Technical Memo

To: City of Idaho Falls and Stantec

From: Michelle Humphrey, Wyatt Schroeder and Shanna Zuspan, Agnew::Beck Consulting

Date: May 18, 2021

Re: **Key Findings from Financial Feasibility Analysis – Gateway Catalyst Project**

This technical memo summarizes the key findings and methodology from a financial feasibility analysis that Agnew::Beck conducted to evaluate the concept development plans outlined in the *Gateway Catalyst Project: An Implementation Component of the Northgate/1st Street Area-Wide Planning Study* prepared by Stantec for the City of Idaho Falls in April 2021. Attached to this memo is a PowerPoint with summary level and detailed tables showing the results of the pro forma analysis.

Figure 1. Summary of Pro Forma Findings

	Block 1: Commercial + Apartments	Block 2: Live/Work Units (Rental)	Block 2: Live/Work Units (For Sale)
Units Rental	63	20	-
Units For Sale	-	-	20
Commercial Sqft	15,250	-	-
Residential Sqft	51,400	43,000	43,000
Total Development Cost (TDC)	$13,867,277	$6,306,738	$6,306,738
Capitalized Value of Income Stream	$16,077,456	$4,308,737	-
Net Sale Proceeds	-	-	$5,640,000
Total Value Generated	$16,077,456	$4,308,737	$5,640,000
Surplus Value (Gap)	$2,210,179	($1,998,001)	($923,368)

Key Findings: Block 1

- **The mixed use rental housing at Block 1 is likely financially feasible.** The concept plans for Block 1 call for 63 rental units split evenly between one- and two-bedroom units, at roughly 750 and 850 square feet, respectively. Block 1 also includes 15,000 square feet of commercial space. Block 1 is a little over two acres. Based on the revenue and cost assumptions used in the pro forma model, market rate rental product is likely financially feasible, when feasibility is measured in two ways: capitalized value versus total development costs and return rates.

  The first measure of financial feasibility is whether the capitalized value of the net income stream at the prevailing cap rate (6% in the Idaho Falls market) is equal to or greater than the total development cost. Developers look to this measure to tell them whether the development they are building will result in an income stream that is at least as valuable as the cost incurred to build the project. If the capitalized value of the net income stream is less than the total development costs, the project has limited financial feasibility. For Block 1, the capitalized value of the net income stream is $16.1 million and the total development costs are $13.9 million indicating sufficient value for a feasible project.

The second measure of financial feasibility is the rate of return the project achieves. Return on cost measures the net operating income as a percentage of total development costs and should range from seven to twelve percent to achieve threshold returns, with exact amounts dependent on the project's risk levels and the developer's return requirements. The Block 1 return on cost is seven percent, which indicates the project is financially feasible. Another critical return measure is cash-on-cash, which measures the cash available after operating expenses and debt service as a percentage of the equity investment and should be higher than 10 percent to entice private equity capital with other options for investment, such as the stock market. Block 1 shows a 13 percent cash-on-cash return indicating financial feasibility.

- **Rents are based on market rents with a premium for new construction.** The Block 1 financial feasibility model is based on market rents with a 35 percent premium for new construction. A market study prepared in 2019 by Valbridge Property Advisors indicates that 1-bedroom apartments could rent for $937 per month and 2-bedroom apartments could rent for $1,047 per month.[1] To account for the value associated with new construction and rents that have increased since 2019, rents in the pro forma model were escalated by 35 percent to $1,265 for a one bedroom and $1,414 for a 2 bedroom; these rent levels form the basis of the return measures described previously.[2]

  As part of the analysis, we conducted a sensitivity analysis of the pro forma. For Block 1 to be financially feasible, rent levels must achieve at least a 20 percent new construction premium ($1,124 for a 1-bedroom and $1,257 for a 2-bedroom).

  Commercial rents for the ground floor space are modeled at $1.75 per square foot per month triple net. This was based on market research on other retail offerings in the area.[3]

- **Total development cost budget does not include substantial offsite infrastructure expenses.** The development cost budget is based on interviews with Idaho-based developers experienced in recent projects in Ada County, Valley County and Teton County, who provided budgets and estimates of hard costs per square foot that were applied to the plans for the Gateway Catalyst Project. Interviewees suggested that hard costs per square foot in Idaho Falls could range from $185 to $200 per square foot and $185 is assumed in the pro forma model. Public and private site work, including sidewalk improvements along the property frontages are included in this assumption, but because the project ideas are concept only and no design has been completed, full infrastructure and roadway improvements are not budgeted for. At the same time, the Gateway Catalyst Project sits within an already developed neighborhood and infrastructure and roadway improvements are mostly in place. Any upgrades to road alignments and offsite infrastructure that are not funded by the City or through public financing tools could decrease the financial viability of the project if required of the private developer.

[1] Market Study for Avonmore Apartments (Proposed) 670 Simplot Circle, Idaho Falls, ID 83402. Prepared by Valbridge Property Advisors for Northwest Real Estate Capital Corporation, August 1, 2019.

[2] 2019 market rents were adjusted based on the percent change in Fair Market Rents (FMR) for Idaho Falls HUD FMR Area between 2019 and 2021. These adjustments are unit specific and based on the number of bedrooms.

[3] Annual average based on quarterly market data for Bonneville County published by Colliers Idaho https://www.colliers.com/en/research/idaho/q1-2021-eastern-and-southern-id-market-report

We conducted a sensitivity analysis of the construction budget; if hard costs increase more than 15 percent (or higher than $213 per square foot), the pro forma does not pencil nearly as well and financial feasibility will likely be reduced.

- **Scale matters.** Block 1 assumes 63 rental apartments, which yields a financially feasible project. To compensate for land costs and other fixed costs, Block 1 would need to build out with at least 55 units. Fewer than 55 units yields less capitalized value compared to total development costs and lower return rates.

Key Findings: Block 2

- **Rental live work units are not financially feasible.** The concept plans for Block 2 call for 20 live work townhomes that are roughly 1,600 square feet, are two stories and offer 3-bedrooms with the ground floor available for home office and workspace. If the live work units are offered as rental, there is a $2 million gap in financial feasibility because the total development costs are $2 million more than the capitalized value of the net income stream. The development budget is the same as Block 1 except the hard costs on a per square foot basis are reduced by 30 percent to account for less costly construction type. The return on cost and the cash-on-cash returns are lower than market thresholds at four percent and two percent, respectively. The lack of financial feasibility for live work units that are offered as rental product is due to the lower density relative to the property size; more rental units at smaller sizes are needed to improve financial feasibility. At least 30 live work units on one acre of land are needed to make the rental pro forma pencil.
- **For-sale live work units perform better than rental.** If the live work units are sold at $300,000 per unit, the net sale proceeds are $5.6 million which is close to the $6.3 million in total development costs and comes closer to being a feasible product. Sale prices of at least $350,000 per unit would allow for a feasible live work housing project.

Policy Recommendations

As the City of Idaho Falls considers implementing the Gateway Catalyst Project as part of the Northgate / 1st Street Area-Wide Planning Study, the following policy recommendations offer strategies for overcoming financial feasibility constraints and capitalizing on opportunities.

- If it has not done so already, we recommend the City of Idaho Falls complete a transaction to purchase the property associated with the Gateway Catalyst Project. This allows the City maximum flexibility to RFP the land to the most qualified developer and support necessary infrastructure requirements on an as-needed basis.
- Assuming the City proceeds (or completes) the property purchase and plans to RFP the Gateway Catalyst site, the following strategies should be considered in the RFP process:
  - Do two RFPs; one for Block 1 and the other for Block 2. This allows the apartment rental project to proceed and a different developer with different skills to submit for the live work product.
  - Identify public funding for any large scale regional or offsite infrastructure, such as road reconfigurations or increased utility capacity. As described previously, basic site improvement

costs and vertical construction costs are built into the total development cost budget. Infrastructure expenses would be separate.

  - Do not mandate ownership versus rental. The housing market is changing quickly. Price points are increasing, especially in the for-sale market. Live work townhomes are a viable option for home ownership with opportunities to work-from-home. Allow the market to determine which type of housing product is the most financially viable.
  - Be aware that construction costs are on the rise. A pro forma prepared four months from now may look very different from the analysis provided in this report. Construction costs are on the rise due to scarcity in supplies and labor force due to the pandemic. Depending on timing and construction costs, the City may need to consider holding the land for longer and waiting out the rapid cost increases or may consider a land write down or a long-term ground lease to support the financial viability of the project.

- The City should consider applying (and codifying) flexible parking requirements. The conceptual site plan for Block 1 assumes that on-street parking will accommodate a portion of the commercial parking demand and guest parking for apartment units.

Idaho Falls
Gateway Catalyst Project

Pro Forma Financial Feasibility Analysis

An implementation component of the
***Northgate/1st Street** Area-Wide Planning Study*

May 2021

Engage Plan Implement

AGNEW ::BECK

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Purpose, Methods & Key Findings

Introduction

Modeling Purpose & Method

Purpose

To test the feasibility of a potential catalyst project at a prominent gateway location to Idaho Falls' Northgate Mile and 1st Street corridors

Method

This analysis builds upon recently completed Northgate/1st Street Area Wide Planning Study and associated market study. The analysis uses conceptual redevelopment plans and perspective renderings created by Stantec. The conceptual plans have been broken down into the follow components for analysis:

- Block 1: Includes 2 commercial buildings, 2 rental apartment buildings and 1 mixed use building with ground floor commercial and upper level residential.
- Block 2: Includes 4 buildings containing 20 live/work units
    - Both rental and for-sale option for the live/work units are considered in this analysis

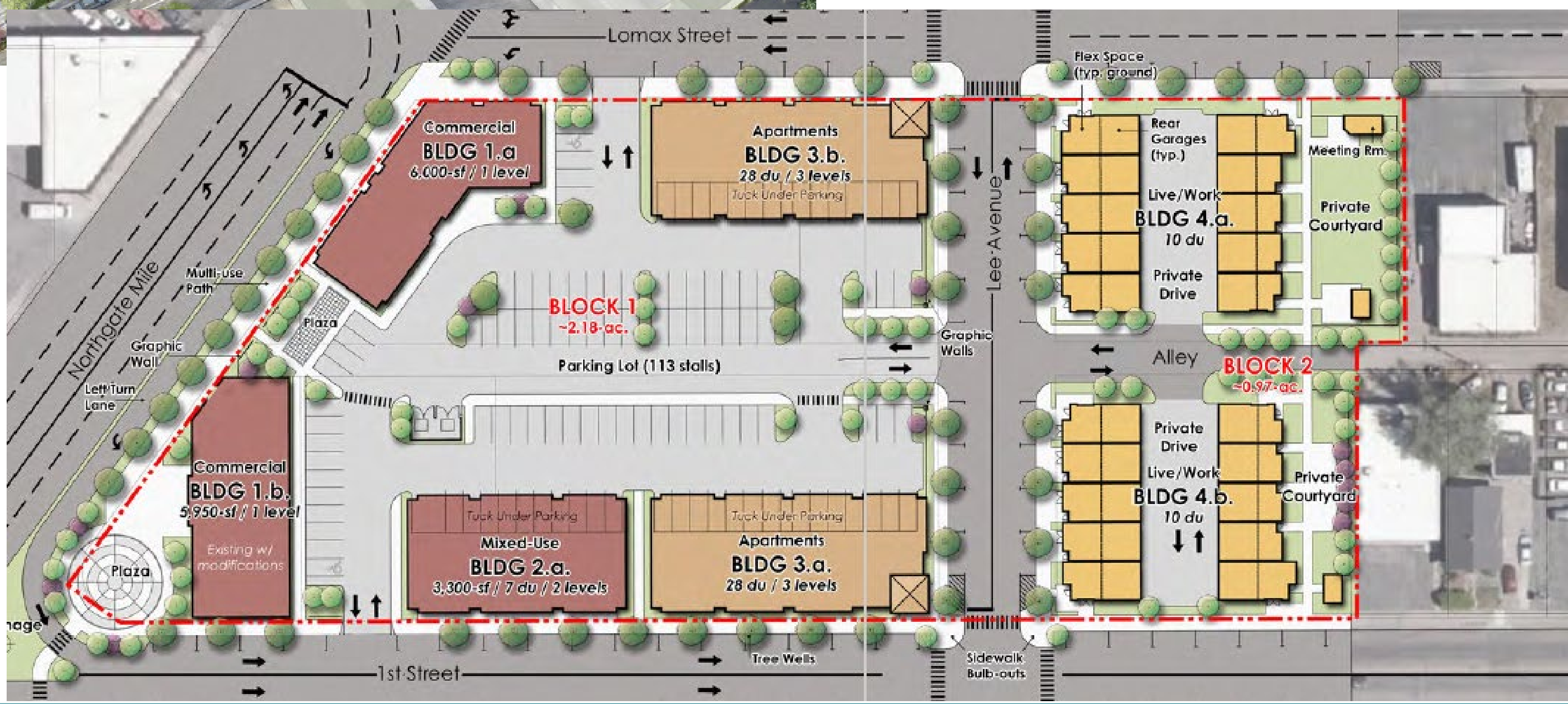
Gateway Catalyst Project Concept Plans

LEGEND

Multi-family / Apartment Building
Height: 3 levels
Units Per Floor: 8 units
Dimensions: 140-ft X 60-ft

Live-Work Townhouse-Style Buildings
Height: 3 levels
Dimensions: 20-ft X 40-ft OR 20-ft X 33-ft
Flex-Space: Ground Level / Street-facing
Garage: 2-vehicle / rear access

Commercial / Mixed-Use Building



Key Findings

Block 1: Commercial, Mixed Use and Rental Apartments

- Given pro forma assumptions, the proposed development plans for Block 1 of the Gateway Catalyst Project are likely financially feasible
  - Assumes market rate rents with a premium for new construction
  - Assumes a 50/50 split of 1-bedroom and 2-bedroom apartments
- Estimated 7% return on cost and 13.6% return on equity

Block 2: Live/Work Units

- The proposed plans for Block 2 of the Gateway Catalyst Project show a financial feasibility gap ranging from just under $1 million to $2 million
  - Under the rental scenario, the feasibility gap is just under $2 million but the for-sale scenario shows a gap that is less than half that size, around $900,000.
  - Assumes a sale price of $300,000 or monthly rent of $1,646

Note: Public and private site work, including sidewalk improvements along the property frontages are included in this assumption, but because the project ideas are concept only and no design has been completed, full infrastructure and roadway improvements are not budgeted for.

Summary of Pro Forma Findings

No Incentives + Market Rate Rents

	Block 1: Commercial + Apartments	Block 2: Live/Work Units (Rental)	Block 2: Live/Work Units (For Sale)
Units Rental	63	20	-
Units For Sale	-	-	20
Commercial Sqft	15,250	-	-
Residential Sqft	51,400	43,000	43,000
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Surplus Value (Gap)	$2,210,179	($1,998,001)	($923,368)

Block 1: Based on revenue and cost assumptions used in this pro forma model, market rate rental product is likely financially feasible

- Block 1 has the sufficient scale and rent levels to overcome costs
  - Assumes market rate rents with a 35 percent premium for new construction
  - Block 1 would need to build at least 55 units to compensate for land and other fixed costs

Block 2: Live work units as rental product are not financially feasibly but for-sale live work units perform better than rental

- The lack of financial feasibility for rental live work units is due to lower density relative to the property size
  - At least 30 live work units per acre are needed to make the rental pro forma pencil
  - If the live work units are developed as for-sale product, the model assumes sale price of $300,000 per unit but sale prices of at least $350,000 would allow for Block 2 feasibility

Pro Forma Results

	Block 1: Commercial + Apartments	Block 2: Live/Work Units (Rental)	Block 2: Live/Work Units (For Sale)
Units Rental	63	20	0
Units For Sale	0	0	20
Commercial Sqft	15,250	0	0
Residential Sqft	51,400	43,000	43,000
Total Development Cost (TDC)	$13,867,277	$6,292,086	$6,292,086
TDC per Unit	$220,115.50	$314,604.29	$314,604.29
TDC per Sqft	$208.06	$146.33	$146.33
Capitalized Value of Income Stream	$16,077,456	$4,308,737	
Net Sale Proceeds			$5,640,000
Total Value Generated	$16,077,456	$4,308,737	$5,640,000
Value as percent of TDC	116%	68%	90%
Surplus Value (Gap)	$2,210,179	($1,998,001)	($923,368)
Net Operating Income	$964,647	$258,524	
Proceeds from the Sale Product			
Total Development Cost	$13,867,277	$6,292,086	
Cap Rate (Assumed)	6.0%	6.0%	
Return on Cost	7.0%	4.1%	
Cash Throw Off	$246,006	$65,929	

Comparing Rates of Return

Return Measure	What is Measures	Block 1	Block 2	Typical Targets
Return on Cost	Overall return that shows annual net income stream compared to investment	7.0%	4.1%	7% to12%
Cash on Cash	Cash after paying debt service compared to the amount of equity that is invested	13.6%	2.1%	6% to 14%
Internal Rate of Return	Interest rate for an investment consisting of payments (negative values) and income (positive values) that occur at regular periods	4.6%	3.0%	7% to 12%

Urban Land Institute Targets

Figure 3: Return, Absorption, and Risk Characteristics of Real Estate Sectors

Sector Category	Target Return (%)	Absorption	Risk
Land Development	20-30	Sale of project phases	High risk of not receiving entitlement
Single Family	8-15	Pre-orders for units by phase	Possible change in market from start of construction to occupancy
Multifamily For-Sale	8-15	Sales and occupancy upon completion	Possible change in market from start of construction to occupancy
Multifamily Apartments	7-12	Lease and occupancy upon completion	Possible change in market from start of construction to occupancy
Retail	7-12	Preleasing by major tenants usually required for financing Major tenants needed to ensure smaller tenant interest	Possible market change for small shops, although anchor tenants are committed
Office	7-12	Depending on market, may require leasing precommitments	Possible change in market from start of construction to occupancy
Industrial	7-12	Leasing precommitments required only for larger projects	Possible change in market from start of construction to occupancy
Lodging	10-15	Occupancy upon completion	Possible change in market from start of construction to occupancy
Mixed-Use	10-20	Sales, leasing, and occupancy upon completion	Possible weak market for some sectors. Operational risks from conflict of uses

Note: Return is annual unleveraged return on total project costs.

Source: Finance for Real Estate Development. Urban Land Institute. Charles Long. Pg. 20

Modeling Assumptions

Developer Costs

	Block 1: Commercial + Apartments		Block 2: Live/Work Units		Notes
	Total	Per SqFt	Total	Per SqFt	
Land + Building Acquisition	$351,573	$3.70	$156,427	$3.70	*includes land purchase and environmental remediation costs*
Hard Costs	$12,330,250	$185.00	$5,568,500	$129.50	*30% reduction for live/work units*
Soft Costs	$706,664	$10.60	$372,498	$8.66	*permitting, entitlement, A&E, legal, appraisal and title….., etc.*
Total Development Cost before Interest and Operating Reserve	$13,388,487	$200.88	$6,097,425	$141.80	
Estimate of Construction Interest	$423,852	$6.36	$191,417	$4.45	*includes estimated loan fees and interest*
Total Project Cost before Operating Reserve	$13,812,339	$207.24	$6,288,842	$146.25	
Estimate of Operating Reserve	$54,937	$0.82	$17,896	$0.42	*Estimated rent and operating expenses during lease up*
Total Project Costs	$13,867,277	$208.06	$6,306,738	$146.67	

Key Assumptions:

- The development costs budget is based on interviews with local developers.
- Examples were in pre-COVID years and current bids in Boise. Costs may be higher due to recent increases in material costs
- Project ideas are concept only and full infrastructure and roadway improvements are not budgeted for
  - Basic site improvements (grading, paving…, etc.) are included but substantial offsite costs are not
- Hard costs on a per square foot basis are reduced by 30 percent for live work units to account for less costly construction type
- Assumes lease up period of 6 months with 20 percent pre-lease rate during construction

Rental Comps/Median Rents by Unit Type

	Block 1: Commercial + Apartments	Block 2: Live/Work Units (Rental)	Block 2: Live/Work Units (For Sale)
Unit Type	**Estimated Market Rents**		
1 Bedroom	$937		
2 Bedroom	$1,047		
3 Bedroom	$1,219	$1,219	$1,219
Unit Type	**Market Rents with Premium (used in pro forma)**		
1 Bedroom	$1,265		
2 Bedroom	$1,414		
3 Bedroom	$1,646	$1,646	$1,646
Monthly Commercial Rents	**Commercial Rents (used in pro forma)**		
Triple Net Per Square Foot	$1.75	N/A	N/A

Key Assumptions:

- To account for increasing rents and the value associated with new construction the pro forma model uses rents that have been escalated by 35 percent (see "market rents with premium" above)
- Estimated commercial rents are based on quarterly market data published for Bonnevillle County

Policy Recommendations

Key Findings & Implications for Policy

- If they have not done so already, we recommend the City of Idaho falls complete a transaction to purchase the property associated with the Gateway Catalyst Project. This allows the City maximum flexibility to RFP the land to the most qualified developer and support necessary infrastructure requirements on an as needed basis.
- Assuming the City proceeds (or completes) the property purchase and plans to RFP the Gateway Catalyst site, the following strategies should be considered in the RFP process.
    - Do two RFPs; one for Block 1 and the other for Block 2. This allows the apartment rental project to proceed and a different developer with different skills to submit for the live work product.
    - Identify public funding for any large scale regional or offsite infrastructure, such as road reconfigurations or increased utility capacity. As described previously, basic site improvement costs and vertical construction costs are built into the total development cost budget. Infrastructure expenses would be separate.
    - Do not mandate ownership versus rental. Allow the market to determine which type of housing product is the most financially viable.
    - Be aware that construction costs are on the rise. Depending on timing and construction costs, the City may need to consider holding the land for longer and waiting out the rapid cost increases or may consider a land write down or a long-term ground lease to support the financial viability of the project.

Pro Forma Analysis

Detailed Tables

Development Concept Assumptions by Block

	Property	Block 1: Commercial + Apartments	Block 2: Live/Work Units (Rental)	Block 2: Live/Work Units (For Sale)	Notes
	Cross Streets	Lomax St & Lee Avenue (1)	Lomax St & Lee Avenue (2)	Lomax St & Lee Avenue (3)	*Bordered by Lomax Street and Northgate Mile*
	Parcel ID	RPA0620015003B	002-082-01-000	002-082-01-000	
	Census Tract Number	9707	9707	9707	*On the boarder of trackt 9707 and 9711*
	Census Tract Name	Northgate Mile	Northgate Mile	Northgate Mile	
	Total Lot Size (acres)	2.18	0.97	0.97	
	Land Sqft	94,961	42,253	42,253	*Total Lot Size (acres) * 43,560*
	Max Lot Coverage	**40%**	**40%**	**40%**	
70%	**Adjusted Lot Size**	1.53	0.68	0.68	*Use net to gross ratio of 70% to account for circulation and parking*
	Density	26 dwelling units per acre	26 dwelling units per acre	26 dwelling units per acre	
	Number of Units	63	20	20	*Based on Stantec Site Plans*
	For Rent Units	63	20	0	*Based on Stantec Site Plans*
SQFT	**For Sale Units**	0	0	20	*Rental and For-Sale Scenario for Live/Work Units*
500	**No Bedrooms (%)**	0%	0%	0%	*500 Sqft*
750	**1 Bedroom (%)**	50%	0%	0%	*700 Sqft*
850	**2 Bedroom (%)**	50%	0%	0%	*900 Sqft- changed to 850 to reflect site plans*
2150	**3 Bedroom (%)**	0%	100%	100%	*1100 Sqft- changed to 1,600 to reflect site plans*
	Max Floor Plate (Sq Ft)	37,984	16,901	16,901	*Verify with Ryan's site plans*
	Building Sq Ft (Commercial)	15,250	0	0	*From site plan*
	Building Sq Ft (Residential)	51,400	43,000	43,000	
	Residential For Rent (Sq Ft)	51,400	43,000	0	*From site plan*
	Residential For Sale (Sq Ft)	0	0	43,000	*From site plan*
100%	**Gross Building Sqft**	66,650	43,000	43,000	*100% Net to Gross Factor*
	Floors - calculated	1	3	3	*(Total Sq Ft/Floor Plate) Used to test footprint and height restrictions*
	Assumed Floors	3	3	3	*In Site Plan*
	Tax District	001-0000	001-0000	001-0000	*"Tax Code Area"*
	Mil Rate	**13.5**	**13.5**	**13.5**	*Based on Tax Code Area:* https://assets-global.website-files.com/5fb9550a8b057e416615c08e/6
	Total Assessed Value	$770,998	$505,312	$505,312	*Based on Bonneville County Parcel Viewer Data*
	Land Value	$212,858	$94,705	$94,705	*Based on Bonneville County Parcel Viewer Data*
	2019 Taxes	$11,924	$9,565	$9,565	*Based on Bonneville County Parcel Viewer Data*
	Median Gross Rent	$819	$819	$819	*2019: ACS 5-Year Estimates by Census Tract*
	Adjusted Gross Rent	$943	$943	$943	*Adjusted for 2021 based on fair market rents*
	RENTS W/O PREMIUM	87%	87%	87%	
	No Bedrooms	$757	$757	$757	*Based on 2019 AVON Market study + adjusted for 2021 using fair market rents*
	1 Bedroom	$937	$937	$937	*Based on 2019 AVON Market study + adjusted for 2021 using fair market rents*
	2 Bedroom	$1,047	$1,047	$1,047	*Based on 2019 AVON Market study + adjusted for 2021 using fair market rents*
	3 Bedroom	$1,219	$1,219	$1,219	*Based on 2019 AVON Market study + adjusted for 2021 using fair market rents*
Escalation	**RENTS W/ PREMIUM**				
1.25	**No Bedrooms**	$947	$947	$947	*Escalation for new construction: 1.25*
1.35	**1 Bedroom**	$1,265	$1,265	$1,265	*Escalation for new construction: 1.35*
1.35	**2 Bedroom**	$1,414	$1,414	$1,414	*Escalation for new construction: 1.35*
1.35	**3 Bedroom**	$1,646	$1,646	$1,646	*Escalation for new construction: 1.35*

Detailed Pro Forma Tables

Block 1

Block 1: Total Development Costs

Total Development Costs Detailed

A::B Assumptions	Apartments
Number of Units	63
For Rent Units	63
For Sale Units	0
Gross Building Sqft	66,650
Residential For Rent (Sq Ft)	51,400
Residential For Sale (Sq Ft)	0
Building Sq Ft (Commercial)	15,250
Land Sqft	94,961
Land Value	212,858

	Land + Building Acquisition				
1	Land Purchase	$2.24	per land sqft		$212,858
2	Existing Building Purchase	$0	Imputed		$0
3	Environmental Remediation	$1.46	per land sqft		$138,715
4	Subtotal				$351,573
	Hard Costs				
5	Subtotal			$185.00	$12,330,250
	Soft Costs				
6	Permit Fees + Special Inspections	$0.53	per sqft		$35,224
7	Entitlement (Platting + Rezoning)	$45,000	Imputed		$45,000
8	Architecture & Engineering	4.00%	of hard costs		$493,210
9	Legal & Other Fees	$10,000	Imputed		$10,000
10	Appraisal & Title	$10,000	Imputed		$10,000
11	Marketing	$10,000	Imputed		$10,000
12	Taxes during Construction	$50,000	estimate		$83,229
13	Insurance during Construction	$20,000	estimate		$20,000
14	Total Soft Costs			$10.60	$706,664
15	**Total Development Cost before Interest and Operating Reserve**				**$13,388,487**
	Estimate of Construction Interest				
16	Construction Loan	$12,330,250			
17	Construction Interest	2.50%			
	Construction Loan Fee	1.00%			$123,303
18	Construction Period (months)	18			
19	Average Draw	65.00%			
20	Estimated Construction Loan Interest			$4.51	$300,550
21	**Total Project Cost before Operating Reserve**				**$13,812,339**
	Estimate of Operating Reserve				
22	Gross Potential Rent (monthly)	$84,370			
23	Lease-Up Period (months until stabilization)	6.0			
24	Average Occupancy during Lease-Up	20%			
25	Estimated Rent during Lease-Up			$101,245	
26	Estimated Op. Expenses during Lease-Up			$156,182	
27	NOI during Lease-Up			($54,937)	
28	First-Year Operating Reserve Required				$54,937
29	**Total Development Costs**			$208	**$13,867,277**
30	*Total Development Costs per Unit*				*$220,116*

Block 1: Net Operating Income

Net Operating Income

	Factor		Annual Revenue/Cost
Revenue			
Gross Potential Residential Revenue			$1,012,446
Gross Potential Commercial Revenue	$ 1.75	Commerical Rent Per Square Ft	$320,250
Less: Vacancy	5.00%		*($50,622)*
Less: Bad Debt	0.50%		*($5,062)*
Effective Gross Revenue			**$1,277,011**
Expenses			
Management	6.00%	of Effective Gross Revenue	$76,621
Annual Routine Maintenance	$500	per unit	$31,500
Real Estate Taxes on New Construction	14 mill rate	of estimated total project value	$124,510
Real Estate Taxes on Land	14 mill rate	of land value	$2,874
Insurance	$120	per unit	$7,560
Utilities	$800	per unit	$50,400
Replacement Reserve	$300	per unit	$18,900
Total Expenses			**$312,364**
per unit expenses			*$4,958*
Net Operating Income			**$964,647**

Block 1: Debt Sizing & Return Ratios

Debt Sizing

Pro Forma Net Operating Income (NOI) and Value

Pro Forma NOI	$964,647
Capitalization Rate	6.00%
Value of Income Property Only (NOI / Cap Rate)	$16,077,456

Loan Terms

Interest Rate	4.25%
Amortization (years)	30

Debt Based on Loan to Value (LTV)

Maximum LTV Percentage	75.00%
Maximum Loan Based on LTV for Income Property	$12,058,092

Using Debt Service Coverage Ratio (DSCR)

Monthly Net Operating Income	80,387
Maximum Debt Service Coverage Ratio	1.25
Maximum Monthly Payment (NOI/DSCR/12)	$64,310
Maximum Loan Based on DSCR for Income Propert	$13,072,700

Maximum Loan (Lesser of LTV or DSCR Result)

Maximum Loan for Income Property[c]	$12,058,092
Yearly Debt Service	($718,641)
DSCR	1.34

Return Ratios: Static Pro Forma Stage Analysis

Net Operating Income (NOI)	$964,647
Total Project Cost	$13,867,277
Less: Development Subsidies	*0*
Project Cost after Subsidies	$13,867,277
Return on Cost: NOI/Total Cost)	**7.0%**
Net Operating Income	$964,647
Annual Debt Service 1st Mortgage	$718,641
Annual Debt Service Mez Fund Sized by DSCR	$0
Annual Debt Service Mez Fund Sized by Remaining BTCF	$0
Cash Throw-Off (Before Tax Cash Flow: BTCF)	$246,006
Total Adjusted Cost	$13,867,277
Permanent Mortgage	$12,058,092
Equity	$1,809,185
Cash-on-Cash Return (Cash Throw-Off/Equity)	**13.6%**

Development Profit for Apartments

Net Operating Income	$964,647
Overall Cap Rate at Sale	6.0%
Capitalized Value (NOI/Cap Rate)	$16,077,456
Less: Total Adjusted Cost	*($13,867,277)*
Development Profit	**$2,210,179**

Detailed Pro Forma Tables

Block 2

Block 2: Total Development Costs

Total Development Costs Detailed

A::B Assumptions	Apartments
Number of Units	20
For Rent Units	20
For Sale Units	0
Gross Building Sqft	43,000
Residential For Rent (Sq Ft)	43,000
Residential For Sale (Sq Ft)	0
Building Sq Ft (Commercial)	0
Land Sqft	42,253
Land Value	94,705

	Land + Building Acquisition			
1	Land Purchase	$2.24	per land sqft	$94,705
2	Existing Building Purchase	$0	Imputed	$0
3	Environmental Remediation	$1.46	per land sqft	$61,722
4	Subtotal			$156,427
	Hard Costs			
5	Subtotal		$129.50	$5,568,500
	Soft Costs			
6	Permit Fees + Special Inspections	$0.40	per sqft	$17,171
7	Entitlement (Platting + Rezoning)	$45,000	Imputed	$45,000
8	Architecture & Engineering	4.00%	of hard costs	$222,740
9	Legal & Other Fees	$10,000	Imputed	$10,000
10	Appraisal & Title	$10,000	Imputed	$10,000
11	Marketing	$10,000	Imputed	$10,000
12	Taxes during Construction	$50,000	estimate	$37,587
13	Insurance during Construction	$20,000	estimate	$20,000
14	Total Soft Costs		$8.66	$372,498
15	**Total Development Cost before Interest and Operating Reserve**			**$6,097,425**
	Estimate of Construction Interest			
16	Construction Loan	$5,568,500		
17	Construction Interest	2.50%		
	Construction Loan Fee	1.00%		$55,685
18	Construction Period (months)	18		
19	Average Draw	65.00%		
20	Estimated Construction Loan Interest		$3.16	$135,732
21	**Total Project Cost before Operating Reserve**			**$6,288,842**
	Estimate of Operating Reserve			
22	Gross Potential Rent (monthly)	$32,921		
23	Lease-Up Period (months until stabilization)	6.0		
24	Average Occupancy during Lease-Up	20%		
25	Estimated Rent during Lease-Up		$39,506	
26	Estimated Op. Expenses during Lease-Up		$57,402	
27	NOI during Lease-Up		($17,896)	
28	First-Year Operating Reserve Required			$17,896
29	**Total Development Costs**		$147	**$6,306,738**
30	*Total Development Costs per Unit*			*$315,337*

Block 2 Rental: Net Operating Income

Net Operating Income

	Factor		Annual Revenue/Cost
Revenue			
Gross Potential Residential Revenue			$395,056
Gross Potential Commercial Revenue	$ 1.75	Commerical Rent Per Square Ft	$0
Less: Vacancy	5.00%		*($19,753)*
Less: Bad Debt	0.50%		*($1,975)*
Effective Gross Revenue			**$373,328**
Expenses			
Management	6.00%	of Effective Gross Revenue	$22,400
Annual Routine Maintenance	$500	per unit	$10,000
Real Estate Taxes on New Construction	14 mill rate	of estimated total project value	$56,726
Real Estate Taxes on Land	14 mill rate	of land value	$1,279
Insurance	$120	per unit	$2,400
Utilities	$800	per unit	$16,000
Replacement Reserve	$300	per unit	$6,000
Total Expenses			**$114,804**
per unit expenses			*$5,740*
Net Operating Income			**$258,524**

Block 2 Rental: Debt Sizing & Return Ratios

Debt Sizing

Pro Forma Net Operating Income (NOI) and Value

Pro Forma NOI	$258,524
Capitalization Rate	6.00%
Value of Income Property Only (NOI / Cap Rate)	$4,308,737
Loan Terms	
Interest Rate	4.25%
Amortization (years)	30
Debt Based on Loan to Value (LTV)	
Maximum LTV Percentage	75.00%
Maximum Loan Based on LTV for Income Property	$3,231,553
Using Debt Service Coverage Ratio (DSCR)	
Monthly Net Operating Income	21,544
Maximum Debt Service Coverage Ratio	1.25
Maximum Monthly Payment (NOI/DSCR/12)	$17,235
Maximum Loan Based on DSCR for Income Propert	$3,503,466
Maximum Loan (Lesser of LTV or DSCR Result)	
Maximum Loan for Income Property[c]	$3,231,553
Yearly Debt Service	($192,595)
DSCR	1.34

Return Ratios: Static Pro Forma Stage Analysis

Net Operating Income (NOI)	$258,524
Total Project Cost	$6,306,738
Less: Development Subsidies	*0*
Project Cost after Subsidies	$6,306,738
Return on Cost: NOI/Total Cost)	**4.1%**
Net Operating Income	$258,524
Annual Debt Service 1st Mortgage	$192,595
Annual Debt Service Mez Fund Sized by DSCR	$0
Annual Debt Service Mez Fund Sized by Remaining BTCF	$0
Cash Throw-Off (Before Tax Cash Flow: BTCF)	$65,929
Total Adjusted Cost	$6,306,738
Permanent Mortgage	$3,231,553
Equity	$3,075,186
Cash-on-Cash Return (Cash Throw-Off/Equity)	**2.1%**

Development Profit for Apartments

Net Operating Income	$258,524
Overall Cap Rate at Sale	6.0%
Capitalized Value (NOI/Cap Rate)	$4,308,737
Less: Total Adjusted Cost	*($6,306,738)*
Development Profit	**($1,998,001)**

Block 2 For-Sale: Net Sale Proceeds

For Sale Products

Number of For Sale Units	20	
Gross unit Sqft	2150	
Gross Building Sqft	43000	
Estimated Land Sqft	42,253	
Sale Price (per unit)	$300,000	
Total Sale proceeds	$6,000,000	
Cost of Sale	$360,000	6.0%
Net Sale Proceeds	$5,640,000	
Total Development Costs (for-sale)	$6,306,738	
Cash Flow back to Developer	-$666,738	
Estimated Equity	$1,261,348	
Return on Equity	-53%	
Return on Cost	-11%	

Block 2: Total Development Costs

Total Development Costs Detailed

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