



bae urban economics

FINANCIAL FEASIBILITY ANALYSIS

BASELINE FINANCIAL MODELING RESULTS

City of Portland

February 24, 2023

PRESENTATION OVERVIEW

- Study Overview and Approach
- Residual Land Value (RLV) Overview
- Critical Cost/Revenue Assumptions
- Baseline Feasibility Model Overview
- Questions and Comments
- Next Steps

STUDY OVERVIEW

ANALYSIS METHODOLOGY

FINANCIAL FEASIBILITY ANALYSIS

- Create series of pro forma development feasibility models
 - Assess Residential Development Cost, broken down by cost components (site preparation, hard costs, soft costs, financing costs, etc.)
 - Estimate Rental Revenue or Sale Proceeds, based on various ways to abide by current inclusionary ordinance
 - Estimate Value of Development
 - Calculate Residual Land Value

DEVELOPMENT PROTOTYPES

PROTOTYPE HEIGHT AND FORM

Central City Prototypes

- 5 Stories



- 7 Stories



- 9 Stories



- 15 Stories



- 30 Stories



Outside CC Prototypes

- 3 Stories



- 4 Stories



- 5 Stories



- 7 Stories



- 13 Stories



RESIDUAL LAND VALUE APPROACH

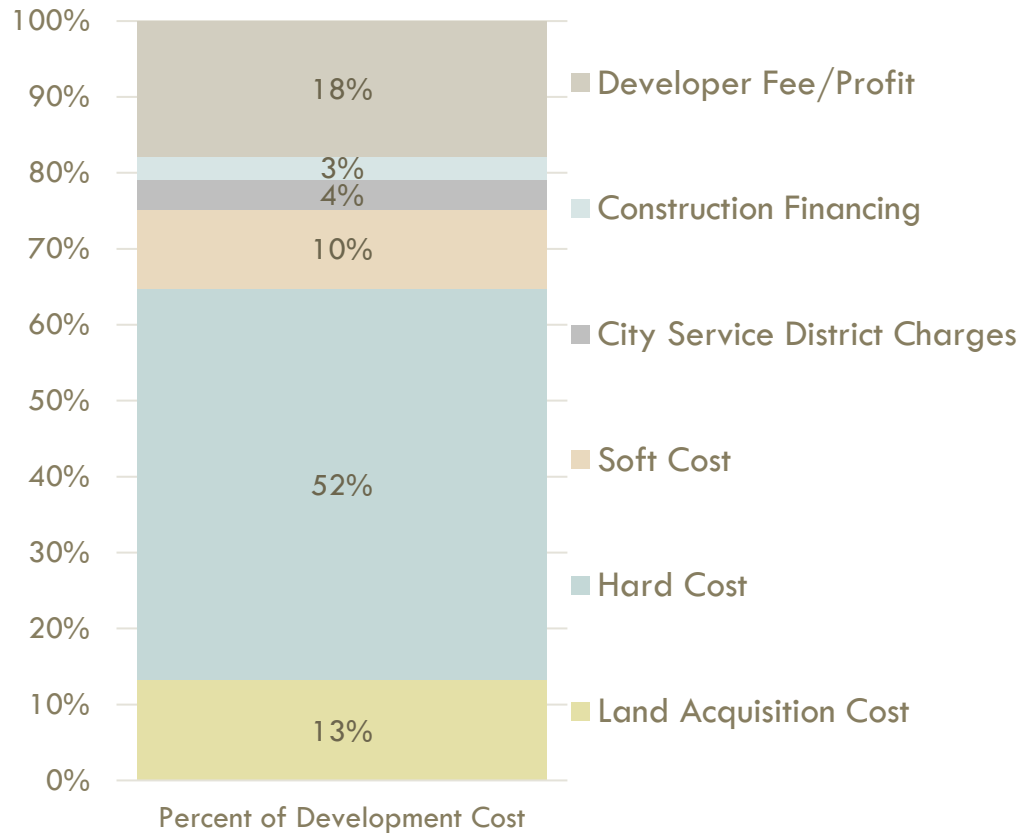
RESIDUAL LAND VALUE APPROACH

OVERVIEW

- **Residual Land Value (RLV)** solves for the price at which a developer/investor could purchase a site and still yield a feasible project
 - **Benefits:** Land values vary depending on location, conditions, land use policies, etc.
 - **Challenges:** To understand feasibility of a real project, RLV results must be compared to actual land purchases.

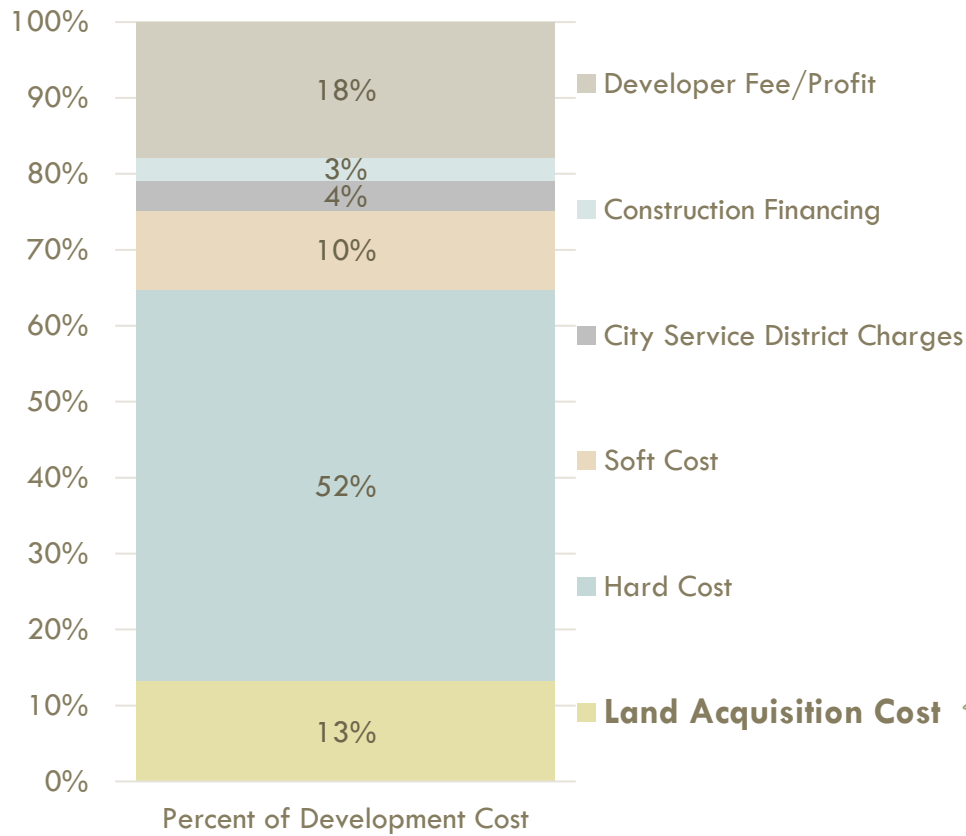
RESIDUAL LAND VALUE APPROACH

DEVELOPMENT COST OVERVIEW



RESIDUAL LAND VALUE APPROACH

LAND ACQUISITION OVERVIEW



Vacant Site

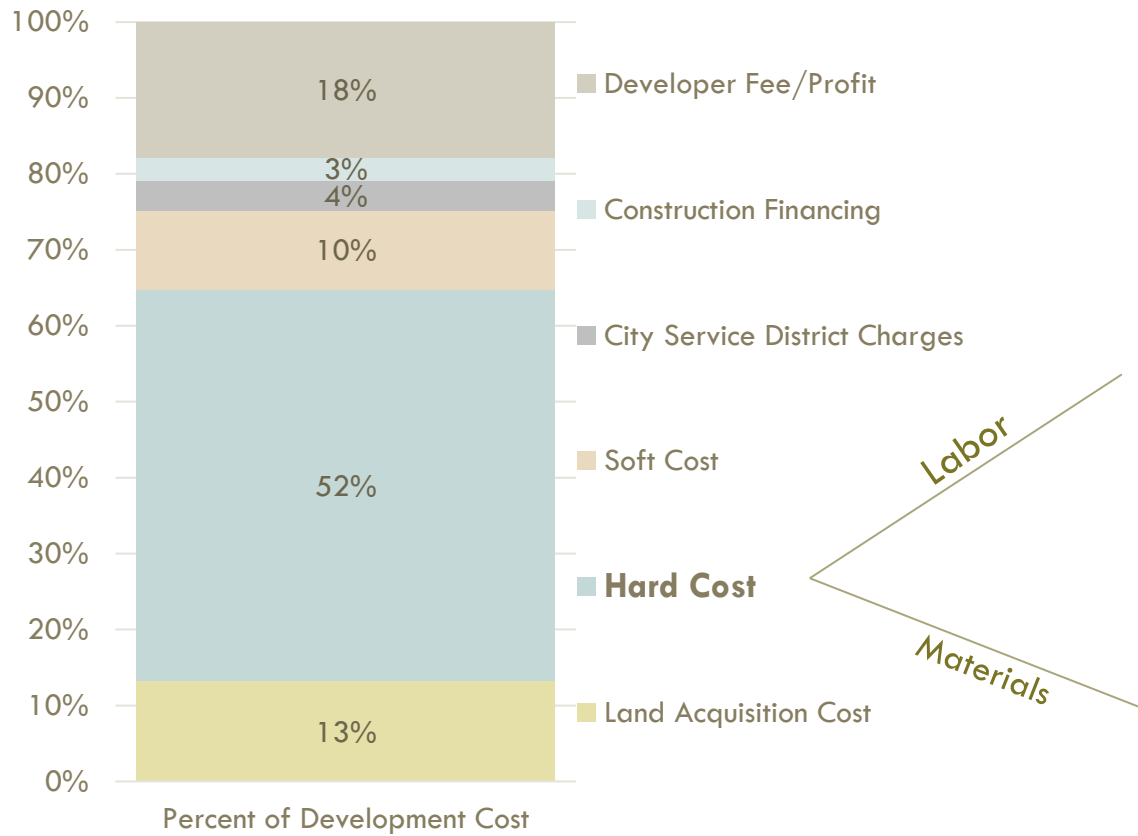


Underutilized Site



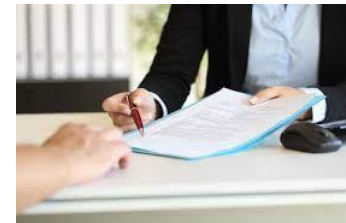
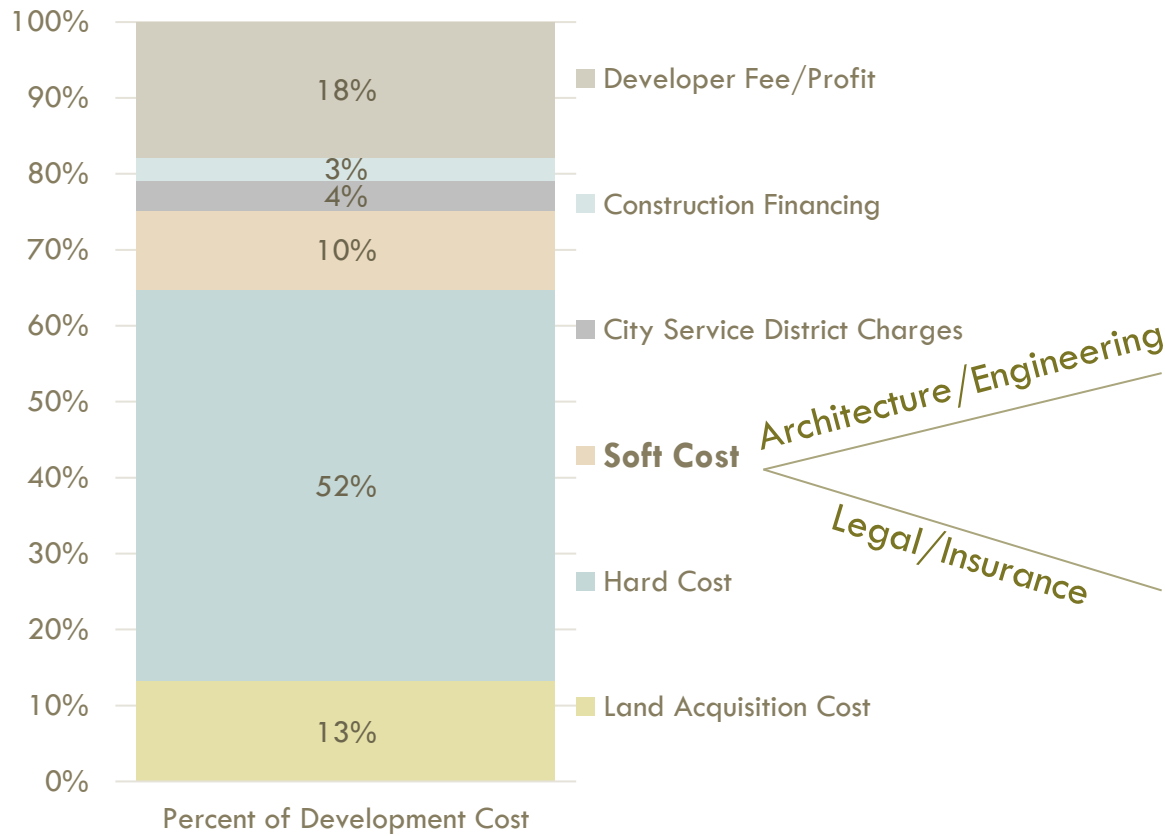
RESIDUAL LAND VALUE APPROACH

HARD COST OVERVIEW



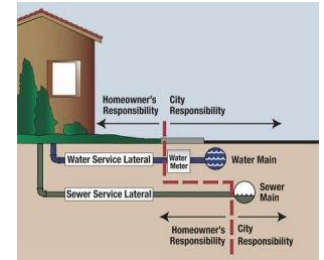
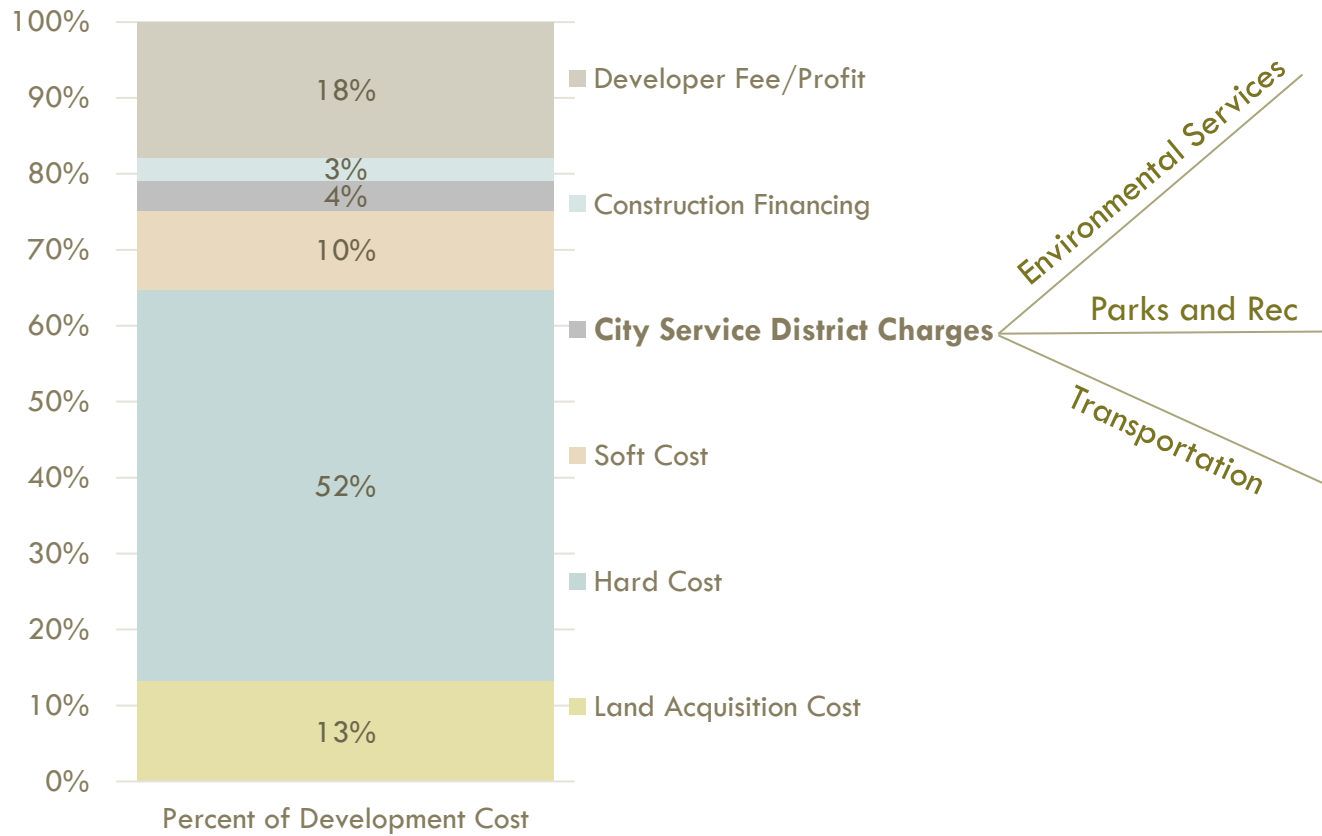
RESIDUAL LAND VALUE APPROACH

SOFT COST OVERVIEW



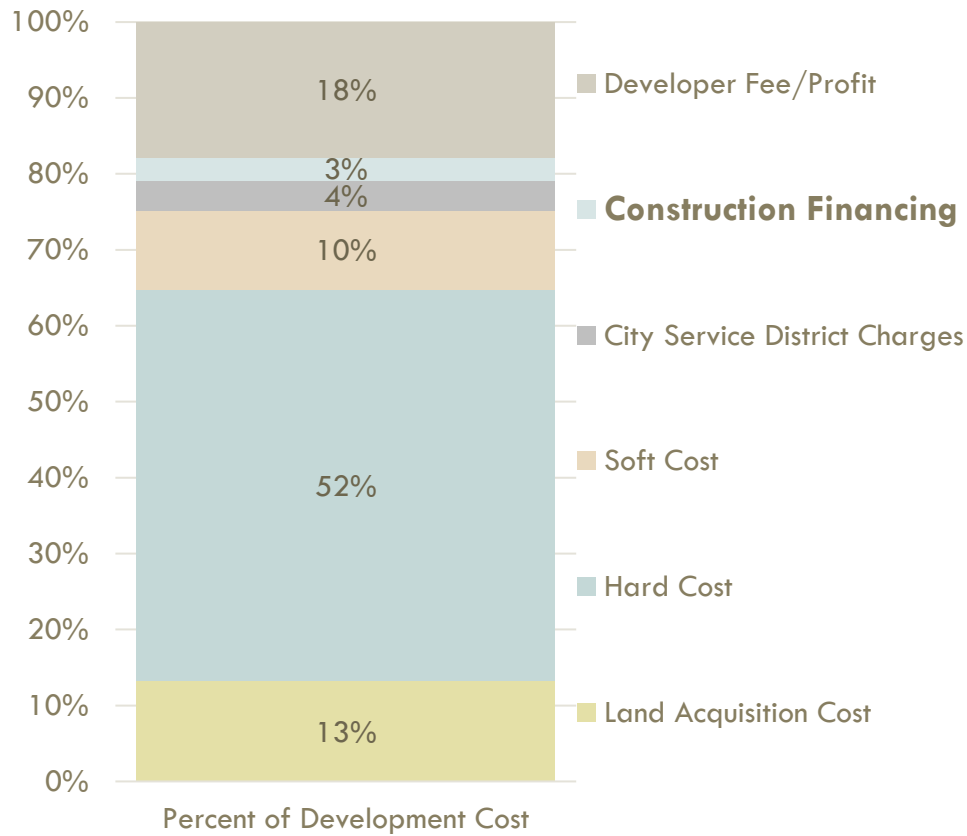
RESIDUAL LAND VALUE APPROACH

CITY SERVICE DISTRICT CHARGES



RESIDUAL LAND VALUE APPROACH

CONSTRUCTION FINANCING

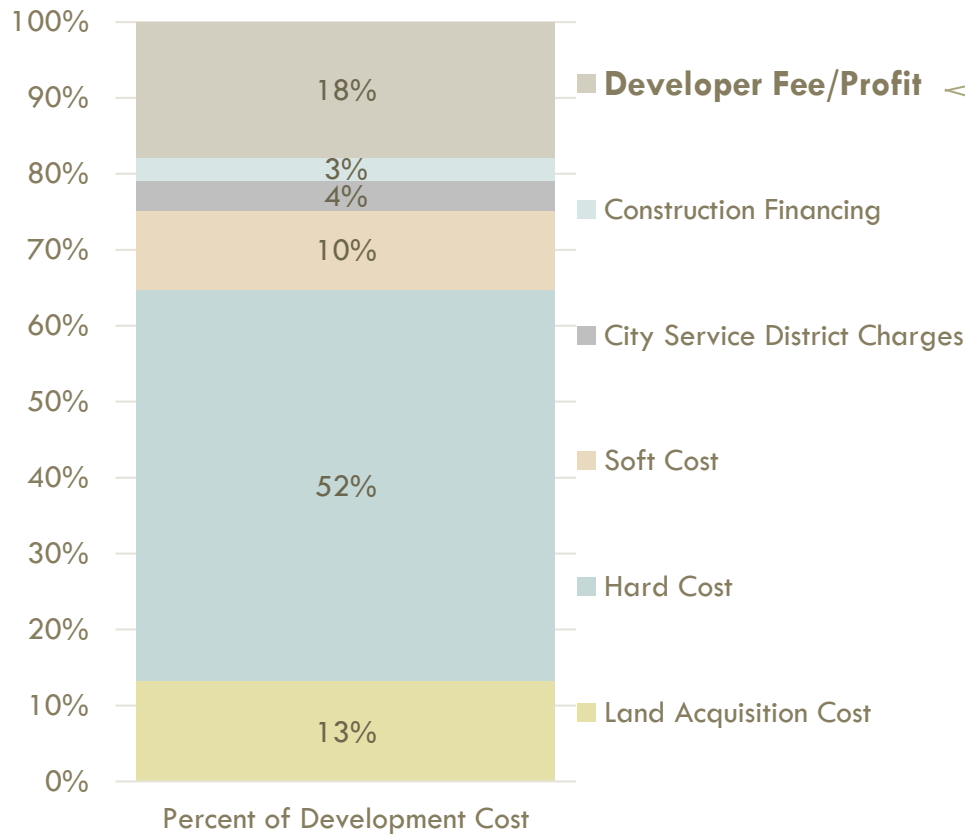


Loan Fees/Interest

Construction Loan	
Total Project Cost	\$300,000,000
Total Loan Amount	\$180,000,000
Loan to Cost	60%
Term	48 months
Amortization	Full Term Interest Only
Index	30-Day Libor
Index Rate	2.30%
Estimated Spread	3.00%
Estimated Interest Rate	5.30%
Libor Rate Cap	Required
Stabilized DSCR	1.40 x
Prepayment	Closed 2 years, then 1%. Open at par for the last 180 days
Closing Timeline	45 - 60 Days
Recourse	Non-recourse w/ standard "bad boy" carveouts
Completion Guaranty	Required
Minimum Net Worth	\$180,000,000
Minimum Liquidity	\$18,000,000
Funding	To commence after Borrower has funded 40% of Project Costs and based on lender-approved draw schedule

RESIDUAL LAND VALUE APPROACH

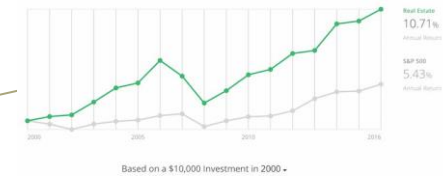
DEVELOPER FEE/PROFIT



Developer/Investor
Profit/Return

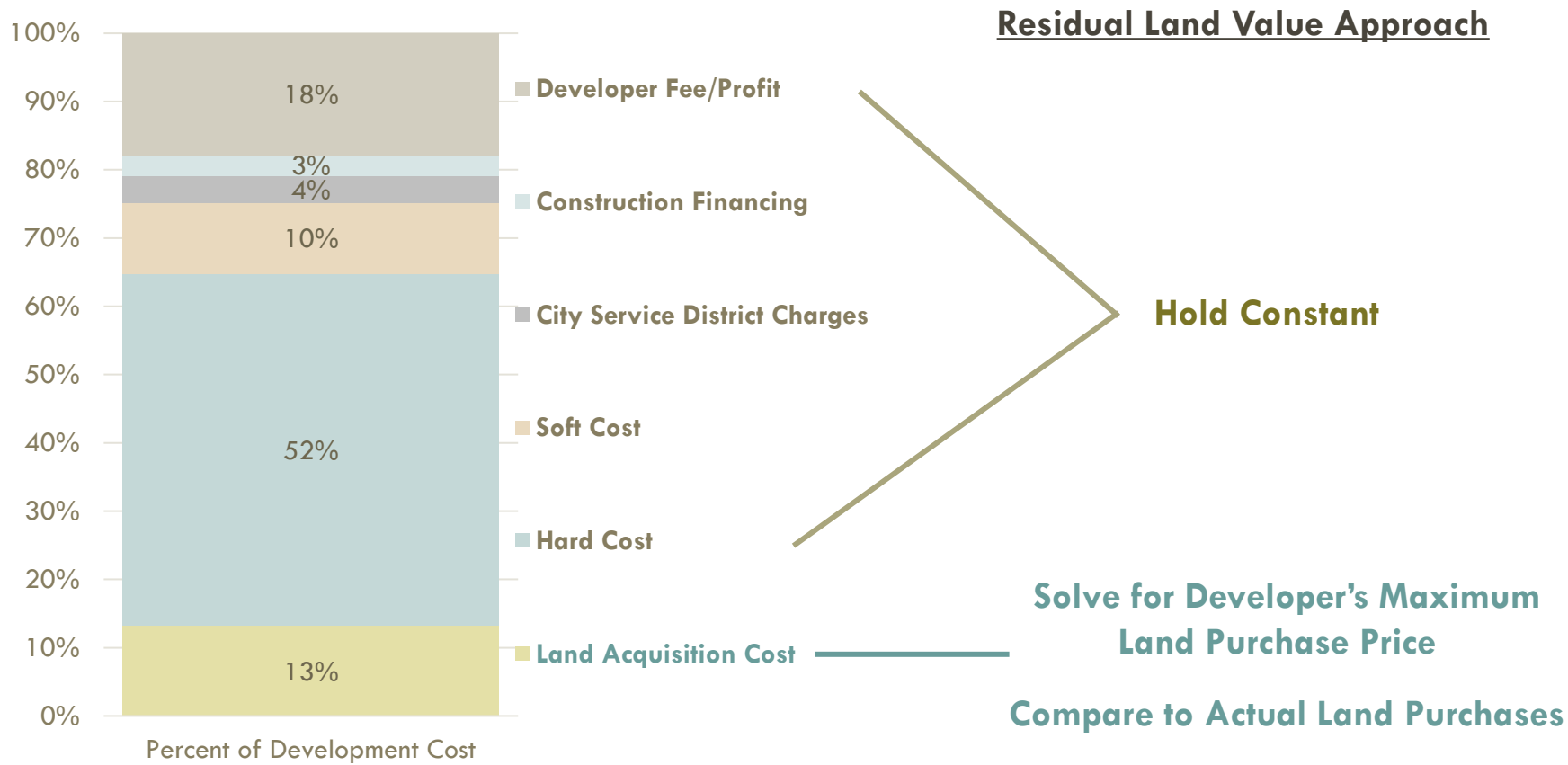
Developer Fee

Real estate has outperformed the stock market 2:1 since 2000



RESIDUAL LAND VALUE APPROACH

RESIDUAL LAND VALUE



RESIDUAL LAND VALUE APPROACH

RESIDUAL LAND VALUE, VISUAL

Hypothetical Example



Development Cost (excl. land purchase) = **\$58 Million**

Value of Property to Investors = **\$60 Million**

Residual Land Value = **\$2 Million**

Financial Feasibility

Can you buy a ½-Acre Site for \$2 Million?

CRITICAL COST/REVENUE ASSUMPTIONS

DEVELOPMENT COST ASSUMPTIONS

	<u>Low</u>	<u>Medium</u>	<u>High</u>
Type V Construction			
Hard Cost per Gross SF	\$220	\$235	\$260
Total Cost per Gross SF	\$385	\$406	\$440
Total Cost per Unit	\$277,000	\$292,000	\$317,000

Type III Construction			
Hard Cost per Gross SF	\$275	\$315	\$350
Total Cost per Gross SF	\$456	\$510	\$556
Total Cost per Unit	\$309,000	\$345,000	\$377,000

Type I Construction			
Hard Cost per Gross SF	\$330	\$375	\$415
Total Cost per Gross SF	\$507	\$565	\$617
Total Cost per Unit	\$341,000	\$379,000	\$414,000

RENTAL RATE ASSUMPTIONS

Rents	Unit Size	Market Rate Rent/SF			Market Rate per Unit		
		High	Medium	Low	High	Medium	Low
Central City							
Studio	450	\$4.15	\$3.50	\$3.25	\$1,868	\$1,575	\$1,463
1BR	600	\$3.75	\$3.25	\$3.00	\$2,250	\$1,950	\$1,800
2BR	900	\$3.25	\$3.00	\$2.75	\$2,925	\$2,700	\$2,475
3BR	1,000	\$3.25	\$3.00	\$2.75	\$3,250	\$3,000	\$2,750
Parking (per space)					\$200	\$150	\$100
Other Income (Per Unit)					\$80	\$80	\$80
Commercial Rent NNN					\$2.50	\$2.00	\$1.50
Non-Central City							
Studio	450	\$4.15	\$3.25	\$2.50	\$1,868	\$1,463	\$1,125
1BR	600	\$3.75	\$2.50	\$2.00	\$2,250	\$1,500	\$1,200
2BR	900	\$3.25	\$2.25	\$1.75	\$2,925	\$2,025	\$1,575
3BR	1,000	\$3.25	\$2.25	\$1.75	\$3,250	\$2,250	\$1,750
Parking (per space)					\$200	\$50	\$0
Other Income (Per Unit)					\$80	\$80	\$80
Commercial Rent NNN					\$2.25	\$2.00	\$1.50

OPERATING COSTS AND PROPERTY VALUATION

Operating Costs as % of Revenue

Under 100 Units	32%
100-200 Units	30%
200+ Units	28%

Vacancy Rate	5%
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Property Valuation/Yield-On-Cost

Market Cap Rate	4.7%
Developer Spread	1.0%
Required Yield-on-Cost	5.7%

Financing

Construction-Period	
Loan-to-Cost (excl land cost)	70.0%
Loan Fees	1.5%
Drawdown Factor	60.0%
Interest rate	6.5%
Loan Term (months)	18

SALE PRICES

<u>Sale Price</u>	<u>Unit Size</u>	<u>Market Rate Sale Price/SF</u>			<u>Market Rate Sale Price</u>		
		<u>High</u>	<u>Medium</u>	<u>Low</u>	<u>High</u>	<u>Medium</u>	<u>Low</u>
Central City							
1BR	600	\$625	\$500	\$450	\$375,000	\$300,000	\$270,000
2BR	900	\$615	\$550	\$475	\$553,500	\$495,000	\$427,500
3BR	1,000	\$575	\$500	\$400	\$575,000	\$500,000	\$400,000
Commercial Rent NNN					\$2.50	\$2.00	\$1.50
Non-Central City							
1BR	600	\$550	\$425	\$350	\$330,000	\$255,000	\$210,000
2BR	900	\$475	\$400	\$300	\$427,500	\$360,000	\$270,000
3BR	1,000	\$415	\$375	\$300	\$415,000	\$375,000	\$300,000
Commercial Rent NNN					\$2.50	\$2.00	\$1.50

MODEL PREVIEW

MODEL PREVIEW

City of Portland Development Pro Forma, Prototype CC-1, 60% AMI IH Option, Medium Development Cost, Medium Revenue

Assumptions	
Prototype	CC-1
Development Cost	Medium
Revenue	Medium
IH Option	60%
Location	Central City
Construction Type	Type 5

Development Program Assumptions

Site Size - acres / square feet	0.5	20,000
Total Units	112	
Affordable (% - count)	11%	12
Market Rate (% - count)	89%	100
Leasable Residential sq. ft.		63,750
Leasable Retail sq. ft.		4,000
Circulation & Communal Space	20%	
Total Project sq.ft	84,688	
Total Parking Spaces	56	
Parking spaces per du	0.50	
Parking Space Type	Underground	
Number of Stories	4-Stories	

Unit Mix and Affordability Levels

Unit Mix	Sq. Ft.	AMI-Level			
		60%	80%	MR	All
Studio	450	5	0	40	45
1-BR	600	6	0	50	56
2-BR	900	1	0	10	11
3-BR	1,000	0	0	0	0
All Units		12	0	100	112

Summary

	Affordable	Market-Rate	Total
Number of Units (# - %)	12 11%	100 89%	112
Avg. Affordability (% AMI)	60%		n.a.
Leasable Sq. Ft.	6,750	57,000	63,750
Total Sq. Ft.	8,543	72,145	80,688
Parking Spaces	6	50	56
Parking Space/du	0.50	0.50	0.50

Cost Assumptions

Construction	
Hard Cost per gross res/com sf	\$235
Commercial Tenant Improvement per sf	\$100
Parking cost per space	\$60,000
Soft Costs (% of hard costs)	20%
Service District Charge (per unit) (a)	\$16,618
Affordable Housing In-lieu fee per gsf	n.a.
Developer Fee (% of hard and soft)	3%

Rental Revenue

Unit Type	Rental Rates by AMI		
	60%	80%	MR
Studio	\$1,042	\$1,415	\$1,575
1-BR	\$1,096	\$1,496	\$1,950
2-BR	\$1,310	\$1,790	\$2,700
3-BR	\$1,508	\$2,062	\$3,000

Other Residential Income (Per Month)

Parking (per space)	\$150
Other Income (Per Unit)	\$80
Retail Rent (NNN per sq. ft.)	\$2.00

Operating Costs

Res Operating Cost (as % of gross revenue)	30.0%
Vacancy Rate, Residential	5%
Market Rate Cap Rate	4.7%

Financing

Construction-Period	
MR Loan-to-Cost	70%
Loan Fees	1.5%
Draw down Factor	60%
Interest rate	6.5%
Loan Term (months)	18

Development Cost Analysis

	Project Costs		
	Affordable	Market Rate	Total Project
Hard Cost	\$2,007,707	\$17,893,973	\$19,901,680
Commercial TIs	\$0	\$400,000	\$400,000
Parking Cost	\$360,000	\$3,000,000	\$3,360,000
Soft Costs	\$473,541	\$4,258,795	\$4,732,336
Service District Charge	\$199,419	\$1,661,821	\$1,861,239
Affordable Housing In-Lieu	\$0	n.a.	n.a.
Subtotal	\$3,040,667	\$27,214,588	\$30,255,255
Construction Financing			
Const. Loan Fees	\$31,927	\$285,753	\$317,680
Const. Loan Interest	\$124,515	\$1,114,437	\$1,238,953
Developer Fee	\$91,220	\$816,438	\$907,658
Total Development Cost	\$3,288,330	\$29,431,216	\$32,719,546
Per Unit	\$274,027	\$294,312	\$292,139
Per Net SF	\$487	\$516	\$513
Per Gross SF	\$385	\$408	\$406

Feasibility Analysis

	Project Feasibility		
	Affordable	Market Rate	Total Project
Project Income			
Gross Scheduled Rents	\$157,152	\$2,532,000	2,689,152
Less Vacancy	(\$7,858)	(\$126,600)	(\$134,458)
Less Operating Expenses	(\$47,146)	(\$759,600)	(\$806,746)
Net Operating Income	\$102,149	\$1,645,800	\$1,747,949
Development Cost/Subsidy			
Total Development Cost	3,288,330	29,431,216	32,719,546
Construction Excise Tax Exemption	(\$30,407)	\$0	(\$30,407)
SDC Waiver	(\$199,419)	\$0	(\$199,419)
NPV of 10-YR Prop Tax Exemption	(\$249,865)	(\$2,082,205)	(\$2,332,069)
Total Cost, Incl. Subsidies	\$2,808,640	\$27,349,012	\$30,157,652
Market Cap Rate	4.7%	4.7%	4.7%
Developer Profit Spread	1.0%	1.0%	1.0%
Required Yield-on-Cost	5.7%	5.7%	5.7%
Residual Land Value	-\$1,000,697	\$1,780,192	\$779,495
RLV Per Unit	-\$83,391	\$17,802	\$6,960
RLV per Site SF	-\$467	\$100	\$39

Sources: BAE, 2023

NEXT STEPS

NEXT STEPS

- Revise Baseline Pro Formas
- Finalize baseline feasibility
- Initiate Policy Analysis using Feasibility Models
- March 17th Working Group – Present Feasibility Findings

DISCUSSION WITH WORKING GROUP

- Input on Cost and Revenue Assumptions
- Questions/Comments on Feasibility Model



QUESTIONS AND DISCUSSION

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