

# Development Economics and Planning Implications

Landmark/Van Dorn Planning Area

**To invest in a location developers must obtain enough income to pay their costs and make a profit – adequate investment return**

**When there is more than an adequate investment return there is capital available to fund community-wide goals**

# Adequate Investment Return

## Commercial

Net Operating Income = **8%** of Development Cost

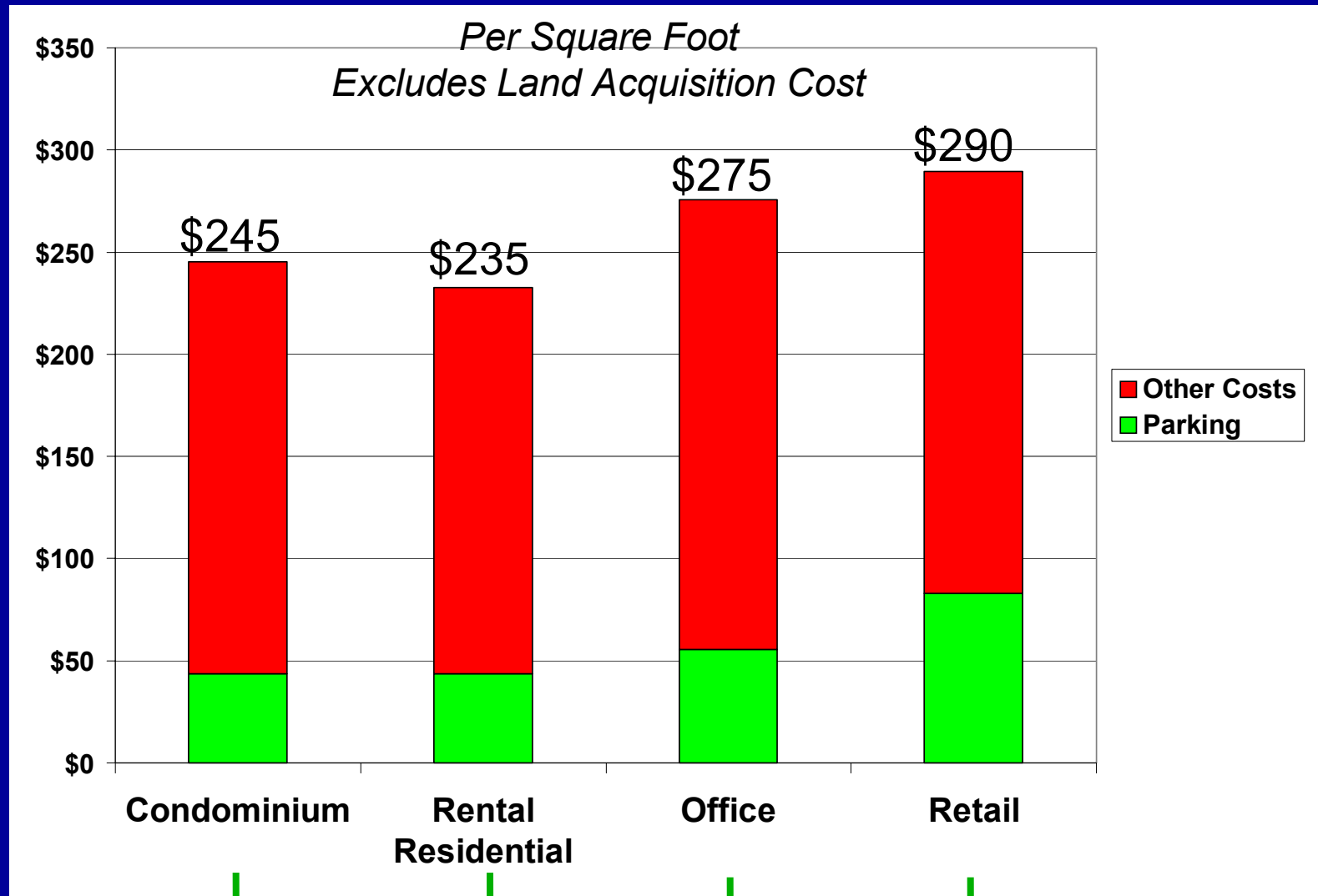
## Apartments

NOI = **7%** of Development Cost

## Condominiums

Sale Proceeds = **120%** of Development Cost

# Development Costs



Condominium

Rental  
Residential

Office

Retail

1.5 spaces /950 sf

2 spaces  
/1,000 sf

3 spaces  
/1,000 sf

# “Near Term Market” Redevelopment Scenario

## *Rental Rates*

- No Condominiums
- Moderately Priced Apartments – \$28 /sf
- Office Class B+ Rents - \$33 /sf
- Neighborhood Serving Retail - \$27 /sf

# Near Term Market Implications

	Price /Sq Ft
	Condo
Req. Rate	\$350
Near Term Market	None
Pay For Land @ \$3M /Acre	na
Community Benefit \$ ?	na

# Near Term Market Implications

	Price/Rent /Square Foot	
	Condo	Apartment
Req. Rate		\$26
Near Term Market		\$28
Pay For Land @ \$3M /Acre	na	Not Enough
Community Benefit \$ ?	na	No

# Near Term Market Implications

	Price/Rent /Square Foot		
	Condo	Apartment	Office
Req. Rate			\$33
Near Term Market			\$33
Pay For Land @ \$3M /Acre	na	Not Enough	Not Enough
Community Benefit \$ ?	na	No	No



# Near Term Market Implications

	Price/Rent /Square Foot			
	Condo	Apartment	Office	Retail
Req. Rate				\$25
Near Term Market				\$25
Pay For Land @ \$3M /Acre	na	Not Enough	Not Enough	Not Enough
Community Benefit \$ ?	na	No	No	No, Yet Amenity

# “Near Term Market” Conclusions

Redevelopment alone is an economic  
challenge

Private investment needs to be encouraged

# “Choice Location” Redevelopment Scenario

## *Prices & Rental Rates*

Moderately Priced Condominiums - \$420 /sf  
Higher Priced Apartments w/ Pkg Fee - \$31 /sf  
Office Class A Rents - \$37 /sf  
Destination Retail - \$30 /sf

# “Choice Location” Implications

	Price/Rent /Square Foot			
	Condo	Apartment	Office	Retail
Req. Rate	\$346	\$26	\$31	\$25
Near Term Market	\$420	\$31	\$37	\$30
Pay For Land @ \$3M /Acre	Yes	Yes	Yes	Not Enough
Community Benefit \$ ?	Yes, Significant	Minimal	Yes, Significant	No, Yet Amenity

# “Choice Location” Conclusions

Community can obtain private capital to fund community amenities as the Planning Area evolves into a Class A location

A mechanism must be established to capture value over time

# “Choice Location & BRT” Scenario

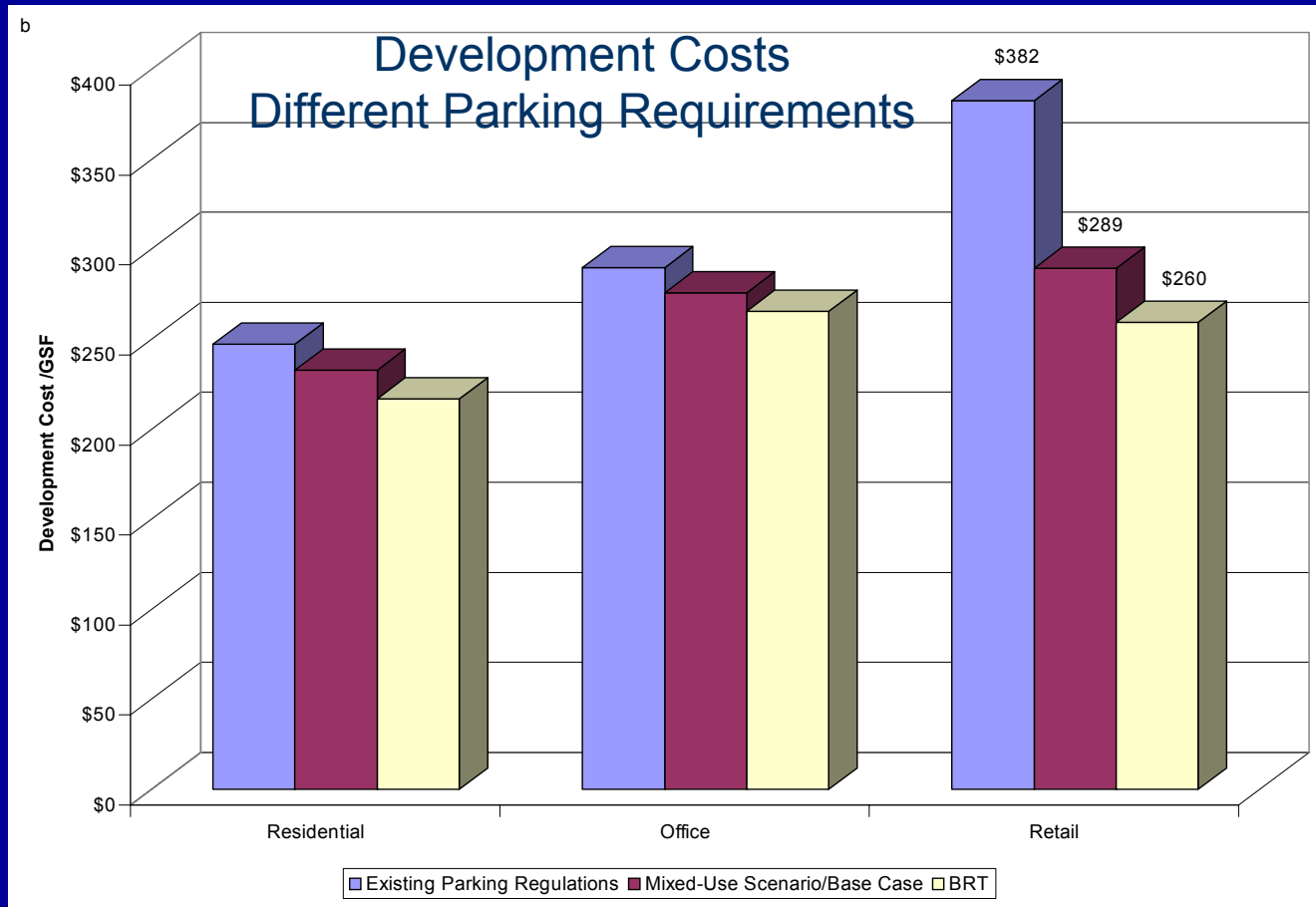
Pkg requirements drop to:

Residential - 1.0 space /unit

Office - 1.66 spaces /1,000 sq ft

Retail – 2 spaces/1,000 sq ft

# BRT Implications



Reducing the need for on-site retail parking from 3/1,000 to 1.66/1,000 sf translates into a 50% increase in residual land value.

Improved transit creates capital for the community .

# “Choice & BRT” Implications

	Price/Rent /Square Foot			
	Condo	Apartment	Office	Retail
Req. Rate	\$324	\$24	\$31	\$22
Near Term Market	\$420	\$31	\$37	\$30
Pay For Land @ \$3M /Acre	Yes	Yes	Yes	Yes
Community Benefit \$ ?	Yes, Significant	Yes, Significant	Yes, Significant	No, Yet Amenity



# Conclusions

- Careful balance - economics of redevelopment and funding community amenities;
- Near term objective should be to attract quality investment;
- As market position improves capital will be available to fund community improvements –capture value over time;
- Parking policy & management very important

# Development Costs

## Mixed-Use Buildings

**Development Costs By Land Use**  
**Reduced Parking Ratios for Mixed-Use Development**  
**Landmark-Van Dorn Planning Area**

	Residential - For Sale			Residential - Rental			Office			Retail <sup>1,3</sup>			
	Surface	Structure	Blend	Surface	Structure	Blend	Surface	Structure	Blend	Surface	Structure	Blend	
Building & Contingency	\$144			\$134			\$124			\$124			
Infrastructure & Site	\$10			\$10			\$10			\$10			
Sub-Total: Hard Costs	\$154			\$144			\$134			\$134			
Soft Cost <sup>1</sup>	12.0%	\$18		\$17			\$16			\$16			
Fees	7.0%	\$11		\$10			\$9			\$9			
Sub-Total: Bldg	\$183	\$183	\$183	\$172	\$172	\$172	\$160	\$160	\$160	\$160	\$160	\$160	
Tenant Improvements/Commissions	\$0	\$0	\$0	\$0	\$0	\$0	\$40	\$40	\$40	\$25	\$25	\$25	
Sub-Total: Bldg & TI/Comm	\$183	\$183	\$183	\$172	\$172	\$172	\$200	\$200	\$200	\$185	\$185	\$185	
Parking Cost	<b>1.5 spaces/du (950 sf)</b>			<b>1.5 spaces/du (950 sf)</b>			<b>2 spaces/1,000 sf</b>			<b>3 spaces/1,000 sf</b>			
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	\$187	\$220	\$227	\$176	\$208	\$216	\$205	\$246	\$255	\$192	\$254	\$268	
Financing	8%	\$15	\$18	\$18	\$14	\$17	\$17	\$16	\$20	\$20	\$15	\$20	\$21
<b>Total</b>	<b>\$202</b>	<b>\$237</b>	<b>\$245</b>	<b>\$190</b>	<b>\$225</b>	<b>\$233</b>	<b>\$221</b>	<b>\$266</b>	<b>\$276</b>	<b>\$208</b>	<b>\$274</b>	<b>\$289</b>	

1. Design and contingency
2. Assumed to be included in the building cost.
3. Assumes part of mixed use development.

Source: W-ZHA

# Property Costs

## Landmark/Van Dorn

### Assessed Property Values Landmark-Van Dorn Planning Area

Block	Existing Use	Area (Acre)	Assessed Value	Land Value /Acre
B1	Retail, Restaurants	6.96	\$27,185,000	\$3,907,000
B2	Office	1.26	\$11,790,000	\$9,379,000
C	BJ's, Passport	12.46	\$27,252,890	\$2,187,000
E	Van Dorn Plaza	9.80	\$26,503,800	\$2,704,000
K	Giant	9.76	\$26,690,425	\$2,735,000
L1	Warehouse	4.97	\$10,830,000	\$2,179,000
L2	Restaurant, Commercial	0.94	\$2,371,520	\$2,532,000
M1	Gateway Van Dorn	2.52	\$6,176,100	\$2,455,000
M2	Gateway Industrial	3.80	\$11,240,600	\$2,961,000
P	Pickett St Flex	7.80	\$21,816,800	\$2,798,000
	<b>Say</b>	<b>/Acre</b>	<b>\$2,500,000 - \$3,000,000</b>	

Source: City of Alexandria, Department of Real Estate and Assessments; W-ZHA

# Existing Conditions: Landmark/Van Dorn

## Rents Among Recently Developed Projects Landmark-Van Dorn Planning Area

Office	Full Service (Inc. Expenses)		
Class A	\$30.00	-	\$36.00
Class B	\$25.00	-	\$30.00
Retail	Triple Net (Exc. Expenses)		
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

Source: City of Alexandria