W-ZHA, LLC

TECHNICAL MEMORANDUM

INTRODUCTION

The purpose of this analysis is to determine whether new development projects can afford to invest in community-wide benefits (or proffers). The premise is that private investors can afford to pay proffers only if there is sufficient economic return to support these investments. If rents and prices can only cover land acquisition, development costs, and a minimum investment return – the private investor cannot afford to invest in community-wide benefits. If rents and prices can cover development costs and investment return thresholds, the investor can afford to invest in community-wide benefits.

This analysis applies industry averages as they relate to development costs, operating expenses and investment return thresholds. The investment thresholds presented herein are derived from the 2nd Quarter, 2008 Korpasz Report and professional experience. Rent and price assumptions were obtained from the market consultants retained for the Landmark/Van Dorn Planning Area. The analysis applies to the Landmark/Van Dorn Planning Area, but excludes the Landmark Mall area.

DEVELOPMENT COSTS

With the rapid changes in construction costs these days, it is a challenge to benchmark development costs. To the best of W-ZHA's knowledge, the development costs presented below are reasonable for Alexandria in 2008. The parking ratios do not reflect current zoning; they reflect likely parking requirements under an SUP approval. The City has reviewed and approved the parking assumptions contained in this analysis. *The development costs below exclude land cost.*

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Development Costs Per Gross Square Foot By Land Use (Excludes Land Cost)
Reduced Parking Ratios for Mixed-Use Development
Landmark-Van Dorn Planning Area

		Residential - For Sale			Residential - Rental			Office			Retail [1]		
		Surface	Structure	Blend	Surface	Structure	Blend	Surface	Structure	Blend	Surface	Structure	Blend
Building & Contingency		$170			$160			$150			$140		
Site		$3			$3			$3			$3		
Sub-Total: Hard Costs		$173			$163			$153			$143		
Soft Costs (Net of Financing Cost)		$33			$31			$29			$27		
Sub-Total: Bldg		$206	$206	$206	$194	$194	$194	$182	$182	$182	$170	$170	$170
Tenant Improvements		$0	$0	$0	$0	$0	$0	$50	$50	$50	$35	$35	$35
Sub-Total: Bldg & Tenant Imp.		$206	$206	$206	$194	$194	$194	$232	$232	$232	$205	$205	$205
Parking Cost		**1.5 spaces/du (950 sf)**			**1.5 spaces/du (950 sf)**			**2 spaces/1,000 sf**			**3 spaces/1,000 sf**		
Surface	$2,500	$4			$4			$5			$8		
Structured	$23,000		$36			$36			$46			$69	
Blend Structure/Underground	$27,700			$44			$44			$55			$83
Development Cost		$210	$243	$250	$198	$230	$238	$237	$278	$287	$212	$274	$288
Financing	8%	$17	$19	$20	$16	$18	$19	$19	$22	$23	$17	$22	$23
Total		**$227**	**$262**	**$270**	**$214**	**$249**	**$257**	**$256**	**$300**	**$310**	**$229**	**$296**	**$311**

1. Assumes neighborhood serving retail in a mixed use development.

Source: W-ZHA
F:\80008 Alexandria Landmark\[tech memo tables3 test2.xls]dev cost

Development costs vary by land use. Parking represents a significant share of a land use's development cost. The type of parking required (i.e. surface, structured, or a blend of structured and underground parking) greatly impacts development cost.

The retail development costs summarized above assume retail space in a mixed-use building. Development costs for this type of retail development are much higher than a one-story, suburban commercial strip center product.

INVESTMENT RETURN THRESHOLDS

Successful real estate projects must generate sufficiently large revenues (or sale prices) to justify the investor's time, money and risk. For revenue-generating projects (in other words, rental projects, not for-sale projects) the simplest and most common method to get a snapshot of land use economics is the "return-on-cost" ratio. The return on cost method divides the net operating income into the development cost. This methodology does not deal with the time value of money, capitalization rates, financing, etc. It is a simple calculation that deals with the heart of the matter – the income the asset can produce compared to the cost to develop the asset. This calculation can be done on the back of an envelope.

Net operating income is defined as revenue less operating costs – it does not include debt service. Most retail leases pass through operating expenses to the tenants. Office projects vary – some charge full service rents that cover all operating costs, while others charge triple net rent which means the tenant is charged an additional amount to cover property taxes, maintenance and operating expenses. Full service office rents are assumed in this analysis. Rent in residential projects typically includes operating costs like maintenance and property taxes, but not utilities.

The return-on-cost threshold is comparable to what the Korpasz Investment Survey calls the "overall capitalization rate (OAR)" or initial rate of return on an all cash transaction. As of the second quarter of 2008, investors in the Northern Virginia *office* market accepted OAR's from 5.00 percent to 9.0 percent, with the average OAR at 6.94 percent. Investors in the *rental apartment* market accepted OAR's from 3.50 percent to 8.0 percent, with the average OAR at 5.75 percent

In W-ZHA's experience working with developers of prospective income producing properties, an acceptable ratio between net operating income and development cost is between 7.0 percent and 8.5 percent depending upon the land use. Rental residential tends to be at the low-end of the scale with office at the high end of the scale. For purposes of this analysis, the following return-on-cost thresholds are considered an acceptable rate of return to the investor:

- 7 percent return-on-cost threshold for rental residential
- 8 percent return-on-cost threshold for office and retail rental projects

These thresholds are higher than the OAR average because these are planning thresholds, not actual thresholds. When planning a project higher investment thresholds are assumed to compensate for risk.

If a project's economics cannot meet the return-on-cost threshold, it is unlikely that there will be capital available to support community investment. If a project achieves a return-on-cost that is higher than the threshold, the project can afford to invest in community-wide benefits.

CURRENT MARKET CHARACTERISTICS IN THE LANDMARK/VAN DORN PLANNING AREA

The following table illustrates current market rents for various land uses in the Landmark/Van Dorn Planning Area. This data was obtained from the City of Alexandria's Assessors Office. The Tuscany Apartments, a new project in the Planning Area, is renting at $2.20 per square foot.

Rents Among Recently Developed Projects
Landmark-Van Dorn Planning Area

Office	Full Service		
Class A	$30.00	-	$36.00
Class B	$25.00	-	$30.00
Retail	Triple Net		
In-Line	$30.00	-	$42.00
Drug Stores	$22.00	-	$28.00
Grocery Stores	$15.00	-	$23.00
Apartments			
1 BR/1 BA	$23.33	-	$24.67
1 BR/1 BA/Den	$22.35	-	$23.53
2 BR/2 BA	$22.12	-	$27.65
Say	$23.00	-	$24.00

Source: City of Alexandria
F:\80008 Alexandria Landmark\[assumpt.xls]rent

New development will likely command higher rents. The following table summarizes the assumptions regarding supportable rent in newly developed projects in the Landmark/Van Dorn Planning Area.

New Construction Rent Assumptions
Landmark-Van Dorn Planning Area

Office	$33.00 /Net Square Foot
Retail	$35.00 /Net Square Foot
Residential	$28.80 /Net Square Foot

Source: W-ZHA
D:\Documents\landmark\[tech memo tables3 test2.xls]rent

A recent market analysis (March, 2008) conducted by Robert Charles Lesser & Company, concludes that the development potential of Landmark/Van Dorn is strong, yet there are near term challenges. The study concludes that market demand is for less expensive product types like garden apartments and Class B office space with surface parking. Over time, Landmark/Van Dorn has the potential to evolve into Class A offices and higher density mixed-use projects. The redevelopment of Landmark Mall has the potential to be a catalyst for office, retail and residential development.

The market analysis concludes that there is the potential for 2,000 to 3,000 new housing units in the Landmark/Van Dorn Planning Area by 2020. Total office absorption is not stated in the March, 2008 report. However, in a prior market analysis by Robert Charles Lesser & Company office potential ranged from 144,000 to 260,000 square feet between 2006 and 2015.

A market analysis conducted by Gibbs Planning Group concludes that the Landmark/Van Dorn Planning Area is well positioned for regional retail. The market study concludes that the Planning Area can support 1 million square feet of retail. According to Bob Gibbs, the high rent, "lifestyle" retail will likely occupy land adjacent to the Landmark Mall. Retail on Van Dorn will likely be neighborhood-serving retail. Given existing rents in older neighborhood centers, W-ZHA has assumed the retail in new mixed-use projects will command rents of $35.00 per square foot.

CURRENT ASSESSED VALUES

With the exception of parcels B1 and B2, assessed values among large parcels in the Planning Area generally range from $2 million to $3 million per acre. The assessed value of parcel B2 demonstrates the value of higher density development; this parcel has a significant amount of office space developed on it.

Estimated Property Values
Landmark-Van Dorn Planning Area

Block	Existing Use	Area	Assessed Value	Land Value /Acre
B1	Retail, Restaurants	6.96	27,185,000	$3,907,213
B2	Office	1.26	11,790,000	$9,378,947
C	BJ's, Passport	12.46	27,252,890	$2,187,230
E	Van Dorn Plaza	9.80	26,503,800	$2,704,469
K	Giant	9.76	26,690,425	$2,734,675
L1	Warehouse	4.97	10,830,000	$2,179,358
L2	Restaurant, Commercial	0.94	2,371,520	$2,531,698
M1	Gateway Van Dorn	2.52	6,176,100	$2,454,908
M2	Gateway Industrial	3.80	11,240,600	$2,961,130
		Say	***$3,000,000***	***/ Acre***

Source: City of Alexandria, Department of Real Estate and Assessments; W-ZHA
F:\80008 Alexandria Landmark\[tech memo tables.xls]Sheet3

For purposes of this analysis, W-ZHA has assumed a land value of $3 million per acre.

The Landmark/Van Dorn Draft Plan assumes a 2.5 floor area ratio for office use. A floor area ratio is simply the size of the building (excluding parking) divided by the land area. Land value for each square foot of new office is $27.55 ($3 million divided by 108,900 square feet [43,560 square foot acre times an FAR of 2.5]).

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The Landmark/Van Dorn Draft Plan assumes a 2.0 floor area ratio for residential use. Therefore, the land value for each square foot of new residential is assumed to be $34.44 ($3 million divided by 87,120 square feet [43,560 square foot acre times an FAR of 2.0]).

INVESTMENT CHARACTERISTICS BY LAND USE IN THE LANDMARK/VAN DORN PLANNING AREA

In this section, the economics of a mixed-use office project and a mixed-use retail project are presented. We have assumed a project on two acres of land at the density allowed by zoning. Retail is assumed to total 30,000 square feet in all project scenarios. If the project

The tables in this section identify the amount of money available to the developer to pay for land and community-wide benefits. This is called “residual land value.” The residual land value is available after the developer has covered the cost to develop the project and developer profit. The developer profit is the return-on-cost threshold and labeled as “Development Yield” in the tables.

<u>Mixed-Use Office Project</u>

The table on the following page demonstrates the investment characteristics of a prospective mixed-use office project in the Landmark/Van Dorn Planning Area. The mixed-use office building totals 217,800 square feet, the maximum floor area allowed by zoning. Retail accounts for 30,000 square feet and office space 187,800 square feet.

According to Robert Charles Lesser Company’s market analysis, a reasonable assumption for near term rents in Landmark/Van Dorn is $33.00 per square foot full service. W-ZHA has assumed an office operating cost of $8.75 per square foot and a 5 percent vacancy rate. Retail is assumed to rent for $35.00 per square foot, triple net.

The office building program includes two parking spaces per 1,000 gross square feet of office space (376 spaces). It is assumed that these spaces shall be leased on a monthly basis at a rate of $100.00 per month.

Given the assumptions regarding development costs, supportable rents and operating expenses, mixed-use office development will struggle to support the land values in the Landmark/Van Dorn Planning Area until higher rents can be achieved. (See table on the following page). The table demonstrates that retail rents can support development costs and the developer’s yield; retail can afford to pay for land. Office rents on the other hand are not sufficient to cover both development costs and the developer’s yield. The mixed-use office project has a negative land value making it infeasible given the assumptions provided.

Does this mean that no office development will happen in Landmark/Van Dorn Planning Area in the near term? If an investor already owns land, has lower investment thresholds, or can command higher rents, office development may be feasible. However, using market assumptions provided by the City’s consultants mixed-use office development will be economically difficult in the near term. Adding proffers to the equation will only make office development less likely.

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Mixed-Use Office Economics Near Term Market Scenario Landmark/Van Dorn Planning Area				
PROGRAM				
Site Area (acres)		2.0		
Gross Area (square feet)				
Retail		30,000		
Office		187,800		
Total Gross Area		217,800		
FAR		2.5		
RETAIL				
DEVELOPMENT COST	**$**	**9,330,495**	**$**	**311**
NET OPERATING INCOME (NOI)				
Average Rent (NNN)	$	1,050,000	$	35.00
Vacancy/Bad Debt	$	(52,500)	$	(1.75)
TOTAL RETAIL NOI	**$**	**997,500**	**$**	**33.25**
RESIDUAL LAND VALUE				
Development Yield		8.00%		
Stabilized Retail Value	$	12,468,750	$	415.63
RESIDUAL LAND VALUE	**$**	**3,138,255**	**$**	**104.61**
OFFICE				
DEVELOPMENT COST	**$**	**58,246,639**	**$**	**310**
NET OPERATING INCOME (NOI)				
Gross Revenue /1	$	5,763,582	$	30.69
Parking Revenue /2	$	450,720	$	2.40
Expenses	$	(1,643,250)	$	(8.75)
Vacancy/Bad Debt	$	(288,179)	$	(1.53)
TOTAL OFFICE RENTAL NOI	**$**	**4,282,873**	**$**	**22.81**
RESIDUAL LAND VALUE				
Development Yield		8.00%		
Stabilized Residual Value	$	53,535,911	$	285.07
RESIDUAL LAND VALUE	**$**	**(4,710,727)**	**$**	**(25.08)**
COMBINED RESIDUAL LAND VALUE	**$**	**(1,572,472)**	**$**	**(7.22)**
UNDERLYING LAND VALUE	**$**	**6,000,000**	**$**	**27.55**
$'S AVAILABLE FOR PUBLIC BENEFITS	**$**	**-**	**$**	**-**

1. Rent per rentable square foot is $33.00. Assumed 93% of office space is rentable.

2. Parking revenue assumes charge of $100 per month per space.

Source: W-ZHA

Mixed-Use Residential

The table on the following page demonstrates the investment characteristics of a mixed-use rental apartment project in the Landmark/Van Dorn Planning Area. The projected is 174,240 square feet, the maximum floor area ratio allowed by zoning

This analysis assumes the market can support a monthly rent of $2.40 per rentable square foot or a rent of approximately $28.80 per year. The residential market analysts, Robert Charles Lesser & Company confirmed that this rent is achievable in the near term. The analysis assumes that 1.5 parking spaces will be developed per dwelling unit with an average dwelling unit accounting for 950 gross square feet. The analysis assumes that rent will cover one parking space per unit and additional parking spaces will be rented at $100 per month.

Like the mixed use office scenario, the retail space is projected to command a rent of $35 per square foot.

Given projected rents and development costs, residential development will struggle to pay the Planning Area's current land values. Adding proffers to the cost of development will only make redevelopment for residential use more difficult economically.

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Mixed-Use Rental Residential Economics Near Term Market Scenario				
PROGRAM				
Site Area (acres)		2.0		
Gross Area (square feet)				
Retail		30,000		
Residential		144,240		152 units
Total Gross Area		174,240		
FAR		2.0		
RETAIL				
DEVELOPMENT COST	**$**	**9,330,495**	**$**	**311**
NET OPERATING INCOME (NOI)				
Average Rent (NNN)	$	1,050,000	$	35.00
Vacancy/Bad Debt	$	(52,500)	$	(1.75)
TOTAL RETAIL NOI	**$**	**997,500**	**$**	**33.25**
RESIDUAL LAND VALUE				
Development Yield		8.00%		
Stabilized Retail Value	$	12,468,750	$	415.63
RESIDUAL LAND VALUE	**$**	**3,138,255**	**$**	**104.61**
RESIDENTIAL				
DEVELOPMENT COST	**$**	**37,029,782**	**$**	**257**
NET OPERATING INCOME (NOI)				
Gross Revenue /1	$	3,530,995	$	24.48
Parking Revenue /2	$	91,099	$	0.63
Other Income /3	$	63,769	$	0.44
Expenses	$	(910,989)	$	(6.32)
Vacancy/Bad Debt	$	(176,550)	$	(1.22)
TOTAL NOI	**$**	**2,598,324**	**$**	**18.01**
RESIDUAL LAND VALUE				
Development Yield		7.00%		
Stabilized Residual Value	$	37,118,917	$	257.34
RESIDUAL LAND VALUE	**$**	**89,135**	**$**	**0.62**
COMBINED RESIDUAL LAND VALUE	**$**	**3,227,390**	**$**	**18.52**
UNDERLYING LAND VALUE	**$**	**6,000,000**	**$**	**34.44**
$'S AVAILABLE FOR PUBLIC BENEFITS	**$**	**-**	**$**	**-**

1. Rent per rentable square foot is $28.80. Assumed 85% of residential space is rentable.

2. Parking revenue assumes 1 space per unit is included in the rent, additional spaces are $100 per month.

3. Other income is from miscellaneous fees - assumed $35 per month per unit.

Source: W-ZHA

Conclusions

The current market poses a challenge to both the private developer and the public sector. Property values are high in the Landmark/Van Dorn Planning Area as are development costs (particularly with underground parking). In the near term, the price points for the office, residential and retail market are not high enough to pay for both land acquisition and community improvements.

Over time, as the area moves from a low density location, to a higher density "place", land uses will become more valuable. As price points increase, the opportunity to obtain private funding to support community improvements will be enhanced.

IMPLICATIONS OF EVOLVING INTO A "CHOICE LOCATION"

The Landmark/Van Dorn Planning Area is so strategically located that it will inevitably transition from a suburban land use pattern to a more urban, mixed-use land use pattern. As the previous section highlights, in the near term this transition period will be challenging from a market and an economic standpoint. Once a number of quality projects are completed and successful, however, redevelopment will likely accelerate.

From a planning and economic development standpoint, it is critical that these initial projects reflect the Planning Area's market and economic potential. As many of the country's best communities have demonstrated, from an economic development perspective it is better to wait for the right development than accept marginal development. A full complement of uses is also required, particularly residential, to generate 18-hour activity. As the following analysis will demonstrate, when a location commands rent and price premiums because it is considered uniquely valuable, the community has the potential to reap the benefits.

There are real economic implications to becoming a uniquely attractive place or a "choice location". This scenario assumes that the Landmark/Van Dorn Planning Area evolves into a location that commands Class A prices and rents. Because it is a "choice location", this scenario assumes that there is condominium development potential. The rent and price assumptions are summarized in the table below. Rent and price assumptions were confirmed by the market analysts, Robert Charles Lesser & Company.

"Choice Location" Scenario
New Construction Rent Assumptions
Landmark-Van Dorn Planning Area

Office	$38.00	/Square Foot Full Service
Retail	$35.00	/Square Foot Triple Net
Apartments	$31.00	/Square Foot Modified Full Service (No Utilities)
Condominiums	$425	/Square Foot

Source: W-ZHA

F:\80008 Alexandria Landmark\[tech memo tables3 test2.xls]Sheet5

As demonstrated on the table on the following page, at the rents assumed under the Choice Location Scenario, developers of mixed-use rental residential and mixed-use office projects should have the ability to fund community-wide benefits. W-ZHA's analysis suggests that mixed-use office projects can afford to pay approximately $11 per built foot in community-wide investment. With premium rents, mixed-use apartment projects should be able to pay for land and make a $3 contribution (approximately) toward community-wide benefits. The proffer discrepancy between office and rental residential is largely because residential uses have a lower FAR; this makes the land value per square foot higher for residential ($34.44) than office ($27.55).

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Income Producing Properties Economics
Choice Location Market Scenario
Landmark/Van Dorn Planning Area

	MIXED-USE OFFICE		MIXED-USE RESIDENTIAL		
PROGRAM					
Site Area (acres)	2.0		2.0		
Gross Area (square feet)					
Retail	30,000		30,000		
Office/Residential	187,800		144,240		152 units
Total Gross Area	217,800		174,240		
FAR	2.5		2.0		
	RETAIL		**RETAIL**		
DEVELOPMENT COST	**$ 9,330,495**	**$ 311**	**$ 9,330,495**	**$ 311**	
NET OPERATING INCOME (NOI)					
Average Rent (NNN)	$ 1,050,000	$ 35.00	$ 1,050,000	$ 35.00	
Vacancy/Bad Debt	$ (52,500)	$ (1.75)	$ (52,500)	$ (1.75)	
TOTAL RETAIL NOI	$ 997,500	$ 33.25	**$ 997,500**	**$ 33.25**	
RESIDUAL LAND VALUE					
Development Yield	8.00%		8.00%		
Stabilized Retail Value	$ 12,468,750	$ 415.63	$ 12,468,750	$ 415.63	
RESIDUAL LAND VALUE	**$ 3,138,255**	**$ 104.61**	**$ 3,138,255**	**$ 104.61**	
	OFFICE		**RESIDENTIAL**		
DEVELOPMENT COST	**$ 58,246,639**	**$ 310**	**$ 37,029,782**	**$ 257**	
NET OPERATING INCOME (NOI)					
Gross Revenue /1	$ 6,636,852	$ 35.34	$ 3,800,724	$ 26.35	
Parking Revenue /2	$ 450,720	$ 2.40	$ 91,099	$ 0.52	
Other Income	$ -	$ -	$ 63,769	$ 0.44	
Expenses	$ (1,682,349)	$ (8.96)	$ (938,152)	$ (5.38)	
Vacancy/Bad Debt	$ (331,843)	$ (1.77)	$ (190,036)	$ (1.32)	
TOTAL NOI	**$ 5,073,380**	**$ 27.01**	**$ 2,827,404**	**$ 19.60**	
RESIDUAL LAND VALUE					
Development Yield	8.00%		7.00%		
Stabilized Residual Value	$ 63,417,255	$ 337.69	$ 40,391,488	$ 280.03	
RESIDUAL LAND VALUE	**$ 5,170,616**	**$ 27.53**	**$ 3,361,707**	**$ 23.31**	
COMBINED RESIDUAL LAND VALUE	**$ 8,308,871**	**$ 38.15**	**$ 6,499,962**	**$ 37.30**	
UNDERLYING LAND VALUE	**$ 6,000,000**	**$ 27.55**	**$ 6,000,000**	**$ 34.44**	
$'S AVAILABLE FOR PUBLIC BENEFITS	**$ 2,308,871**	**$ 10.60**	**$ 499,962**	**$ 2.87**	

1. Rent per rentable office square foot is $38.00 -- assumed 93% of office space is rentable. Rent per rentable square foot of residential assumed to be $31.00 -- assumed 85% of residential space is rentable.

2. Parking revenue for office assumes a monthly fee of $100 per parking space. Residential parking revenue reflects 1 free space per unit and $100 per month charge on additional spaces.

Source: W-ZHA

The economics of condominium projects are different than those of a rental residential project. The table on the following page demonstrates that a condominium project commanding sale prices of $425 per square foot can contribute over $5.50 per buildable square foot to community-wide benefits.

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For-Sale Residential Economics
Landmark/Van Dorn Planning Area

PROGRAM				
Site Area (acres)		2.0		
Gross Area (square feet)				
Retail		30,000		
Residential		144,240	152 units	
Total Gross Area		174,240		
FAR		2.0		
RETAIL				
DEVELOPMENT COST	**$**	**9,330,495**	**$**	**311**
NET OPERATING INCOME (NOI)				
Average Rent (NNN)	$	1,050,000	$	35.00
Vacancy/Bad Debt	$	(52,500)	$	(1.75)
TOTAL RETAIL NOI	**$**	**997,500**	**$**	**33.25**
RESIDUAL LAND VALUE				
Development Yield		8.00%		
Stabilized Retail Value	$	12,468,750	$	415.63
RESIDUAL LAND VALUE	**$**	**3,138,255**	**$**	**104.61**
RESIDENTIAL				
DEVELOPMENT COST	**$**	**38,965,774**	**$**	**270**
SALES INCOME				
Unit Sales /1	$	52,106,700	$	361.25
Parking Sales /2	$	2,277,474	$	15.79
Sales Closing Cost /3	$	(3,806,892)	$	(26.39)
TOTAL SALES PROCEEDS	**$**	**50,577,282**	**$**	**350.65**
RESIDUAL LAND VALUE				
Development Yield		120%		
Stabilized Residual Value	$	46,758,929	$	324.17
RESIDUAL LAND VALUE	**$**	**3,818,353**	**$**	**26.47**
COMBINED RESIDUAL LAND VALUE	**$**	**6,956,608**	**$**	**39.93**
UNDERLYING LAND VALUE	**$**	**6,000,000**	**$**	**34.44**
$'S AVAILABLE FOR PUBLIC BENEFITS	**$**	**956,608**	**$**	**5.49**

1. Price per saleable square foot is $425.00. Assumed 85% of residential space is saleable.

2. Parking revenue assumes 1 space per unit is free, additional spaces are $30,000.
3. Sales costs assumed to be 7 percent of sale proceeds.

Source: W-ZHA

"CHOICE LOCATION" WITH TRANSIT SCENARIO

Enhancing the transit system in the Planning Area will reduce the need for parking. This scenario demonstrates how reducing the Planning Area's dependence on the automobile directly translates into more capital available to support community-wide benefits. In this scenario, parking ratios are decreased to transit-oriented development levels. Rents and prices remain the same as those in the "Choice Location" scenario. The parking assumptions have been changed as follows:

- The residential parking requirements drops from 1.5 spaces per unit to 1.0 space per unit;
- The office parking requirement drops from 2 spaces per 1,000 square feet to 1.66 spaces per 1,000 square feet; and,
- The retail parking requirement drops from 3 spaces per 1,000 square feet to 2 spaces per 1,000 square feet.

Development Costs Per Gross Square Foot By Land Use
Reduced Parking Ratios As A Result Of Transit

		Residential - For Sale			Residential - Rental			Office			Retail [1]		
		Surface	Structure	Blend	Surface	Structure	Blend	Surface	Structure	Blend	Surface	Structure	Blend
Building Cost		$206	$206	$206	$194	$194	$194	$232	$232	$232	$205	$205	$205
Parking Cost		**1.0 spaces/du (950 sf)**			**1.0 spaces/du (950 sf)**			**1.66 spaces/1,000 sf**			**2 spaces/1,000 sf**		
Surface	$2,500	$3			$3			$4			$5		
Structured	$23,000		$24			$24			$38			$46	
Blend Structure/Underground	$27,700			$29			$29			$46			$55
Sub-Total Bldg & Pkg		$209	$231	$236	$197	$218	$223	$236	$270	$278	$210	$251	$260
Financing	8%	$17	$18	$19	$16	$17	$18	$19	$22	$22	$17	$20	$21
Total		**$226**	**$249**	**$254**	**$212**	**$236**	**$241**	**$255**	**$292**	**$300**	**$227**	**$271**	**$281**
Cost with Higher Parking Requirements		*$227*	*$262*	*$270*	*$214*	*$249*	*$257*	*$256*	*$300*	*$310*	*$229*	*$296*	*$311*

1. Assumes part of mixed use development.

Source: W-ZHA

Transit reduces the parking requirements which, in turn, reduce each land use's development cost. In this scenario, no cost or revenue assumptions were changed except those related to the reduction in parking. The proffer values on the following page are conservative, therefore. It is likely that with an effective transit option, parking prices to users would likely increase.

This scenario demonstrates that a transit system that effectively reduces parking generates significant capital for community improvements.

W-ZHA, LLC

Project Economics
Choice Location with Transit Market Scenario
Landmark/Van Dorn Planning Area

	MIXED-USE OFFICE		MIXED-USE RESIDENTIAL		MIXED-USE CONDOMINIUM		
PROGRAM							
Site Area (acres)	2.0		2.0			2.0	
Gross Area (square feet)							
Retail	30,000		30,000			30,000	
Office/Residential	187,800		144,240	152 units		144,240	152 units
Total Gross Area	217,800		174,240			174,240	
FAR	2.5		2.0			2.0	
	RETAIL		**RETAIL**			**RETAIL**	
DEVELOPMENT COST	**$ 8,433,015**	**$ 281**	**$ 8,433,015**	**$ 281**		**$ 8,571,316**	**$ 281**
NET OPERATING INCOME (NOI)							
Average Rent (NNN)	$ 1,050,000	$ 35.00	$ 1,050,000	$ 35.00		$ 1,067,220	$ 35.00
Vacancy/Bad Debt	$ (52,500)	$ (1.75)	$ (52,500)	$ (1.75)		$ (53,361)	$ (1.75)
TOTAL RETAIL NOI	$ 997,500	$ 33.25	**$ 997,500**	**$ 33.25**		$ 1,013,859	$ 33.25
RESIDUAL LAND VALUE							
Development Yield	8.00%		8.00%			8.00%	
Stabilized Retail Value	$ 12,468,750	$ 415.63	$ 12,468,750	$ 415.63		$ 12,673,238	$ 415.63
RESIDUAL LAND VALUE	**$ 4,035,735**	**$ 134.52**	**$ 4,035,735**	**$ 134.52**		**$ 4,101,921**	**$ 134.52**
	OFFICE		**RENTAL RESIDENTIAL**			**FOR-SALE RESIDENTIAL**	
DEVELOPMENT COST	**$ 56,336,442**	**$ 300**	**$ 34,758,685**	**$ 241**		**$ 36,569,512**	**$ 254**
NET OPERATING INCOME (NOI)					SALES INCOME		
Gross Revenue /1	$ 6,636,852	$ 35.34	$ 3,800,724	$ 26.35			
Parking Revenue /2	$ 374,098	$ 1.99	$ -	$ -			
Other Income	$ -	$ -	$ 54,659	$ 0.38	Unit Sales /3	$ 51,928,965	$ 361.25
Expenses	$ (1,714,029)	$ (9.13)	$ (927,529)	$ (5.32)	Parking Sales	$ -	$ -
Vacancy/Bad Debt	$ (331,843)	$ (1.77)	$ (190,036)	$ (1.32)	Sales Closing Cost	$ (2,596,448)	$ (18.06)
TOTAL NOI	**$ 4,965,078**	**$ 26.44**	**$ 2,737,818**	**$ 18.98**	**SALES PROCEEDS**	**$ 49,332,517**	**$ 343.19**
RESIDUAL LAND VALUE							
Development Yield	8.00%		7.00%			120%	
Stabilized Residual Value	$ 62,063,478	$ 330.48	$ 39,111,682	$ 271.16		$43,883,415	$ 305.28
RESIDUAL LAND VALUE	**$ 5,727,035**	**$ 30.50**	**$ 4,352,997**	**$ 30.18**		**$ 5,449,102**	**$ 37.91**
COMBINED RESIDUAL LAND VALUE	**$ 9,762,770**	**$ 44.82**	**$ 8,388,732**	**$ 48.14**		**$ 9,551,023**	**$ 54.82**
UNDERLYING LAND VALUE	**$ 6,000,000**	**$ 27.55**	**$ 6,000,000**	**$ 34.44**		**$ 6,000,000**	**$ 34.44**
$'S AVAILABLE FOR PUBLIC BENEFITS	**$ 3,762,770**	**$ 17.28**	**$ 2,388,732**	**$ 13.71**		**$ 3,551,023**	**$ 20.38**

1. Rent per rentable office square foot is $38.00 -- assumed 93% of office space is rentable. Rent per rentable square foot of residential assumed to be $31.00 -- assumed 85% of residential space is rentable.

2. Parking revenue for office assumes a monthly fee of $100 per parking space. Residential parking revenue averages $33 per month charge per unit.

3. Price per saleable square foot is $425.00. Assumed 85% of residential space is saleable.

Source: W-ZHA

W-ZHA, LLC

CONCLUSIONS

Public policy as it relates to proffers must take into consideration the economics of redevelopment. In the case of the Landmark/Van Dorn Planning Area, this analysis demonstrates that land values and near term market conditions make it challenging for investors to develop the type of buildings the community desires; the opportunities for proffers are limited.

Given market and economic realities, the City's near term role should be to clarify the community's vision for the Area and craft land use policies that support this vision. Increasing the zoning envelope, targeting economic development efforts, pursing transit investment in the Planning Area and working with General Growth Properties on Landmark Mall's redevelopment are important steps in attracting quality investment in the Planning Area. Quality, mixed-use development alone is a community benefit and should be pursued in the near term.

Proffer Potential
Per Gross Square Foot of Development

	Mixed-Use		
	Office	**Rental Residential**	**Condo**
Near Term Scenario	$0.00	$0.00	na
"Choice Location" Scenario	$10.60	$2.87	$5.49
Impact of Transit Scenario	$17.28	$13.71	$20.38

Note: Proffer potential changes dramatically with changes in revenues and cost assumptions.

Source: W-ZHA

D:\Documents\landmark II\[wf model.xls]conclusion

As quality investment occurs and the Planning Area's value increases, the opportunities for proffers to fund community-wide benefits will be enhanced significantly. To fund community benefits, the City must develop a mechanism to capture value in the Planning Area over time.