MEMORANDUM

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From: Walter Kieser and Ben Sigman

Subject: Financial Analysis of Peery Park Development Alternatives; EPS #151055

Date: August 10, 2015

The Economics of Land Use

This memorandum presents findings from a pro forma financial analysis of six commercial real estate development alternatives that evaluate land value potential within Peery Park in Sunnyvale. The purpose of the analysis is to assess the economic value of development in the Peery Park area and to consider the degree to which the City may be able to capture value from offering density bonuses at Peery Park sites for the purpose of funding a community benefits program.

This analysis is conducted in the context of the ongoing City effort to prepare a Specific Plan for Peery Park. With the recent surge in interest in redevelopment of sites in Peery Park, it is anticipated that the Specific Plan will enable a major revitalization and intensification of commercial uses there. This evolution offers a range of economic and fiscal benefits for the City and also potential opportunities for achieving additional City priorities, possibly including high-performance green buildings, open space, retail space, and transportation demand management programs.

Community Benefit Incentive Zoning Background

California cities have a long history of obtaining community benefits from real estate development through a variety of mechanisms, including fees, conditions of approval, and development agreements. Community Benefit Incentive Zoning (CBIZ) programs offer an alternative approach. CBIZ programs are structured around an exchange in which municipalities offer optional increases in development potential in return for dedicated public assets (or funding) desired by the community. For CBIZ to function, the municipality must offer a development incentive (e.g., a density bonus that allows for development of more space than is allowed by base zoning). If a project seeks to take advantage of the incentive, in return the project developer must provide public benefits beyond what otherwise would be required for project approval. Because these programs are optional, development outcomes vary based on the degree of participation in the CBIZ program.

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In order for community benefits to be achieved, the public sector must create value through provision of a development incentive. CBIZ requires a healthy real estate market with sufficient market value to support the incentive. In order for a CBIZ program to be successful, there must be market demand to support the higher-density, higher-cost real estate products that are made available through participation in the CBIZ program.

Further, the magnitude of the community benefit sought in return for the incentive must be equal to or less than the value of the incentive offered. CBIZ programs must be carefully tailored to be attractive to project proponents and simultaneously achieve quality of life goals of the community. Program design and development should evaluate the range of potential development outcomes, including the built form and magnitude of expected community benefits, to ensure that the exchange of development rights for community benefits is desirable.

CBIZ programs are founded on the concept of "value capture." Public entities commonly create value with investments in public facilities and services (e.g., transit and utilities upgrades) as well as through changes to zoning code that increase the value of land. Typically, when the public sector creates value in these ways, landowners enjoy a financial gain. Value capture occurs when the public sector reclaims some of the value created by its activities. The State of California's Affordable Housing Density Bonus Law is an example of a value capture program. Under this law, developers are granted additional density (i.e., the right to build additional market rate units) in return for their development of affordable housing units.

This financial analysis of Peery Park Development Alternatives seeks to determine the economic potential for increased density in the Specific Plan area. The analysis provides a framework for valuing Floor Area Ratio (i.e., density) incentives based on current assumptions regarding real estate market factors and development costs. The quantitative findings reflect outcomes from an analysis of development alternatives which are believed to be representative of potential future development in the area. While informative, it is important to recognize that the hypothetical projects studied and the findings of the analysis are illustrative and that actual project circumstances will vary dramatically.

Peery Park Development Alternatives

This financial analysis considers development potential for office uses in Peery Park, consistent with the emerging specific plan. The City is considering an incentive program that defines three tiers of development:

- Tier 1 Project: Up to 35 percent FAR[1] (Base development requirements)
- Tier 2 Project: 35 percent to 55 percent FAR
- Tier 3 Project: Over 55 percent FAR

EPS anticipates that developers will seek to deliver modern, high-performance office spaces in Peery Park. At all tiers, this analysis assumes that office will be developed as Class A, steel frame structures with precast concrete panels. Of critical importance to the analysis is the parking strategy employed at each density tier. EPS review of recently-approved and current project proposals for Peery Park reveals that Tier 1 and Tier 2 projects are sufficiently low density that

[1] Floor Area Ratio (FAR) is total square feet of building space divided by total square feet of the lot area, presented in percentage terms.

surface parking will comprise the majority of the parking program.[2] However, at 100 percent FAR, structured (garage) parking will make up most of the parking program.

Figure 1 provides an overview of the alternatives considered for each of the development tiers. The analysis tests the potential for development of a 5-acre site and a 10-acre site. An important difference between the 5-acre and 10-acre sites is that the larger site provides more planning and design flexibility. For example, this analysis assumes that while a 100 percent FAR office project on a 5-acre site likely would use only structured parking, a 10-acre site would allow for a mix of structured parking and surface parking.

Figure 1 Base and Incentive Development Alternatives

Development Characteristics	Tier 1 (Base)	Tier 2	Tier 3
Building Type	Class A Office Steel/Concrete	Class A Office Steel/Concrete	Class A Office Steel/Concrete
Floor Area Ratio	35%	55%	100%
Stories	1-2 Stories	3-4 Stories	5-6 Stories
Gross Building Area (Square Feet)			
5-Acre Site	76,000	120,000	218,000
10-Acre Site	152,000	240,000	436,000
Parking Format[1]			
5-Acre Site	100% Surface	25% Structure/ 75% Surface	100% Structure
10-Acre Site	100% Surface	10% Structure/ 90% Surface	75% Structure/ 25% Surface

[1] Note that projects that exceed 750,000 square feet of building area (not considered here) are required to provide a higher percentage of open space and thus likely would need to provide a greater share of total parking in structures.

Analytical Approach

This analysis utilizes the well-accepted static pro forma financial feasibility framework to estimate the land value supported by each of the development alternatives. This approach compares real estate development value at project stabilization (i.e., after project lease up is complete) with the cost of project development, in constant 2015 dollars. The analysis determines finished real estate value based on assumptions including market-supportable lease

[2] Note that additional structured parking likely would be necessary for large-scale (750,000+ square feet of building space), since the City requires that for larger projects a greater share of the site is provided as open space. Though not analyzed here, it is important to consider that the higher open space requirement for large projects may have a negative effect on land value.

rates, operating costs, and capitalization rates.[3] Development cost assumptions reflect standard (location-adjusted) construction costs, typical project soft costs (e.g., architecture and engineering), and developer return on investment. The assumptions reflect EPS research, third-party data (e.g., CoStar Group market data and RS Means construction cost estimates), and correspondence with industry sources, including interviews with local development professionals.

The analysis estimates land value for each of the alternatives. When real estate market values exceed development costs, the difference represents what a developer is able to pay for land. This calculation, commonly referred to as "residual land value," is the primary output of the financial analysis. As described above, the land value created by incentive zoning represents a fair valuation of community benefits that the City might seek from projects that take advantage of the incentive. However, if developers have speculatively paid more for land than what base zoning supports, the City may be unable to capture the full value of the incentive from the current owner. Similarly, if a project must bear extraordinary costs not considered by this analysis (e.g., cleanup of contamination, off-site infrastructure improvements, transportation demand management requirements, or lease buyouts) the project developer may be unable to fully compensate the City for the density bonus.

Sensitivity Analysis

A sensitivity analysis of the pro forma financial model confirms that the residual land values supported by Peery Park projects are highly dependent on market conditions. When markets are strong there likely will be project-derived value that may be used to fund community benefits. However, when the market softens, projects may fail to generate value and may even cease to be financially viable, as was generally true for major projects nationwide during the last recession. Ideally, a community benefit incentive zoning program will be designed to anticipate that market cycles will have a significant effect on project values.

The sensitivity analysis performed here exhibits the degree to which a weak real estate market diminishes the potential for project developers to fund community benefits. If lease rates fall by 5 percent and capitalization rates climb by 25 basis points (0.25 percentage points), the value of potential zoning incentives decreases by at least 30 percent and in some cases is eliminated. By comparison, if lease rates increase by 5 percent and capitalization rates decrease by 25 basis points, the potential for value creation from greater development density increases dramatically.

Figure 2, **Figure 4**, and **Figure 5** present summaries of residual land value outputs by alternative, reported on a site-total, per-acre, and per-square-foot basis, respectively. Under current market conditions (midpoint estimates in the sensitivity analysis, shown as a triangle in the Figures), residual land values range across the development alternatives from about $6.6 million to $13.2 million for the five-acre site and from $13.2 to $36.1 million for the 10-acre site (see **Figure 2**). Those site values translate into per-acre values of $1.3 million to $3.6 million (see **Figure 4**) and per-square-foot value (per square foot of gross building area) of $60 to $114 (**Figure 5**).

[3] The capitalization rate is equal to annual net property income divided by total property value. This market-based factor indicates the multiple of net property income that a buyer will pay for a property.

Figure 2 Residual Land Value and Sensitivity to Market Conditions – Site Value

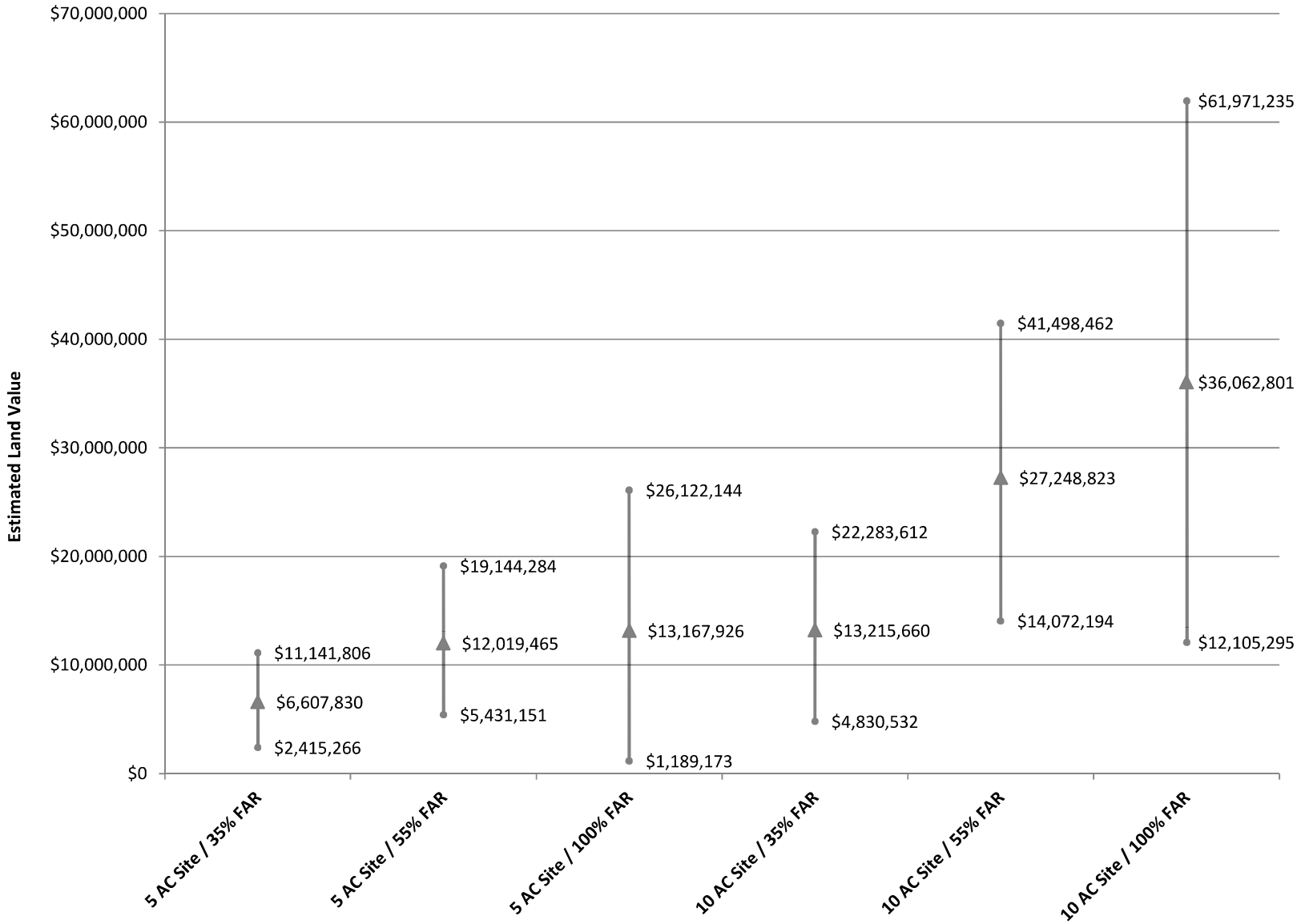


Figure 3 Residual Land Value and Sensitivity to Market Conditions – Per-Acre Value

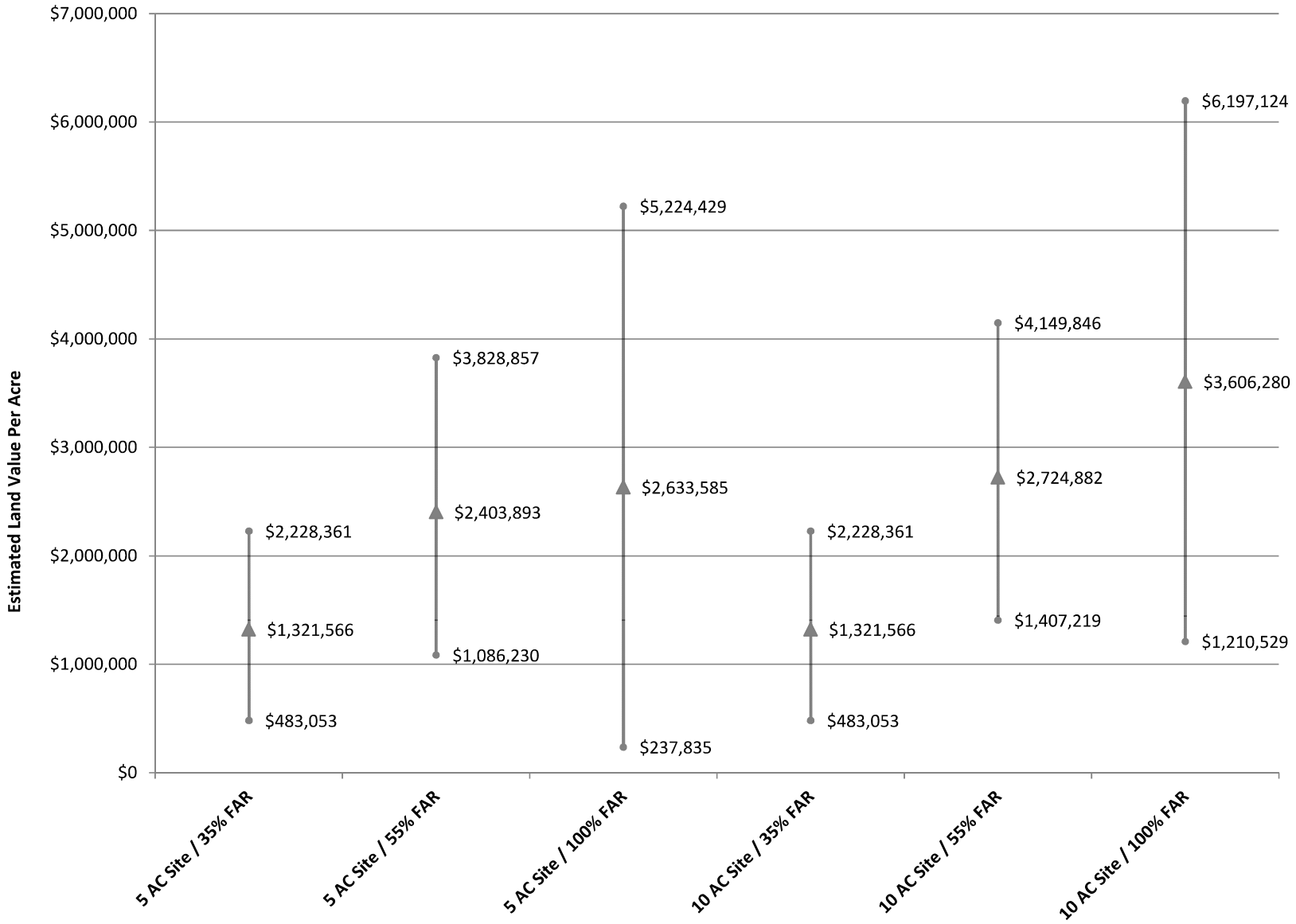
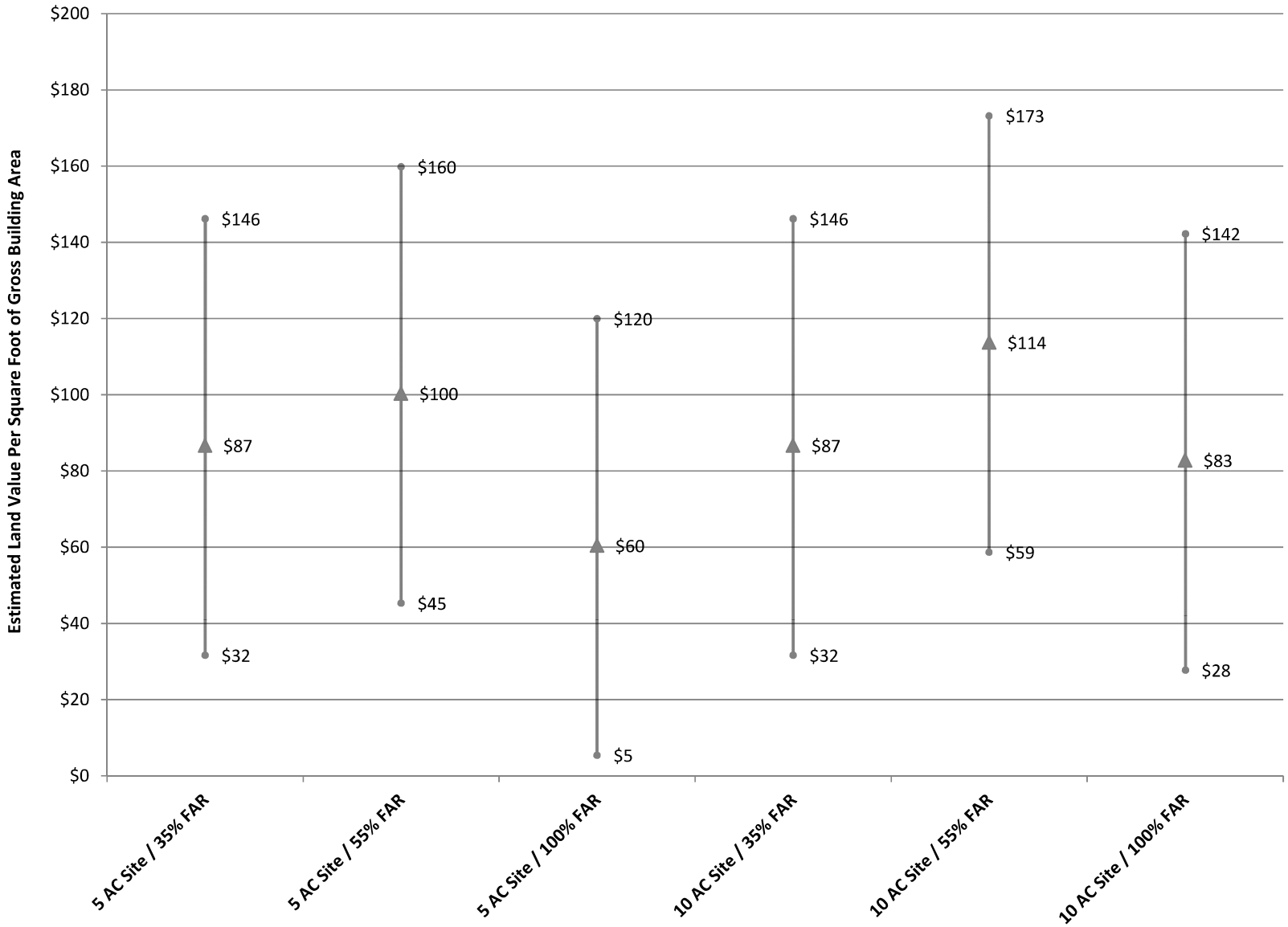


Figure 4 Residual Land Value and Sensitivity to Market Conditions – Per-Square-Foot Value



Key Findings

1. This analysis finds that alternatives tested generate positive residual land value in the current real estate market and that increased density (above base density) is likely to create value for community benefits.

2. Increasing density from Tier 1 to Tier 2 creates a significant increase in land value, between $1.1 million and $1.4 million per acre, depending on the alternative. This finding is primarily attributable to the fact that a substantial share of parking (75 to 90 percent) in the denser (Tier 2) 55 percent FAR scenario will be low-cost surface parking (i.e., significant density is added without a dramatic increase in cost).

3. The value creation associated with increasing density from Tier 2 to Tier 3 creates relatively less value. For the 5-acre site, which this analysis assumes will require 100 percent structured parking at Tier 3, land value increases by about $230,000 per acre ($1.1 million total) compared to the primarily surface-parked Tier 2 prototype. For the larger 10-acre site, this analysis assumes that 75 percent of parking will be supplied by garages and the remaining 25 percent of parking will be in surface lots, due the design flexibility offered by the larger site. The cost savings associated with having a greater share of parking in surface lots is a key contributor to the relatively high $881,000 per acre ($8.8 million total) increase in land value over the Tier 2 alternative.

Figure 5 presents estimates of residual land value that result from the pro forma financial analysis of Peery Park office prototypes. These findings inform the valuation of FAR bonuses that may be made available in Peery Park.

Figure 5 Residual Land Value Estimates

	Tier 1	Tier 2	Tier 3
5-Acre Site			
Site Value	$6.6 Million	$12.0 Million	$13.2 Million
Per-Acre Value	$1.3 Million	$2.4 Million	$2.6 Million
Gross Building Area	76,000 SF	120,000 SF	218,000 SF
Value Per Square Foot (GBA)	$87/SF (GBA)	$100/SF (GBA)	$60/SF (GBA)
10-Acre Site			
Site Value	$13.2 Million	$27.2 Million	$36.1 Million
Per-Acre Value	$1.3 Million	$2.7 Million	$3.6 Million
Gross Building Area	152,000 SF	240,000 SF	436,000 SF
Value Per Square Foot (GBA)	$87/SF (GBA)	$114/SF (GBA)	$83/SF (GBA)

Figure 6 presents the value created by development allowances above the base FAR of 35 percent, per square foot of incentive space (i.e., bonus building area). As shown, Tier 2 generates approximately $124 to $161 per square foot of gross building area above the base FAR. For example, on a 10-acre site this analysis estimates that allowance of a Tier 2 project increases land value by about $14.0 million ($1.4 million per acre) by supporting an additional 87,000 square feet of office space. Similarly, a Tier 3 project increases land value by about $22.8 million ($2.3 million per acre) over the base 35 percent FAR by supporting an additional 283,000 square feet of office space.

Figure 6 Value Creation from Incentive Zoning

	Tier 2	Tier 3
5-Acre Site		
Base Land Value	$6.6 Million	$6.6 Million
Incentive (Building Space)	44,000 Square Feet	142,000 Square Feet
Total Land Value with Incentive	$12.2 Million	$13.2 Million
Incentive Value	$5.4 Million	$6.6 Million
Incentive Value Per Acre	$1.1 Million	$1.3 Million
Incentive Value Per Square Foot (Building Space)	$124	$46
10-Acre Site		
Base Land Value	$13.2 Million	$13.2 Million
Incentive (Building Space)	87,000 Square Feet	283,000 Square Feet
Total Land Value with Incentive	$27.2 Million	$36.1 Million
Incentive Value	$14.0 Million	$22.8 Million
Incentive Value Per Acre	$1.4 Million	$2.3 Million
Incentive Value Per Square Foot (Building Space)	$161	$81

Key Assumptions

Development Program Assumptions

The analysis derives development parameters from recently-approved and current applications for development projects in the Peery Park area. FAR levels correspond with the City's preliminary definitions of incentive tiers for Peery Park. Parking ratios (3.3 spaces per 1,000 gross square feet) and parking formats (surface versus structure) reflect those observed locally. Though not analyzed by the sensitivity analysis presented above, parking is a key factor affecting development feasibility.

Building Value

The analysis assumes achievable lease rates based on market research conducted using CoStar Group as well as EPS knowledge of the local and regional commercial real estate landscape. The analysis assumes that commercial office rents (for new product) are about $4.75 per square foot per month (full service). This lease rate reflects the potential for new, high-quality, well-positioned projects in Peery Park in today's market. The analysis assumes a market capitalization rate of 6.5 percent which reflects data from IRR Monitor, a third-party market data provider, as well as available data concerning recent market transactions.

Project Costs

Project costs include construction, soft costs, and other project costs. Construction costs include basic site work (which covers demolition and the cost of surface parking) and vertical development of parking and building spaces. Building costs are based on cost estimates from RS Means and include construction-related overhead costs. The analysis assumes structured parking direct construction costs at $20,000 per space, which is typical for efficient above-ground parking structures. Additional soft costs include professional services associated with planning, design, and project approval; permits and fees; assumptions regarding taxes and insurance and financing costs; as well as general and administrative costs borne by the project developer. Finally, other project costs include a development contingency of 10 percent and the developer's required return on investment (ROI), which is assumed to be 10 percent of all project costs.

The analysis assumes a project site is suitably improved with the backbone infrastructure (e.g., sewer, water, streets) required for the project (i.e., there are no extraordinary offsite improvements required). Further, the analysis assumes a clean site from an environmental perspective. No remediation costs of any kind are assumed, though contamination may exist in the project area. Also, the analysis does not include potential costs associated with any lease buyouts. Lastly, while participation in a Transportation Management Association (TMA) may be required of future projects in Peery Park, there are no TMA costs included in the pro forma. The inclusion of any of such additional costs would have negative effect on residual land value estimates.

Figure 7 through **Figure 12** present the detailed pro forma assumptions and calculations relied upon by this analysis.

Additional Considerations

There are a number of considerations related to real estate development feasibility that are not reflected in this pro forma analysis:

- **Cost Basis –** This analysis does not assess development projects' ability to pay the City for increased density. In some cases, developer/investors likely have already paid land prices which reflect the value of high-density projects, particularly at sites where zoning had

previously exceeded the proposed 35 percent FAR base zoning. In cases in which additional density was incorporated into the land price paid, prior land owners have gained the value of the increased development density that the City would seek to capture through an incentive zoning program. For projects that are burdened by a high cost basis associated with the development site, it may be financially infeasible to support contributions to the City for community benefits.

- **Open space –** Open space requirements have a significant effect on development economics. In particular, open space requirements reduce buildable land and force developers to convert surface parking into structured parking. The development programs studied reflect typical open space requirements for projects on 5- and 10-acre sites. The maximum building size considered is less than 500,000 square feet. Accordingly, the analysis does not reflect the increased requirements for open space that would apply to larger projects. For projects with a greater share of land dedicated to open space, the additional costs associated with structured parking will have a significant effect on residual land value and the ability to fund community benefits. Similarly, if height is constrained (e.g., due to flight path restrictions), parking might need to be sited in subterranean structures which can dramatically increase the cost of parking for a project.

- **Other project costs –** As noted previously, transportation-related mitigation costs; offsite project mitigation or necessary infrastructure upgrades borne by the project; environmental costs related to site remediation; and/or extraordinary costs associated with redevelopment of existing uses (e.g., tenant relocations or lease buyouts) are not reflected in this analysis. Any of these additional costs would reduce a developer/investor's ability to pay for land. To the degree that these costs are required of projects in Peery Park, the residual land values estimated should be reduced accordingly.

- **Developer Projects –** This analysis takes the financial perspective of a real estate developer/investor seeking to earn a return on a real estate project. This view is distinctly different from the view of an end-user (e.g., a non-real estate corporation) seeking to construct real estate to house employees that support their primary business objectives. End-users may be able to justify specific investments in real estate that support their core objectives that cannot be rationalized in the context of broader real estate market conditions.

Potential Next Steps

EPS recommends two key additional analytical efforts follow this Financial Analysis of Peery Park Development Alternatives:

- **Evaluate financial feasibility considerations –** As discussed above, this analysis does not assess the financial feasibility of capturing the value of the proposed incentive zoning bonuses. A subsequent analysis could examine land transactions to determine the degree to which developer/investors have land costs which inhibit their ability to contribute community benefits.

- **Determine cost of community benefits –** The City has established a preliminary list of community benefits that might be funded through an incentive zoning program (in addition to benefits funded through City fee programs at all tiers of development, including base zoning). In order to scale community benefits to match the value created by incentive zoning, a subsequent analysis could evaluate the costs associated with community benefits, including costs borne by the public and private sectors. The analysis would provide a better understanding of what community benefits might be funded through CBIZ.

Figure 7 5-Acre Site/35 Percent Floor Area Ratio

DEVELOPMENT PROGRAM ASSUMPTIONS			
Site (Square Feet)			217,800
FAR			0.35
Gross Building Area (Square Feet)			76,230
Rentable Building Area (Square Feet)	90%	of GBA	68,607
Structured Parking Spaces			0
Suface Parking Spaces			254
BUILDING VALUE			
Gross Potential Rent (FS)	$4.75	per SF (RBA)/Month	$3,910,599
Losses to Vacancy	5.0%	of GPR	-$195,530
Gross Revenue			$3,715,069
Operating Expenses	$1.00	per SF (RBA)/Month	-$823,284
Net Operating Income			$2,891,785
Building Value	6.50%	Capitalization Rate	$44,489,001
Disposition Cost	3.0%	of Building Value	-$1,334,670
Net Building Value			**$43,154,331**
PROJECT COSTS			
Construction Costs			
Site Work	$30	Cost/SF (site area)	$6,534,000
Building Direct Cost	$210	Cost/SF (GBA)	$16,008,300
Structured Parking Direct Cost	$20,000	per Space	$0
Total Construction Cost			*$22,542,300*
Soft Costs			
Architecture and Engineering	5.0%	of Construction Cost	$1,127,115
Permits and Fees	$10	per Square Foot (GBA)	$762,300
Taxes and Insurance	2.0%	of Construction Cost	$450,846
Financing	4.0%	of Construction Cost	$901,692
Marketing/Leasing	3.5%	of 10-Year Lease Value	$1,300,274
Tenant Improvements	$50	per Square Foot (RBA)	$3,430,350
Developer Fee	5.0%	of Construction Cost	$1,127,115
Total Soft Costs			*$9,099,692*
Other Project Costs			
Development Contingency	5.0%	of Hard and Soft Costs	$1,582,100
Developer ROI	10.0%	of All Project Costs	$3,322,409
Total Other Costs			*$4,904,509*
Total Project Cost			**$36,546,501**
LAND VALUE			
Residual Land Value			**$6,607,830**
Per Square Foot (GBA)			**$87**

Figure 8 5-Acre Site/55 Percent Floor Area Ratio

DEVELOPMENT PROGRAM ASSUMPTIONS			
Site (Square Feet)			217,800
FAR			0.55
Gross Building Area (Square Feet)			119,790
Rentable Building Area (Square Feet)	90%	of GBA	107,811
Structured Parking Spaces			100
Suface Parking Spaces			299
BUILDING VALUE			
Gross Potential Rent (FS)	$4.75	per SF (RBA)/Month	$6,145,227
Losses to Vacancy	5.0%	of GPR	-$307,261
Gross Revenue			$5,837,966
Operating Expenses	$1.00	per SF (RBA)/Month	-$1,293,732
Net Operating Income			$4,544,234
Building Value	6.50%	Capitalization Rate	$69,911,287
Disposition Cost	3.0%	of Building Value	-$2,097,339
Net Building Value			**$67,813,948**
PROJECT COSTS			
Construction Costs			
Site Work	$30	Cost/SF (site area)	$6,534,000
Building Direct Cost	$210	Cost/SF (GBA)	$25,155,900
Structured Parking Direct Cost	$20,000	per Space	$1,996,500
Total Construction Cost			*$33,686,400*
Soft Costs			
Architecture and Engineering	5.0%	of Construction Cost	$1,684,320
Permits and Fees	$15	per Square Foot (GBA)	$1,796,850
Taxes and Insurance	2.0%	of Construction Cost	$673,728
Financing	4.0%	of Construction Cost	$1,347,456
Marketing/Leasing	3.5%	of 10-Year Lease Value	$2,043,288
Tenant Improvements	$50	per Square Foot (RBA)	$5,390,550
Developer Fee	5.0%	of Construction Cost	$1,684,320
Total Soft Costs			*$14,620,512*
Other Project Costs			
Development Contingency	5.0%	of Hard and Soft Costs	$2,415,346
Developer ROI	10.0%	of All Project Costs	$5,072,226
Total Other Costs			*$7,487,571*
Total Project Cost			**$55,794,483**
LAND VALUE			
Residual Land Value			**$12,019,465**
Per Square Foot (GBA)			**$100**

Figure 9 5-Acre Site/100 Percent Floor Area Ratio

DEVELOPMENT PROGRAM ASSUMPTIONS			
Site (Square Feet)			217,800
FAR			1.00
Gross Building Area (Square Feet)			217,800
Rentable Building Area (Square Feet)	90%	of GBA	196,020
Structured Parking Spaces			726
Suface Parking Spaces			0
BUILDING VALUE			
Gross Potential Rent (FS)	$4.75	per SF (RBA)/Month	$11,173,140
Losses to Vacancy	5.0%	of GPR	-$558,657
Gross Revenue			$10,614,483
Operating Expenses	$1.00	per SF (RBA)/Month	-$2,352,240
Net Operating Income			$8,262,243
Building Value	6.50%	Capitalization Rate	$127,111,431
Disposition Cost	3.0%	of Building Value	-$3,813,343
Net Building Value			**$123,298,088**
PROJECT COSTS			
Construction Costs			
Site Work	$30	Cost/SF (site area)	$6,534,000
Building Direct Cost	$210	Cost/SF (GBA)	$45,738,000
Structured Parking Direct Cost	$20,000	per Space	$14,520,000
Total Construction Cost			*$66,792,000*
Soft Costs			
Architecture and Engineering	5.0%	of Construction Cost	$3,339,600
Permits and Fees	$20	per Square Foot (GBA)	$4,356,000
Taxes and Insurance	2.0%	of Construction Cost	$1,335,840
Financing	4.0%	of Construction Cost	$2,671,680
Marketing/Leasing	3.5%	of 10-Year Lease Value	$3,715,069
Tenant Improvements	$50	per Square Foot (RBA)	$9,801,000
Developer Fee	5.0%	of Construction Cost	$3,339,600
Total Soft Costs			*$28,558,789*
Other Project Costs			
Development Contingency	5.0%	of Hard and Soft Costs	$4,767,539
Developer ROI	10.0%	of All Project Costs	$10,011,833
Total Other Costs			*$14,779,372*
Total Project Cost			**$110,130,161**
LAND VALUE			
Residual Land Value			**$13,167,926**
Per Square Foot (GBA)			**$60**

Figure 10 10-Acre Site/35 Percent Floor Area Ratio

DEVELOPMENT PROGRAM ASSUMPTIONS			
Site (Square Feet)			435,600
FAR			0.35
Gross Building Area (Square Feet)			152,460
Rentable Building Area (Square Feet)	90%	of GBA	137,214
Structured Parking Spaces			0
Suface Parking Spaces			508
BUILDING VALUE			
Gross Potential Rent (FS)	$4.75	per SF (RBA)/Month	$7,821,198
Losses to Vacancy	5.0%	of GPR	-$391,060
Gross Revenue			$7,430,138
Operating Expenses	$1.00	per SF (RBA)/Month	-$1,646,568
Net Operating Income			$5,783,570
Building Value	6.50%	Capitalization Rate	$88,978,002
Disposition Cost	3.0%	of Building Value	-$2,669,340
Net Building Value			**$86,308,661**
PROJECT COSTS			
Construction Costs			
Site Work	$30	Cost/SF (site area)	$13,068,000
Building Direct Cost	$210	Cost/SF (GBA)	$32,016,600
Structured Parking Direct Cost	$20,000	per Space	$0
Total Construction Cost			*$45,084,600*
Soft Costs			
Architecture and Engineering	5.0%	of Construction Cost	$2,254,230
Permits and Fees	$10	per Square Foot (GBA)	$1,524,600
Taxes and Insurance	2.0%	of Construction Cost	$901,692
Financing	4.0%	of Construction Cost	$1,803,384
Marketing/Leasing	3.5%	of 10-Year Lease Value	$2,600,548
Tenant Improvements	$50	per Square Foot (RBA)	$6,860,700
Developer Fee	5.0%	of Construction Cost	$2,254,230
Total Soft Costs			*$18,199,384*
Other Project Costs			
Development Contingency	5.0%	of Hard and Soft Costs	$3,164,199
Developer ROI	10.0%	of All Project Costs	$6,644,818
Total Other Costs			*$9,809,018*
Total Project Cost			**$73,093,002**
LAND VALUE			
Residual Land Value			**$13,215,660**
Per Square Foot (GBA)			**$87**

Figure 11 10-Acre Site/55 Percent Floor Area Ratio

DEVELOPMENT PROGRAM ASSUMPTIONS			
Site (Square Feet)			435,600
FAR			0.55
Gross Building Area (Square Feet)			239,580
Rentable Building Area (Square Feet)	90%	of GBA	215,622
Structured Parking Spaces			80
Suface Parking Spaces			719
BUILDING VALUE			
Gross Potential Rent (FS)	$4.75	per SF (RBA)/Month	$12,290,454
Losses to Vacancy	5.0%	of GPR	-$614,523
Gross Revenue			$11,675,931
Operating Expenses	$1.00	per SF (RBA)/Month	-$2,587,464
Net Operating Income			$9,088,467
Building Value	6.50%	Capitalization Rate	$139,822,574
Disposition Cost	3.0%	of Building Value	-$4,194,677
Net Building Value			**$135,627,897**
PROJECT COSTS			
Construction Costs			
Site Work	$30	Cost/SF (site area)	$13,068,000
Building Direct Cost	$210	Cost/SF (GBA)	$50,311,800
Structured Parking Direct Cost	$20,000	per Space	$1,597,200
Total Construction Cost			*$64,977,000*
Soft Costs			
Architecture and Engineering	5.0%	of Construction Cost	$3,248,850
Permits and Fees	$15	per Square Foot (GBA)	$3,593,700
Taxes and Insurance	2.0%	of Construction Cost	$1,299,540
Financing	4.0%	of Construction Cost	$2,599,080
Marketing/Leasing	3.5%	of 10-Year Lease Value	$4,086,576
Tenant Improvements	$50	per Square Foot (RBA)	$10,781,100
Developer Fee	5.0%	of Construction Cost	$3,248,850
Total Soft Costs			*$28,857,696*
Other Project Costs			
Development Contingency	5.0%	of Hard and Soft Costs	$4,691,735
Developer ROI	10.0%	of All Project Costs	$9,852,643
Total Other Costs			*$14,544,378*
Total Project Cost			**$108,379,074**
LAND VALUE			
Residual Land Value			**$27,248,823**
Per Square Foot (GBA)			**$114**

Figure 12 10-Acre Site/100 Percent Floor Area Ratio

DEVELOPMENT PROGRAM ASSUMPTIONS			
Site (Square Feet)			435,600
FAR			1.00
Gross Building Area (Square Feet)			435,600
Rentable Building Area (Square Feet)	90%	of GBA	392,040
Structured Parking Spaces			1,089
Suface Parking Spaces			363
BUILDING VALUE			
Gross Potential Rent (FS)	$4.75	per SF (RBA)/Month	$22,346,280
Losses to Vacancy	5.0%	of GPR	-$1,117,314
Gross Revenue			$21,228,966
Operating Expenses	$1.00	per SF (RBA)/Month	-$4,704,480
Net Operating Income			$16,524,486
Building Value	6.50%	Capitalization Rate	$254,222,862
Disposition Cost	3.0%	of Building Value	-$7,626,686
Net Building Value			**$246,596,176**
PROJECT COSTS			
Construction Costs			
Site Work	$30	Cost/SF (site area)	$13,068,000
Building Direct Cost	$210	Cost/SF (GBA)	$91,476,000
Structured Parking Direct Cost	$20,000	per Space	$21,780,000
Total Construction Cost			*$126,324,000*
Soft Costs			
Architecture and Engineering	5.0%	of Construction Cost	$6,316,200
Permits and Fees	$20	per Square Foot (GBA)	$8,712,000
Taxes and Insurance	2.0%	of Construction Cost	$2,526,480
Financing	4.0%	of Construction Cost	$5,052,960
Marketing/Leasing	3.5%	of 10-Year Lease Value	$7,430,138
Tenant Improvements	$50	per Square Foot (RBA)	$19,602,000
Developer Fee	5.0%	of Construction Cost	$6,316,200
Total Soft Costs			*$55,955,978*
Other Project Costs			
Development Contingency	5.0%	of Hard and Soft Costs	$9,113,999
Developer ROI	10.0%	of All Project Costs	$19,139,398
Total Other Costs			*$28,253,397*
Total Project Cost			**$210,533,375**
LAND VALUE			
Residual Land Value			**$36,062,801**
Per Square Foot (GBA)			**$83**