Overview

• ERA Assignment
• Project Initiation & Progress
• Model Approach & Inputs
• Model Findings
• Q&A

• Sensitivities
• Background
ERA Assignment

- Assist with the analysis of the economic feasibility of rezoning areas in the Landmark/Van Dorn planning area
  - Density bonus (FAR increase) via proposed rezoning or individual rezoning request
  - Associated affordable housing requirement
- General purpose
  - Allow increased density in the planning area to encourage mixed use development with privately financed mixed-income housing
Project Initiation and Progress

- Kick-off meeting with city staff and multiple progress meetings
- Reviewed background materials: Landmark/Van Dorn studies, BAE study, zoning code
- Interviewed selected developers/owners/consultants
  - Current income stream profitable and sufficient for long-term hold
  - Current conditions do not support redevelopment of sites
  - Long-term investments / redevelopment opportunity (10+ years)
  - Profit expectations of 20+% (cash-on-cost)
- Feasibility modeling completed – results follow
Model Approach & Inputs
Model Approach – General Approach

• Developers must make a profit or use of the density bonus will not occur

• Density bonus
  • Voluntary
  • Market-based mechanism
    – Relies on the increased profits from the density bonus
    – Portion of density bonus is below market rate (affordable) housing

• Model structure and inputs
  • Built upon previous affordable housing models (Fairfax Co., Arlington Co., Sarasota)
  • Updated to account for
    – Wider variation in development and parking types
    – Current study area conditions
  • Robust approach accepted by developers
Model Approach – Development Profit

- Profit is primary measure of density bonus effectiveness
- For-profit developer with no special conditions/financing
- Numerous ways to measure (cash-on-cash, cash-on-cost, return on capital, internal rate of return, etc.)
- Financing structure/conditions has a big effect on most development profit measures
- Cash-on-cost measures unleveraged return (pre-financing)

\[
\text{Dev. Profit (cash-on-cost)} = \frac{(\text{Sales Revenues} - \text{Dev. Costs})}{\text{Dev. Costs}}
\]

- Target development profit (hurdle rate)
  - Target of \( \geq 20\% \) for most for-profit developers
  - Marginal (<20%) profit could be acceptable to some developers with a lower cost basis (lower land cost) or return expectations (affordable housing developer, non-profit)
Model Approach – Steps

1. Current zoning (base case) with 100% market rate housing
2. Proposed zoning with increased density (FAR) and 100% market rate housing
3. Proposed zoning with increased density (FAR) and 15% below market rate (affordable) housing
4. Sensitivities
Zoning Categories & Development Types

• Comparison of existing and proposed zoning
  • Existing RCX at FAR <=1.25 → Proposed RCX at FAR <=2.00
  • Existing CG and I at FAR <=0.5 → Proposed CDD at FAR <=1.50 or 2.50

• Development types/properties shown on next slides to illustrate style only
Zoning Categories & Development Types

• Existing: RCX <= FAR 1.25
  • Low-rise, 2-4 stories
  • Garden apartments/condos
  • Surface parking

• Proposed: RCX <= FAR 2.00
  • Low-rise, <=4 stories
  • Garden apartments/condos
  • Surface, structured and underground parking
Zoning Categories & Development Types

• Existing: CG-Retail, CG-Office or I-Industrial at <=FAR 0.50
  • Low-rise, 1 story
  • Commercial only
  • Surface parking

• Proposed: CDD (CG) at <=FAR 1.50 and 2.50
  • Mid-rise, 4+ stories
  • Residential only
  • Structured and underground parking
Zoning Categories & Development Types

• Existing: CG-Retail, CG-Office or I-Industrial at \( \leq \text{FAR} 0.50 \)
  • Low-rise, 1 story
  • Commercial only
  • Surface parking

• Proposed: CDD (CG) at \( \leq \text{FAR} 1.50 \) and 2.50
  • Mid-rise, 4+ stories
  • Mixed use
    – 80% residential
    – 20% nonresidential (retail/office)
  • Structured and underground parking
Site and Open Space

- 3 acre site (net of public infrastructure and parks)
- **Open Space (City code)**
  - RCX: 40% net site area, 10% allowed above grade
  - CG: 40% net site area, 10% allowed above grade
  - I: 0% net site area
  - CDD: 25% net site area, 0% allowed above grade
- **On-Site Inefficiency/Infrastructure Factor**
  - Topography, parcel shape, building design, roads, infrastructure, landscape
  - RCX: 0%
  - CG: 0%
  - I: 0%
  - CDD: 25%
- **Building Footprint**
  - RCX: 83,000 sq. ft.
  - CG: 130,000 sq. ft.
  - I: 130,000 sq. ft.
  - CDD: 78,000 sq. ft.
Parking

• **Required Spaces (City code)**
  - Office: 1 per 500 sq. ft.
  - Retail: 1 per 200 sq. ft.
  - Flex & Industrial: 1 per 3,000 sq. ft.
  - Residential:
    - 1.30 per 1 bedroom
    - 1.75 per 2 bedroom
    - 2.20 per 3 bedroom

• **Size:** 375 sq. ft. (gross)

• **Counts against FAR? (City code)**
  - RCX: No
  - CG, I: Only integrated (townhouse)
  - CDD:
    - Ground Floor+ Structured: Yes
    - Ground Floor – Integrated: Yes
    - Ground Floor – Surface: No
    - Underground: No
Residential Characteristics – Mix

- **Source:** Current area rentals and sales
  - Reviewed current market comparables within approximately 1 mile of Duke Street and Van Dorn intersection
  - Apartments: REIS (7 complexes reporting)
  - Condos/Townhouse: HanleyWood (15 projects reporting)
- **Based Unit mix the same for market rate and below market rate units**
- **Apartments and Condos**
  - 1 Bedroom: 35%
  - 2 Bedroom: 60%
  - 3 Bedroom: 5%
- **Townhouses**
  - 1 Bedroom: None
  - 2 Bedroom: 30%
  - 3 Bedroom: 70%
Residential Characteristics – Size

- Source: Current area rentals (REIS) and sales (HanleyWood)
- No differentiation in size between market rate and below market rate
- Apartments
  - 1 Bedroom: 725 sq. ft.
  - 2 Bedroom: 1,025 sq. ft.
  - 3 Bedroom: 1,350 sq. ft.
- Condos
  - 1 Bedroom: 800 sq. ft.
  - 2 Bedroom: 1,200 sq. ft.
  - 3 Bedroom: 1,550 sq. ft.
- Townhouses
  - 1 Bedroom: None
  - 2 Bedroom: 1,500 sq. ft.
  - 3 Bedroom: 1,900 sq. ft.
Residential Characteristics – Sales Prices

• Market Rate
  • Source: Current area sales from HanleyWood
  • Condos
    – 1 Bedroom: $425 per sq. ft. or $310,000 per unit
    – 2 Bedroom: $400 per sq. ft. or $413,000 per unit
    – 3 Bedroom: $375 per sq. ft. or $510,000 per unit
  • Townhouses
    – 1 Bedroom: None
    – 2 Bedroom: $400 per sq. ft. or $604,000 per unit
    – 3 Bedroom: $375 per sq. ft. or $717,000 per unit

• Below Market Rate (Affordable)
  • Varies by income and number of bedrooms
  • See later slides

• Cost of Marketing & Sales: 3.5% of sales revenues (ERA)
Residential Characteristics –
Rents and Related

• Market Rate
  • Source: Current area rents from REIS (midpoint of median and high), in-line with RCL/Delta
    Associates report on study area
  • Effective rent (excludes utilities)
    – 1 Bedroom: $1.90 per sq. ft. or $1,379 per unit
    – 2 Bedroom: $1.73 per sq. ft. or $1,776 per unit
    – 3 Bedroom: $1.61 per sq. ft. or $2,173 per unit

• Below Market Rate (affordable)
  • Varies by AMI level and number of bedrooms
  • See later slides

• Other
  • Vacancy Rate: 3.1% (REIS)
  • Operating Expenses: 45% (ULI)
  • Capitalized Value (stabilized)
    – Capitalization Rate: 6.50% (ERA)
    – Cost of Sale: 5.0% of capitalized revenues (ERA)
Below Market Rate (Affordable)

- Based on HUD/VHDA/City income standards, with variations by Area Median Income (AMI), person per household, and corresponding number of bedrooms
- For-sale (condo) variations based on AMI level for down payment and second (deferred) mortgage, and also number of bedrooms for condo fees
- Income distribution by tenure – change in current policy to include 80% AMI
  - Apartments: Half each at 60% and 80% AMI
  - Condos/Townhouses: Half each 80% and 100% AMI
- Initial target of 15% of total units affordable unless otherwise noted
Below Market Rate (Affordable) – Incomes

<table>
<thead>
<tr>
<th>Income</th>
<th>1</th>
<th>1.5</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% median</td>
<td>$37,920</td>
<td>$40,620</td>
<td>$43,320</td>
<td>$48,780</td>
<td>$54,180</td>
</tr>
<tr>
<td>80% median (mathematical)</td>
<td>$50,570</td>
<td>$54,185</td>
<td>$57,800</td>
<td>$65,020</td>
<td>$72,240</td>
</tr>
<tr>
<td>100% median</td>
<td>$63,210</td>
<td>$67,725</td>
<td>$72,240</td>
<td>$81,270</td>
<td>$90,300</td>
</tr>
</tbody>
</table>

## Below Market Rate (Affordable) – Apartments

### Table 2: For-Rent Maximum Housing Payment by Bedrooms and Persons Per Household, Alexandria, 2006-07

<table>
<thead>
<tr>
<th>Income</th>
<th>1 Bedrooms (1.5 per.)</th>
<th>2 Bedrooms (3 per.)</th>
<th>3 Bedrooms (4.5 per.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% median</td>
<td>$1,015.00</td>
<td>$1,219.00</td>
<td>$1,408.00</td>
</tr>
<tr>
<td>80% median (mathematical)</td>
<td>$1,354.00</td>
<td>$1,625.00</td>
<td>$1,878.00</td>
</tr>
<tr>
<td>100% median</td>
<td>$1,693.00</td>
<td>$2,031.00</td>
<td>$2,347.00</td>
</tr>
</tbody>
</table>

1/ Percent of income: 30.0%


### Table 3: Utility Allowances, Alexandria, 2006-07

<table>
<thead>
<tr>
<th>Income</th>
<th>1 Bedrooms (1.5 per.)</th>
<th>2 Bedrooms (3 per.)</th>
<th>3 Bedrooms (4.5 per.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% median</td>
<td>$158.00</td>
<td>$198.00</td>
<td>$239.00</td>
</tr>
<tr>
<td>80% median (mathematical)</td>
<td>$158.00</td>
<td>$198.00</td>
<td>$239.00</td>
</tr>
<tr>
<td>100% median</td>
<td>$158.00</td>
<td>$198.00</td>
<td>$239.00</td>
</tr>
</tbody>
</table>

1/ Based on selected representative systems in each category (heating, cooking, other electric, A/C, water heating, water, sewer, trash) – using gas heating, electric cooking, and gas water heating, with water, sewer and trash included.


### Table 4: For-Rent Maximum Allowable Housing Payment Excluding Utilities, Alexandria, 2006-07

<table>
<thead>
<tr>
<th>Income</th>
<th>1 Bedrooms (1.5 per.)</th>
<th>2 Bedrooms (3 per.)</th>
<th>3 Bedrooms (4.5 per.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% median</td>
<td>$857.00</td>
<td>$1,021.00</td>
<td>$1,169.00</td>
</tr>
<tr>
<td>80% median (mathematical)</td>
<td>$1,196.00</td>
<td>$1,427.00</td>
<td>$1,639.00</td>
</tr>
<tr>
<td>100% median</td>
<td>$1,535.00</td>
<td>$1,833.00</td>
<td>$2,108.00</td>
</tr>
</tbody>
</table>

1/ Excludes utilities.

Below Market Rate (Affordable) – Condos/Townhouses

Table 5: For-Sale Maximum Housing Payment by Bedrooms and Persons Per Household, Alexandria

<table>
<thead>
<tr>
<th>Income</th>
<th>1 (1.5 per.)</th>
<th>2 (3 per.)</th>
<th>3 (4.5 per.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% median</td>
<td>$1,083.00</td>
<td>$1,300.00</td>
<td>$1,502.00</td>
</tr>
<tr>
<td>80% median (mathematical)</td>
<td>$1,444.00</td>
<td>$1,733.00</td>
<td>$2,003.00</td>
</tr>
<tr>
<td>100% median</td>
<td>$1,806.00</td>
<td>$2,167.00</td>
<td>$2,504.00</td>
</tr>
</tbody>
</table>

1/ Percent of income: 32.0%

Below Market Rate (Affordable) – Condos/Townhouses

Table 6: For-Sale Affordability Assumptions, Alexandria, FY2006-07

<table>
<thead>
<tr>
<th>Bedrooms</th>
<th>Income</th>
<th>Maximum Allowable Monthly Housing Payment 1/</th>
<th>Maximum Affordable Unit Sales Price</th>
<th>Down Payment 2/</th>
<th>Deferred Mortgage 3/</th>
<th>Total Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>60% median</td>
<td>$1,083.00</td>
<td>$188,696.58</td>
<td>$2,000.00</td>
<td>$50,000.00</td>
<td>$13,000.00</td>
</tr>
<tr>
<td></td>
<td>80% median</td>
<td>$1,300.00</td>
<td>$199,363.54</td>
<td>$3,000.00</td>
<td>$30,000.00</td>
<td>$10,000.00</td>
</tr>
<tr>
<td></td>
<td>100% median</td>
<td>$1,502.00</td>
<td>$230,549.35</td>
<td>$3,000.00</td>
<td>$30,000.00</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>60% median</td>
<td>$1,444.00</td>
<td>$242,879.61</td>
<td>$2,000.00</td>
<td>$50,000.00</td>
<td>$15,000.00</td>
</tr>
<tr>
<td></td>
<td>80% median</td>
<td>$1,733.00</td>
<td>$262,352.70</td>
<td>$3,000.00</td>
<td>$30,000.00</td>
<td>$20,000.00</td>
</tr>
<tr>
<td></td>
<td>100% median</td>
<td>$2,003.00</td>
<td>$304,036.70</td>
<td>$3,000.00</td>
<td>$30,000.00</td>
<td>$20,000.00</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>60% median</td>
<td>$1,806.00</td>
<td>$286,770.97</td>
<td>$2,000.00</td>
<td>$50,000.00</td>
<td>$22,000.00</td>
</tr>
<tr>
<td></td>
<td>80% median</td>
<td>$2,167.00</td>
<td>$325,496.24</td>
<td>$3,000.00</td>
<td>$30,000.00</td>
<td>$25,000.00</td>
</tr>
<tr>
<td></td>
<td>100% median</td>
<td>$2,504.00</td>
<td>$350,669.64</td>
<td>$3,000.00</td>
<td>$30,000.00</td>
<td>$28,000.00</td>
</tr>
</tbody>
</table>

1/ Maximum monthly income available for housing payments (including utilities):
2/ Downpayment
3/ 60% AMI:
Commercial Characteristics – Rents and Related

• Office
  • Rent (full-service): $27 per sq. ft. (CoStar)
  • Vacancy Rate: 8.0% (RCL)
  • Operating Expenses: 27% (ERA)
  • Capitalization Rate: 7.75% (ERA, ULI, PWC/Korpacz)
  • Cost of Sale: 5.0% of capitalized revenues (ERA)

• Retail
  • Rent (NNN): $30 per sq. ft. (CoStar)
  • Vacancy Rate: 8.0% (RCL)
  • Operating Expenses: 0%
  • Capitalization Rate: 6.75% (ERA, ULI, PWC/Korpacz)
  • Cost of Sale: 5.0% of capitalized revenues (ERA)

• Flex/Industrial
  • Rent (NNN): $12 per sq. ft. (CoStar)
  • Vacancy Rate: 12.0% (RCL)
  • Operating Expenses: 0%
  • Capitalization Rate: 7.75% (ERA, ULI, PWC/Korpacz)
  • Cost of Sale: 5.0% of capitalized revenues (ERA)
Development Costs

• For-profit developer with no special conditions/financing
• Excludes land cost
• Varies by
  • Development type: apartment/condo, townhouse, retail building, flex/industrial building, parking
  • Class of construction: “Stick & Brick” (Class C for RCX), “Steel & Brick” (Class B for CDD)
  • Quality: Good (higher than low or average, not as high as excellent)
• Base costs include architect’s fees, contractor’s overhead and profit, sales taxes, permit fees, insurance during construction, and interest during construction
• Increased to current values and adjusted to account for location, shortages, complex/congested areas, topography, permanent financing, and real estate taxes
• Cross-checked with ERA’s previous work
## Building Indexes

### Class of Construction

<table>
<thead>
<tr>
<th>Class</th>
<th>Frame</th>
<th>Floor</th>
<th>Roof</th>
<th>Walls</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Structural steel columns and beams, fireproofed with masonry, concrete, plaster or other noncombustible material.</td>
<td>Concrete or concrete on steel deck, fireproofed.</td>
<td>Formed concrete, precast slabs, concrete or gypsum on steel deck, fireproofed.</td>
<td>Nonbearing curtain walls, masonry, concrete, metal and glass panels, stone, steel studs and masonry, tile or stucco, etc.</td>
</tr>
<tr>
<td>B</td>
<td>Reinforced concrete columns and beams, Fire-resistant construction.</td>
<td>Concrete or concrete on steel deck, fireproofed.</td>
<td>Formed concrete, precast slabs, concrete or gypsum on steel deck, fireproofed.</td>
<td>Nonbearing curtain walls, masonry, concrete, metal and glass panels, stone, etc.</td>
</tr>
<tr>
<td>C</td>
<td>Masonry or concrete load-bearing walls with or without plaster. Masonry, concrete or curtain walls with full or partial open steel, wood or concrete frame.</td>
<td>Wood or concrete plank on wood or steel floor joists or concrete slab on grade.</td>
<td>Wood or steel joists with wood or steel deck. Concrete plank.</td>
<td>Brick, concrete block or tile masonry, tiling, formed concrete, nonbearing curtain walls</td>
</tr>
<tr>
<td>D</td>
<td>Wood or steel studs in bearing wall, full or partial open wood or steel frame, primarily combustible construction.</td>
<td>Wood or steel floor joists or concrete slab on grade.</td>
<td>Wood or steel joists with wood or steel deck.</td>
<td>Almost any material except bearing or curtain walls of solid masonry or concrete. Generally combustible construction.</td>
</tr>
<tr>
<td>S</td>
<td>Metal bars, columns, girders, purlins and girts without fireproofing, noncombustible construction.</td>
<td>Wood or steel deck on steel floor joists or concrete slab on grade.</td>
<td>Steel or wood deck on steel joists.</td>
<td>Metal skin or sandwich panels. Generally noncombustible.</td>
</tr>
</tbody>
</table>
# Development Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>Subcategory</th>
<th>Per Sq. Ft.*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Residential</strong></td>
<td>Low-rise apartments &amp; condos (RCX) (stick &amp; brick)</td>
<td>$172</td>
</tr>
<tr>
<td></td>
<td>Low-rise townhouses (RCX) (stick &amp; brick)</td>
<td>$165</td>
</tr>
<tr>
<td></td>
<td>Mid-rise apartments (CG, CDD) (steel &amp; brick)</td>
<td>$213</td>
</tr>
<tr>
<td><strong>Office</strong></td>
<td>Low-rise (CG) (stick &amp; brick)</td>
<td>$211</td>
</tr>
<tr>
<td></td>
<td>Mid-rise (CDD) (steel &amp; brick)</td>
<td>$273</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
<td>Low-rise (CG) (stick &amp; brick)</td>
<td>$143</td>
</tr>
<tr>
<td></td>
<td>Mid-rise (CDD) (steel &amp; brick)</td>
<td>$172</td>
</tr>
<tr>
<td><strong>Industrial</strong></td>
<td>Low-rise townhouses (RCX) (stick &amp; brick)</td>
<td>$97</td>
</tr>
</tbody>
</table>

*Excluding land and parking*
Development Costs

• Parking
  • Surface $2,400
  • Integrated (Townhouse) $21,600
  • Structured $34,200
  • Underground $45,800

• Land Purchase
  • Lack of local recent transactions
  • $50 per dirt sq. ft. assumed from City appraisals
  • In-line with ERA’s expectations
  • Assumed to be fully entitled

• Land Improvement
  • $5 per dirt sq. ft.
  • Include demolition, grading, drainage, landscape
Model Results
Model Results

- Profit is primary measure of density bonus effectiveness
- For-profit developer with no special conditions/financing
- Numerous ways to measure (cash-on-cash, cash-on-cost, return on capital, internal rate of return, etc.)
- Financing structure/conditions has a big effect on most development profit measures
- Cash-on-cost measures unleveraged return (pre-financing)
  \[
  \text{Dev. Profit (cash-on-cost)} = \frac{(Sales \ Revenues - Dev. Costs)}{Dev. Costs}
  \]
- Target of \( \geq 20\% \) for most for-profit developer
100% Market Rate, 0% Affordable

• Target profit level (≥20%) achieved with

• Existing zoning
  • Condo, low-rise (RCX), FAR 1.25, surface parking 25.0%
  • Condo, low-rise (RCX), FAR 1.25, structured parking 28.0%
  • Condo, low-rise (RCX), FAR 1.25, underground parking 21.9%
  • Townhouse, low-rise (RCX), FAR 1.25, integrated parking 33.7%

• Proposed zoning
  • Condo, low-rise (RCX), FAR 2.00, surface parking 25.0%
  • Condo, low-rise (RCX), FAR 2.00, structured parking 35.3%
  • Condo, low-rise (RCX), FAR 2.00, underground parking 29.0%
  • Townhouse, low-rise (RCX), FAR 2.00, integrated parking 44.1%

• Comments
  • See end Table 8 (handout)
  • Profit increases with shift from surface to structured parking due to increase in developable site area (layered parking frees up site area)
  • Townhouses are most profitable development type
100% Market Rate, 0% Affordable

- Marginal profit (>0%) achieved with
- Proposed zoning
  - Condo, mid-rise (CDD), residential only, FAR 1.50, structured parking 8.3%
  - Condo, mid-rise (CDD), residential only, FAR 1.50, underground parking 9.2%
  - Condo, mid-rise (CDD), residential only, FAR 2.50, structured parking 15.2%
  - Condo, mid-rise (CDD), residential only, FAR 2.50, underground parking 14.0%
  - Condo, mid-rise (CDD), mixed use, FAR 2.50, structured parking 4.1%
  - Condo, mid-rise (CDD), mixed use, FAR 2.50, underground parking 1.3%

- Comments
  - True marginal profitability achieved only with residential only at FAR 2.50
100% Market Rate, 0% Affordable

• Apartments unable to achieve target/marginal returns
  • Rents are too low versus costs
  • Some apartment projects are currently moving forward probably due to a number of factors
    – Switch to rental due to current condo market slowdown
    – Development advantage, such as low land cost
    – Investor with lower capitalization rate than current market

• Mixed-use projects
  • Unable to achieve target ≥20% profit
  • Very marginal positive profit (1.3%-4.1%) at FAR 2.50
  • Negative profit at FAR 1.50
15% Affordable, 85% Market Rate

• Target profit level (≥20%) achieved with Profit

• Existing zoning
  • Condo, low-rise (RCX), FAR 1.25, structured parking 21.5%
  • Townhouse, low-rise (RCX), FAR 1.25, integrated parking 23.9%

• Proposed zoning
  • Condo, low-rise (RCX), FAR 2.00, structured parking 28.7%
  • Condo, low-rise (RCX), FAR 2.00, underground parking 22.8%
  • Townhouse, low-rise (RCX), FAR 2.00, integrated parking 32.5%

• Comments
  • 15% chosen as arbitrary measure to analyze impact on profitability
  • AMI levels
    – Apartments: 50/50 at 60% and 80% AMI, with 30% of household income
    – Condos/Townhouses: 50/50 at 80% and 100% AMI, with 32% of household income
  • Surface parking no longer profitable for RCX
15% Affordable, 85% Market Rate

- Marginal profit levels (>0%) achieved with Profit
- Existing zoning
  - Condo, low-rise (RCX), FAR 1.25, surface parking 18.9%
  - Condo, low-rise (RCX), FAR 1.25, underground parking 15.9%
- Proposed zoning
  - Condo, low-rise (RCX), FAR 2.00, surface parking 18.9%
  - Condo, low-rise (CDD), residential only, FAR 1.50, structured parking 2.5%
  - Condo, low-rise (CDD), residential only, FAR 1.50, underground parking 3.8%
  - Condo, mid-rise (CDD), mixed use, FAR 2.00, structured parking 9.5%
  - Condo, mid-rise (CDD), mixed use, FAR 2.00, underground parking 8.3%
- Comments
  - Only first three are truly marginal
Sensitivities: What % Affordable at 20% Profit?

- Target profit level of ~20% achieved with **Affordable**
- Existing
  - Condo, low-rise (RCX), FAR 1.25, surface parking 13%
  - Condo, low-rise (RCX), FAR 1.25, structured parking 19%
  - Condo, low-rise (RCS), FAR 1.25, underground parking 2%
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking 20%
- Proposed
  - Condo, low-rise (RCX), FAR 2.00, surface parking 13%
  - Condo, low-rise (RCX), FAR 2.00, structured parking 35%
  - Condo, low-rise (RCX), FAR 2.00, underground parking 20%
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking 32%
- Comments
  - Existing FAR provides good opportunities for affordable housing
  - Increased FAR provides greater opportunity
  - Condo, low-rise (RCX), FAR 2.00, structured parking has highest affordable percentage (yield) due to smaller unit sizes than townhouses
Sensitivities: Higher and Lower Costs and Revenues

• Sensitivities
  • Construction cost: -/+10%
  • Land cost: +/-10%
  • Sales/rent revenues: -/+10%
  • Combined upside and combined downside

• Illustrative of the impact of variations in the major inputs
  • Developers face opportunities and risks, with each varying by developer, project, and market conditions
  • Does not indicate probability or achievability of such variations

• Order of impact:
  1. Sales/rent revenues
  2. Construction costs
  3. Land costs

• See end of presentation and/or handouts for detailed results
Summary

• Assignment: Review development feasibility under existing and proposed zoning in Landmark/Van Dorn study area, without and with affordable housing requirement

• Findings in-line with those from other markets
  • Redevelopment by current owners or potential developers is unlikely in the short-term due to current market conditions
  • Townhouses present best opportunity for inclusion of affordable housing, particularly at proposed higher FAR, but yield fewer units
  • Condos also good opportunity, especially at proposed higher FAR
  • Mixed-use may be feasible for some developers at higher FAR
  • Apartments not feasible under current market conditions
Final Comments

• Density bonus is a single, market-oriented solution – multiple solutions required, including non-market solutions
• Land owners/developers may choose to wait for higher densities and/or sales prices before developing
• Developers with an advantage (e.g., land purchased at a below market rate, fixed construction contracts, tax credit financing, lower return expectation) may meet/exceed hurdle rate
Questions and Answers
Sensitivities
Sensitivities: Lower Construction Cost

- Construction Costs -10% (90% of base) (Table 8)

- Existing zoning
  - Condo, low-rise (RCX), FAR 1.25, surface parking
  - Condo, low-rise (RCX), FAR 1.25, structured parking
  - Condo, low-rise (RCX), FAR 1.25, underground parking
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking

- Proposed zoning
  - Condo, low-rise (RCX), FAR 2.00, surface parking
  - Condo, low-rise (RCX), FAR 2.00, structured parking
  - Condo, low-rise (RCX), FAR 2.00, underground parking
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking
  - Condo, mid-rise (CDD), FAR 2.50, structured parking
  - Condo, mid-rise (CDD), FAR 2.50, structured parking

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<td>18.9%</td>
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<td>33.0%</td>
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<tr>
<td>Condo, low-rise (RCX), FAR 2.00, surface parking</td>
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<td>26.1%</td>
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### Sensitivities: Higher Construction Cost

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<td><strong>Base</strong></td>
<td><strong>Sensitivity</strong></td>
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<td><strong>Existing zoning</strong></td>
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<td><strong>Proposed zoning</strong></td>
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<td>1.9%</td>
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<tr>
<td>• Condo, mid-rise (CDD), FAR 2.50, structured parking</td>
<td>8.3%</td>
<td>0.4%</td>
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# Sensitivities: Lower Land Cost

- **Land Cost** -10% (90% of base) (Table 10)
- **Existing zoning**
  - Condo, low-rise (RCX), FAR 1.25, surface parking: 18.9% 22.4%
  - Condo, low-rise (RCX), FAR 1.25, structured parking: 21.5% 23.4%
  - Condo, low-rise (RCX), FAR 1.25, underground parking: 15.9% 17.6%
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking: 23.9% 26.1%
- **Proposed zoning**
  - Condo, low-rise (RCX), FAR 2.00, surface parking: 18.9% 22.4%
  - Condo, low-rise (RCX), FAR 2.00, structured parking: 28.7% 30.0%
  - Condo, low-rise (RCX), FAR 2.00, underground parking: 22.8% 24.0%
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking: 32.5% 34.0%
  - Condo, mid-rise (CDD), FAR 2.50, structured parking: 9.5% 10.6%
  - Condo, mid-rise (CDD), FAR 2.50, structured parking: 8.3% 9.0%
### Sensitivities: Higher Land Cost

- **Land Cost +10% (110% of base) (Table 11)**

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<td>23.9%</td>
<td>21.9%</td>
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</table>

- **Existing zoning**

  - Condo, low-rise (RCX), FAR 1.25, surface parking
  - Condo, low-rise (RCX), FAR 1.25, structured parking
  - Condo, low-rise (RCX), FAR 1.25, underground parking
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking

- **Proposed zoning**

  - Condo, low-rise (RCX), FAR 2.00, surface parking
  - Condo, low-rise (RCX), FAR 2.00, structured parking
  - Condo, low-rise (RCX), FAR 2.00, underground parking
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking
  - Condo, mid-rise (CDD), FAR 2.50, structured parking
  - Condo, mid-rise (CDD), FAR 2.50, structured parking
Sensitivities: Higher Sales Prices/Rents

- Sales/Rents +10% (110% of base) (Table 12)
- Existing zoning
  - Condo, low-rise (RCX), FAR 1.25, surface parking
  - Condo, low-rise (RCX), FAR 1.25, structured parking
  - Condo, low-rise (RCX), FAR 1.25, underground parking
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking
- Proposed zoning
  - Condo, low-rise (RCX), FAR 2.00, surface parking
  - Condo, low-rise (RCX), FAR 2.00, structured parking
  - Condo, low-rise (RCX), FAR 2.00, underground parking
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking
  - Condo, mid-rise (CDD), FAR 2.50, structured parking
  - Condo, mid-rise (CDD), FAR 2.50, structured parking

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<td>(RCX), FAR 1.25,</td>
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<td>(RCX), FAR 1.25,</td>
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<td>Townhouse, low-rise</td>
<td>23.9%</td>
<td>34.8%</td>
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<tr>
<td>(RCX), FAR 1.25,</td>
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<td>integrated parking</td>
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<tr>
<td>Condo, low-rise</td>
<td>18.9%</td>
<td>29.0%</td>
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<tr>
<td>(RCX), FAR 2.00,</td>
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<td>surface parking</td>
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<tr>
<td>Condo, low-rise</td>
<td>28.7%</td>
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<td>structured parking</td>
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<tr>
<td>Condo, low-rise</td>
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<td>33.2%</td>
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<tr>
<td>(RCX), FAR 2.00,</td>
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<td>9.5%</td>
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<td>(CDD), FAR 2.50,</td>
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<td></td>
</tr>
<tr>
<td>structured parking</td>
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</table>
Sensitivities: Lower Sales Prices/Rents

- Sales/Rents -10% (90% of base) (Table 13)
- Existing zoning
  - Condo, low-rise (RCX), FAR 1.25, surface parking 18.9% 8.7%
  - Condo, low-rise (RCX), FAR 1.25, structured parking 21.5% 11.1%
  - Condo, low-rise (RCX), FAR 1.25, underground parking 15.9% 5.9%
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking 23.9% 13.0%
- Proposed zoning
  - Condo, low-rise (RCX), FAR 2.00, surface parking 18.9% 8.7%
  - Condo, low-rise (RCX), FAR 2.00, structured parking 28.7% 17.7%
  - Condo, low-rise (RCX), FAR 2.00, underground parking 22.8% 12.3%
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking 32.5% 20.8%
  - Condo, mid-rise (CDD), FAR 2.50, structured parking 9.5% 0.1%
  - Condo, mid-rise (CDD), FAR 2.50, structured parking 8.3% -1.0%
## Sensitivities: Combined Upside

- **All positive (Table 14)**
- **Existing zoning**
  - Condo, low-rise (RCX), FAR 1.25, surface parking
  - Condo, low-rise (RCX), FAR 1.25, structured parking
  - Condo, low-rise (RCX), FAR 1.25, underground parking
  - Townhouse, low-rise (RCX), FAR 1.25, integrated parking
- **Proposed zoning**
  - Condo, low-rise (RCX), FAR 2.00, surface parking
  - Condo, low-rise (RCX), FAR 2.00, structured parking
  - Condo, low-rise (RCX), FAR 2.00, underground parking
  - Townhouse, low-rise (RCX), FAR 2.00, integrated parking

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<tr>
<td>Condo, low-rise (RCX), FAR 1.25, surface parking</td>
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<td>8.3%</td>
<td>29.9%</td>
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</tbody>
</table>
Sensitivities: Combined Downside

• All negative (Table 15)

• Existing zoning
  • Condo, low-rise (RCX), FAR 1.25, surface parking
  • Condo, low-rise (RCX), FAR 1.25, structured parking
  • Condo, low-rise (RCX), FAR 1.25, underground parking
  • Townhouse, low-rise (RCX), FAR 1.25, integrated parking

• Proposed zoning
  • Condo, low-rise (RCX), FAR 2.00, surface parking
  • Condo, low-rise (RCX), FAR 2.00, structured parking
  • Condo, low-rise (RCX), FAR 2.00, underground parking
  • Townhouse, low-rise (RCX), FAR 2.00, integrated parking
  • Condo, mid-rise (CDD), FAR 1.50, structured parking
  • Condo, mid-rise (CDD), FAR 1.50, structured parking
  • Condo, mid-rise (CDD), FAR 2.50, structured parking
  • Condo, mid-rise (CDD), FAR 2.50, structured parking

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<td>Condo, low-rise (RCX),</td>
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<td>Townhouse, low-rise (RCX), FAR 2.00, integrated parking</td>
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<td>FAR 2.50, structured parking</td>
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Background
ERA Overview

• Real estate and economic planning consultants with nearly 50 years of experience and 16,000 completed assignments for public agencies, private firms and not-for-profit institutions

• Offices in Washington, DC, New York, Chicago, London, Los Angeles, San Francisco and San Diego

• 100 members of professional staff

• Ownership held by 27 members of senior staff

• [www.econres.com](http://www.econres.com)
Selected ERA Experience

• Affordable Housing
  • Emerging Trends in Local Affordable Housing Delivery Systems, DC Business Improvement District (BID)
  • Economic Analysis of Affordable/Workforce Housing in High-Rise/High-Density Areas, Fairfax County Department of Housing and Community Development
  • DC Comprehensive Housing Strategy Task Force Support, DC Housing Enterprises
  • Alternative Development Strategies Analysis for Buckingham Villages 1, 2 and , Arlington County Attorney’s Office
  • Analysis of Work Force Housing Incentive Programs
  • Downtown Density Bonus and Worforce Housing Policy, City of Sarasota

• City of Alexandria
  • ULI Technical Assistance Panel Report: The Redevelopment of the Landmark Mall, Sponsored by City of Alexandria
  • Market Feasibility of Constructing in Dulany Gardens, City of Alexandria (LCOR Alexandria, LLC)
  • Open Space Master Plan, City of Alexandria (Rhodeside & Harwell, Inc.)
ERA Team

• Patrick Phillips, President/CEO
  • Principal-in-Charge
  • Extensive private and public real estate feasibility and policy analysis
  • Chair of ULI TAP Report on Landmark Mall

• Brian Sands, AICP, Senior Associate
  • Mixed-use and affordable housing specialist
  • Project manager on numerous affordable housing studies
  • Member American Institute of Certified Planners (AICP)
  • Full-member Urban Land Institute (ULI) and ULI Affordable Housing Council
  • Associate member of UK’s Royal Town Planning Institute (RTPI)

• Molly McKay, Senior Associate
  • Economic/fiscal impact studies specialist
  • Worked on numerous affordable housing studies
  • Primary analyst on DC Housing Strategy
ERA Assignment

• Assist with the analysis of the economic feasibility of rezoning areas in the Landmark/Van Dorn area to enable a voluntary density bonus and associated affordable housing requirement (voluntary inclusionary zoning ordinance).

• The general purpose of the rezoning is to encourage increased density in the area and more specifically to encourage the provision of privately financed mixed income housing.
ERA Scope / Status

ERA Scope

Task 1: Project Initiation

Task 2: Model Analysis and Draft Summary Findings

Task 3: Model Revisions and Revised Summary Findings

Status

✓ Complete

✓ Complete

✓ Complete
Feasibility Model Intent and Limits

• Indicative of the effectiveness of existing and proposed zoning in a specific area and under current conditions, including potential for affordable housing requirements
• ERA’s best estimate of the area’s current development economics which provides useful and accurate guidance to the community about the effectiveness of a density bonus and affordable housing requirements in the study area
• Wide variation likely for specific developers, parcels and/or developments due to different inputs and methodologies, costs, and return expectations
• Together with changes in market conditions, will result in actual development profits differing
• A rational developer may choose to build even when the feasibility model indicates that they shouldn’t