

# WOODLAND DISTRICT PLAN FEASIBILITY ANALYSIS

PREPARED BY PROPERTY COUNSELORS

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## INTRODUCTION AND SUMMARY

### PURPOSE OF ANALYSIS AND ORGANIZATION OF REPORT

Successful redevelopment of the Woodland District 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. Opportunity sites have been identified within the district 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 conditions are necessary for feasibility. This report documents the results of the feasibility analysis for representative sites. It is organized in five sections: Introduction and Summary, Opportunity Sites and Development Concepts, Method and Assumptions, Results and Conclusions.

### SUMMARY OF ANALYSIS

#### Summary of Opportunity Sites

Four opportunity sites were evaluated to reflect a range of uses and building reuse potential.

**621 Woodland Square** is one of two office buildings considered for reuse or conversion to residential use. Opportunities for reuse are constrained by the current damages condition, and narrow floor plates. Reuse as residential lofts will provide more flexibility for residential reuse.

**605 Woodland Square** is the second office building considered for reuse or conversion to residential use. The building could be converted to residential use, but it would require replacement of all interior partitions and systems as well as modifications to the building envelope.

The **Southern Entry Site** is a vacant site at the northeast corner of Pacific Avenue and Selma Street. The site could be developed with a mix of retail, surface and structured parking at ground level, and three floors of apartments above.

The **Southern Entry Site** could be expanded with purchase of three single family residences to the north. The larger site could also be developed with a mix of retail, surface and structured parking at ground level, and three floors of apartments above.

### Summary of Financial Analysis Method

Several development concepts are identified for each scenario 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 10% or more of the development cost is considered the hurdle rate for feasible development.

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

Does the **entrepreneurial return** exceed 10% of development cost? If so, that case is considered feasible, and could attract private investment.

For a given site, which development scenario generates the highest **residual value**? The residual value is the amount a developer could pay for a property and still achieve an adequate return. The case with the highest residual value represents the optimal use of the site from a purely economic perspective.

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 with the three measures shown for two or more cases for each site in the following table. The cases include a primary use, an alternative use (residential or mixed use), and a residential use with incentives such as the multifamily tax exemption, and/or reduced impact fees. The cases that represent positive rates of return, the highest residual value, and necessary increases in rental rates that are realistic to expect are highlighted.

## Summary of Financial Analysis Results

<b>621 Woodland Square</b>		<b>Office Reuse</b>		<b>Residential</b>	
		<b>Office Reuse</b>	<b>Full Occupancy</b>	<b>Residential</b>	<b>With Incentives</b>
Entrepreneurial Return as % of Investment	-24.2%		33.6%	-29.5%	-19.4%
Residual Land Value	\$3.71		\$26.61	(\$1.57)	\$3.56
Necessary Increase in Residential Rents				32.5%	23.7%
<b>605 Woodland Square</b>		<b>Office Reuse</b>		<b>Residential</b>	
		<b>Office Reuse</b>	<b>Full Occupancy</b>	<b>Residential</b>	<b>With Incentives</b>
Entrepreneurial Return as % of Investment	-16.1%		46.8%	-33.3%	-24.9%
Residual Land Value	\$24.15		\$62.40	\$2.05	\$9.92
Necessary Increase in Residential Rents				37.4%	29.6%
<b>South Entry Site</b>		<b>Mixed Use</b>			
		<b>Mixed Use</b>	<b>with Incentives</b>		
Entrepreneurial Return as % of Investment	-4.9%		6.2%		
Residual Land Value	(\$19.77)		\$6.28		
Necessary Increase in Residential Rents	17.4%		9.9%		
<b>South Entry Site Expanded</b>		<b>Mixed Use</b>			
		<b>Mixed Use</b>	<b>with Incentives</b>		
Entrepreneurial Return as % of Investment	-2.2%		8.2%		
Residual Land Value	(\$11.21)		\$11.28		
Necessary Increase in Residential Rents	19.2%		10.2%		

For the **621 Building**, the Office Reuse at Full Occupancy has the strongest performance. However, that case does not reflect the economic reality of protracted high vacancy. But even the reuse case with discounted effective rent performs better than the residential conversion cases. Conversion to residential use does not appear to be feasible.

For the **605 Building**, the results are similar. Conversion to residential use does not appear to be feasible.

For the **South Entry Site**, a mixed use alternative with incentives approaches feasibility. The entrepreneurial return is positive and with an increase of 10% in rents beyond the assumed level, the return would match the 10% target hurdle.

For the **South Entry Extended Site**, a mixed use alternative with incentives approaches feasibility. The entrepreneurial return is positive and with an increase of 10% in rents beyond the assumed level, the return would match the 10% target hurdle rate.

### Summary of Conclusions

1. Based on the results of the analysis, it's unlikely that the office buildings would be converted to residential uses. More likely, building owners will hold the properties in the hope that the office market recovers more quickly than projected.

2. Feasibility of higher density mixed use development in the district can be feasible, but it 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.
3. The City can enhance the feasibility of investment by reducing impact fees, and designating the area as eligible for the Multifamily Tax Exemption Program.
4. There are a variety of public improvements that can enhance the desirability of the area and the feasibility of development, including: pedestrian improvements, expanded bike lanes and trails, streetscape improvements at select locations, and community open space and park improvements.
5. 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.

# OPPORTUNITY SITES AND DEVELOPMENT CONCEPTS

Four opportunity sites are considered in this analysis.

**Table 1.  
Characteristics of Development Concepts**

	621 Woodland Square	605 Woodland Square	Southern Entry Site	Southern Entry Expanded Site
<b>Site Area (SF)</b>	57,908	130,469	37,462	85,813
<b>Potential Use</b>	Residential or Office	Residential or Office	Residential and Retail	Residential and Retail
<b>Gross Building Area (SF)</b>				
Residential or Office	22,848	75,232	54,600	104,000
Retail			9,000	27,000
Subtotal	22,848	75,232	63,600	131,000
<b>Residential Units</b>	22	72	55	104
<b>Parking Spaces</b>				
Surface	100	170	38	89
Structure	-	-	44	96
Subtotal	100	170	82	185

**621 Woodland Square** is one of two office buildings considered for reuse or conversion to residential use. The building has experienced water damage from broken pipes, and would require significant interior renovation for office reuse. Conversion to residential would require more significant renovations as all interior partitions and systems would have to be replaced. The average depth of the building is only 60’ which is narrow for a double loaded corridor configuration. Reuse as residential lofts will provide more flexibility for residential reuse.

**605 Woodland Square** is the second office building considered for reuse or conversion to residential use. The building would require significant new tenant improvements for office reuse. Conversion to residential would require more significant renovations as all interior partitions and systems would have to be replaced. Further, the building envelope would be renovated to provide operable windows, exterior doors and decks.

The **Southern Entry Site** is a vacant site at the northeast corner of Pacific Avenue and Selma Street. The site is located on a prominent round-about and offers views to Mount Rainier to the southeast. The site could be developed with a mix of retail, surface and structured parking at ground level, and three floors of apartments above.

The **Southern Entry Site** could be expanded with purchase of three single family residences to the north. The larger site could also be developed with a mix of retail, surface and structured parking at ground level, and three floors of apartments above.

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

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.

Alternative uses for a site can be evaluated for their residual land value. That value is the amount an investor/developer could afford to pay for a site, and still achieve an acceptable return given construction and rental market conditions. The use with the highest residual value is the highest and best use, and represents the optimal use of the site from a purely economic perspective.

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 10% entrepreneurial return, assuming all other conditions remain unchanged.

## POSSIBLE INCENTIVES

Variations on the physical concepts are considered to reflect the impact of certain incentives that might be available.

### Reduced Impact Fees

Current impact fees are:

	Multifamily (/unit)	Office (/sq. ft.)	Retail (/sq. ft.)
Traffic Impact Fee	\$1,660	\$0.00	\$1.20
School Impact Fee	\$1,184	\$0.00	\$0.00

Traffic fees are calculated based on trips affecting key arterials. The fee for residential fees is capped at \$1,660. The fee for office use is zero because no additional trips beyond previous levels are anticipated. The retail rate was calculated by staff based on the fee determined for a hypothetical project. The school impact fee is collected through the SEPA process.

For purpose of this analysis, alternative cases are considered with no impact fees.

### **Multifamily Tax Exemption**

Lacey 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 \$.65 to \$1.10 per square foot per year for the 8 year case depending on the residential investment, and \$.80 to \$1.30 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 \$1.35 used in the analysis.

The analysis shows the impact these possible incentives on feasibility.

### **CONVERSION COSTS**

The feasibility of conversion of the office buildings to residential use largely depends on the capital cost of conversion. That cost will vary depending on the building characteristics and conditions. The scope of this analysis does not include a building-specific assessment and cost estimate. However it is possible to apply some reasonable cost factors based on general experience from other projects.

Conversion of office buildings is most often successful with older, and in many cases historic structures. The buildings often have floor plates and demising that no longer meets the needs of current office users. Further, the tax credits available for historic renovations enhance the feasibility. In the Woodland District, the office buildings considered for renovation are only 20 to 25 years old and are still suitable for continued office use.

In general, the viability of conversion is related to the floor plate suitability, replacement of utilities and services, and reuse of exterior cladding (windows, balconies, and changes to appearance). Davis Langdon is an affiliate of AECOM and provides construction cost, contract, and project management. They conducted a study *Cost Model; Residential Units* that was published in *Building Magazine* in September 2011 that explored the cost drivers in conversion of buildings to residential use. The study concludes that: "In high

quality residential schemes with new high quality facades and fairly extensive remodeling of structure, the savings [new build versus conversion residential scheme] are likely to be limited to a maximum of 10% of the overall costs. This compares to affordable schemes where the structural and façade elements are likely to form a major part of overall costs, meaning potential savings could be far greater and could reach up to 20% or 30%.” For purposes of this analysis, the cost of new build residential is assumed at \$90 per gross square foot, and the cost of conversion is assumed at \$63 to \$72 per gross square foot (70% to 80% of new build).

## **LAND PRICE ASSUMPTIONS**

A property price is assumed for each of the catalyst sites in order to make an initial determination of feasibility. Ultimately the price of the land will be determined by what a developer could afford to pay for the site under the highest and best use. The residual land value analysis will determine what the value might be. The assumed value for the two office buildings is based on assessed values of \$1.0 million for the 605 Building and \$5.5 million for the 621 Building, equivalent to \$17 and \$40 per square foot of land, respectively. The value for the vacant entry site is assumed at \$15 per square foot, a premium over the assessed value of \$12 per square foot. The same value is assumed for the expanded site, with the \$725,000 assumed value of the extra site area adequate to cover the value of the three dwellings.

## **OFFICE RENT ASSUMPTIONS**

The market analysis found that the existing vacant office space in the district will likely require nine to thirteen years to be absorbed. Accordingly, many of the buildings will remain vacant for many years. For purposes of this analysis, assumed rents are discounted to reflect this vacancy period. Using a 7.5% capitalization rate, a building that is vacant for seven years would be worth 40% less than a building full today. Accordingly, a rent of 60% of current market rates would provide an equivalent value. This factor is applied to a market rate of \$14 to \$16 per square foot net (tenant pays expenses) to specify an assumed rent range of \$8.40 to \$9.60 for the 621 Building and 605 Building, respectively.

## **APARTMENT RENT ASSUMPTIONS**

Assumed apartment rents are derived from results of the market analysis. Rents are assumed at three different levels:

621 Building. \$12.00/sf/yr. (\$1.00/sf/mo.) reflecting moderate building condition, few building amenities, and possibly live-work tenants.

605 Building. \$14.40/sf/yr. (\$1.20/sf/mo.) reflecting good building condition, some building amenities (decks and common areas), and upper end of the market rent levels.

South Entry Sites. \$16.20/sf/yr. (\$1.35/sf/mo.) reflecting new building condition, building amenities (decks and common areas), and top of the market rents.

Rents are assumed at current rates plus 8% over the period up to stabilization. In the case of the South Entry sites, the assumed \$16.20 future rent per square foot per year is equivalent to \$1.25 per square foot per month currently. Such a rate is at the upper end of current apartment rental rates in the region.

**OTHER ASSUMPTIONS**

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

**Table 2  
Key Financial Assumptions**

<b>Rent (/sq. ft./yr.)</b>		
Apartment	\$12.00	- \$16.20
Affordable Apartment	\$12.00	- \$15.50
Office-Market	\$14.00	- \$16.00
Office-Equivalent Long Lease-up	\$8.40	- \$9.60
Retail	\$18.00	- \$21.00
<b>Operating Expense (/sq. ft./yr)</b>		
Apartment	\$4.80	- \$6.50
Apartment w/ Tax Exemption	\$4.00	- \$5.20
Office	\$1.00	- \$1.00
Retail	\$1.00	- \$1.00
<b>Construction Cost</b>		
Apartment	\$63.00	- \$90.00
Office Renovation (/sq. ft.)	\$30.00	- \$40.00
Retail (/sq. ft.)	\$110.00	- \$110.00
Aboveground Parking (/sp)	\$21,000	- \$21,000
<b>Soft Costs (excl. Impact Fees)</b>		
Apartment (% of constr.)	28.0%	- 28.0%
Office (% of constr.)	31.0%	- 31.0%
Retail (% of constr.)	31.0%	- 31.0%
<b>Capitalization Rates</b>		
Apartment	6.0%	- 6.0%
Office	7.5%	- 7.5%
Retail	7.5%	- 7.5%

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.

## 621 WOODLAND SQUARE

The office reuse and the residential conversion with incentives are compared in the columns of the following table.

**Table 3**  
**Feasibility Analysis of Opportunity Projects**  
**621 Woodland Square Summary Comparison**

	Office Reuse	Office Reuse Full Occupancy	Residential	Lower Impact Fees	MFTE 12 Years	MFTE 8 years	Lower Fees MFTE
<b>Description</b>							
Site Area (SF)	57,908	57,908	57,908	57,908	57,908	57,908	57,908
Gross Building Area (SF)							
Residential	-	-	22,848	22,848	22,848	22,848	22,848
Commercial	22,848	22,848	-	-	-	-	-
Residential Units	-	-	22	22	22	22	22
Designated Affordable Units	-	-	-	-	4	-	4
Parking Spaces	100	100	22	22	22	22	22
<b>Estimated Capital Investment</b>							
Land Acquisition and TDR's	\$998,913	\$998,913	\$998,913	\$998,913	\$998,913	\$998,913	\$998,913
Construction	1,163,920	1,163,920	1,540,120	1,540,120	1,540,120	1,540,120	1,540,120
Soft Costs	360,815	360,815	493,119	431,234	493,119	493,119	431,234
<b>Total</b>	<b>\$2,523,648</b>	<b>\$2,523,648</b>	<b>\$3,032,152</b>	<b>\$2,970,267</b>	<b>\$3,032,152</b>	<b>\$3,032,152</b>	<b>\$2,970,267</b>
<b>Financial Performance</b>							
Annual Operating Income	\$143,531	\$252,927	\$128,177	\$128,177	\$143,714	\$140,801	\$143,714
Capitalized Value and Sales Proceeds	\$1,913,748	\$3,372,365	\$2,136,288	\$2,136,288	\$2,395,232	\$2,346,680	\$2,395,232
Entrepreneurial Return	(\$609,900)	\$848,717	(\$895,864)	(\$833,979)	(\$636,920)	(\$685,472)	(\$575,035)
Return as Percent of Investment	-24.17%	33.63%	-29.55%	-28.08%	-21.01%	-22.61%	-19.36%
Residual Land Value	\$3.71	\$26.61	(\$1.57)	(\$0.51)	\$2.49	\$1.73	\$3.56
<b>Necessary Condition for 10% Return</b>							
Necessary Apartment Rent (/SF/Yr)			15.90	\$15.68	\$15.06	\$15.22	\$14.84
Assumed Apartment Rent (/SF/Yr)			\$12.00	\$12.00	\$12.00	\$12.00	\$12.00

Considering the Return as % of Investment line, only the Office Reuse at Full Occupancy case achieves a positive return, which means that the values of the completed projects in the other cases fall short of the cost of development.

The residual value line reflects what a developer could afford to pay for the property. The highest value is for the office reuse case with full occupancy at \$27 per square foot. The value falls well short of the assumed property value for the other cases. The difference in value for the office re-use and office reuse at full occupancy demonstrates the loss in value associated with the depressed market conditions. But even the base office reuse case has a higher, if only slightly, residual value than the best residential conversion case. An owner would be inclined to maintain the office use and hope for a favorable lease rather than convert to residential.

The necessary condition line for the residential conversion cases compares assumed residential rents to the rents that would be necessary to achieve a 10% return with all

other assumptions held constant. As shown, under the most favorable case, with no impact fees and a property tax exemption, the necessary rent of \$14.84 exceeds the assumed rent by 24%. This gap isn't likely to be closed in the foreseeable future.

Based on these results it's unlikely that the property would be reused unless the office market recovers more quickly than projected in the market analysis, or a strong residential market emerges and the City makes available incentives through reduced impact fees and tax exemptions.

## 605 WOODLAND SQUARE

The office reuse and the residential conversion with incentives are compared in the columns of the following table.

**Table 4  
Feasibility Analysis of Opportunity Projects  
605 Woodland Square Summary Comparison**

	Office Reuse	Office Reuse Full Occupancy	Residential	Lower Impact Fees	MFTE 12 Years	MFTE 8 years	Lower Fees MFTE
<b>Description</b>							
Site Area (SF)	130,469	130,469	130,469	130,469	130,469	130,469	130,469
Gross Building Area (SF)							
Residential	-	-	75,232	75,232	75,232	75,232	75,232
Commercial	75,232	75,232	-	-	-	-	-
Residential Units	-	-	72	72	72	72	72
Designated Affordable Units	-	-	-	-	14	-	14
Parking Spaces	170	170	72	72	72	72	72
<b>Estimated Capital Investment</b>							
Land Acquisition and TDR's	\$5,218,760	\$5,218,760	\$5,218,760	\$5,218,760	\$5,218,760	\$5,218,760	\$5,218,760
Construction	2,681,960	2,681,960	5,596,704	5,596,704	5,596,704	5,596,704	5,596,704
Soft Costs	831,408	831,408	1,770,848	1,567,077	1,770,848	1,770,848	1,567,077
<b>Total</b>	<b>\$8,732,128</b>	<b>\$8,732,128</b>	<b>\$12,586,312</b>	<b>\$12,382,541</b>	<b>\$12,586,312</b>	<b>\$12,586,312</b>	<b>\$12,382,541</b>
<b>Financial Performance</b>							
Annual Operating Income	\$549,795	\$961,465	\$503,904	\$503,904	\$558,259	\$548,667	\$558,259
Capitalized Value and Sales Proceeds	\$7,330,606	\$12,819,533	\$8,398,399	\$8,398,399	\$9,304,318	\$9,144,450	\$9,304,318
Entrepreneurial Return	(\$1,401,522)	\$4,087,405	(\$4,187,913)	(\$3,984,142)	(\$3,281,995)	(\$3,441,863)	(\$3,078,224)
Return as Percent of Investment	-16.05%	46.81%	-33.27%	-32.18%	-26.08%	-27.35%	-24.86%
Residual Land Value	\$24.15	\$62.40	\$2.05	\$3.61	\$8.36	\$7.25	\$9.92
<b>Necessary Condition for 10% Return</b>							
Necessary Apartment Rent (/SF/Yr)			19.78	\$19.56	\$18.89	\$19.04	\$18.66
Assumed Apartment Rent (/SF/Yr)			\$14.40	\$14.40	\$14.40	\$14.40	\$14.40

Considering the Return as % of Investment line, only the Office Reuse at Full Occupancy case achieves a positive return, which means that the values of the completed projects in the other cases fall short of the cost of development.

The residual value line reflects what a developer could afford to pay for the property. The highest value is for the office reuse case with full occupancy at \$62 per square foot. The difference in value for the office re-use and office reuse at full occupancy demonstrates the loss in value associated with the depressed market conditions. But even the base office reuse case has a higher, residual value than the best residential conversion

case. An owner would be inclined to maintain the office use and hope for a favorable lease rather than convert to residential.

The necessary condition line for the residential conversion cases compares assumed residential rents to the rents that would be necessary to achieve a 10% return with all other assumptions held constant. As shown, under the most favorable case, with no impact fees and a property tax exemption, the necessary rent of \$18.66 exceeds the assumed rent by 30%. This gap isn't likely to be closed in the foreseeable future.

Based on these results it's unlikely that the property would be reused unless the office market recovers more quickly than projected in the market analysis, or a strong residential market emerges and the City makes available incentives through reduced impact fees and tax exemptions.

### SOUTHERN ENTRY SITE

The mixed use schemes with various incentives are compared in the columns of the following table.

**Table 5  
Feasibility Analysis of Opportunity Projects  
Southern Entry Site Summary Comparison**

	Mixed Use	Lower Impact Fees	MFTE 12 Years	MFTE 8 years	Lower Fees MFTE
<b>Description</b>					
Site Area (SF)	37,462	37,462	37,462	37,462	37,462
Gross Building Area (SF)					
Residential	54,600	54,600	54,600	54,600	54,600
Commercial	9,000	9,000	9,000	9,000	9,000
Residential Units	55	55	55	55	55
Designated Affordable Units	-	-	11	-	11
Parking Spaces	82	82	82	82	82
<b>Estimated Capital Investment</b>					
Land Acquisition and TDR's	\$561,930	\$561,930	\$561,930	\$561,930	\$561,930
Construction	6,923,000	6,923,000	6,923,000	6,923,000	6,923,000
Soft Costs	2,136,247	1,980,965	2,136,247	2,136,247	1,980,965
Total	\$9,621,177	\$9,465,895	\$9,621,177	\$9,621,177	\$9,465,895
<b>Financial Performance</b>					
Annual Operating Income	\$583,135	\$583,135	\$637,295	\$634,186	\$637,295
Capitalized Value and Sales Proceeds	\$9,150,415	\$9,150,415	\$10,053,090	\$10,001,265	\$10,053,090
Entrepreneurial Return	(\$470,762)	(\$315,480)	\$431,912	\$380,088	\$587,194
Return as Percent of Investment	-4.89%	-3.33%	4.49%	3.95%	6.20%
Residual Land Value	(\$19.77)	(\$15.63)	\$2.13	\$0.88	\$6.28
<b>Necessary Condition for 10% Return</b>					
Necessary Apartment Rent (/SF/Yr)	\$19.02	\$18.79	\$18.04	\$17.86	\$17.81
Assumed Apartment Rent (/SF/Yr)	\$16.20	\$16.20	\$16.20	\$16.20	\$16.20

Considering the Return as % of Investment line, several of the cases achieve positive returns, although short of the 10% target. The highest residual land value is shown for the mixed use case with incentives.

The necessary condition line compares assumed residential rents to the rents that would be necessary to achieve a 10% return with all other assumptions held constant. As shown, under the most favorable case, with no impact fees and a property tax exemption, the necessary rent of \$18.25 exceeds the assumed rent by 13%. The necessary rent is equivalent to \$1.40 per square foot in today's dollars, a figure that could be achieved if the area emerges as an attractive residential location.

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.

## **EXPANDED SOUTHERN ENTRY SITE**

The mixed use schemes with various incentives are compared in the columns of the following table.

**Table 6**  
**Feasibility Analysis of Opportunity Projects**  
**Expanded Southern Entry Site Summary Comparison**

	Mixed Use	Lower Impact Fees	MFTE 12 Years	MFTE 8 years	Lower Fees MFTE
<b>Description</b>					
Site Area (SF)	85,813	85,813	85,813	85,813	85,813
Gross Building Area (SF)					
Residential	104,000	104,000	104,000	104,000	104,000
Commercial	27,000	27,000	27,000	27,000	27,000
Residential Units	104	104	104	104	104
Designated Affordable Units	-	-	21	21	21
Parking Spaces	185	185	185	185	185
<b>Estimated Capital Investment</b>					
Land Acquisition and TDR's	\$1,287,195	\$1,287,195	\$1,287,195	\$1,287,195	\$1,287,195
Construction	14,568,500	14,568,500	14,568,500	14,568,500	14,513,000
Soft Costs	4,502,531	4,206,755	4,502,531	4,502,531	4,191,215
<b>Total</b>	<b>\$20,358,226</b>	<b>\$20,062,450</b>	<b>\$20,358,226</b>	<b>\$20,358,226</b>	<b>\$19,991,410</b>
<b>Financial Performance</b>					
Annual Operating Income	\$1,297,526	\$1,297,526	\$1,400,689	\$1,383,009	\$1,400,689
Capitalized Value and Sales Proceeds	\$19,919,933	\$19,919,933	\$21,639,313	\$21,344,647	\$21,639,313
Entrepreneurial Return	(\$438,293)	(\$142,517)	\$1,281,087	\$986,421	\$1,647,903
Return as Percent of Investment	-2.15%	-0.71%	6.29%	4.85%	8.24%
Residual Land Value	(\$11.21)	(\$7.76)	\$7.00	\$3.88	\$11.28
<b>Necessary Condition for 10% Return</b>					
Necessary Apartment Rent (/SF/Yr)	19.31	\$19.08	\$18.09	\$18.30	\$17.86
Assumed Apartment Rent (/SF/Yr)	\$16.20	\$16.20	\$16.20	\$16.20	\$16.20

Considering the Return as % of Investment line, several of the cases achieve positive returns, and the most favorable case approaches a 10% return. The larger site area allows for proportionately more retail development. The highest residual land value is shown for the mixed use case with incentives.

The necessary condition line compares assumed residential rents to the rents that would be necessary to achieve a 10% return with all other assumptions held constant. As shown, under the most favorable case, with no impact fees and a property tax exemption, the necessary rent of \$17.86 exceeds the assumed rent by 10%. The necessary rent is equivalent to \$1.35 per square foot in today's dollars, a figure that could be achieved if the area emerges as an attractive residential location.

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.

## CONCLUSIONS

1. Based on the results of the analysis, it's unlikely that the office buildings would be converted to residential uses. More likely, building owners will hold the properties in the hope that the office market recovers more quickly than projected.
2. Feasibility of higher density mixed use development in the district can be feasible, but it 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.
3. 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 in the district.
4. 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.
5. 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.