½ mile of Corridor

If a public agency owns land, that agency can leverage that land to encourage new development. Oftentimes, an agency can enter into a public-private partnership or sell the land with certain requirements. The Martin Way Corridor has a substantial number of lots that are owned by public agencies, such as the cities of Lacey and Olympia, Thurston County, Department of Natural Resources, the Housing Authority, and WSDOT. These could be leveraged in areas that might not see the level of market-driven development envisioned in the Corridor.

Our primary focus nodes are Lilly Rd and Marvin Rd, although Carpenter Rd is also a primary focus node due to its developability and amount of publicly-owned land.



# Local Market Trends

## Recent Multifamily Development

Of the 14 new projects built in the last five years or currently under construction, six have been multifamily. Only Merritt Manor is in Olympia, the other five are clustered in Lacey. Images from each project are included at right in the order each project is listed in the table.

Each of these projects are low-density (3-4 story), surface parked (versus a structured parking garage), and wood-framed construction. This is considered the cheapest construction type. Market-rate rents for new projects are upwards of \$2.00 per square foot, which is considered an important threshold for increasing the feasibility of higher density (and more expensive) projects. However, this recent rent growth has been outpaced by the increasing cost of construction.

Project Name	No. Units	Year Built	Rent Type & Avg. Rent Per Square Foot	Lot Acres	Units/Acre
Merritt Manor	82	2020	Affordable (\$1.22 PSF)	5.7* (3.0)	27.8
Martin-gale	240	2020	Market (\$2.17 PSF)	32.0	21.4
Revel Lacey	135	2018	Independent Senior Living	6.7	20.3
The Marq on Martin	248	2017	Market (\$2.06 PSF)		20.6
Copper Wood	228	2017	Affordable (\$1.09 PSF)	9.7	23.6
8819 Martin Way	96	2022*	Market	3.5	27.1



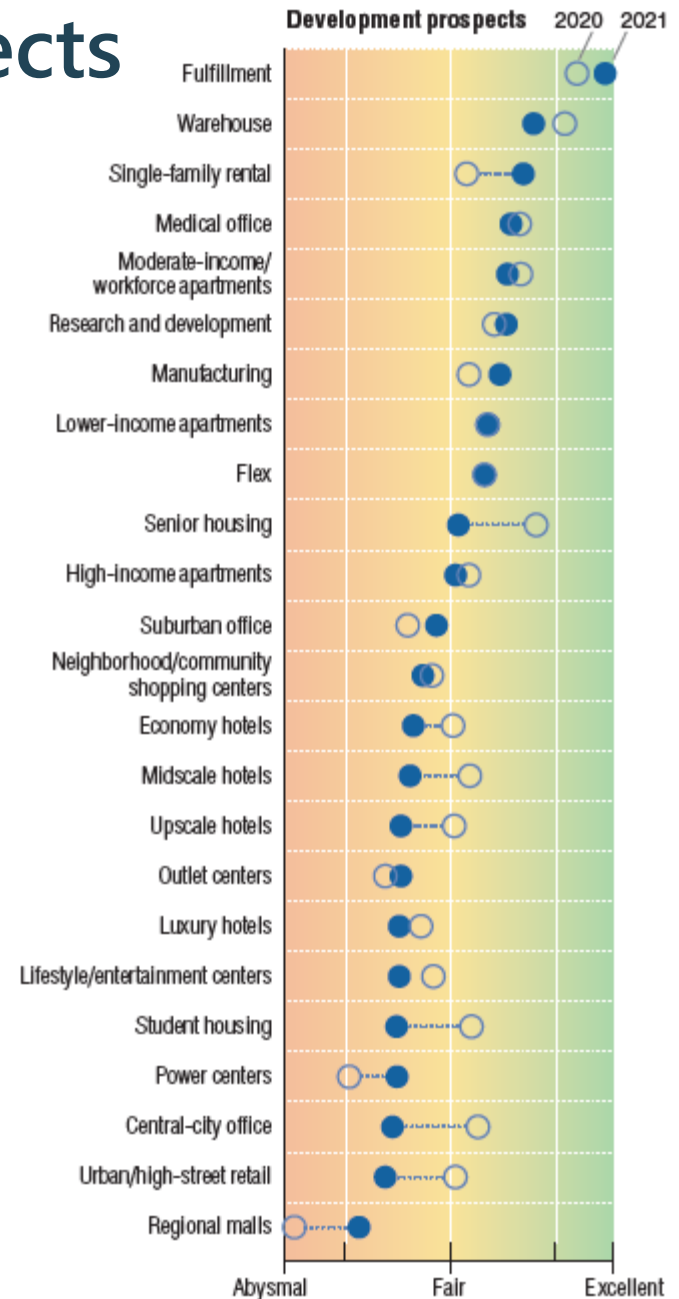
# National Development Prospects Overview

The figure at right from the Urban Land Institute’s annual Emerging Trends publication displays the development prospects for a variety of land uses in 2020 and 2021. Industrial, medical office, and housing products are considered the most promising development types.

Recent trends include:

- Increasing demand for housing amid declining affordability.
- Increasing demand for amenity-rich suburban locations with open space and recreation opportunities.
- E-commerce’s increasing market share of retail (ecommerce increased by 30% during the pandemic) and the continuing fall of regional malls.
- Growing demand for experience-based commercial (retail and employment).
- Ageing population increasing demand for health services and senior housing.

These local and national trends, summarized and described in Leland Consulting Group’s market study, provide an indication of the most in-demand development types that may be seen in the Martin Way Corridor, namely multifamily housing, commercial centers, and flexible employment-oriented spaces.



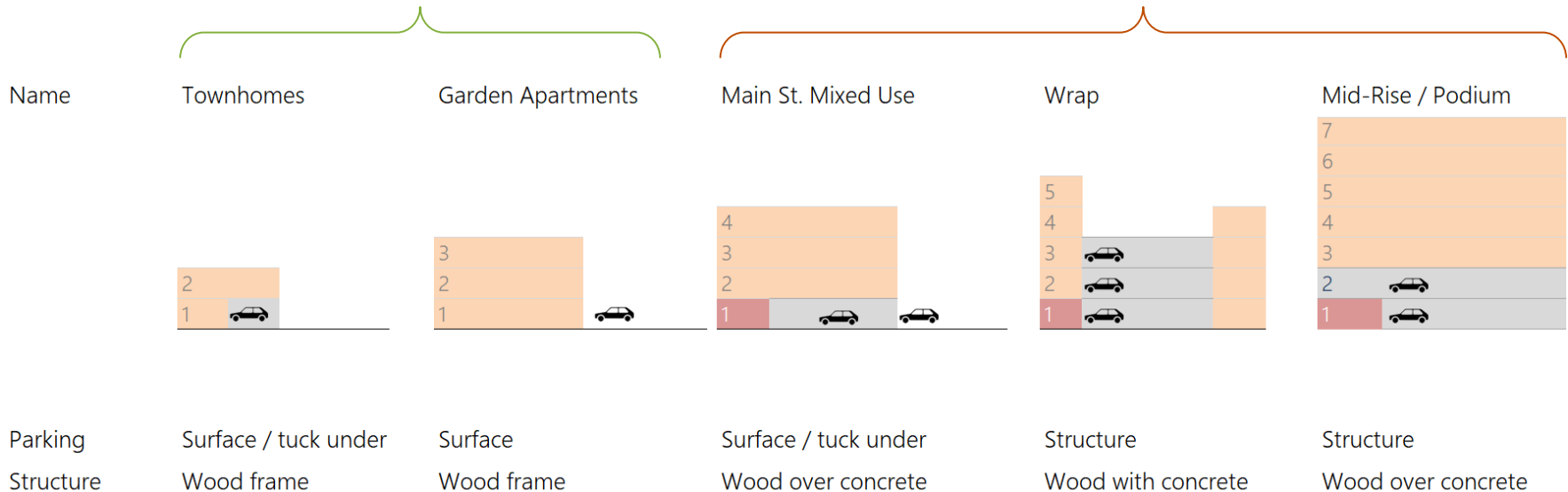
# Development Prototypes

## Housing

Much development is built within a series of “prototypes.” Typical housing (multifamily) prototypes are shown below. The way in which parking is provided (surface, tuck under, or structured) is a key influence on the physical form of these projects, and on their financial feasibility. This is because some forms of parking (e.g., surface parking) are much less expensive than others (e.g., structured parking), and this is a critical change in the cost of development. Parking also drives project density: Residential projects with surface parking are less dense than those with structured parking.

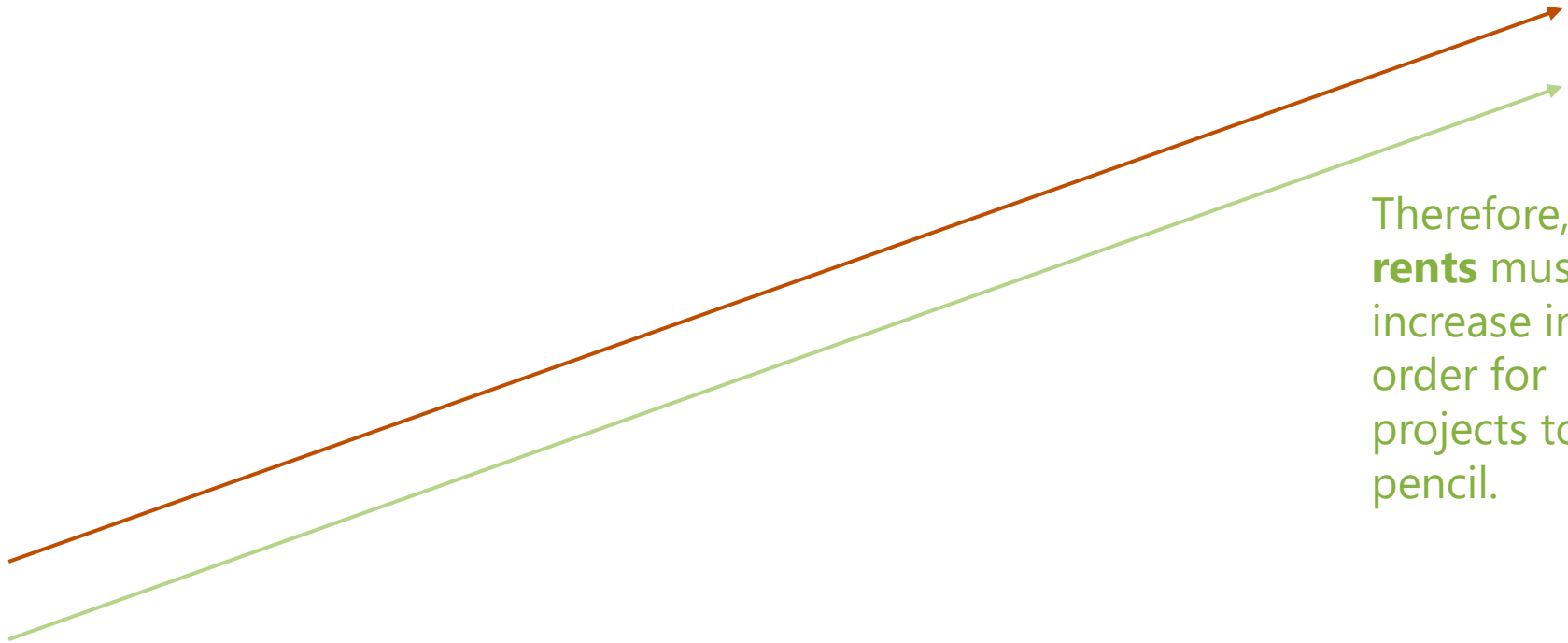
✓ These types of projects **have been developed** in the Martin Way Corridor in the recent past, primarily on relatively inexpensive greenfield and vacant “greyfield” land.

✗ These types of projects **have not been developed** in Martin Way Corridor in the recent past.

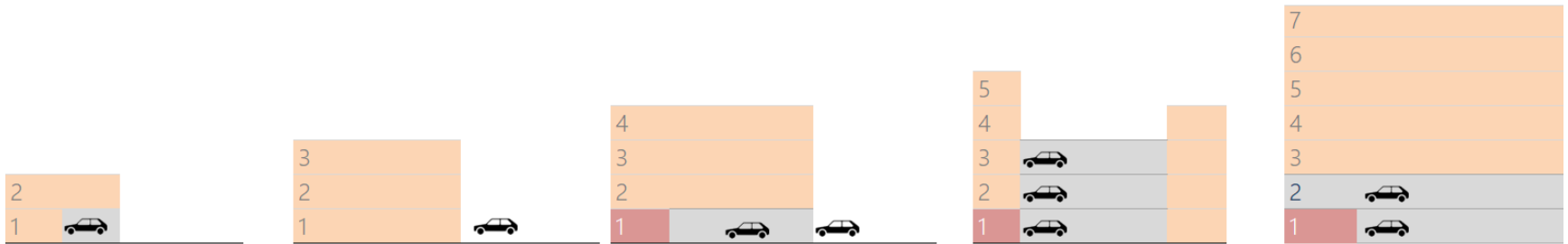


# Development Feasibility

Construction  
Cost Increases



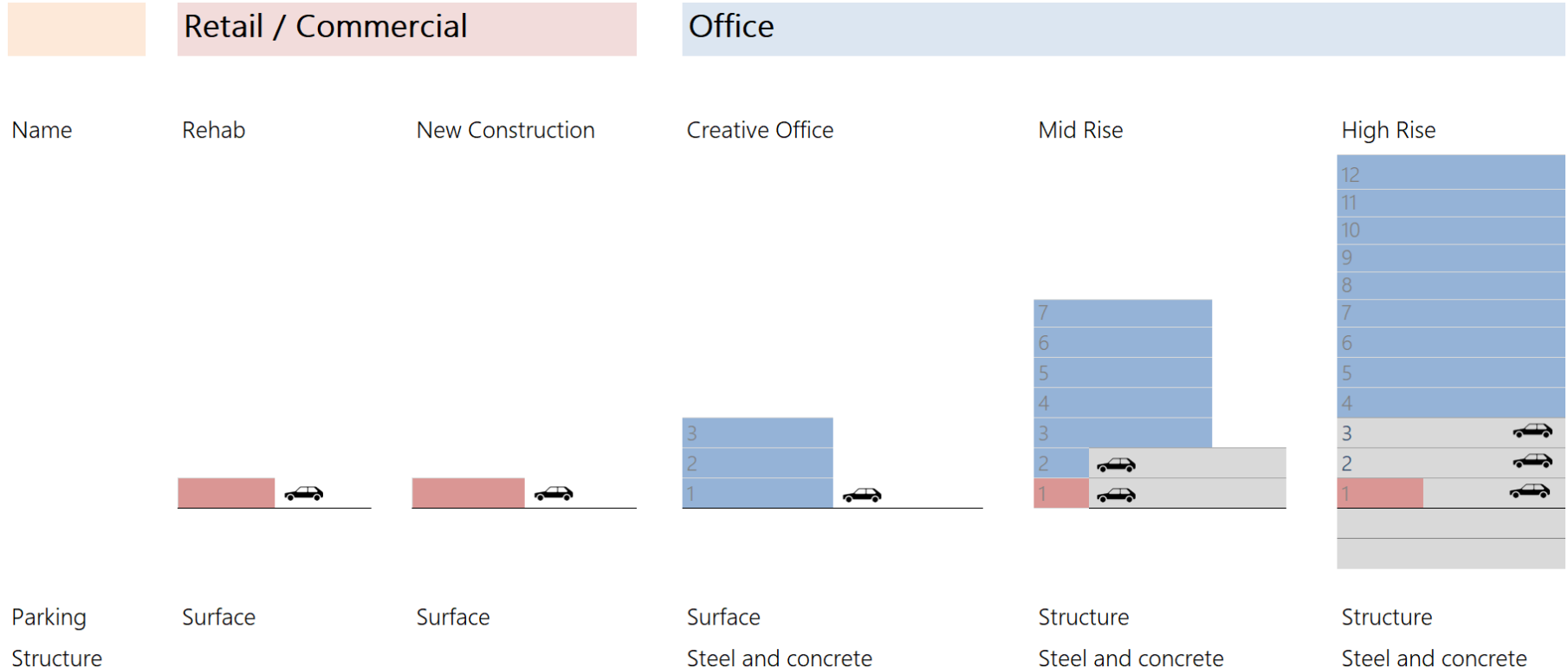
Therefore, **rents** must increase in order for projects to pencil.



# Development Prototypes

## Commercial

Typical retail and office prototypes are shown below. Like the housing prototypes, the way in which parking is provided (surface, tuck under, or structured) is a key influence on the cost and physical form of these projects. For retail/commercial projects, there may be new construction or rehab/renovation of existing retail/commercial buildings, since there are many of these buildings in the MWC and rehab is a likely type of development.

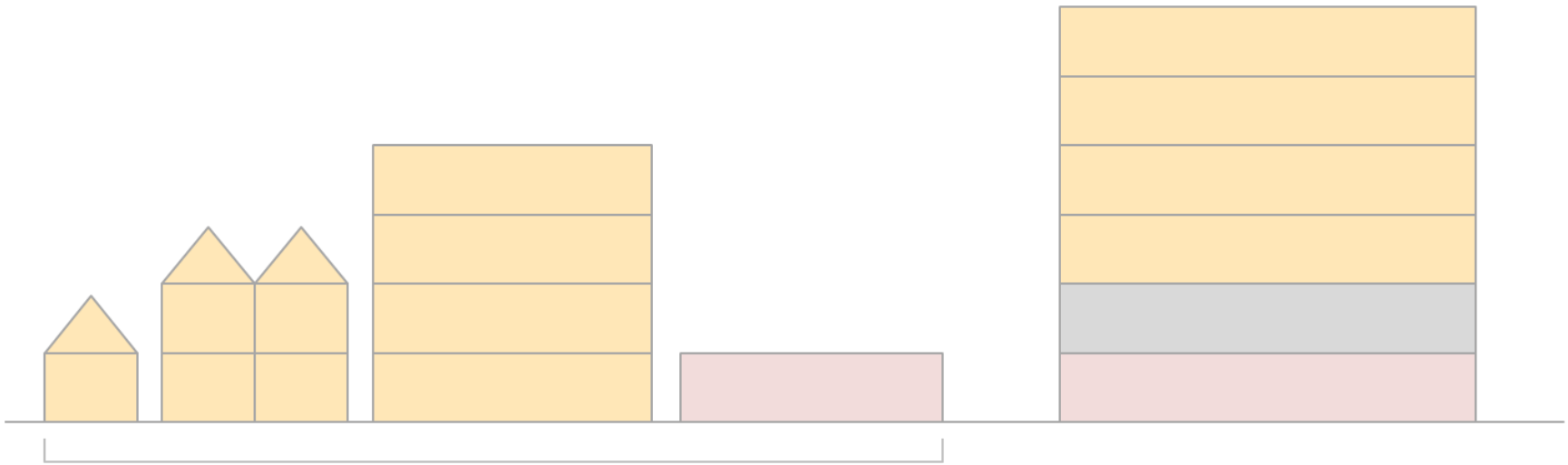


# Development Prototypes

## Types of Mixed-Use Development

Less expensive

More expensive



### Horizontal Mixed-Use

Residential and commercial uses are mixed across the site, but not within buildings

### Vertical Mixed-Use

Residential and commercial uses are mixed within buildings

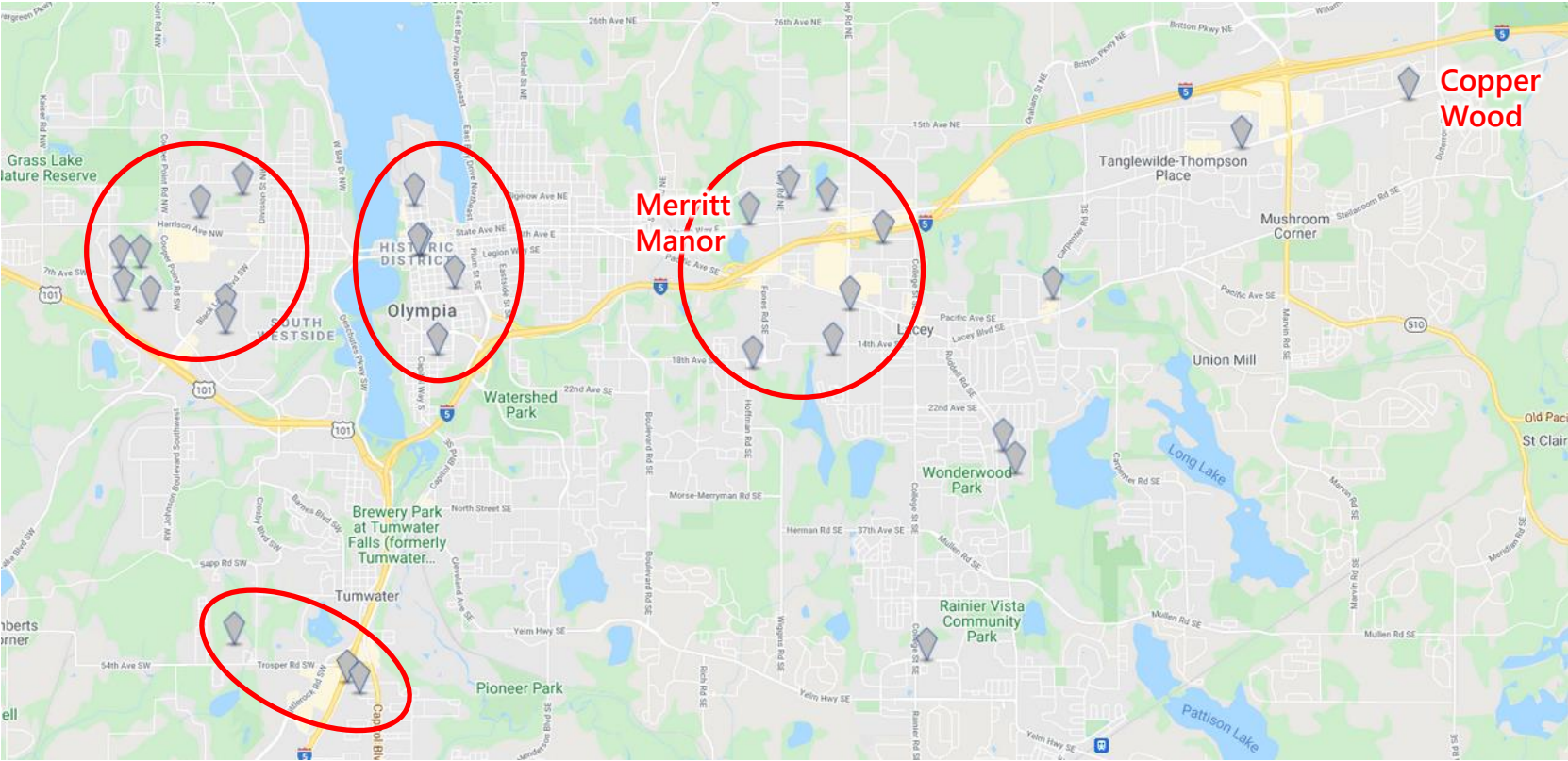
#### Structured parking

- Structural Elements:
- Concrete podium/PT slab
- Elevators
- Circulation/interior stairways
- Fire sprinklers and plumbing
- Additional A/E and professional fees

# Development Trends

## Affordable Housing, Thurston County

The map below shows the location of affordable housing developments in Thurston County. Much of it is clustered in Olympia, rather than Lacey, and just five projects are in the Martin Way Corridor.

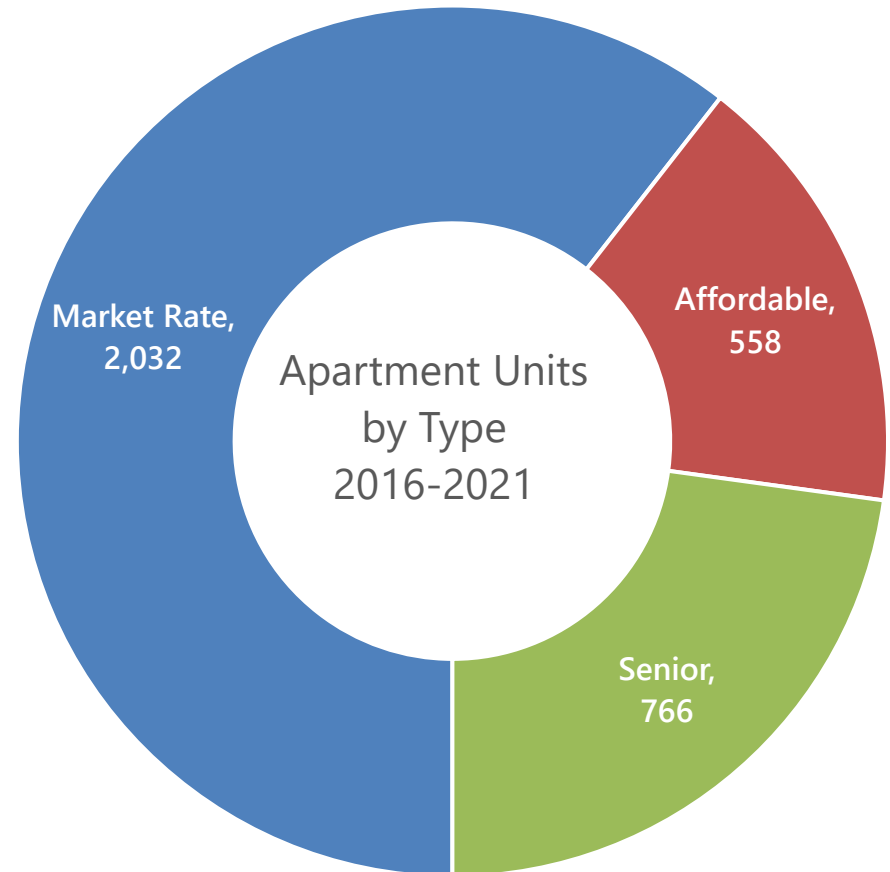


# Development Trends

## Apartment Construction, Lacey-Olympia Area

Of the roughly 3,400 apartment units built in the past five years in the Lacey-Olympia region, approximately 61% have been market-rate units, 17% have been regulated affordable, and 23% have been senior only. Senior housing may be either market-rate or affordable.

There are additional resources available for developers of affordable and senior housing, such as low-income housing tax credits (LIHTC), fee waivers, parking reductions, and bonuses. However, even with these additional resources, this product can be more challenging from a financial feasibility perspective. This appears to be reflected in the apartment construction trends shown at right.



# Principles of Corridor Redevelopment

The Urban Land Institute (ULI) is a respected, national association that brings together real estate developers and investors, designers, and planners to focus on building quality urban places. Over the last 20+ years, the ULI has prepared several best practice guides to reinventing, revitalization, and rebuilding corridors such as Martin Way—which are present throughout the country. Two of the most useful publications are shown below. Text describing one of the Principles that LCG believes is particularly relevant for Martin Way is excerpted at right. LCG believes that, due to the length of the Martin Way Corridor, the project partners will need to focus their efforts to encourage mixed-use development at nodes.

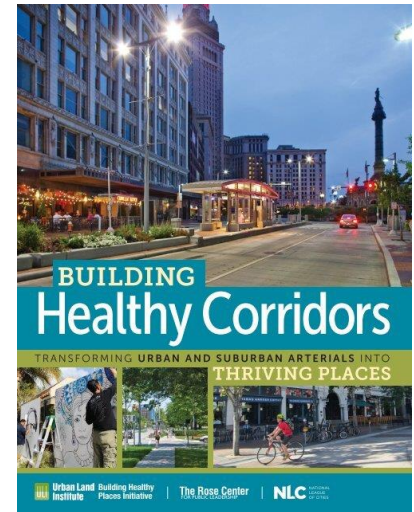
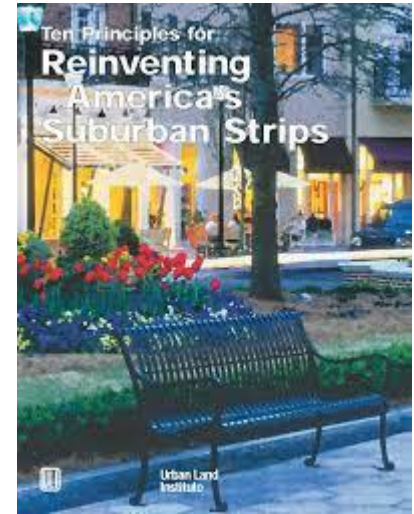
- [Ten Principles for Reinventing America's Suburban Strips \(2001\)](#)
- [Healthy Corridors Initiative \(2016\)](#)

## Principle 5: Establish Pulse Nodes of Development

“The typical suburban strip today consists of mile after mile of repetitive, indistinguishable retail landscape. As a rule, the architecture is nondescript, with little concern for design features or cohesiveness, and it is scaled to be appreciated at automobile speeds. The strip reflects little, if anything, about the history or culture of the place where it is located. There is little hierarchy of space, land use, or form; and rarely is there a sense of place or community to which people are drawn as more than consumers. The strip typically has become an elongated one-dimensional environment, often looking much the same whether it is located in different parts of a metropolitan area or in different cities altogether. This is not the new face of retailing, and it puts suburban strips at risk. To restructure the retail strip environment to overcome these market negatives, “pulses” of development must be created along the length of the strip. These peak nodes of high-intensity, mixed-use residential and commercial development should be interspersed with stretches of low-intensity land uses or open space.

How can pulse nodes be developed? Use key intersections or major transit stops to create cores of development that are unique points of reference; nodes of intense activity; and places that are friendly, attractive, and walkable—but that differ from each other in character, function, or purpose.

Direct public investments and site public facilities such as libraries, schools, cultural facilities, community meeting places, and government administrative centers in the higher-density zones... to encourage higher-value land uses within the zone, and to serve as anchors and inducements for spinoff private investment.”



# Identifying Nodes: The Five Ps

Building on the principles of corridor redevelopment discussed above, LCG recommends that the Martin Way partners develop an approach or methodology to identify which nodes they should focus on. Again, due to the corridor's length, LCG believes that the project partners will achieve the greatest results ("attractive mixed-use, high-density residential and commercial areas...") by focusing a fixed amount of staff time and public dollars on specific areas. The alternative is likely to be thinly-spread investments that do not achieve transformational outcomes.

This begs the question of where and how to focus, and there is no one right way to do so. Some methodologies are highly analytical, others may emphasize much more judgment. Either can produce results.

One methodology that has been used by LCG and others (e.g., Portland's Metro regional government) is based on "the five Ps." This methodology is summarized at right and is premised on the belief that locations that have high levels of activity (people), amenities (place), connectivity (physical form), performance (transit service), and market and development potential, are best-positioned to deliver walkable mixed-use development in the future. This is one approach that could inform the approach taken by the Martin Way partners.

## People

- Total number of residents and employees within the half-mile station area (or 1+ mile area).
- Total number of households below the median family income. (A wide range of other equity measures may also be appropriate.)
- Car-free and one-car households (ACS data by census tract), and people living with disabilities. These data help underscore where transit service is most important.

## Place

- Walk score. The number of destinations that can be accessed on foot in station area, measured by "Walk Score." Good TOD includes a mix of land uses. [www.walkscore.com](http://www.walkscore.com)
- Acres of City, County, or Regional parks.

## Physical Form

- Amount (length) of streets in the half-mile station area to determine the street grid.
- # of pedestrian crossings of Martin Way
- Linear feet of sidewalks that can be accessed within a 1-mile walk. (Or amount (length) of sidewalks and bike paths in the half-mile station area; not including sidewalks and bike paths that are inaccessible due to I-5, for example.)

## Performance

- Transit service quality, measured as the number of buses per day on a typical weekday on Martin Way.

## Potential (Market/TOD Potential)

- Acres of public land.
- Residential and Commercial rents per square foot: Indicator of the amount of demand for people and businesses to be in this location.
- Negative: High land values.

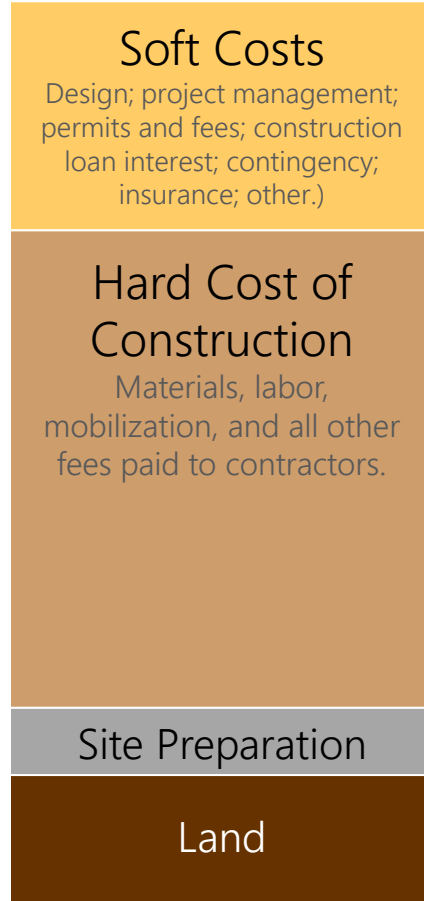
# Development Feasibility Inputs

# Financial Feasibility

A basic framework for thinking about the financial feasibility of real estate development is shown at right.

Developers may begin by considering the total project costs (TPC) associated with development (the first column). They then compare those costs to the value of the real estate upon completion. The value of the project must be greater than the costs and must generate an adequate return on investment in order to be feasible.

## Project Cost



## Project Value

### Capitalized Value

The value of commercial real estate is calculated using two primary numbers: a Net Operating Income (NOI) and Capitalization Rate (Cap Rate) or Target Rate of Return.

$$\text{NOI} \div \text{Cap Rate} = \text{Value}$$

## Profit or ROI

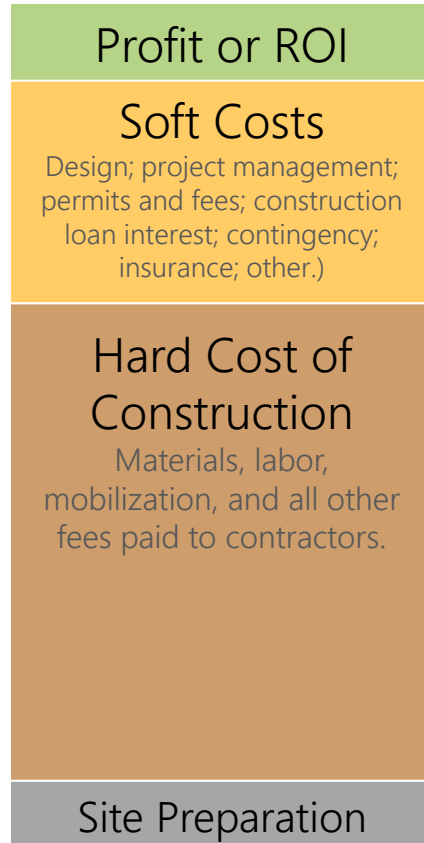
The value of the project must be greater than the costs and must generate an adequate return on investment (ROI) in order to be considered feasible by the developer.

If the project's value is less than the cost, or does not produce an adequate ROI, then developers will pass on this opportunity in favor of other projects in other locations.

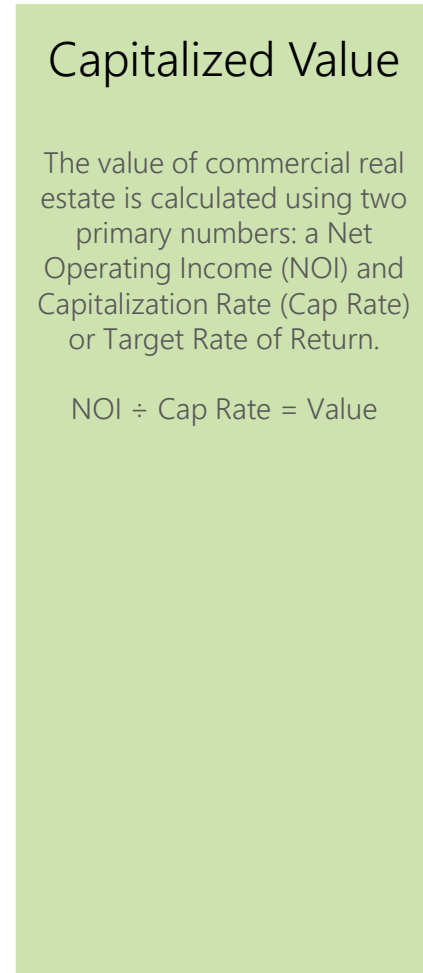
# Feasibility: Residual Land Value

Another closely related way to evaluate the feasibility of development is to complete a residual land value calculation. This analysis also compares the value of the project against the costs but assumes a fixed input for the profit margin and solves for the "residual" land value as the unknown value. If the value of the project upon completion is greater than the costs, the residual land value is positive. If the value is less than the costs, then the residual land value is negative. This analysis uses a mix of the financial feasibility approaches discussed on this and the previous page.

## Project Cost



## Project Value



## Residual Land Value



# Development Feasibility Inputs

The table at right shows most of the same elements as the previous page, but includes some additional elements of feasibility analysis, such as the building program (for example, the types and number of housing units in the project), timing, and other factors.

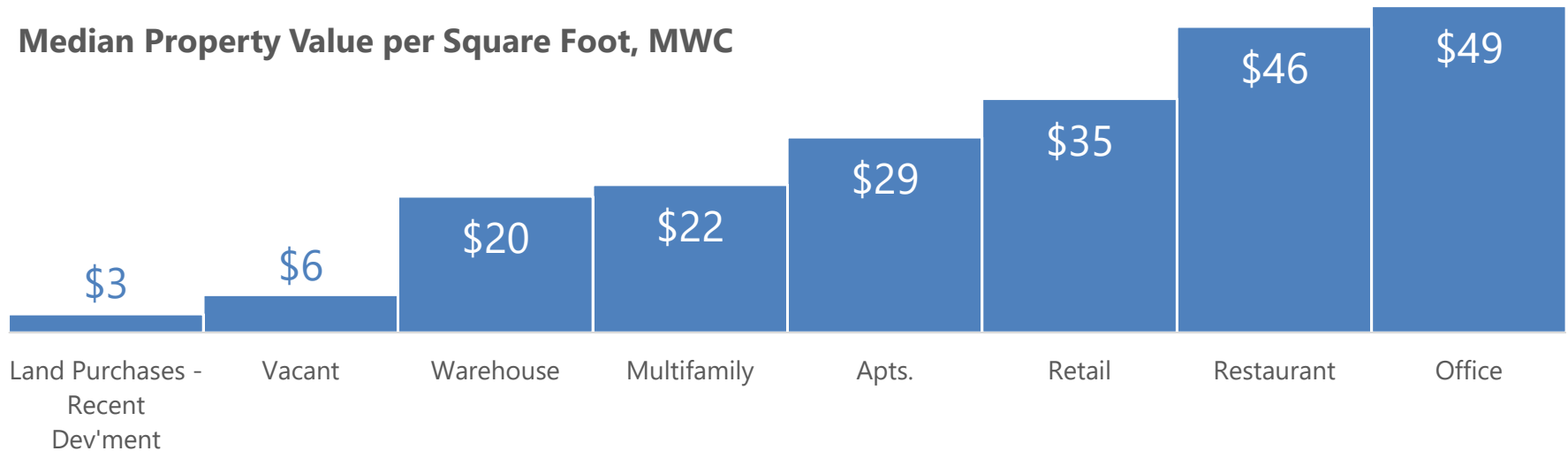
<b>Site and Building Attributes</b> (from Prototypes)	<ul style="list-style-type: none"> <li>• Site size</li> <li>• Square feet of retail/restaurant, office, or other commercial uses</li> <li>• Number of housing units</li> <li>• Parking: Number and type of spaces</li> <li>• Building height, floors, and other design attributes</li> </ul>
<b>Timing</b>	<ul style="list-style-type: none"> <li>• Construction start</li> <li>• Certificate of Occupancy</li> <li>• Lease-up period</li> </ul>
<b>Development Costs</b>	<ul style="list-style-type: none"> <li>• Land or building purchase</li> <li>• Site preparation, e.g., demolition, grading</li> <li>• Hard (Construction) Cost</li> <li>• Soft Costs (architecture and engineering; project management; permits and fees; insurance; construction loan interest; contingency; other.)</li> </ul>
<b>Net Operating Income (NOI)</b>	<ul style="list-style-type: none"> <li>• Rent revenue from retail, office, residential, parking</li> <li>• Vacancy</li> <li>• Operating expenses for management, utilities, taxes, insurance, maintenance, etc.</li> <li>• Net Operating Income (NOI: revenue less expenses)</li> </ul>
<b>Return on Investment</b>	<ul style="list-style-type: none"> <li>• Comparison of NOI to Total Project Cost</li> </ul>

# Property Value

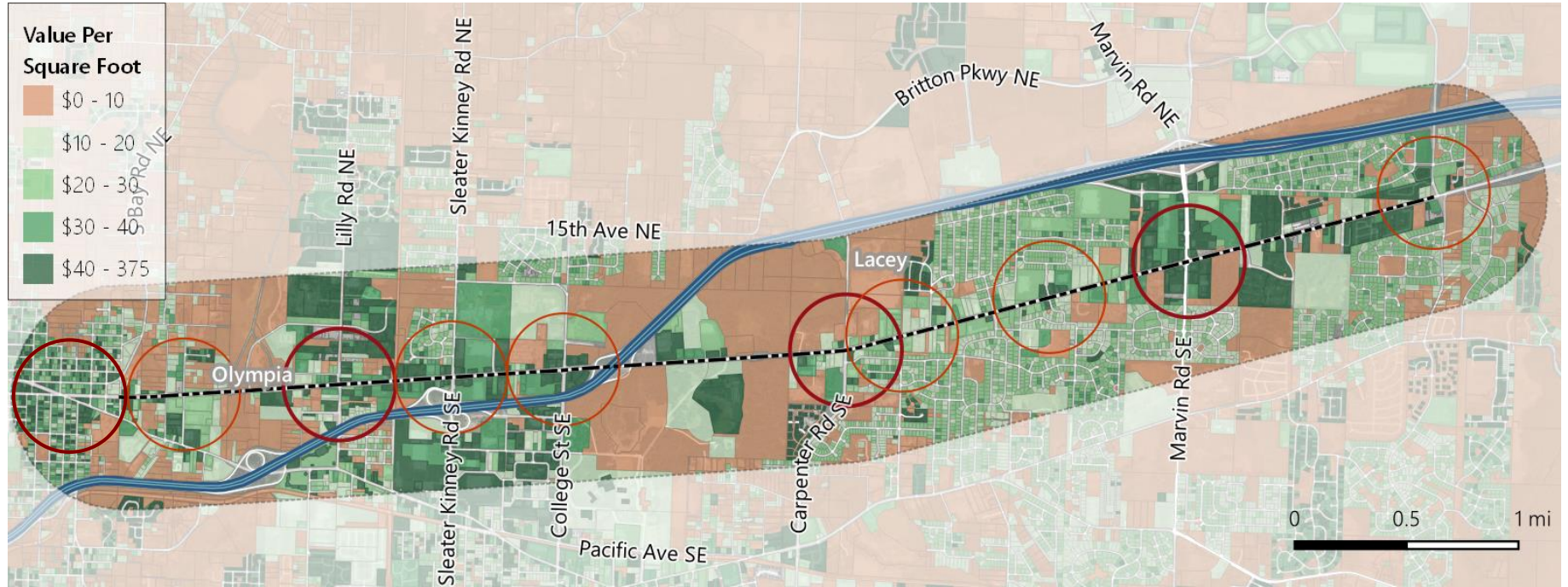
The chart below shows property value per square foot by current land use in the Martin Way Corridor (the total real market value of the structure and land, divided by the square feet of gross site area). The current use of land, and its value, will have a significant impact on the feasibility of development in the corridor. This is because—all other things equal—it is in developers' interest to buy the lowest-cost land possible as it is more likely to enable them to profitably complete the intended development. However, because most of the land in the corridor is already developed as a mix of commercial, industrial, employment, and other uses, it will be very difficult for developers to find inexpensive land. As we will see later in this analysis, LCG expects that the dearth of low-cost land will make many types of development infeasible.

Along the Martin Way Corridor, land currently being used as retail, restaurant, and office are the most expensive, averaging over \$35 per square foot. Vacant land is the least expensive, averaging around \$6 per square foot. Significantly, recently built projects along the Martin Way Corridor acquired property for around \$3 per square foot, on average. This indicates that developers of recent projects have built on formerly vacant land which is getting very scarce. The map on the following page shows property value throughout the Corridor. As a general rule of thumb, the best development opportunities are on vacant or low-cost properties that are close to many high value properties. This indicates an under-developed subject property that is close to other sites where residents or businesses are already located. Note that the data used for this analysis comes from the Thurston County Assessor. LCG believes that actual property values (current asking or transaction prices) are likely to be higher than assessed values in many cases, and thus further challenge development feasibility.

## Median Property Value per Square Foot, MWC



# Property Value (Land and Structure)

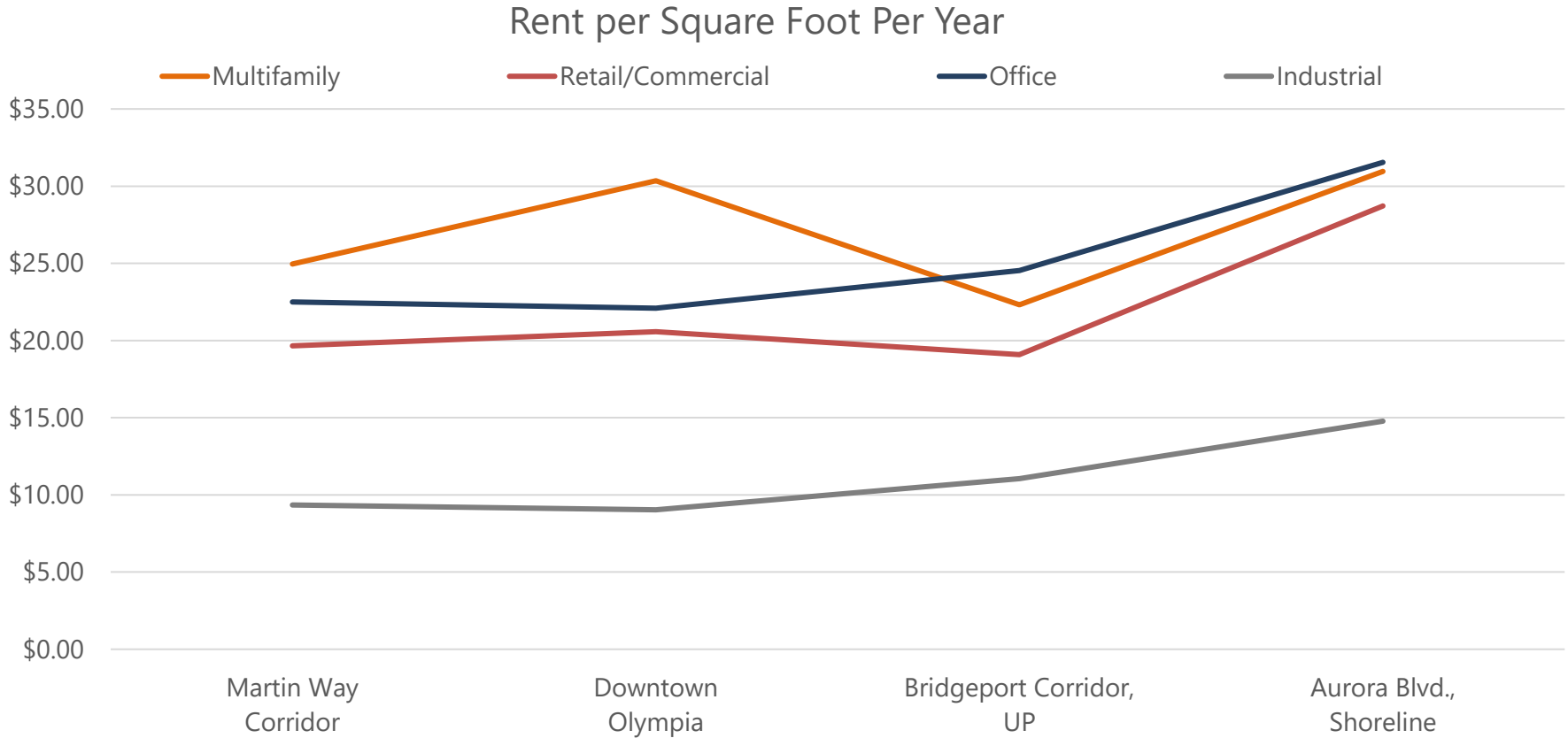


	Vacant	Warehouse	Multifamily	Apts.	Retail	Restaurant	Office
80th Percentile	\$12	\$31	\$32	\$47	\$50	\$69	\$64
<b>Median</b>	<b>\$6</b>	<b>\$20</b>	<b>\$22</b>	<b>\$29</b>	<b>\$35</b>	<b>\$46</b>	<b>\$49</b>
20th Percentile	\$1	\$13	\$17	\$19	\$22	\$32	\$36
# Parcels	176	30	140	76	194	46	91
Total Acreage	891	90	59	238	499	36	113
Average Property Size	5.1	3.0	0.4	3.1	2.6	0.8	1.2

Source: Thurston County Assessor.

# Rent Summary

Rents along the Martin Way Corridor are relatively consistent with other comparison areas. Generally, multifamily apartments command the highest rents, followed by office and retail. In recent corridor projects, like Bridgeport Corridor in University Place and Aurora Boulevard in Shoreline, office development has commanded higher rents. As rents increase, development feasibility generally improves. However, at the same time, affordability generally decreases.



Source: CoStar, LCG.

# Development Alternatives

# Development Scenarios

LCG prepared several different development scenarios in order to test financial feasibility under different conditions and assumptions. These scenarios are shown below. Some scenarios were added following LCG’s initial analysis in order to address comments from the Martin Way advisory committee.

The description for Scenario 1 is “theoretical” because there is very little, if any, free land available in the corridor today. Scenario 2 is also rare as there is very little vacant land in the corridor today. Scenarios 3 and 4 are common as most of the land in the corridor today is built out with either industrial or commercial uses in areas where jurisdictions do not offer the multifamily tax exemption. Scenarios 3 and 4 are the closest representation of the current state of the market and represent the most likely development outcomes within the next 5 to 10 years assuming no interventions.

Development Scenarios	1	2	3	4	5A	5B	5C	6	7	8
Land	Free	Vacant	Industrial	Commercial	Free	Free	Free	Industrial	Industrial	Commercial
Multifamily Tax Exemption (8 Year)	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Rent Premium	0%	0%	0%	0%	0%	0%	10%	0%	10%	20%
Parking Reduction	0%	0%	0%	0%	0%	33%	33%	0%	0%	33%
Description	Theoretical	Rare	Existing; Common		Public Sector Investments and Policies					

Scenarios 5 through 8 show ways in which public agencies could encourage development using a few different policies and investments, including purchasing land and selling it at below market value (known as a “land write down”), expanding the area in which the multifamily tax exemption is offered, and/or reducing parking requirements.

A rent premium (or 10% or 20%) can be viewed in at least two ways. The first is to see a rent premium as a theoretical test of how an increase in rents would impact feasibility. The second is as the potential outcome of public investments in the land acquisition, enabling other nearby development, higher quality streetscapes, place making, transit, and/or other corridor improvements that make living, shopping, or working in the corridor more desirable. As shown above, if housing rents on the corridor increased by 20%, they would be similar to, but still less than, the Downtown Olympia and Shoreline markets (see Appendix).

Making public investments that increase rent can sometimes be seen as misguided public policy. However, from the market point of view, increased rents indicate that potential residents or businesses are more interested in and more willing to live in a given place. In addition, we use rents per square foot in our models, and it is therefore possible to offer smaller units rent for the same total amount. (For example, a 1,000 square foot apartment renting at \$2.00 per square foot is \$2,000 per month. A unit that is 10% smaller (909 square feet) and rents for 10% more (\$2.20 per square foot) also rents for \$2,000 per month. Somewhat smaller units are common in areas that are in higher demand.)

# Return on Investment

In this section, we summarize the return on investment for various development alternatives tested through this analysis. These alternatives are based on a number of key variables and test the feasibility of the development prototypes identified earlier.

Different developers use different metrics and approaches to evaluate whether a project is a viable investment, including return on cost (or yield), internal rate of return (IRR), net present value (NPV), equity multiple (EM), and other metrics, such as cash-on-cash return.

In this analysis, we use the return on cost approach, since this is perhaps the most commonly used by developers for preliminary feasibility analysis. Return on cost is calculated as a percentage: estimated net operating income (NOI) in the first year of stabilized operation, divided by total project costs (land, hard cost, soft cost, etc.). Target returns are based on established real estate industry capitalization rates ("cap rates"). They are lower for multifamily because the development industry is generally more optimistic about the reliability of future apartment revenues, and less confident about retail and office returns.

We categorize the ROI of different development alternatives as shown at right.

- 1 Infeasible**  
Less than 80% of target return.  
Highly unlikely to be built.
- 2 Challenged**  
80 to 90% of target return.  
Major changes would be required in order to make the project feasible; most often, these include gap financing from public agencies or philanthropies.
- 3 Marginal**  
90 to 100% of target return.  
Value engineering, project redesign, reduction in project costs, or other changes could make this project feasible.\*
- 4 Feasible**  
100 to 120% of target return.  
Should attract capable developers.
- 5 Excellent**  
More than 120% of target return.  
Multiple developers are likely to seek out this project type.

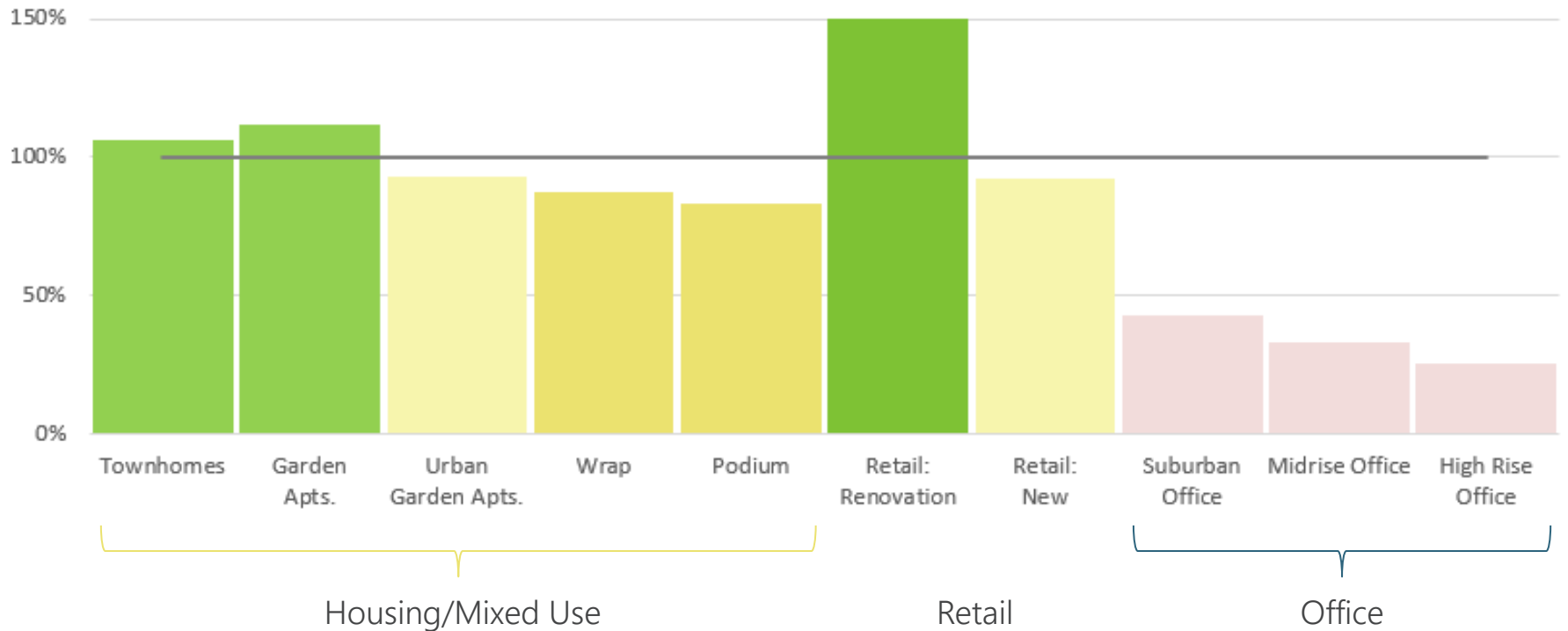
*\*Value engineering is used to solve problems and identify and eliminate unwanted costs, while improving function and quality. The aim is to increase the value of products, satisfying the product's performance requirements at the lowest possible cost.*

# Scenario 1

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

<b>Scenario</b>	<b>1</b>
Land	Free
Multifamily Tax Exemption	No
Rent Premium	0%
Parking Reduction	0%

Model Returns vs. Target Returns

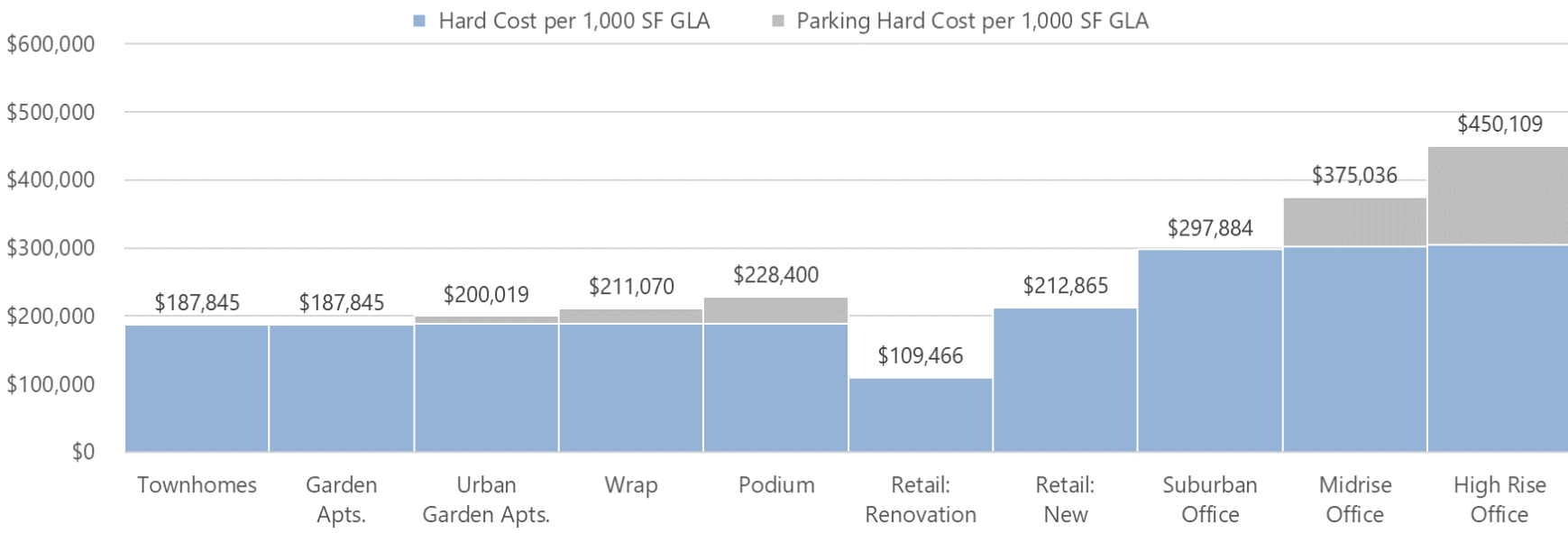


# Scenario 1

The chart below shows the typical hard costs of different development types. Hard costs are those expenses directly related to the physical construction, e.g., the site, the landscape, the labor and materials, and the building itself. Soft costs are any costs that are not considered direct construction costs. Soft costs include everything from architectural and engineering fees, to legal fees, pre- and post-construction expenses, permits and taxes, insurance, etc.

It is important to consider these varying costs. Office buildings are typically the most expensive building types, followed by high-density housing (Podium, Wrap), then retail (new), and then lower-density housing. For more expensive development types, a developer will require higher rents on projects to be feasible.

Total Hard Cost Per 1,000 SF of Residential and Commercial Area

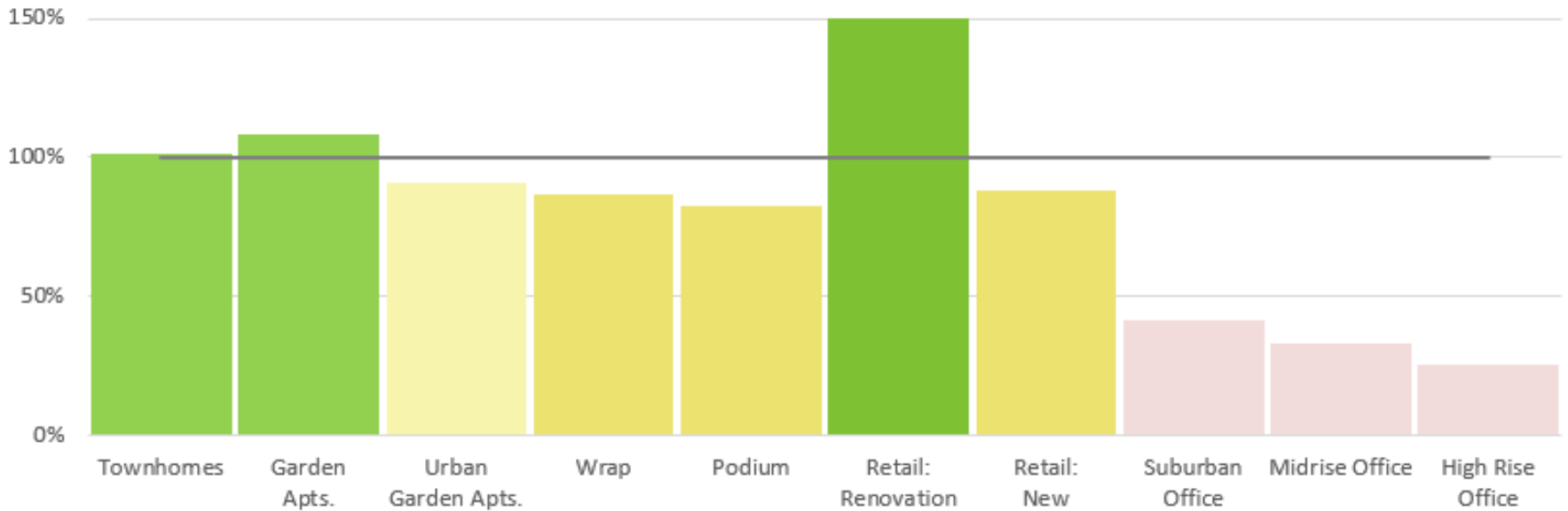


# Scenario 2

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

<b>Scenario</b>	<b>2</b>
Land	Vacant
Multifamily Tax Exemption	No
Rent Premium	0%
Parking Reduction	0%

Model Returns vs. Target Returns



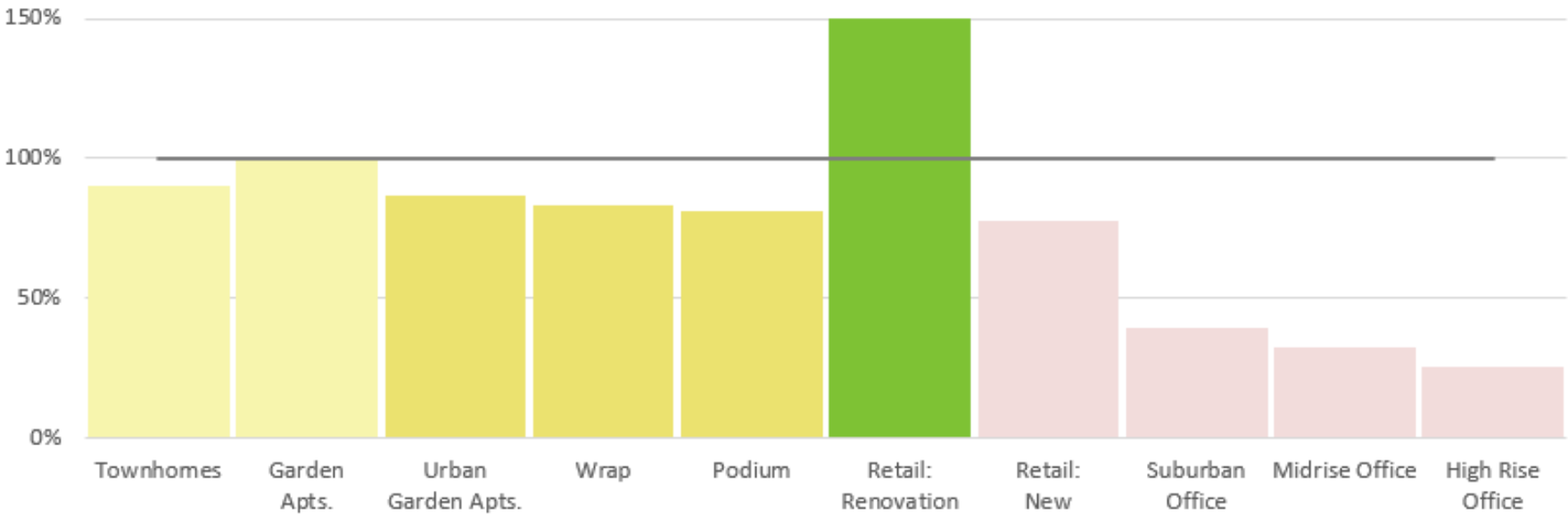
# Scenario 3

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

**Scenario** 3

Land	Industrial
Multifamily Tax Exemption	No
Rent Premium	0%
Parking Reduction	0%

Model Returns vs. Target Returns

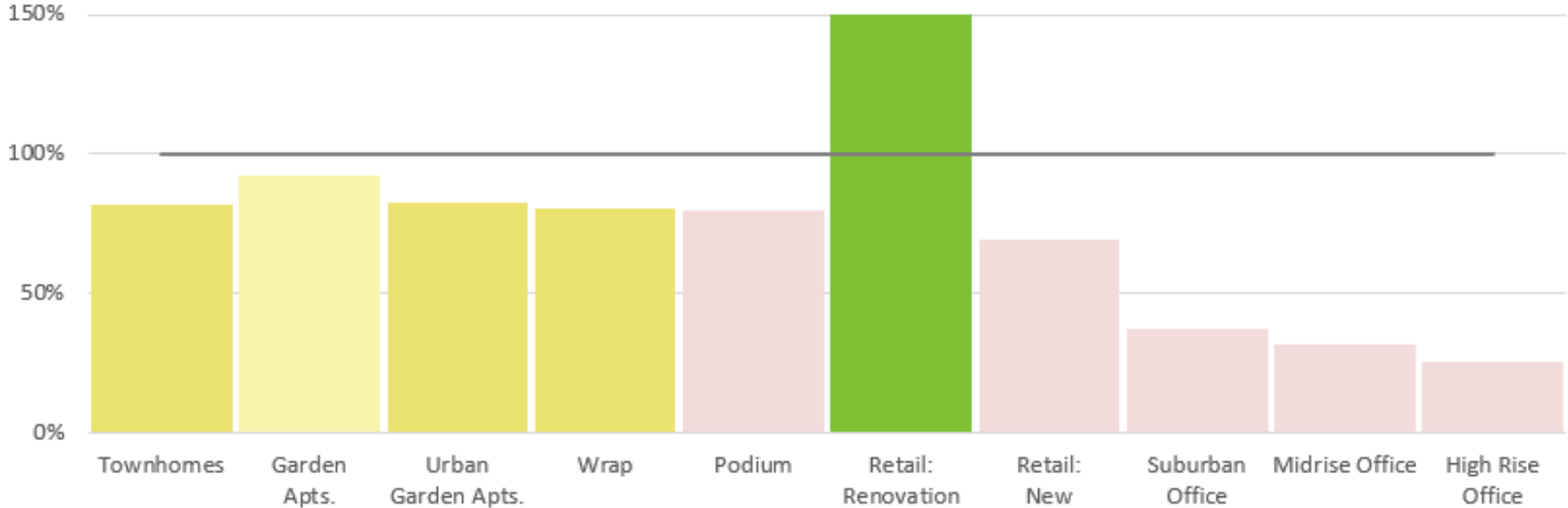


# Scenario 4

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

<b>Scenario</b>	<b>4</b>
Land	Commercial
Multifamily Tax Exemption	No
Rent Premium	0%
Parking Reduction	0%

Model Returns vs. Target Returns



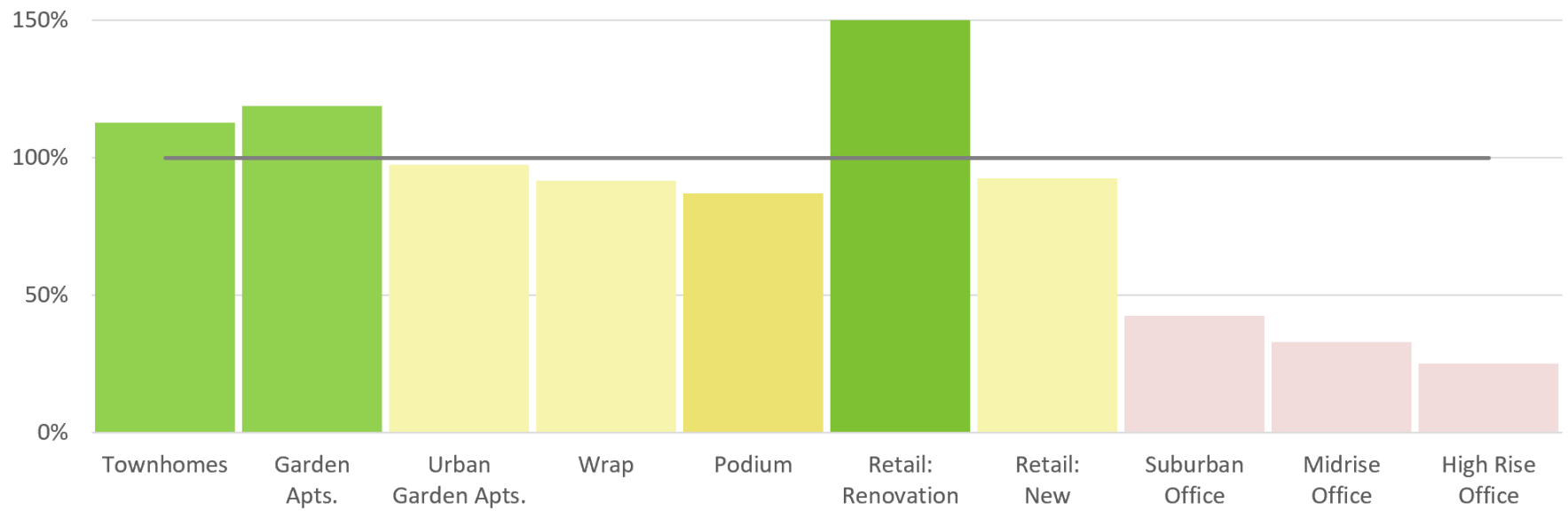
# Scenario 5A

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

**Scenario** **5**

Land	Free
Multifamily Tax Exemption (8 Year)	Yes
Rent Premium	0%
Parking Reduction	0%

Model Returns vs. Target Returns

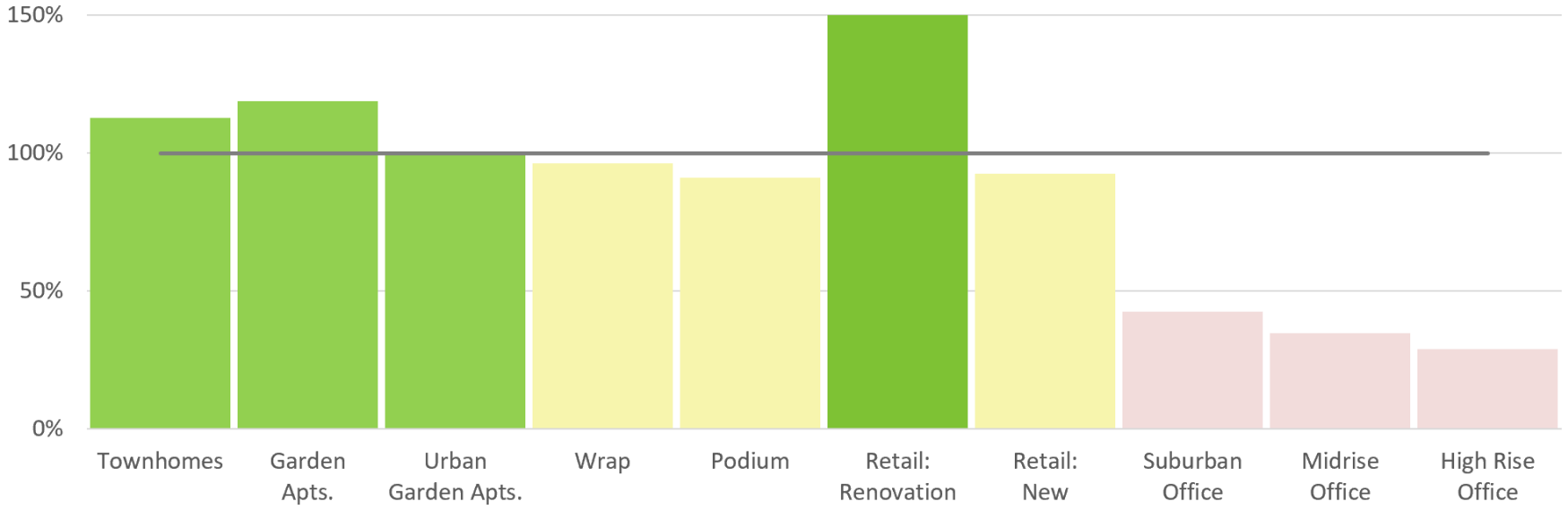


# Scenario 5B

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

<b>Scenario</b>	<b>5</b>
Land	Free
Multifamily Tax Exemption (8 Year)	Yes
Rent Premium	0%
Parking Reduction	33%

Model Returns vs. Target Returns



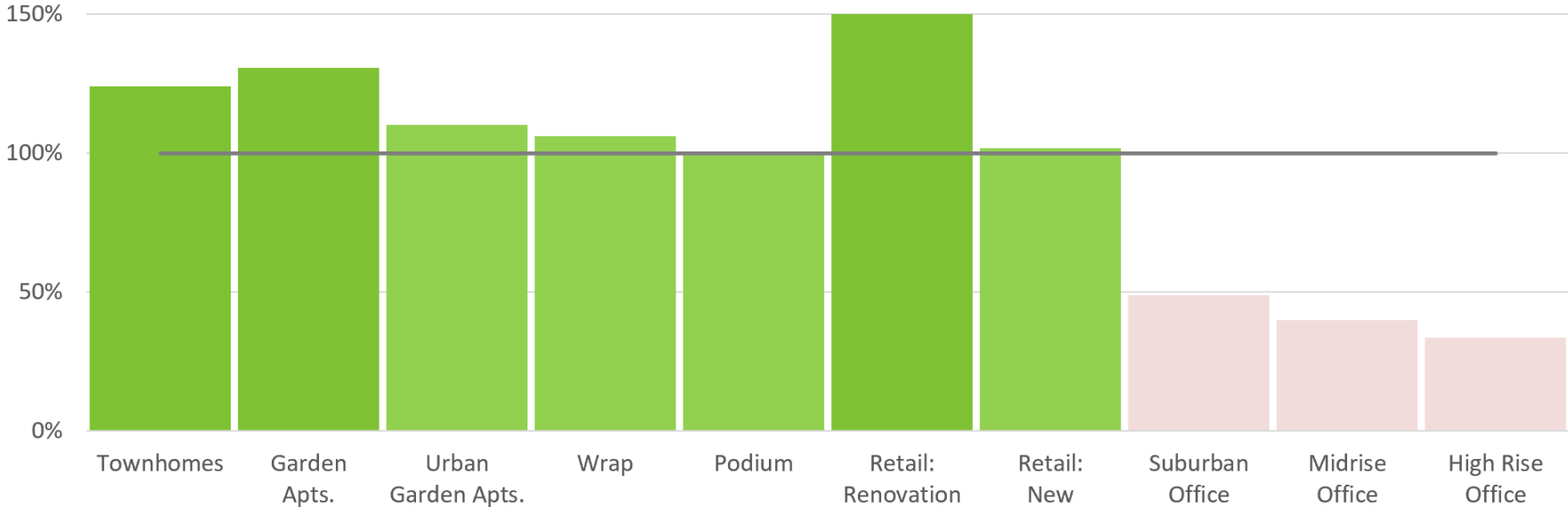
This scenario was added after LCG’s preliminary analysis and reflects the potential for the Martin Way partners to invest towards the goal of “attractive mixed-use development” via several different policies: land write down, tax exemption, and parking reductions. One impact of these investments is to enable urban garden apartments to be feasible. This development type—which includes ground floor commercial space, a small-town/urban feel, and more units per acre—can be a good component of emerging transit-oriented development districts. The wrap and podium types are getting closer to feasibility.

# Scenario 5C

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

<b>Scenario</b>	<b>5</b>
Land	Free
Multifamily Tax Exemption (8 Year)	Yes
Rent Premium	10%
Parking Reduction	33%

Model Returns vs. Target Returns



This scenario was added after LCG’s preliminary analysis and reflects the potential for the Martin Way partners to invest towards the goal of “attractive mixed-use development” via several different policies—land write down, tax exemption, and parking reductions—along with a rent premium as described in the Development Scenarios introduction above. The results here are striking urban garden apartments, wrap, podium, and retail projects are feasible.

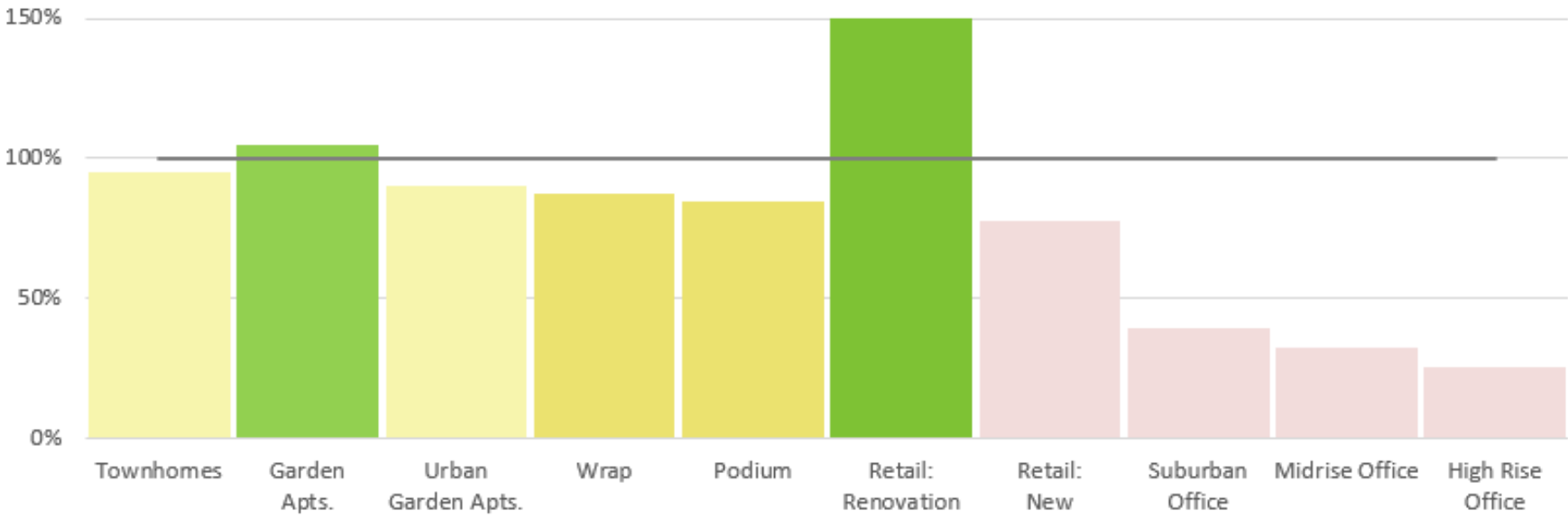
# Scenario 6

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

**Scenario** **6**

Land	Industrial
Multifamily Tax Exemption	Yes
Rent Premium	0%
Parking Reduction	0%

Model Returns vs. Target Returns

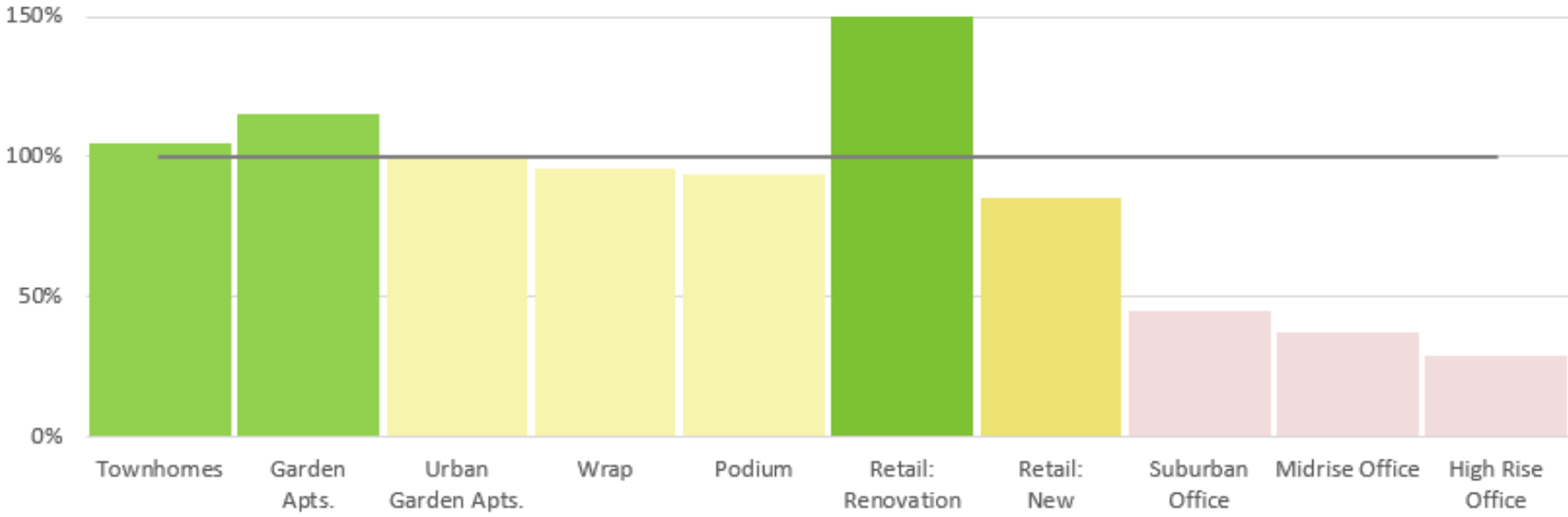


# Scenario 7

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

<b>Scenario</b>	<b>7</b>
Land	Industrial
Multifamily Tax Exemption	Yes
Rent Premium	10%
Parking Reduction	0%

Model Returns vs. Target Returns



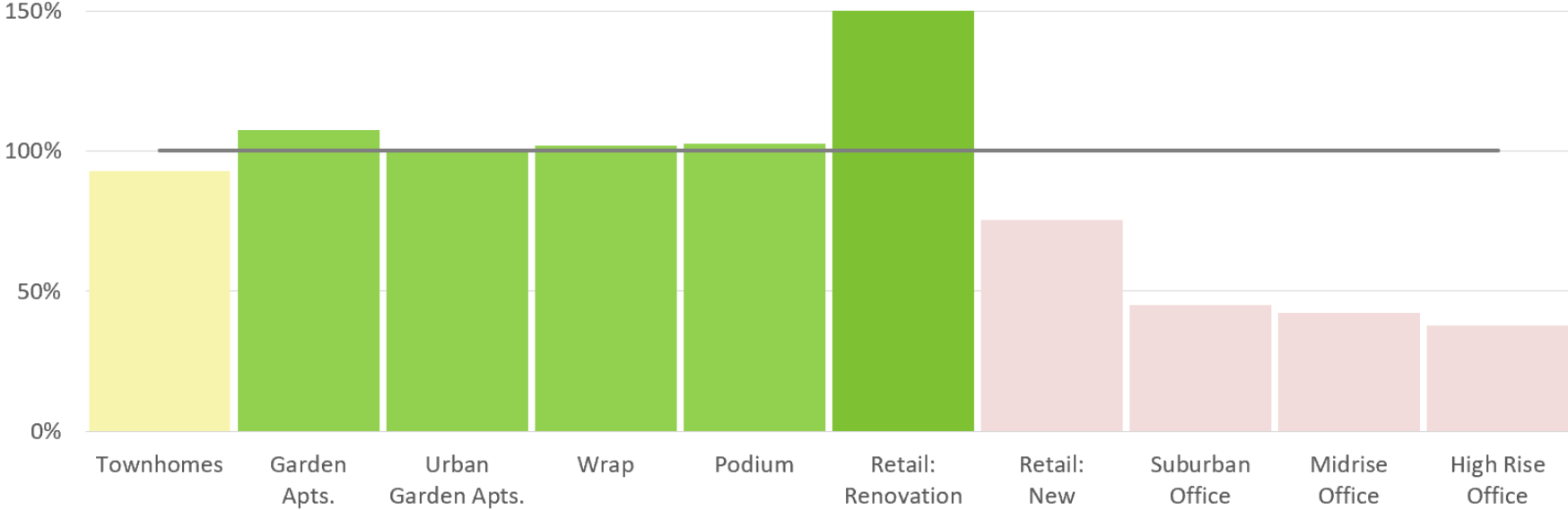
# Scenario 8

- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

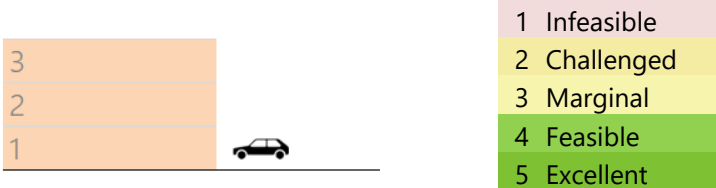
**Scenario** **8**

Land	Commercial
Multifamily Tax Exemption (8 Year)	Yes
Rent Premium	20%
Parking Reduction	33%

Model Returns vs. Target Returns



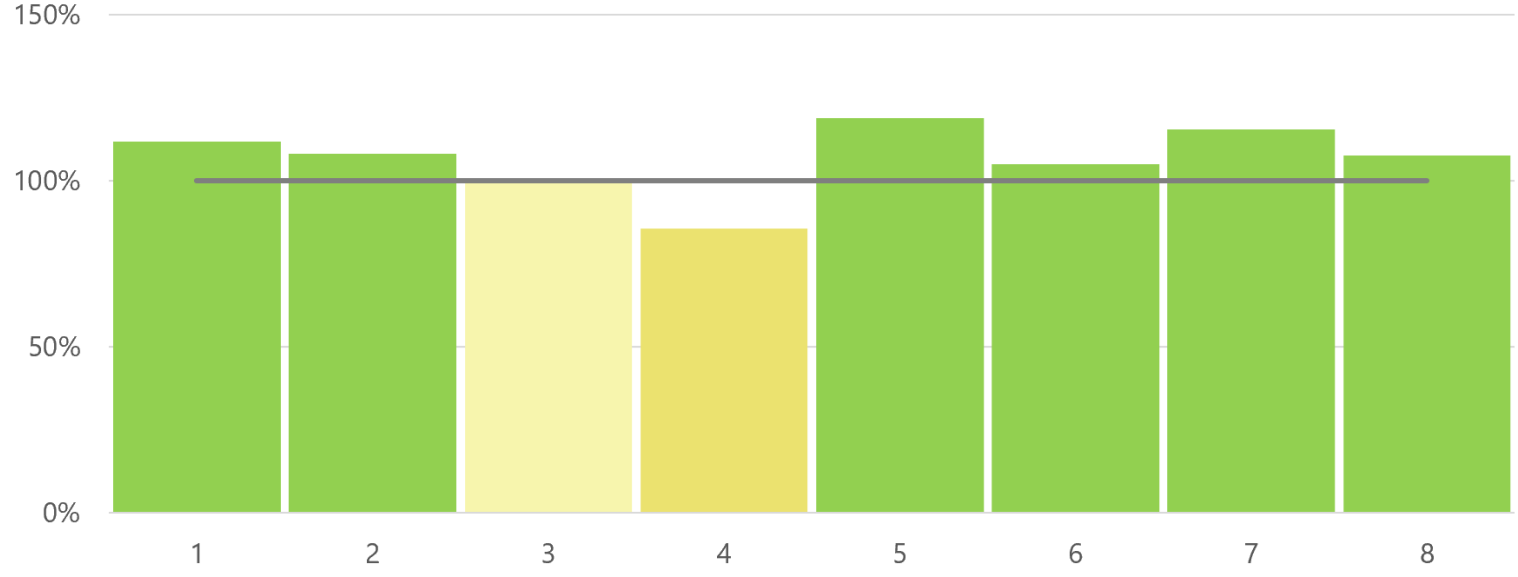
# Garden Apartments



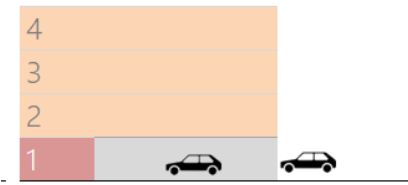
- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

Scenario	1	2	3	4	5A	6	7	8
Land	Free	Vacant	Industrial	Commercial	Free	Industrial	Industrial	Commercial
Multifamily Tax Exemption (8 Year)	No	No	No	No	Yes	Yes	Yes	Yes
Rent Premium	0%	0%	0%	0%	0%	0%	10%	20%
Parking Reduction	0%	0%	0%	0%	0%	0%	0%	33%

Model Returns vs. Target Returns



# Urban Garden Apartments



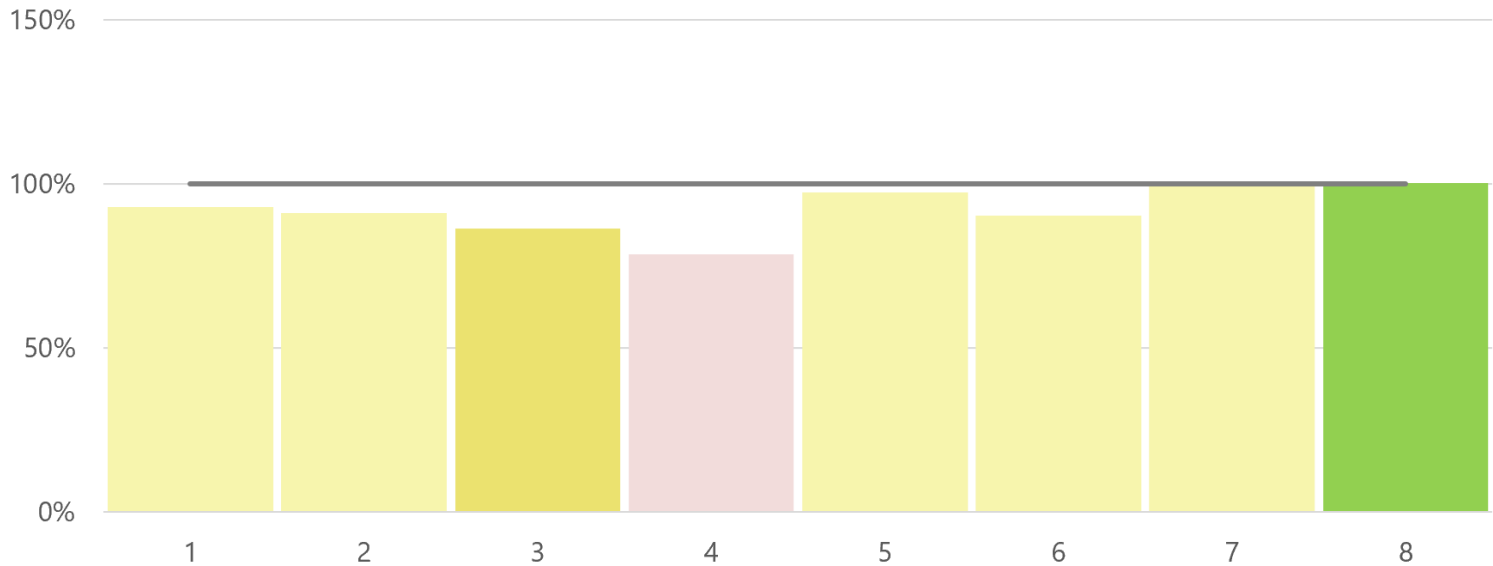
- 1 Infeasible
- 2 Challenged
- 3 Marginal
- 4 Feasible
- 5 Excellent

## Development Prototype:

## Urban Garden Apts.

Scenario	1	2	3	4	5A	6	7	8
Land	Free	Vacant	Industrial	Commercial	Free	Industrial	Industrial	Commercial
Multifamily Tax Exemption (8 Year)	No	No	No	No	Yes	Yes	Yes	Yes
Rent Premium	0%	0%	0%	0%	0%	0%	10%	20%
Parking Reduction	0%	0%	0%	0%	0%	0%	0%	33%

Model Returns vs. Target Returns



# Multifamily Property Tax Exemption

## Summary Evaluation

The Multifamily Property Tax Exemption (MFTE) program, which is authorized by the State and may be adopted by cities, provides a tax exemption on certain multifamily housing that is eligible based on the local jurisdiction’s program. Currently, Olympia has a program in place (Multifamily Dwelling Tax Exemption Program) that generally runs along Martin Way in the western section of the corridor and terminates at Lilly Road; Lacey has no such program in place. Historically, the State has provided two types of MFTE to cities: eight- and 12-year MFTE programs. In 2021, the legislature added a 20-year program. All programs provide property tax exemptions for a defined time period; retail, business, and other taxes are not affected. The eight-year tax exemption may be conveyed to rental housing projects that meet certain public goals that are defined by the enabling jurisdiction. The goals may include housing development within certain defined areas (as adopted in Olympia), housing that includes ground floor commercial space (vertical mixed-use), or housing projects that include other elements (e.g., certain building materials, design or landscaping features, etc.). Per state law, the 12-year tax abatement can only be provided to projects in which 20% or more of units are affordable to low- and moderate-income households. During the preparation of this report, the legislature added the 20-year MFTE program for permanently affordable housing.

The following chart shows the theoretical property taxes abated per multifamily unit for an eight-year program for a garden apartment (3-4 stories). *At a cost per door of about \$227,000, an eight-year total property tax abatement of \$13,205 covers 5.8 percent of the total cost. Generally, this is not enough of an incentive along to stimulate new housing development but packaged together with other tools and incentives it can have a significant impact on feasibility.* Olympia should consider expanding its existing program and Lacey should consider creation of its own program. If cities place additional requirements on projects that receive the eight-year MFTE, it is critical that those requirements (likely, additional costs) be approximately proportional to the tax benefits the developers receive; if they are not, the developers will not take advantage of the program and/or will not build.

<b>Years of Abatement</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Property Taxes Owed or Abated	\$2,039	\$2,059	\$2,080	\$2,101	\$2,122	\$2,143	\$2,164	\$2,186	\$2,208
Property Tax Escalation Rate	1.0%								
Discount Rate	6.0%								
<b>Present Value of Tax Exemption for 1 Unit</b>	<b>\$13,205</b>								
Garden Apts.									
# Units	97								
<b>Present Value of Tax Exemption, All Units</b>	<b>\$1,280,000</b>								

# Multifamily Property Tax Exemption

## Summary Evaluation

LCG's experience is that private sector developers rarely if ever take advantage of the 12-year MFTE program, since this provides developers with approximately \$5,000 (present value) of additional property tax savings (beyond the eight-year program), whereas affordable units require a much greater subsidy—often 50% or more of total project costs, though this varies greatly depending on the household incomes that are targeted. For this reason, most affordable housing is funded via Washington State Housing Finance Commission (WSHFC) programs such as LIHTC.

Multifamily tax exemption can be a controversial policy topic, especially the eight-year program, which is usually intended to make more market-rate housing development feasible within targeted zones such as downtowns and transit-oriented development. Several rationales for such policies may be reasonable. First, the policies can enable housing and mixed-use development in locations where housing would otherwise be infeasible. Second, the fiscal impacts of tax exemption programs can be neutral or positive, since new, higher-value development can replace older, underutilized properties, and the new development will generate greater property tax revenues for jurisdictions, usually for 40 to 100 years. Nonetheless, any program that provides incentives to developers can be controversial and should be carefully considered and vetted with decision makers and the public.

Selected sources:

[https://www.psrc.org/sites/default/files/hip\\_mfte.pdf](https://www.psrc.org/sites/default/files/hip_mfte.pdf)

[https://leg.wa.gov/jlarc/taxReports/2019/MFTE/f\\_ii/default.html](https://leg.wa.gov/jlarc/taxReports/2019/MFTE/f_ii/default.html)

<https://app.leg.wa.gov/bills/summary?BillNumber=5287&Year=2021&Initiative=false#minorityMajorityPopup>

# Conclusions & Recommendations

# Most Likely Types of Development on Martin Way Corridor

1. **Continued operation as-is**
2. **Commercial spaces: Retenancing and adaptive reuse**
  - Underutilized sites can become more vibrant, active, via new commercial, healthcare, or employment tenants. Reuse can include design/placemaking improvements.
  - (Underutilized sites can also be occupied by other uses, such as online distribution, that do not create a more active public realm.)
3. **Commercial: Adaptive reuse with housing**
  - Similar to above, plus: Housing infill (**market rate or affordable**), on vacant or underutilized commercial sites. (This added density also supports existing and future investments in transit service along the corridor).
4. **Redevelopment: Horizontal Mixed Use**
  - Demolition of existing underutilized commercial or industrial use, replacement with garden apartments (market rate or affordable), or potentially urban garden apartments, with some ancillary commercial. Can also happen on vacant sites.
5. **Redevelopment: Vertical Mixed Use**
  - Vertical mixed use, including podium projects.  
Unlikely for foreseeable future.

# Retenanting/Adaptive Reuse

The images below and on the following page are typical of the types of retail renovation that take place on commercial corridors, and which this analysis generally finds will be feasible. Via retail renovations, existing buildings remain, but can be reimagined with more attractive landscaping, more welcoming pedestrian environments, and commercial uses that reflect current (rather than outdated) consumer preferences. Also see the interactive maps here for examples of large-scale commercial reuse (e.g., regional mall) projects : <https://retrofitingsuburbia.com/>

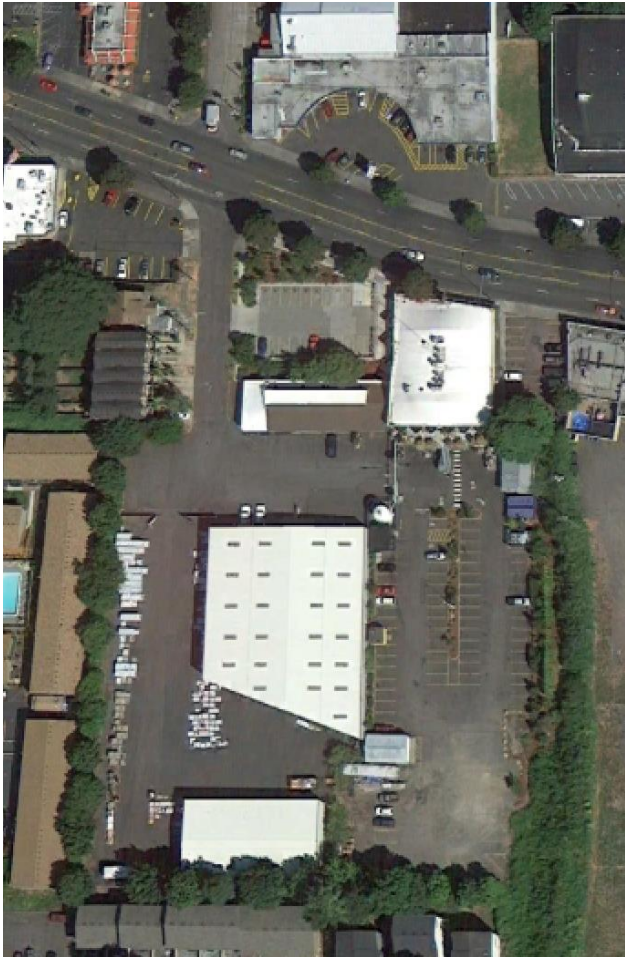


On subsequent pages, the Adaptive Reuse with Infill Housing example shows how a set of industrial sites was repurposed to become a brewpub, brewing and bottling facility, and attractive multifamily housing project. All are physically connected in a walkable format, but also surface parked. The projects are located on Powell Boulevard—a large and highly auto-oriented arterial road that is transitioning in some locations—in Portland, Oregon.

# Retenanting/Adaptive Reuse



# Adaptive Reuse with Infill Housing



2015

2021

Hopworks Brewery  
Sunshine Apts.  
Portland, Oregon



# Horizontal Mixed Use

Kensington Apartments at North Pointe, Boise, Idaho



Housing, 2 to 4 stories

# Encourage Quality Design of Garden Apartment Projects



- Anthology, Issaquah
- Quality streetscapes and landscaping
- Ground floor stoops
- “Scandinavian Village”



- Attwell off Main, Tigard, OR
- One small commercial space on corner
- Targeted brick facing
- Largely surface parked

# Incentives and Tools

In general, land values and rents are low on the corridor, meaning redevelopment prospects are limited. Redevelopment is costly and developers are not likely to recoup costs through market rents. In lieu of private sector redevelopment, Cities can help encourage redevelopment by making direct investments and performing certain actions. The text below and on the following page includes some of these recommendations.

- **Align policy to vision.**  
Streamlined entitlement: Make the right thing easy. Cities can proactively plan and potentially fund (either directly or through impact fee credits) components of the street grid to accommodate redevelopment, as well as prioritizing walkability improvements in the nodes, like sidewalks and crossings. Cities can plan for and locate public facilities and services within nodes.
- **Consider reducing parking requirements.** (See King County Right Size Parking online calculator.)
- **Allow and encourage shared parking** between residential and commercial/employment uses.
- **Review/revise fee structure.** Variable impact fees, for example, reduced transportation impact fees for projects near BRT (e.g., within one-quarter mile) or with car share. Make impact fees obvious up front.
- **Create a Development Opportunity Study (DOS) program** based on similar programs in Vancouver, Tacoma, and other cities, and focused on adaptive reuse of commercial properties in MWC. A Development Opportunity Study typically identifies properties suitable for different types of development at a scale and level of detail that builds on this market study.
- **Continue to promote Lacey's Opportunity Zone and other incentives.**

# Incentives and Tools

- **Adopt (Lacey, Thurston County) or Continue/Expand (Olympia) Multifamily Tax Exemption (MFTE):** 8- and 12-year programs.  
Link 8-year program to reasonable developer requirements such as quality design features and small commercial spaces for garden apartment and urban garden apartment projects.  
Developers usually do not opt in to the 12-year MFTE program, which carries a requirement to provide affordable units.
- **Continue density bonus programs,** even if they are not highly effective in the near term.
- **Make targeted infrastructure improvements** (pedestrian, bicycle, and other) on MWC, to be determined.
- **Evaluate application of Tax Increment Financing** districts to corridor.
- **Identify 3 to 5 nodes or focus areas** on the corridor.
- **Acquire and aggregate land,** dispose via developer selection process. Specifically, each City should prioritize land acquisitions within focus areas or nodes.
- **Look for opportunities to form partnerships** with affordable housing developers and secure funds from WSHFC.
- **Secure other gap financing dollars:** Impact investors, other.

# Most Likely Types of Development on Martin Way Corridor

1. Continued operation as-is
2. Commercial spaces: Re-tenanting and adaptive reuse
  - Underutilized sites can become more vibrant, active, via new commercial, healthcare, or employment tenants. Reuse can include design/placemaking improvements.
  - (Underutilized sites can also be occupied by other uses, such as online distribution, that do not create a more active public realm.)
3. Commercial: Adaptive reuse with housing
  - Similar to above, plus: Housing infill (**market rate or affordable**), on vacant or underutilized commercial sites

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4. Redevelopment: Horizontal Mixed Use
  - Demolition of existing underutilized commercial or industrial use, replacement with garden apartments (market rate or affordable), or potentially urban garden apartments, with some ancillary commercial. Can also happen on vacant sites.
5. Redevelopment: Vertical Mixed Use
  - Vertical mixed use, including podium projects. Unlikely for foreseeable future.

DOS, MFTE, and other programs have potential to be effective.

Public land acquisitions may be necessary.

# Appendices

# Rent Detail

Development Type	Martin Way Corridor	Downtown Olympia	Bridgeport Corridor, UP	Aurora Blvd., Shoreline
<b>Multifamily Apartments (\$/SF/Month)</b>				
Highest rent	\$2.40	\$2.91	\$1.86	\$2.69
Avg. of Projects (built last 3 yrs)	<b>\$2.08</b>	<b>\$2.53</b>	<b>\$1.86</b>	<b>\$2.58</b>
Avg. all	\$1.70	\$2.00	\$1.58	\$2.13
Rent used for financial analysis	\$2.29			
+10%	\$2.50			
<b>Retail/Commercial (\$/SF/per Year)</b>				
Highest rent	\$40.00	\$30.00	\$32.00	\$28.00
Avg. of Projects (built last 3 yrs)	<b>NA</b>	<b>\$20.57</b>	<b>\$19.08</b>	<b>NA</b>
Avg. Market Rent	\$19.66	\$14.92	\$20.63	\$28.72
Avg. Asking Rent	\$15.37	\$13.34	\$11.18	\$26.83
<b>Office (\$/SF/per Year)</b>				
Highest rent	\$32.00	\$29.25	\$24.54	\$31.55
Avg. of Projects (built last 3 yrs)	<b>\$22.50</b>	<b>\$22.09</b>	<b>NA</b>	<b>NA</b>
Avg. Market Rent	\$22.28	\$23.44	\$24.54	\$31.55
Avg. Asking Rent	\$20.60	\$20.35	\$24.57	\$23.87
<b>Industrial (\$/SF/per Year)</b>				
Highest rent	NA	NA	NA	\$13.20
Avg. of Projects (built last 3 yrs)	NA	NA	NA	NA
Avg. Market Rent	<b>\$9.35</b>	<b>\$9.03</b>	<b>\$11.04</b>	<b>\$14.77</b>
Avg. Asking Rent	NA	NA	NA	\$12.59

At left is a summary table of rent inputs for the pro forma analysis.

Source: CoStar, LCG.

# Key Development Feasibility Inputs

## Site and Building Attributes

<b>Location (State)</b>	Washington	
<b>Site</b>		
Gross Site Size (acres)	3.0	
<b>Residential</b>		
Avg unit size (sf)	775	
Efficiency (%)	85%	
<b>Parking</b>		
Residential	1.50	/unit
Retail	4.10	/1,000 SF
Office	3.30	/1,000 SF
Parking Area	350	SF per space
<b>Timing</b>		
Construction Start	8/1/2021	
Construction Duration	18	months
Opening Day	1/30/2023	
Lease Up	12	
Average Leasing Date	8/1/2023	

## Cost

<b>Land Cost</b>		
Per square foot of site area by type:		
Free	\$0	
Vacant	\$6	
Industrial	\$20	
Commercial	\$50	
<b>Site Prep</b>		
Site Prep PSF of site area	\$18.00	
<b>Hard Cost</b>		
Source: RS Means Construction Cost Estimating Data.		
<b>Residential</b>		
Wood frame res. components	\$188	/PSF
<b>Retail</b>		
Rehab discount		
Core and Shell	\$138	/PSF
Tenant Improvement Allowance	\$75	/PSF
Subtotal		
<b>Office</b>		
Core and Shell	\$245	/PSF
Tenant Improvement Allowance	\$60	/PSF
Subtotal		
<b>Post Tensioned Slab</b>	\$50	\$17,500
<b>Parking</b>	/PSF	/Space
Rehab discount		
Surface (incl in Site Prep)	\$0	\$0
Tuck under	\$27	\$9,463
Structured	\$54	\$18,926
Underground	\$191	\$66,885
<b>Soft Costs</b>	% of HC	
Architectural & Engineering	5.0%	
Development Fees & Admin	3.0%	
Permits, Fees, & Entitlement	9.5%	
Insurance	1.5%	
Legal	0.5%	
Construction Loan Interest	5.0%	
Marketing		
%	3.0%	
Total Soft Costs	36.9%	
<b>Hard Cost Contingency</b>	0%	

## Revenue and Expenses

Revenue Source: CoStar.

<b>Residential</b>		
Target Rent PSF per Month, Current Year	\$2.29	/PSF/month
Target Rent PSF per Month, Opening Year	\$2.43	/PSF/month
Potential Gross Income		
Asking Rent, per unit / month, Current Year	\$1,773	
Vacancy	5.0%	
Operating Expenses as % of PGI		32.1%
<b>Office</b>		
Lease Rate per year (Full Service) PSF	\$23	/PSF/year
Vacancy	9.0%	
Operating Expenses	\$8.00	/PSF/year
<b>Retail</b>		
Lease Rate per year (NNN) PSF	\$25	/PSF/year
Vacancy	9.0%	
Operating Expenses	\$0.00	/PSF/year
<b>Parking</b>		
Gross revenue per month	\$0	
Vacancy	10%	
Operating Expenses	30%	

## Return on Investment

<b>Cap Rates</b>		
Source: CoStar.		
Apartments	4.80%	
Office and Retail	6.00%	
<b>Target Yields</b>		
Spread (Basis points above cap rate)	100.00	
Apartments	5.80%	
Office and Retail	7.00%	

9/30/2021



# LELAND CONSULTING GROUP

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Strategic Advisors to Public and Private Development