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DEVELOPMENT FEASIBILITY ANALYSIS



Wilsonville Town Center

Development Feasibility Analysis

PREPARED
FOR



PREPARED
BY



October 11, 2018

Assignment

Wilsonville Town Center Plan

Task 5.2: Development Financial Feasibility Analysis

Process and Goals. Leland Consulting Group (LCG) will:

- Assess whether the proposed development options (“prototypes”) are economically feasible from a private development perspective via a development financial (“pro forma”) analysis.
- Test various development prototypes using assumptions and inputs such as land costs, construction costs, commercial rents, and cap rates.
- Test the effectiveness of different building forms, zoning codes, financial incentives, and other tools.

This presentation provides additional context to supplement the Development Type “two pagers” that have also been prepared as a part of this task.

Contents:

- Feasibility Inputs
- Prototypes
- Operating Revenue/Rents
- Construction Costs
- Development Types in Wilsonville and other TCs
- Land Cost
- Parking
- Return on Investment: Analysis of Alternatives
- Conclusions

Development Feasibility Inputs




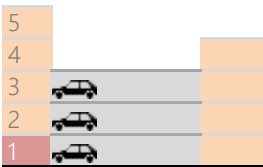

A number of different inputs—shown at right—are required in order to test the financial feasibility of various types of real estate development.

Program Based on comparable projects throughout the region, as well as an estimated 1.5 acre site in the Wilsonville Town Center.	<ul style="list-style-type: none">• Site size• Square feet of retail/restaurant, office, or other commercial uses• Number of housing units• Parking: Number and type of spaces• Building height, floors, and other design attributes
Timing Based on market research and expected project deliveries.	<ul style="list-style-type: none">• Construction start• Certificate of Occupancy• Lease-up period
Costs Based on market research and cost estimates from RSMeans and industry experts.	<ul style="list-style-type: none">• Land or building purchase• Site preparation, e.g., demolition, grading• Hard Cost (construction)• Soft Costs (architecture and engineering; project management; permits and fees; insurance; construction loan interest; contingency; other.)
Operating Revenue and Expenses Based on market research and data from industry experts.	<ul style="list-style-type: none">• Rent revenue from retail, office, residential, parking• Vacancy• Operating expenses for management, utilities, taxes, insurance, maintenance, etc.• Net Operating Income (NOI: revenue less expenses)
Return on Investment Data from industry experts.	<ul style="list-style-type: none">• Comparison of NOI to Total Project Cost

Prototypes: Residential

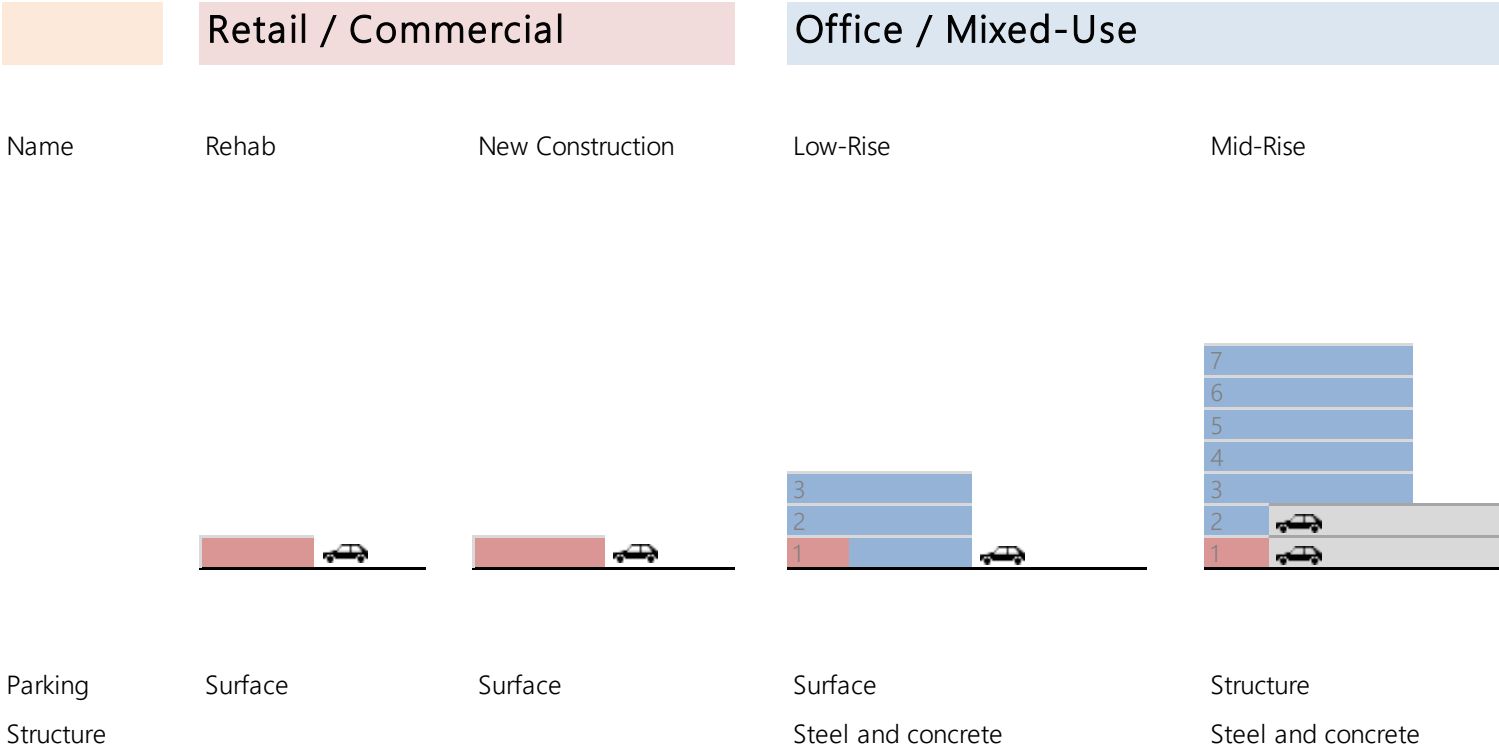
Most developments fall within a finite series of “prototypes,” which group buildings by various aspects of their physical form. The way in which parking is provided (surface, tuck under, or structured) is a key influence on the physical form of these projects. Using these prototypes as development models helps to simplify the feasibility analysis by comparing generic building types with common features and form.

The housing (multifamily) prototypes used for this feasibility analysis, including mixed-use residential development, are shown below.

	Residential / Mixed-Use				(Commercial)
Name	Townhomes	Garden Apartments	Main St. Mixed Use	Mid-Rise Wrap	Mid-Rise Podium
					
Parking	Surface / tuck under	Surface	Surface / tuck under	Structure	Structure
Structure	Wood frame	Wood frame	Wood over concrete	Wood with concrete	Wood over concrete

Prototypes: Retail and Office

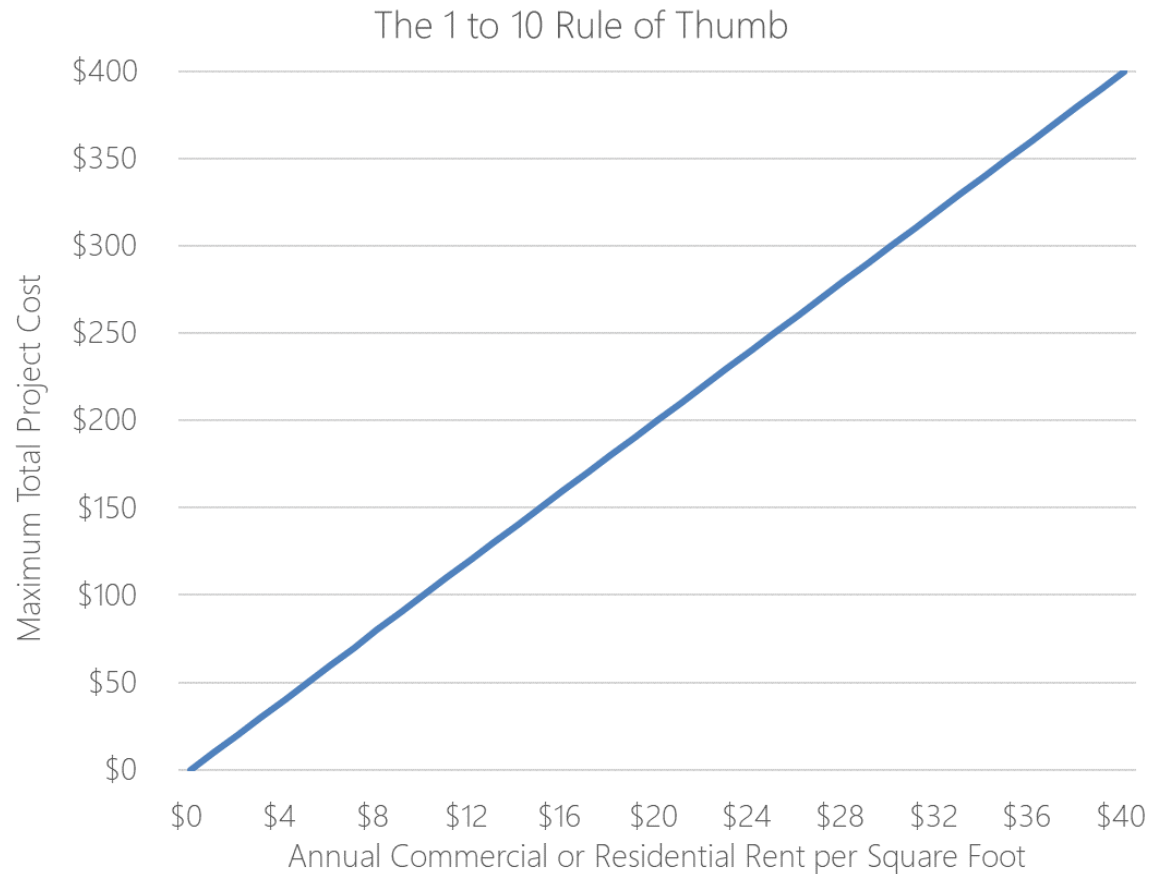
The retail and office prototypes used for this feasibility analysis are shown below. Like the housing prototypes, the way in which parking is provided (surface, tuck under, or structured) is a key influence on the physical form of these projects. For retail projects, we evaluated the rehab or renovation of existing retail/commercial buildings, since there are many of these buildings in the Town Center and rehab is a likely type of development to occur.



Rents Drive Feasibility

For income property (as opposed to for-sale property such as single family homes) the rental revenue that developers can earn is perhaps the single most important factor that affects profitability.

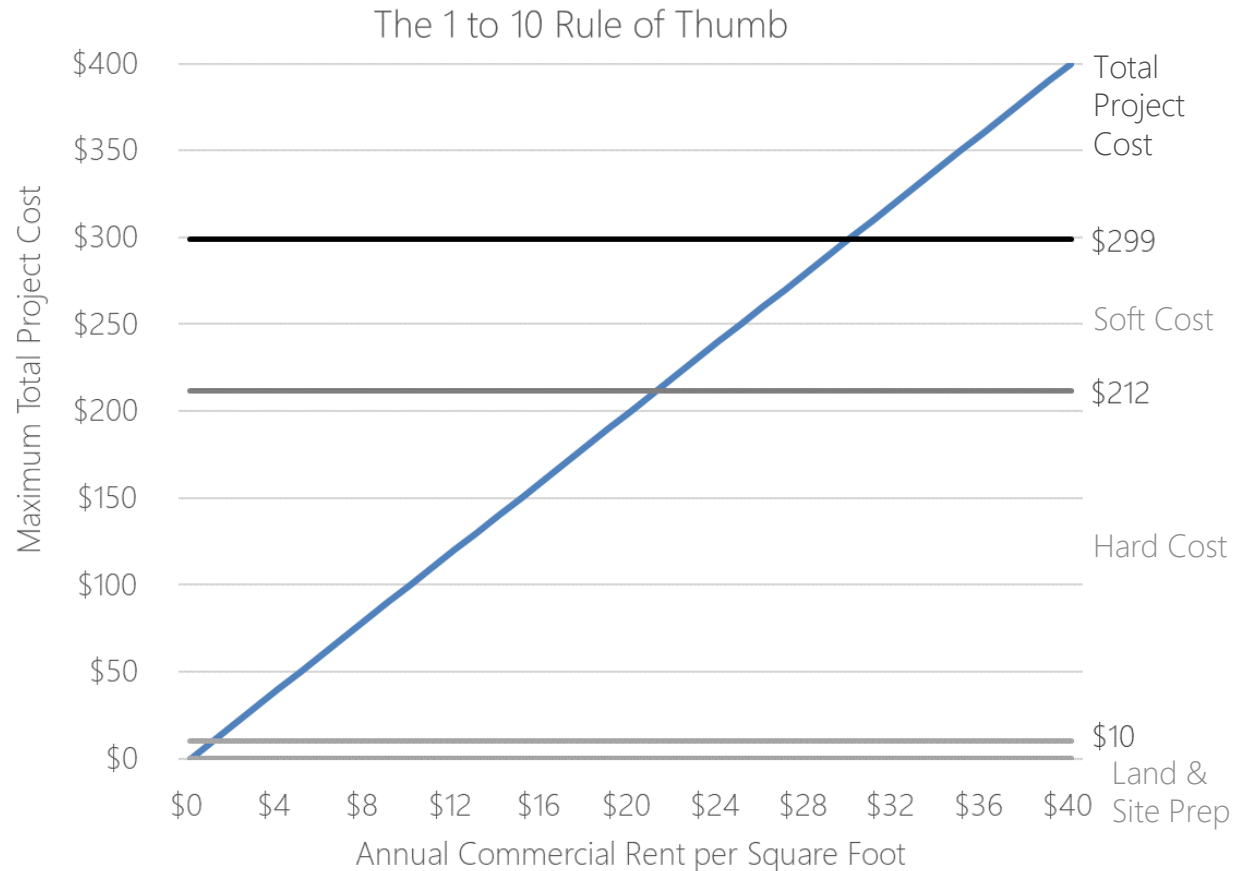
The “1 to 10” rule is an old rule of thumb in the development industry, and suggests that for each one dollar of rental revenue (per square foot per year), total project costs can be no more than 10 dollars per square foot. For example, if retail rents are \$20 PSF in a given area, the total project costs cannot be more than \$200 PSF. This is a rough rule of thumb that provides only a first impression of development feasibility. It is used as a basis for determining feasibility in the following pages.



Rents Drive Feasibility

The chart at right shows the costs associated with developing a typical retail/commercial building (single-story, surface parked). Land, site preparation, hard costs, and soft costs total to \$296 PSF. Hard costs of construction are \$200 PSF (including both core and shell, and interior tenant improvement costs) and make up the majority of the total costs.

Using these cost assumptions and the 1 to 10 rule suggests that rents would need to be \$29.60 PSF in order for a developer to build this project and achieve a reasonable rate of return.



Rents

It is not simple to determine what rents will be for new projects in the Wilsonville Town Center as the landscape is likely to change significantly and much depends on an individual developer's experience, access to finances, and desired return on investment (a lower ROI might result in the developer charging lower rents). It is also difficult to predict market demand in the medium and long-term. The figure at right shows a number of rent benchmarks, including:

- The average rent (for apt., retail, and office space) in the Wilsonville Town Center.
- The highest rents identified by LCG in the Wilsonville Town Center (or within approximately ½ mile).
- The highest rents identified by LCG in the "market area" (Defined here as a 10-mile radius that includes Wilsonville and most or all of the following cities: West Linn, Lake Oswego, Tualatin, Tigard, Sherwood, and Newberg.)
- Current (2018) rents are shown in blue, and future (projected) rents are shown in green. The future year is 2020, which is approximately the year a project would open and begin leasing, if construction started today.

Current and **Future** Rents: Wilsonville Town Center and Market Area



- The opening year "target" for new projects that would be built in the Wilsonville Town Center is the baseline assumption used in this financial feasibility analysis and is calculated by escalating the top rents found within a half-mile of the Town Center for two years, and adding a 10% premium, assuming a 2020 building completion date (based on average annual rent increases for new builds).
- The opening year target, plus a 20% rent bump is a theoretical rent level that we use to test project feasibility in the Wilsonville Town Center based on the assumption that new projects in the Town Center will be high quality, be differentiated from less distinctive projects elsewhere, and benefit from special amenities in the Town Center.
- No escalation was assumed for retail rents, since rents have been flat or declining.

Rent Revenue Analysis

The inputs to the chart shown on the preceding page are summarized below.

Because of the varying tenant/landlord responsibilities for utilities and expenses, housing, retail and office rents are typically quantified in different ways, described as follows.

Apartment rents are usually quoted on a *monthly* per-square-foot or per-unit basis. These are shown as *annual* figures below as well.

Commercial lease structures (i.e. office and retail) are typically Triple-net or Full Service, or some variation in between.

Retail rents are typically quoted as *annual triple-net* (or NNN) rent. The net operating income (NOI) that retail landlords keep is similar to the asking or quoted rent. *Triple-net* (NNN) refers to rent structures where tenants pay most or all of the operating costs associated with occupancy, including real estate taxes, building insurance, maintenance, and utilities.

Office rents are typically quoted as *annual "gross" or "full service"* (FS) rents. The net operating income (NOI) that office landlords keep is significantly less than the asking or quoted gross rent. *Full Service* (FS) (also called a "Gross Lease") refers to rent structures where landlords pay most or all of the operating costs associated with occupancy.

Development Type		Current Rents			Premium: New Project TC	Rent Escalation		Opening Yr. Rents		Opening Yr. NOI	
		Town Ctr Av.	Town Ctr High	Mkt. Area High		% to 2020	\$ to 2020	Town Ctr Target (2020)	Town Ctr +20%	Operating Expenses	NOI
Apartments	Monthly PSF	\$1.38	\$1.75	\$2.83	\$0.18	6.1%	\$0.11	\$2.03	\$2.44		
	Per Unit	\$1,173	\$1,488	\$2,406	\$149		\$91	\$1,727	\$2,072		
	Annual PSF	\$16.56	\$21.00	\$33.96	\$2.10	6.1%	\$1.28	\$24.38	\$29.25	\$6.37	\$18.01
Retail (NNN)	Annual PSF	\$16.00	\$23.50	\$35.00	\$2.35	0.0%	\$0.00	\$25.85	\$31.02	-	\$25.85
Office (FS)	Annual PSF	\$23.40	\$28.30	\$36.00	\$2.83	2.0%	\$0.57	\$31.70	\$38.04	\$8.50	\$23.20

Office Rent Analysis

Town Center Average

According to CoStar and LCG’s review of the market, office rents average about \$23.40 per square foot gross. Office development has been limited recently; the last new office building was completed in 2012. Because office and retail transactions are less frequent than multifamily transactions (new rental leases), data is harder to come by and each lease is different.

Office Data

Availability	Survey
Gross Rent Per SF	\$23.40
Vacancy Rate	1.1%
Vacant SF	13,940
Availability Rate	16.7%
Available SF	220,745
Sublet SF	70,020
Months on Market	5.7

Town Center High

The 29174 SW Town Center Loop office building is shown below. Based on LCG’s analysis, this small (12,000 SF) office project is achieving among the highest rents in the City. Built in 2009, this project is also among the newest. The landlords have completed at least three leases in 2017 and 2018, and the highest rent was \$28.30 gross.



Market Area High

Kruse Oaks III (shown below) is located approximately 8 miles north of the Wilsonville Town Center on I-5 in Lake Oswego’s Kruse Way office cluster. With rents averaging about \$36 per square foot, approximately 25 to 30% higher than the Wilsonville Town Center high, this is one of the office buildings within the 10-mile market area achieving the highest rents.



Retail Rent Analysis

Town Center Average

According to CoStar and LCG's review of the market, retail rents in the Town Center average about \$15.60 per square foot, triple-net (NNN). Because office and retail transactions are less frequent than multifamily transactions (new rental leases), data is harder to come by and each lease is different.

Retail Data

Availability	Survey
Gross Rent Per SF	\$15.61
Vacancy Rate	3.0%
Vacant SF	74,038
Availability Rate	4.5%
Available SF	109,806
Sublet SF	0
Months on Market	8.3

Town Center High

The 30020 SW Boones Ferry Road building is shown below. This building is a part of the Old Town Square project, just west of I-5 and the Wilsonville Town Center. CoStar estimates new retail space such as this rents for approximately \$23.50 per square foot, triple net. Landlords may generate higher rents for small spaces, with large "anchor" tenants paying lower rents per square foot.



Market Area High

The Windward, a mixed use development completed in 2018 in downtown Lake Oswego, is shown below. Asking rents for this project are among the highest in the 10-mile market area at \$36 to \$42 per square foot, triple-net. Actual signed leases may be lower than asking rents. Ground floor retail rents for spaces in mixed-use projects are typically higher per square foot than standalone retail developments..



Note: the retail rent analysis assumes developers will use similar projects to those used by LCG for both the Town Center High and Market Area High rents, regardless of whether the developer's project is a standalone retail or mixed-use project with ground-floor retail.

Mixed-Use Residential Rent Analysis

The table below shows a summary of multifamily and mixed use projects in Wilsonville and nearby cities. These projects are further profiled in the following pages.

The Bell Tower project is achieving the highest rents per square foot of any multifamily project in Wilsonville, and is located across I-5 from the Town Center.

Rents here are significantly above the Town Center average of \$1.38 per square foot.

The Attwell (Tigard, built 2017) and Windward (Lake Oswego, built 2018) projects were chosen for comparison for two reasons. First, they are among the “top performing” projects in terms of rent, a key metric for developers.

The Attwell is the top performing mixed-use project along the I-5 corridor south of Portland; and The Windward is the top performing project within a 10 mile radius of the Town Center.

Second, they are both downtown/town center projects, located near the heart of Tigard and Lake Oswego, respectively.

Location	Project Name	Avg. Rent	Premium vs. WTC
Wilsonville	Domaine at Villebois	\$1.52	
	Portera at the Grove	\$1.59	
	Bell Tower (Wilsonville High)	\$1.75	-
Tigard	Attwell Off Main	\$1.94	11%
Lake Oswego	The Windward	\$2.83	62%

Bell Tower, Wilsonville

The Bell Tower mixed-use project is located at Old Town Square, just across I-5 from the Wilsonville Town Center.

This project is earning the highest multifamily rents in Wilsonville, likely due to the concentration of amenities available within easy walking distance. These include restaurants, pubs, grocery stores, coffee shops, many other retailers, as well as Boones Ferry Park and access to the Willamette River.

This average rent being generated by this project across all units is \$1.75 per square foot (residential only). This is significantly more than the rents at the Portera, Terrene, and other more recent projects.

This project is likely to be used as an important “comparable” for developers looking to build in the Town Center.



Built: 2012

Prototype: Main Street Apartments (not including ground floor retail)

Unit and Rent Summary

Totals	Avg SF	Unit Mix		Vacancy		Avg Asking Rent		Avg Effective Rent		Concessions
		Units	Mix %	Units	Percent	Per Unit	Per SF	Per Unit	Per SF	
All Studios	505	1	2.0%	0	0.0%	\$1,289	\$2.55	\$1,285	\$2.54	0.3%
All 1 Beds	761	36	70.6%	0	0.0%	\$1,358	\$1.79	\$1,355	\$1.78	0.3%
All 2 Beds	1,036	14	27.5%	1	7.1%	\$1,732	\$1.66	\$1,721	\$1.65	0.6%
Totals	831	51	100%	1	2.0%	\$1,465	\$1.75	\$1,459	\$1.75	0.4%

Attwell Off Main, Downtown Tigard

The Attwell Off Main mixed-use project is the best-performing project along the I-5 corridor south of Portland, on a rent-per-square-foot basis. Average rents are \$1.94, which is 11 percent higher than rents at the Bell Tower, and 20%+ higher than other Wilsonville projects such as the Portera and Domaine at Villebois.

This project is a good example of the Main Street Apartment prototype, since it includes retail (on Burnham Street), and a mix of tuck under and surface parking, which costs less than structured parking.

This project was led by the City of Tigard. The City owned a 3.5 acre public works site near Main Street and Fanno Creek, and sold the site at a somewhat below-market value because there were no strong “urban housing” comparables, and because the City wanted to achieve a higher-quality project. The City also applied a 10-year tax abatement.



Built: 2017
Prototype: Main Street Apartments (not including ground floor retail)

Unit and Rent Summary

		Unit Mix		Vacancy		Avg Asking Rent		Avg Effective Rent		Concessions
Totals	Avg SF	Units	Mix %	Units	Percent	Per Unit	Per SF	Per Unit	Per SF	
All Studios	485	31	18.8%	2	6.5%	\$1,205	\$2.48	\$1,205	\$2.48	0.0%
All 1 Beds	685	71	43.0%	4	5.6%	\$1,401	\$2.05	\$1,401	\$2.05	0.0%
All 2 Beds	1,024	26	15.8%	1	3.9%	\$1,859	\$1.82	\$1,859	\$1.82	0.0%
All 3 Beds	1,321	37	22.4%	2	5.4%	\$2,284	\$1.73	\$2,284	\$1.73	0.0%
Totals	843	165	100%	9	5.5%	\$1,634	\$1.94	\$1,634	\$1.94	0.0%

The Windward, Lake Oswego

The Windward, located in the heart of downtown Lake Oswego, generates the highest rents per-square-foot of any project within a 10-mile radius of the Wilsonville Town Center. Average rents are \$2.83 per square foot, approximately 62% above the rents at the Bell Tower. Because it opened in 2018, this project is still leasing up (30 percent occupied, 70 percent vacant), and therefore rents may trend up or down. The Windward includes 42,900 square feet of retail.

Downtown Lake Oswego includes numerous amenities, including numerous restaurants and retailers, lake views, and the famer’s market and other events that are held in adjacent Millennium Plaza Park, which likely increased demand for this project.

Parking is provided underground. Therefore, despite the height (four stories above ground), this is considered a podium project due to the cost of underground parking and related structural elements. The project was purely market driven.



Built: 2018
Prototype: Mid-Rise / Podium (High Activity)

Unit and Rent Summary

		Unit Mix		Vacancy		Avg Asking Rent		Avg Effective Rent	
Totals	Avg \$F	Units	Mix %	Units	Percent	Per Unit	Per \$F	Per Unit	Per \$F
All Studios	779	32	16.0%	23	71.9%	\$2,238	\$2.87	\$2,145	\$2.75
All 1 Beds	861	109	54.5%	76	69.7%	\$2,547	\$2.96	\$2,431	\$2.83
All 2 Beds	1,367	52	26.0%	36	69.2%	\$4,072	\$2.98	\$3,902	\$2.86
All 3 Beds	1,830	7	3.5%	5	71.4%	\$5,472	\$2.99	\$5,243	\$2.87
Totals	1,013	200	100%	141	70.5%	\$2,996	\$2.96	\$2,866	\$2.83

Condominium Projects

Following the onset of the recession in 2008/2009, very few condominium projects have been built in the Portland metropolitan region, consistent with development trends in most western (Pacific Coast to the Rocky Mountains) metro regions. Condo projects came to a halt for a number of reasons:

- The prevalence of costly construction liability lawsuits by homeowners associations against developers has created a significant deterrent for many developers, architects, and construction firms.
- More stringent lending practices.
- Concern from consumers about the long-term value of condominiums compared to the purchase price, based on their experience in the recession.
- The significantly higher cost of construction for new condominiums. Developers often seek to use steel and concrete construction, rather than wood, in order to create a product that is higher-quality and less susceptible to construction defects.
- Fewer comparable sales on which lenders and developers can estimate future projects.

LCG is aware of a total of five significant projects that have been completed during the last decade, all of which have been built in either the Pearl District, or close-in Eastside Portland (all other multifamily developments have been apartments).

The Windward, in downtown Lake Oswego, was originally planned as a condominium project, but then converted to rental, likely due to the lower risk, better financing terms, and superior economics associated with rental projects. The project was approved in November 2015, construction started January 2016, and it was completed in early 2018.

LCG does expect that the number of condominium projects will increase going forward. However, there is inadequate data at this point on which to base an analysis of condominium feasibility or a comparison of rental apartments versus condominiums. In many cases, higher-cost and higher-quality condominium projects follow several successful rental apartment or office mixed-use projects.

For these reasons, this analysis focuses on an analysis of mixed-use multifamily rental development rather than condominium development.

Construction Costs

Another key determinant of development feasibility is construction (or “hard”) costs. RS Means’ construction cost index for all types of development in the Portland region is shown at right. The index is set at 100 for the year 2006, and shows that construction costs have increased 31 percent over the past 12 years. Developers generally need higher rents to compensate for these higher costs.



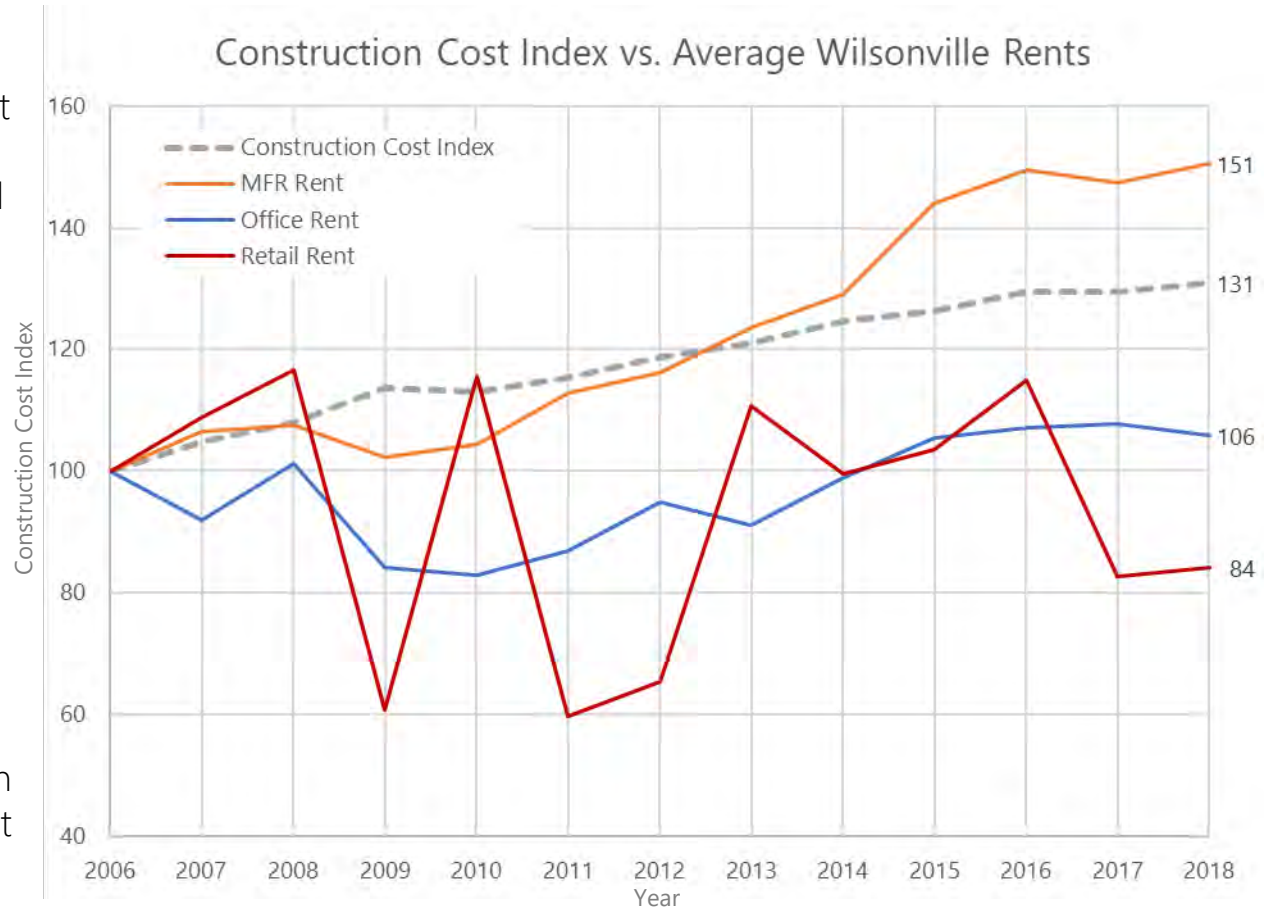
Source: RS Means.

Construction Costs

The chart at right compares construction costs to average apartment (multifamily), office, and retail rents in Wilsonville over time. All data is indexed to 100 in the year 2006.

Multifamily rents have increased consistently and rapidly—by 51 percent—over this time period, while office rents have stayed relatively constant and retail rents have actually fallen by 16 percent.

This data provides a key reason that multifamily development has been very strong over the past five years, while office and retail development have been slower. The data also reflect the fact that rental housing has become less affordable in recent years.



Sources: RS Means, Costar.

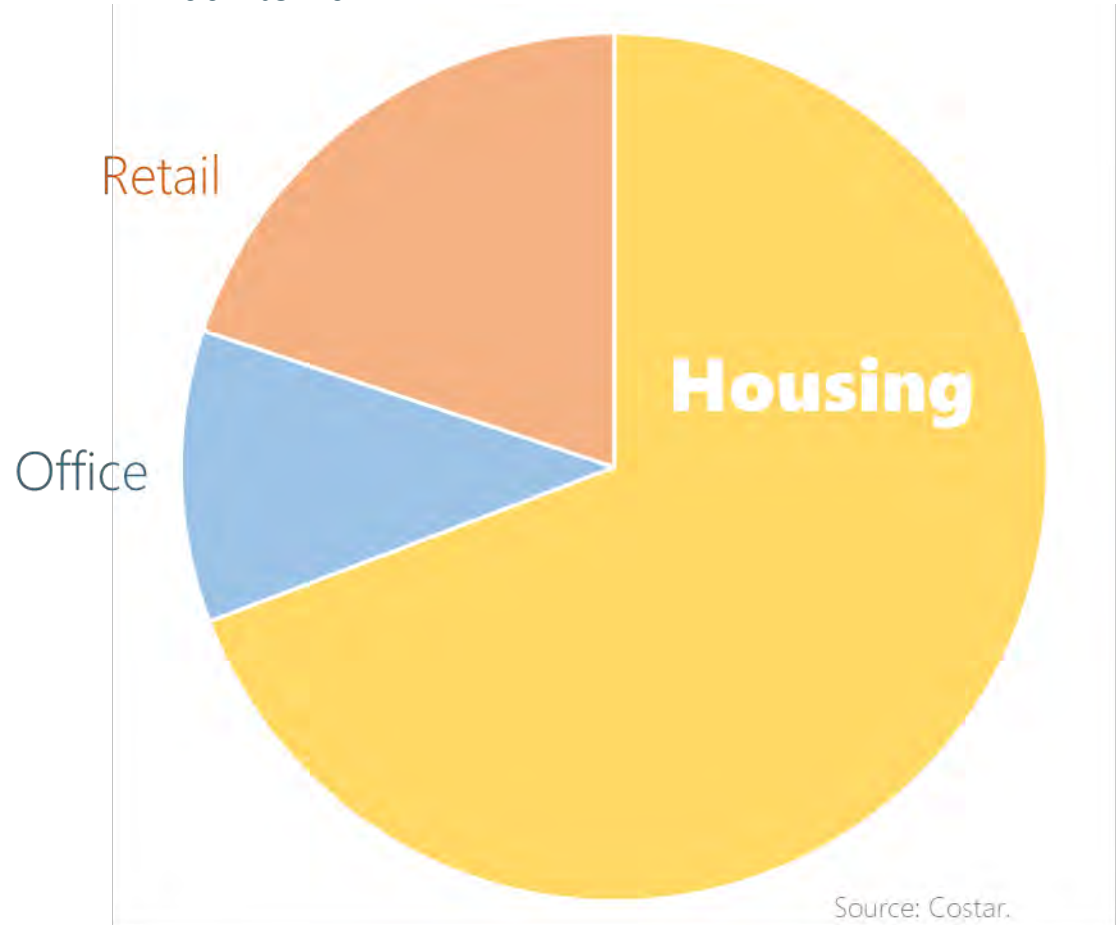
Wilsonville Development Trends

The relationship between construction costs and rents reflects demand and drives the types of development that have been built in Wilsonville and other cities throughout both the market area, as well as the greater Portland Metropolitan Region.

The figure at right shows the amount of multifamily (rental housing), office, and retail development (square feet) built over the past decade in Wilsonville.

The data source is CoStar, whose focus is on leased space, and therefore sometimes does not track dedicated “owner-occupied” office and retail developments. Owner-occupied single family homes and townhomes are also not shown. This figure reflects the fact that housing constitutes the bulk of recently built commercial development.

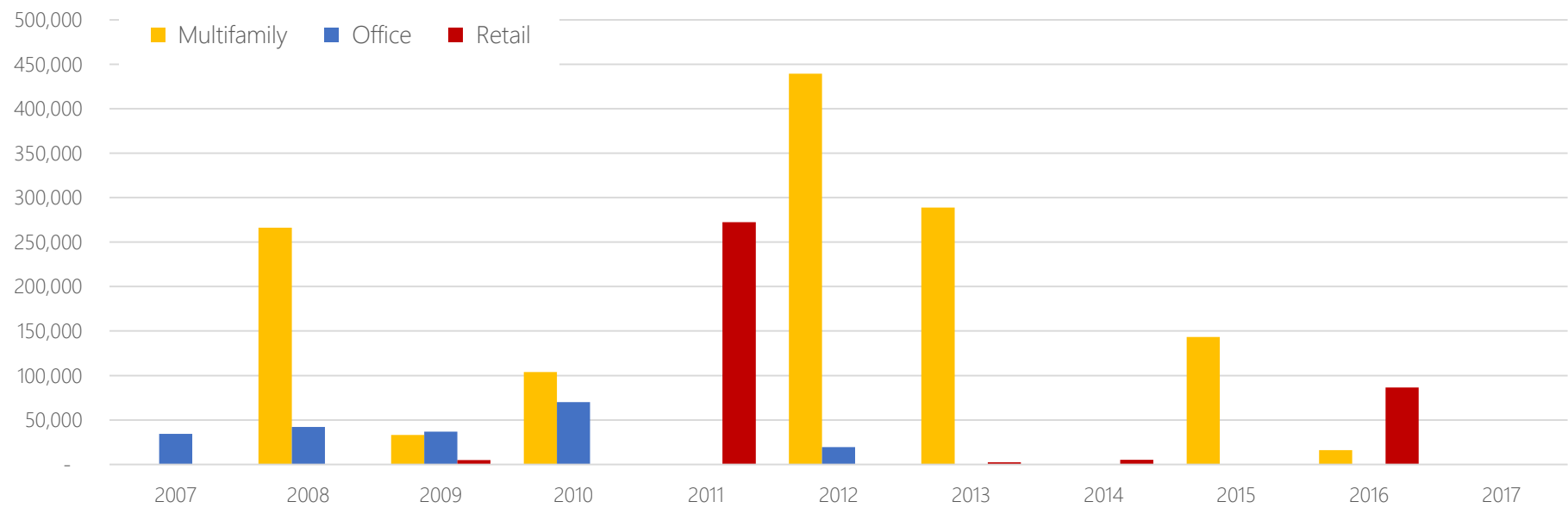
Land Use Mix, City of Wilsonville
2007 to 2017



Wilsonville Development Timeline

The chart below shows another view of rental-occupied multifamily, retail, and office development over time in the City of Wilsonville. This chart shows there has been no new office space developed since 2012. The multifamily development north of the Wilsonville Town Center has comprised the bulk of all development in the past 5 years.

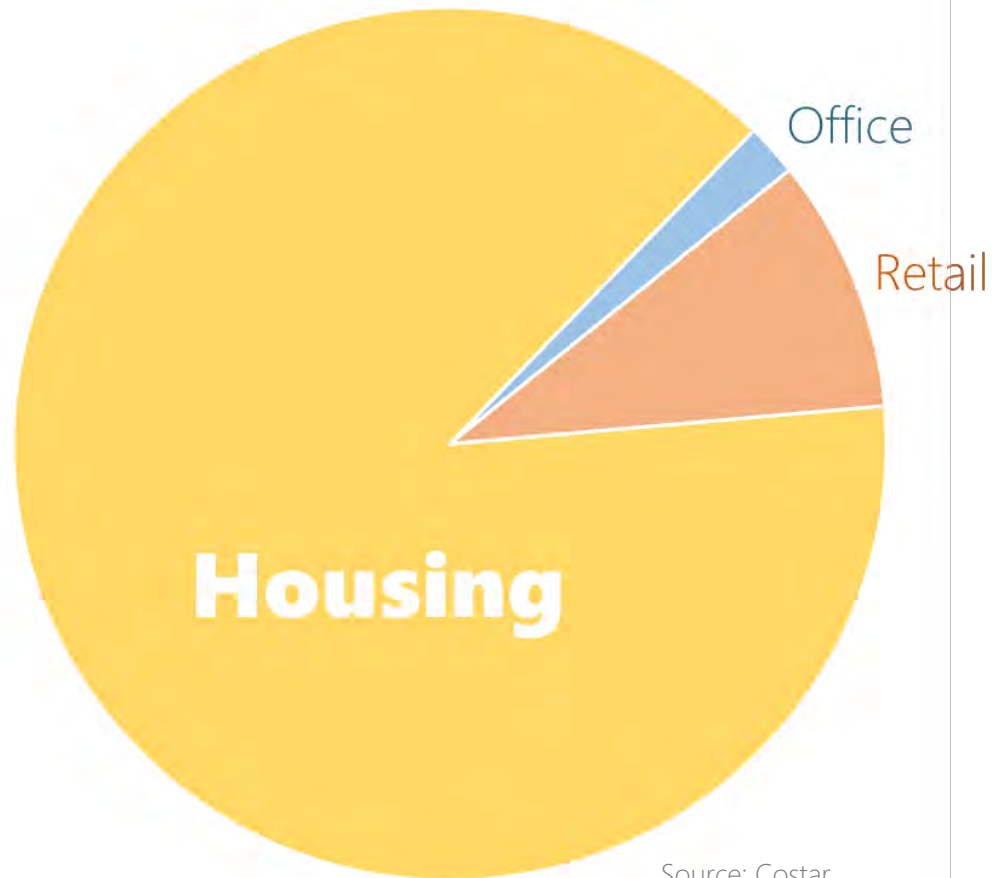
Development by Year (sq. ft.), Wilsonville



Five-Year Wilsonville Development Trends

The figure at right shows the amount of multifamily (rental housing), office, and retail development (square feet) built over the past five years, and shows that the shift towards housing development and away from office and retail, has been even more pronounced in this time period.

Land Use Mix, City of Wilsonville
2012 to 2017



Source: Costar.

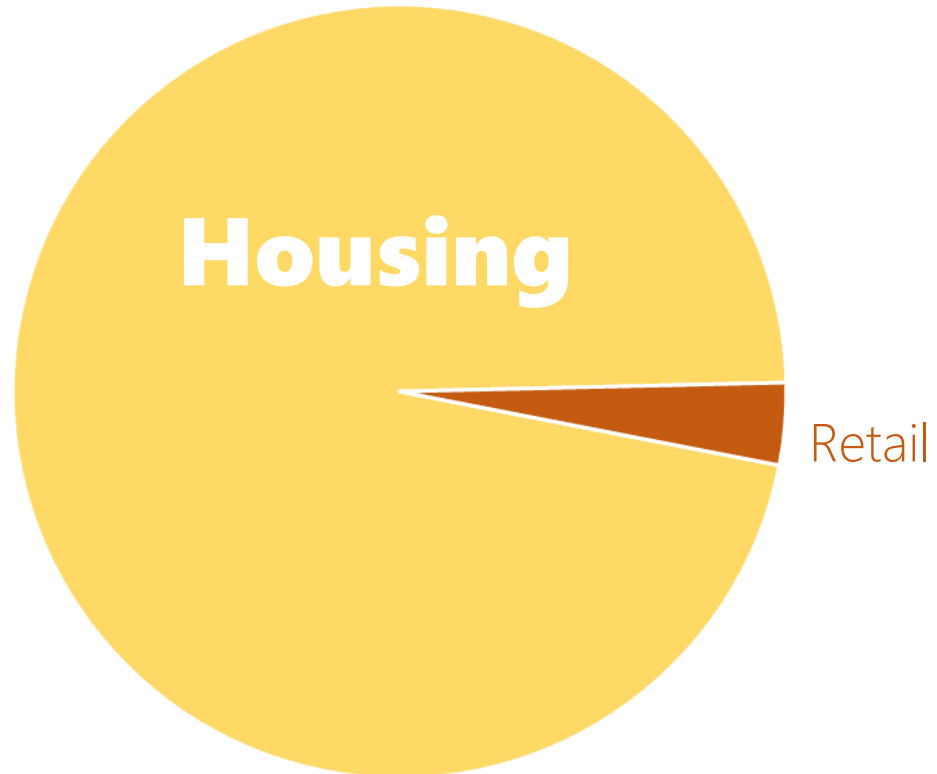
Regional Town Center Development Trends

Land Use Mix, Orenco Station 2006 to 2018, South of Cornell Road

The figure at right shows the amount of multifamily (rental housing), office, and retail development (square feet) built in the Orenco Station area in Hillsboro—also a designated Town Center—since 2006.

This reflects the fact that a land use mix dominated by housing is not atypical for successful town centers.

Indeed, multifamily housing also makes up the bulk of new development in other centers such as Downtown Hillsboro, Beaverton, Tigard and Lake Oswego.



Source: Costar. We use the time period of 2006 to 2018 because it captures the later phases of development in the Orenco area. We use the area south of Cornell Road since the area to the north was developed earlier. The area south of Cornell Road is also sometimes called “The Platform District” at Orenco Station.

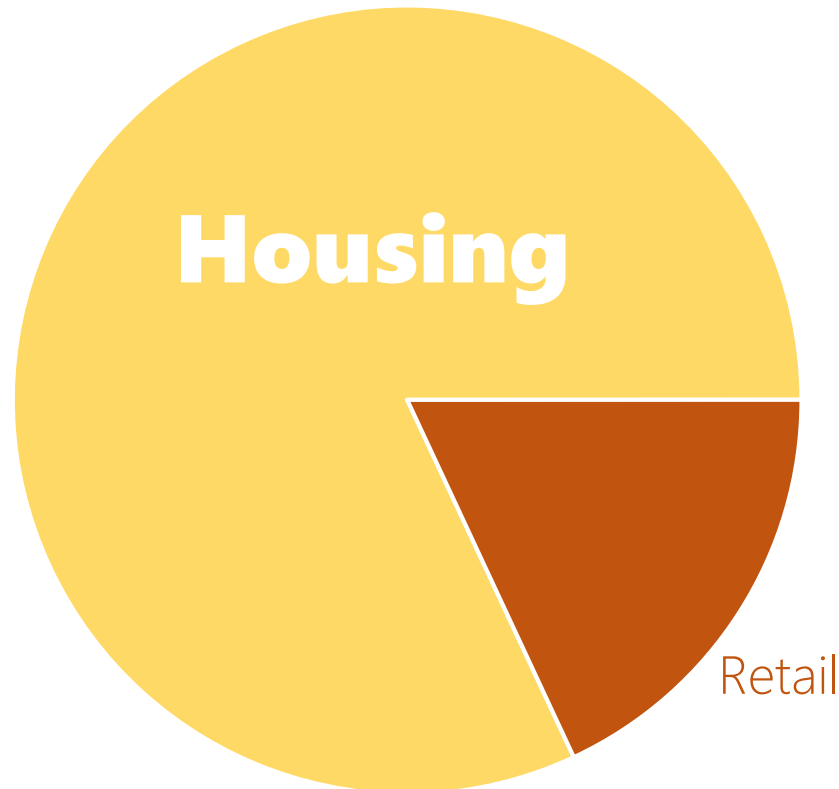
Regional Town Center Development Trends

The figure at right shows the amount of multifamily (rental housing), office, and retail development (square feet) built in downtown Lake Oswego built since 2012.

Development of multifamily housing has been more prevalent than non-residential development.

The shift towards housing development and away from office and retail has been even more pronounced since 2012.

Land Use Mix, Downtown Lake Oswego
2012 to present



Source: Costar. The "Downtown" boundary is based on the City's downtown parking map.

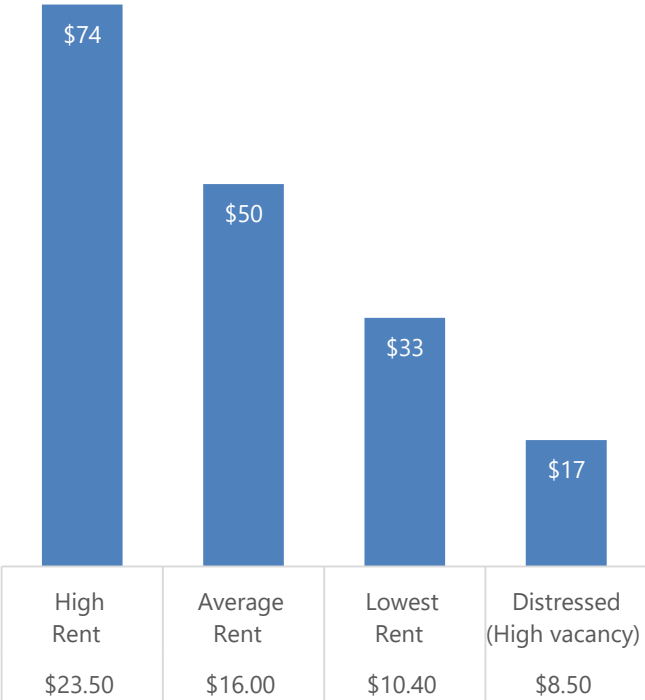
Land Cost

The amount developers must pay to purchase land is another key factor in development feasibility, particularly in the Wilsonville Town Center, where most of the land is developed with existing retail/commercial buildings.

The chart at right shows the estimated land value in the Town Center (per square foot of site area) at various retail rental rates. High rents are capitalized into the total value of the land and building since buyers will be willing to pay more to acquire the income stream. Asking prices for “high rent” properties is expected to be approximately \$70 PSF (which is currently the “high” land value), while average rent properties are estimated to cost \$50 per square foot. LCG is not aware of any properties that would transact at the “low” or “distressed” level, but it is possible in the event of a very underutilized property.

All other things equal, developers will look to purchase and redevelop properties with low rents and high vacancies, or are “tear downs.” Property owners of highly underutilized sites (e.g., a lightly-used parking lot) also may redevelop their own property. This analysis considers the development feasibility of both property that is already owned and land with existing commercial buildings that must be acquired.

Property Acquisition
Cost PSF of Site Area,
Based on Retail Rent PSF



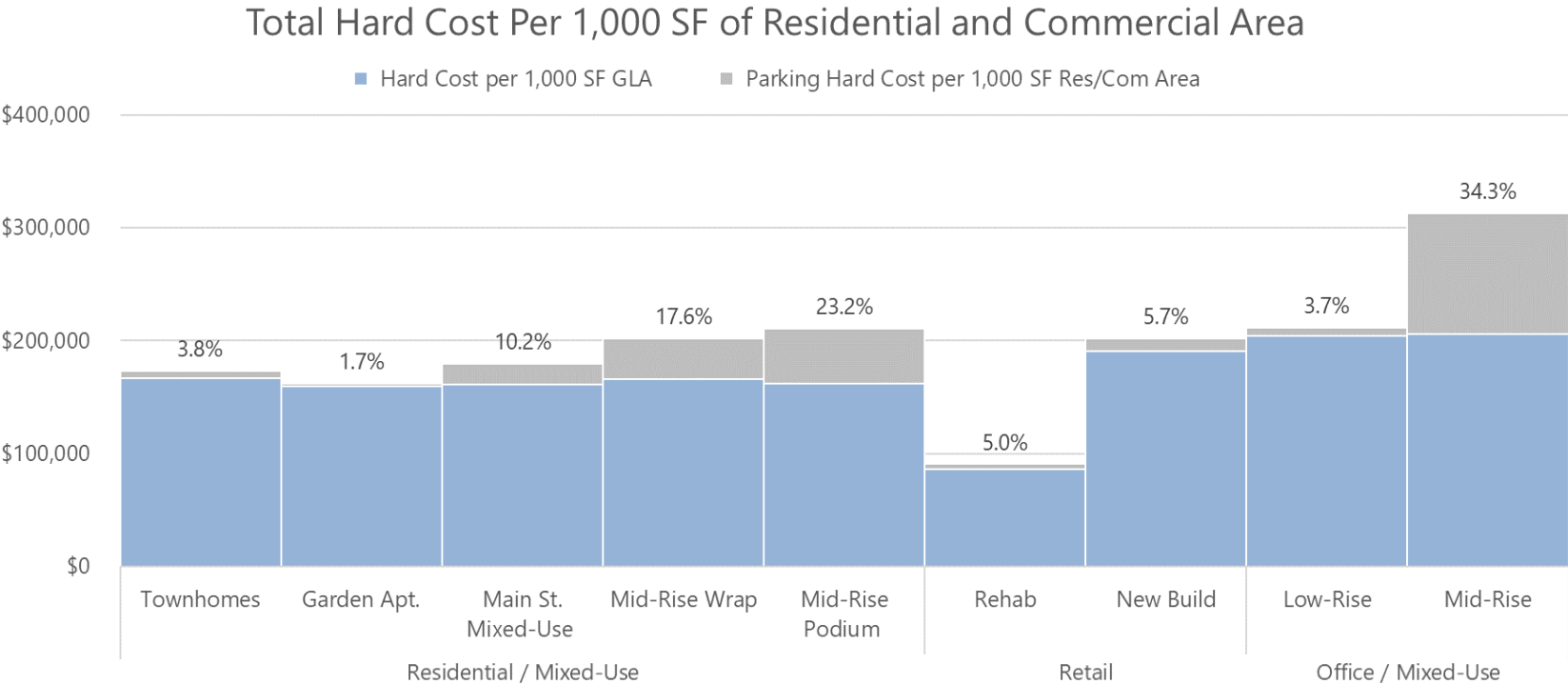
Sources: Costar, Leland Consulting Group.

Construction and Parking Cost

The figure below shows the hard (construction) cost per 1,000 square feet of residential and/or commercial area (also called gross leasable area or GLA); the parking cost per 1,000 square feet of GLA; and the combined hard and parking cost (dollar figure shown) for different development types.

The cost of parking increases significantly for housing and office prototypes that include structured parking. The cost of parking for higher density office projects is particularly high because parking ratios are higher for office than housing.

- Parking Types by Prototype:**
- *Surface Parking:* Townhomes, Garden Apartments, Rehab and New Build Retail, Creative Office
 - *Tuck Under and Surface Parking:* Main Street Apartments
 - *Structured Parking:* Wrap and Podium Apartments and Mid Rise Office



Parking Ratios

As described above, structured parking significantly increases the cost of many town center projects. At the same time, the car remains the dominant form of transportation and nearly all projects require parking. Therefore, finding the right balance of parking is important.

The City’s current parking requirements vary by land use, with retail requiring the most parking spaces per 1,000 square feet, followed by office, and then residential. Requirements vary depending on the type of retail (e.g. restaurant, grocery, general retail), size of dwelling units, and other factors. The City also allows developers to build less parking when it is shared among multiple tenants or uses.

Parking ratios for residential and mixed-use projects in Wilsonville and comparable town center locations are shown below. The average parking ratio for these recent projects is 1 space per dwelling unit and is used as the baseline parking ratio for development feasibility in this analysis.

Location		Project Name	Parking /unit
Wilsonville		Terrene	1.7
		Portera	0.9
		Bell Tower	1.3
Hillsboro	Town Center	Platform 14	0.7
	Town Center	Hub 9	1.1
Beaverton	Town Center	The Rise	0.7
Lake Oswego	Town Center	The Windward	1.5
Average		All Projects	1.1

Baseline and reduced parking ratios used for this analysis are shown below. A review of townhome projects indicates higher parking ratios compared to the multifamily residential prototypes. Baseline retail and office ratios are based on current City requirements for general retail and office, respectively. The financial impact of 30%¹ lower parking ratios was also analyzed, as shown on the following slides, and those ratios are also listed below.

Parking Ratios	Baseline	Reduced 30%	
Townhomes	2.0	1.4	/unit
Multifamily	1.0	0.7	/unit
Retail	4.1	2.9	/1,000 SF
Office	2.7	1.9	/1,000 SF

¹ The Rise and Platform 14 have 30% less parking than would be required today in the Wilsonville Town Center. Residents of mixed-use town center projects typically require less parking, usually by well over 30%. Mixed use/multifamily projects in Portland’s other central cities have achieved parking ratios of much lower than 1.0. Further, many studies argue that parking demand will decrease further with the advent of AVs, increasing car sharing, and other numerous transportation innovations, such as bike share, scooters, and ongoing walking, biking, and transit.

Form Follows Parking: Office

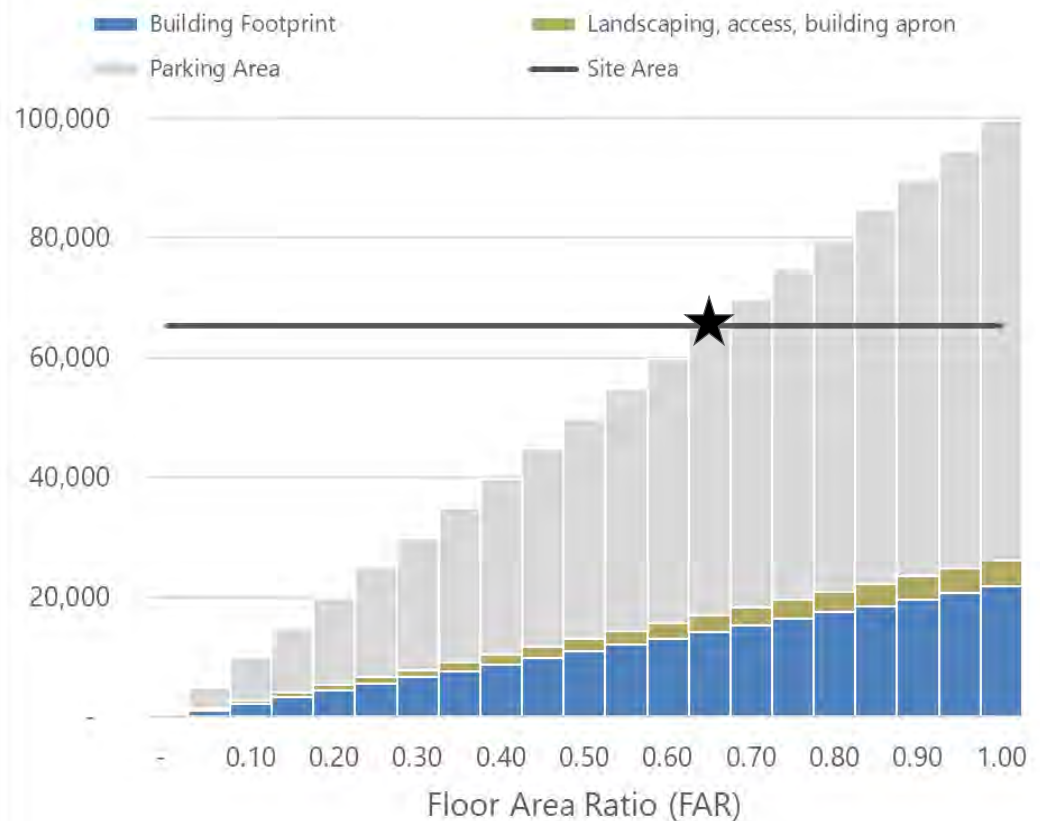
One saying in the design and real estate development industries is “form follows parking.” In other words: parking—whether surface or structured—has a significant impact on the types of buildings that are physically and financially feasible.

Indicated on the chart at right is the building footprint, parking area, and landscaping and access area for a typical, three-story office building on a 65,000 square foot site (1.5 acres). Assuming that 3.0 surface parking spaces are required for each 1,000 square feet of office area, based on traditional parking ratios, the building can be no more than about 42,000 square feet of building area (with a building footprint of about 14,000 SF and Floor Area Ratio of 0.65). *A larger building will either require more parking than can fit on the site or structured parking.*

The traditional parking ratios for suburban office development is 3.0 spaces per 1,000 SF of space. While short term parking demand may actually be increasing in some cases as denser “creative” and open office floorplans replace earlier floorplans that had numerous enclosed offices, over the long-term, Town Center residents typically own fewer cars and transportation technology is expected to reduce parking demand. Wilsonville’s base parking requirement for office buildings is slightly less—2.7 spaces per 1,000. The City also allows a parking reduction if parking is shared between multiple uses (e.g. office, retail, and housing).

Even if regulations do not require a high parking ratio, developers will try to build the amount of parking they think their tenants will demand.

Total Site Area – Building and Required Parking Footprints

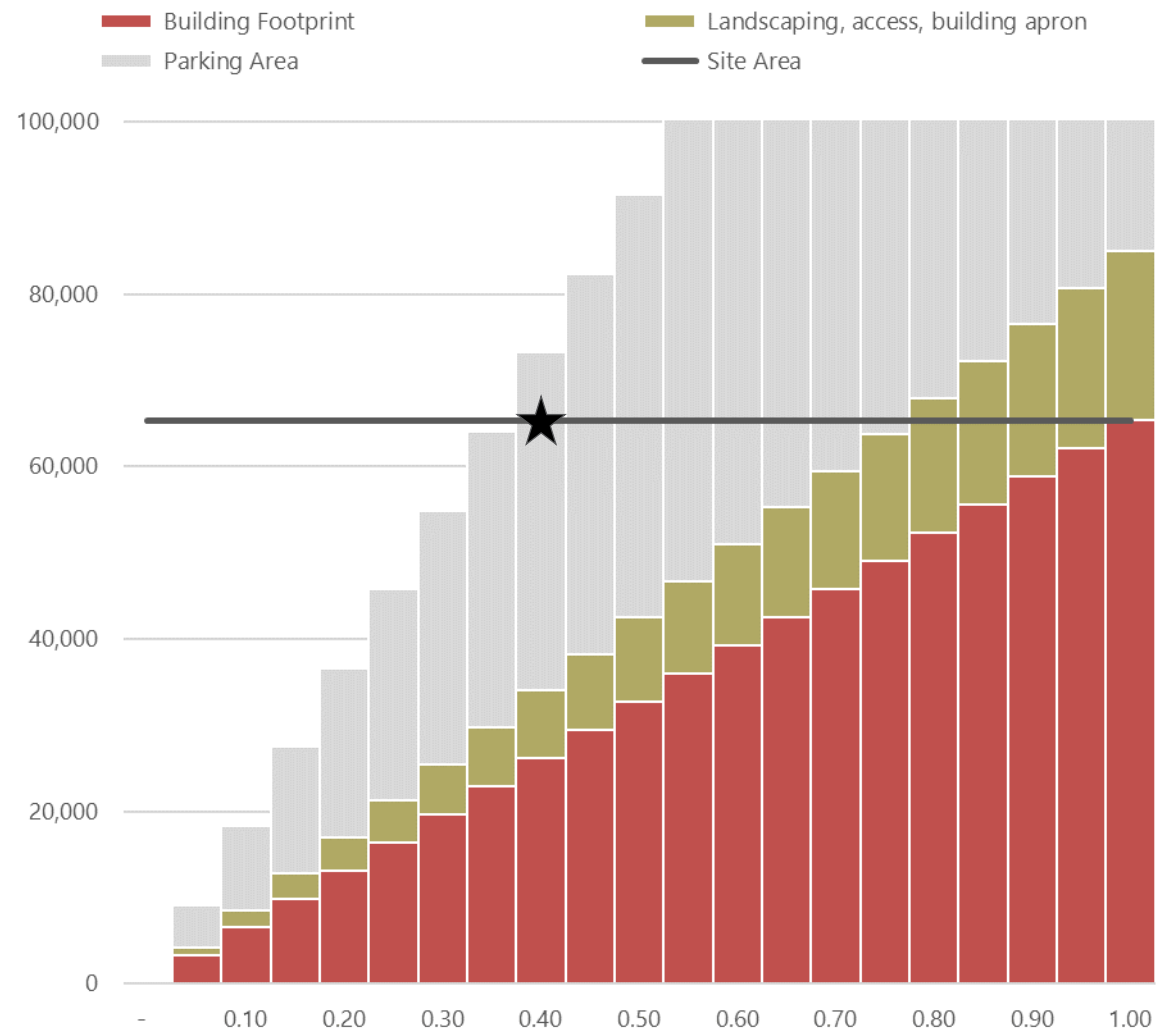


Form Follows Parking: Retail

Indicated on the chart at right is the development of a typical, one-story retail building on a 65,000 square foot site (1.5 acres). Assuming that 4.0 surface parking spaces are required for each 1,000 square feet of office area, the building can be no more than about 22,800 square feet in size (a FAR of 0.4).

A larger building will either require more parking than can fit on the site, or structured parking spaces.

Total Site Area - Building and Required Parking Footprints



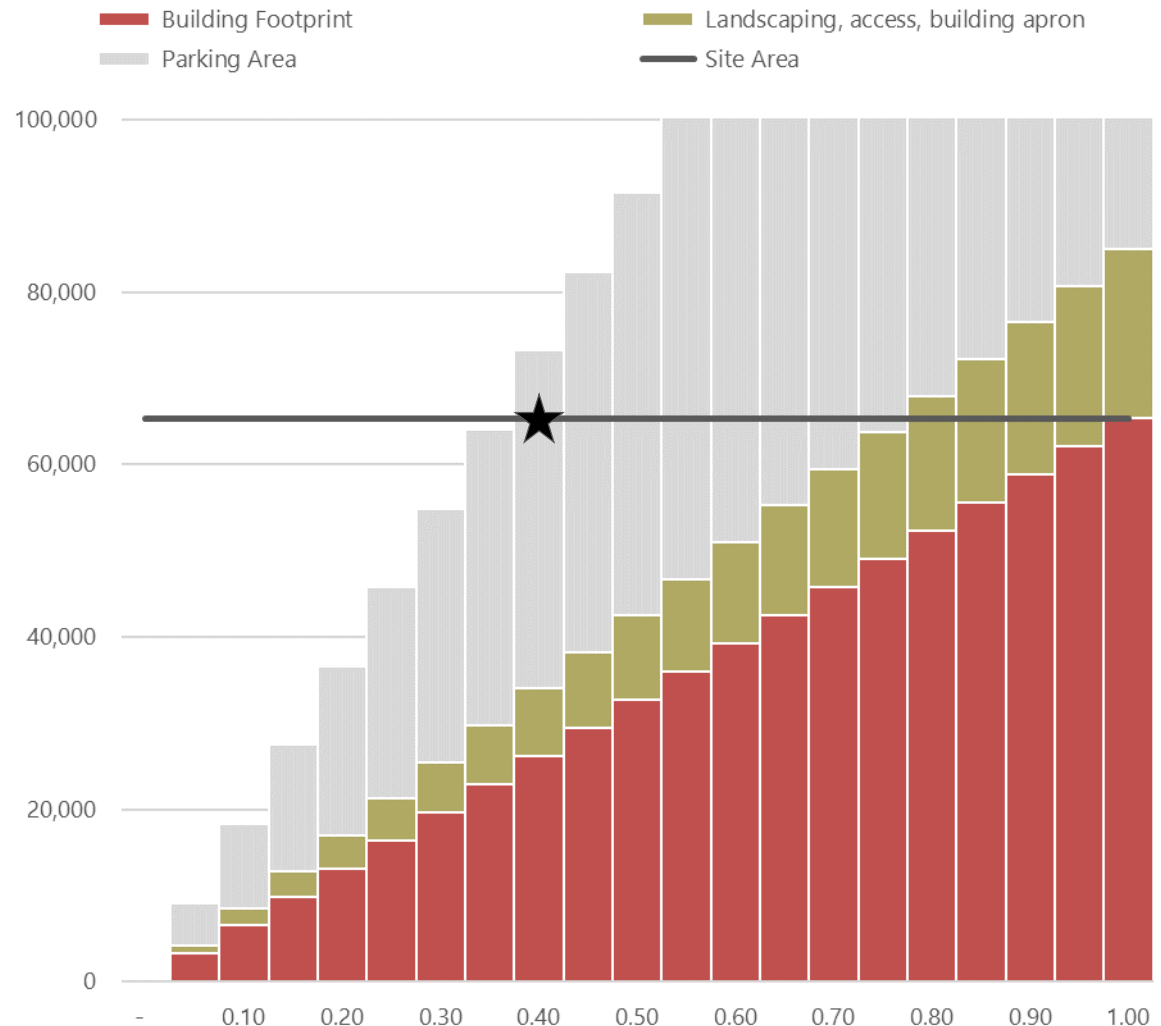
Form Follows Parking: Retail

Parking has an even bigger impact on retail than office development.

Retail parking ratios are higher. Ratios of 4 to 5 spaces per 1,000 SF are typical for general retail/commercial, but ratios can be much higher for specific uses such as restaurants. Wilsonville's requirement for "general retail" is 4.1 spaces per 1,000 SF. The parking area needed to fulfill these ratios reduces the potential retail building footprint.

Existing single-story retail development, particularly in suburban areas, is based on development codes that include high parking ratios for retail. While on-site parking at the store's front door step is convenient, it significantly impacts overall site design and pedestrian oriented building design.

Total Site Area - Building and Required Parking Footprints



Return on Investment

In this section, we summarize the return on investment for various development alternatives tested through this analysis. These alternatives are based on a number of key variables and test the feasibility of the development prototypes identified earlier. A summary of key inputs are as described in previous slides and listed at the end of this report.

Different developers use different metrics and approaches to evaluate whether a project is a good investment, including return on cost (or yield), internal rate of return (IRR), net present value (NPV), equity multiple (EM), and other metrics, such as cash-on-cash return.

In this analysis, we use the return on cost approach, since this is perhaps the most commonly used by developers for preliminary feasibility analysis. Return on cost is calculated as a percentage: estimated net operating income (NOI) in the first year of stabilized operation, divided by total project costs (land, hard cost, soft cost, etc.). Target returns are 5.9% percent for multifamily, 7.8% for retail, and 7.9% for office. Target returns are based on established real estate industry capitalization rates ("cap rates"). They are lower for multifamily because the development industry is generally more optimistic about the reliability of future apartment revenues, and less confident about retail and office returns.

We categorize the ROI of different development alternatives as follows:

- 1 **Infeasible**
Less than 80% of target return.
- 2 **Challenged**
80 to 90% of target return.
However, major changes could improve feasibility, such as new funding mechanisms and economic opportunities
- 3 **Marginal**
90 to 100% of target return.
Value engineering* or other changes could make this project feasible
- 4 **Feasible**
100 to 120% of target return.
Should attract capable developers
- 5 **Excellent**
More than 120% of target return.
Multiple developers are likely to seek out this project type

**Value engineering is used to solve problems and identify and eliminate unwanted costs, while improving function and quality. The aim is to increase the value of products, satisfying the product's performance requirements at the lowest possible cost.*

Development Alternatives

Eight main development alternatives were analyzed for each building prototype. Each alternative makes a different set of assumptions about key variables that affect development feasibility. The variables are shown below: land acquisition conditions/ cost; parking rate; rent; and tax abatement.

Land. In alternatives one through four, we assume that the developer is developing a property they already own and does not cost them anything to acquire. This reflects the potential to develop underutilized sites in the Town Center such as lightly used surface parking lots; “low basis” properties that were purchased many years ago; or, potentially, publicly owned land that is sold at below-market costs. In alternatives five through eight, we assume the developer is acquiring a *commercial building*, with a purchase price of \$50 per square foot, which lowers developer returns.

Rent. Some alternatives use the baseline rent assumptions (“opening year targets” on slide 8), while others assume a 20% “rent premium,” which is still below the market area high. It is possible rents will be higher in the future, as additional amenities are added to the Town Center.

Parking reduction. Some alternatives assume current parking ratios, while others assume a reduction of 30% (based on the parking ratios of comparable projects in regional Town Centers). A reduction in parking reduces development costs.

Tax Abatement. Some alternatives apply a ten-year property tax abatement, authorized in the State of Oregon for mixed-use projects with ground floor commercial and housing above. It has been used by numerous cities (Hillsboro, Tigard, Eugene) to incentivize projects in designated areas. No tax abatement is available for retail or office projects.

Key Variables

	Alternative							
	1	2	3	4	5	6	7	8
Land	Owned	Owned	Owned	Owned	Building	Building	Building	Building
Parking Reduction	0%	30%	0%	30%	0%	30%	0%	30%
Rent Premium	0%	0%	20%	20%	0%	0%	20%	20%
Tax Abatement	No	Yes	No	Yes	No	Yes	No	Yes

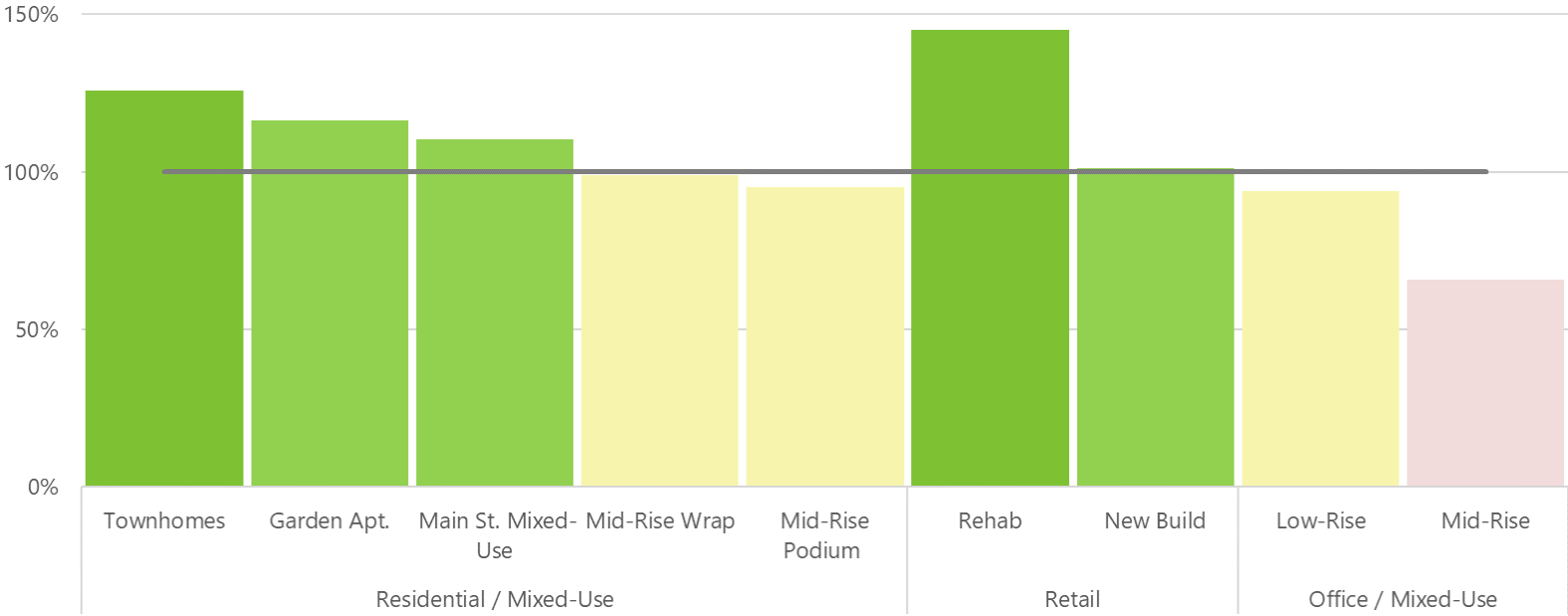
Alternative 1: Baseline

The ROI results for the baseline alternative are shown below for all 10 building prototypes assessed in this analysis. In this alternative, we assume the developers are building on property they already own, the project obtains baseline rents, builds to current parking ratios, and receives no tax abatement.

This analysis indicates a number of development types are feasible under these conditions, including townhomes, garden apartments, main street apartments, and both retail development types. The fact that retail renovations will generate strong returns suggests that existing retail buildings are likely to remain.

Higher density residential and all office development are below feasibility targets.

Land	Owned
Parking Reduction	0%
Rent Premium	0%
Tax Exemption	No



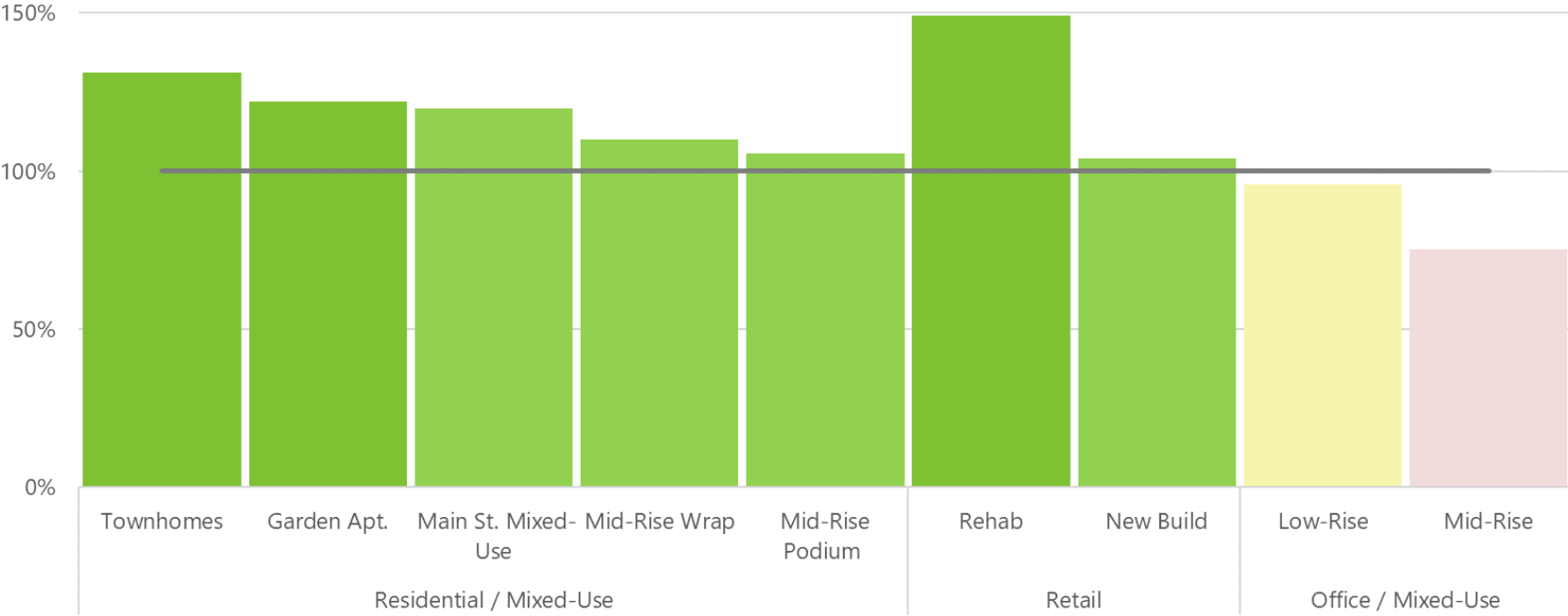
2: Parking Reduction & Tax Abatement

The ROI results for alternative 2 are shown below. The changes made from alternative 1 are: applying a 30 percent parking reduction and the temporary tax abatement. Making these changes improves feasibility for several reasons. Parking costs are reduced for both surface and

structured parking projects, and the space per square foot is converted to rent-generating uses. This cost reduction is modest for surface parked projects, but it is significant for structured parking projects such as the wrap and podium, which are now feasible.

Office development remains below feasibility targets.

Land	Owned
Parking Reduction	30%
Rent Premium	0%
Tax Exemption	Yes



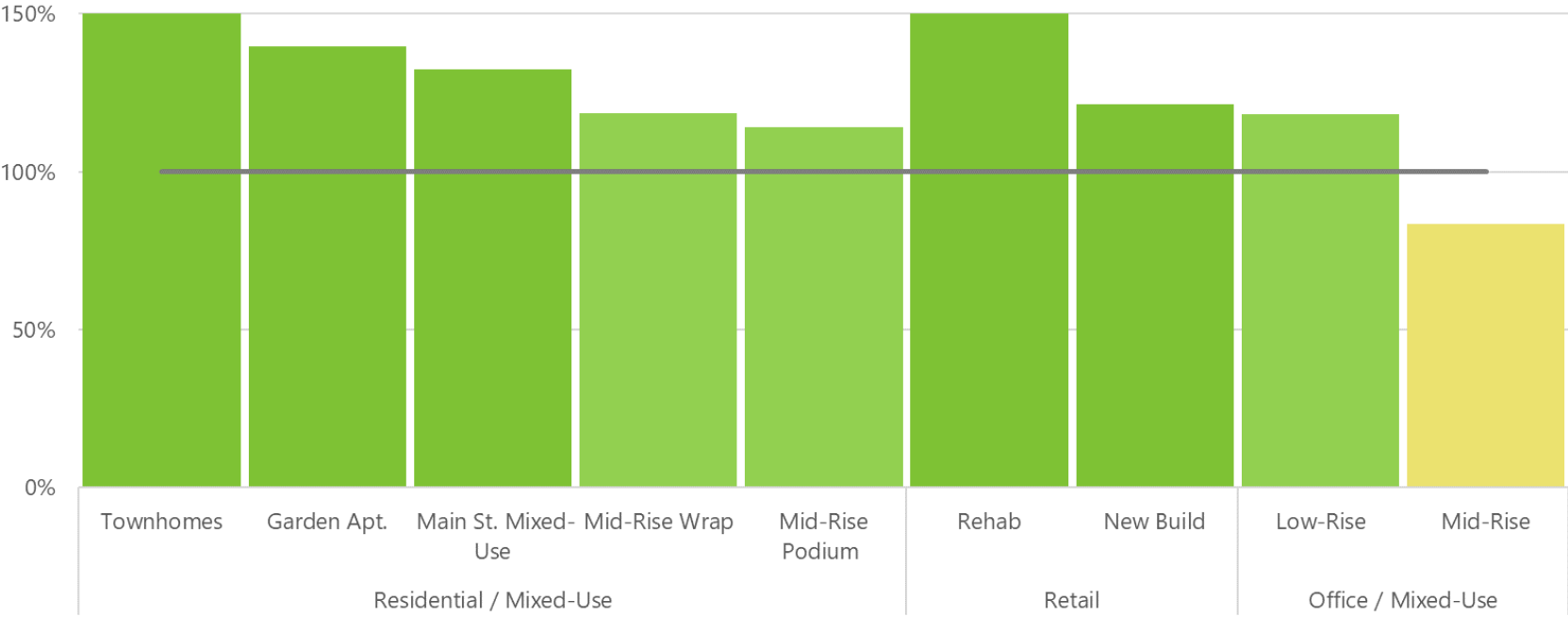
3: Rent Premium

The ROI results for alternative 3 are shown below. The change made from alternative 1 is to increase all rents by 20 percent. Increasing rents significantly makes all of the development types feasible—with the exception of mid rise office (assuming the developers build on their own underutilized land).

A significant residential rent premium may be achievable over time, as projects such as the Attwell are already achieving a premium (currently about 11 percent higher than the Town Center High).

A 20 percent office rent premium would mean that Wilsonville Town Center office space would be directly competing with Kruse Way.

Land	Owned
Parking Reduction	0%
Rent Premium	20%
Tax Exemption	No

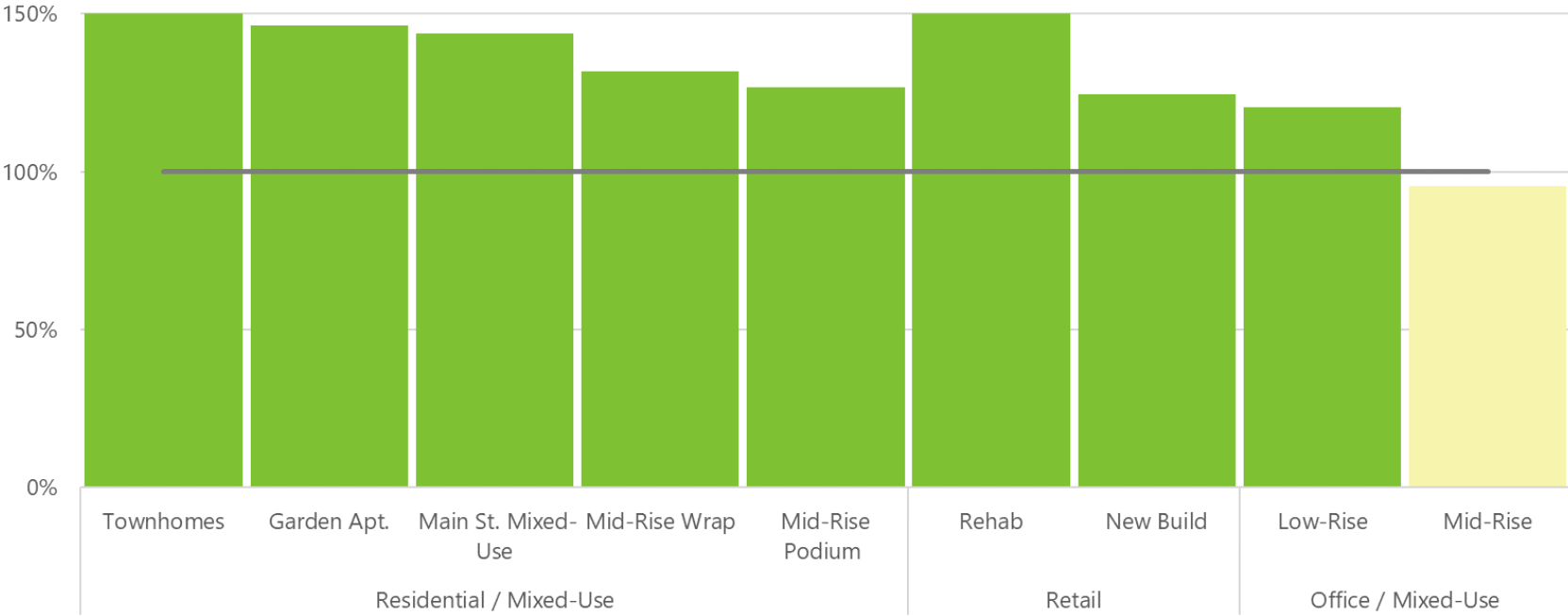


4: Favorable Development Conditions

The ROI results for alternative 4 are shown below. In this alternative, the rent premium is paired with the parking reduction and tax abatement.

Once again, all of the development types are feasible (assuming the developers build on their own underutilized land), with the exception of mid rise office, which are marginal.

Land	Owned
Parking Reduction	30%
Rent Premium	20%
Tax Exemption	Yes



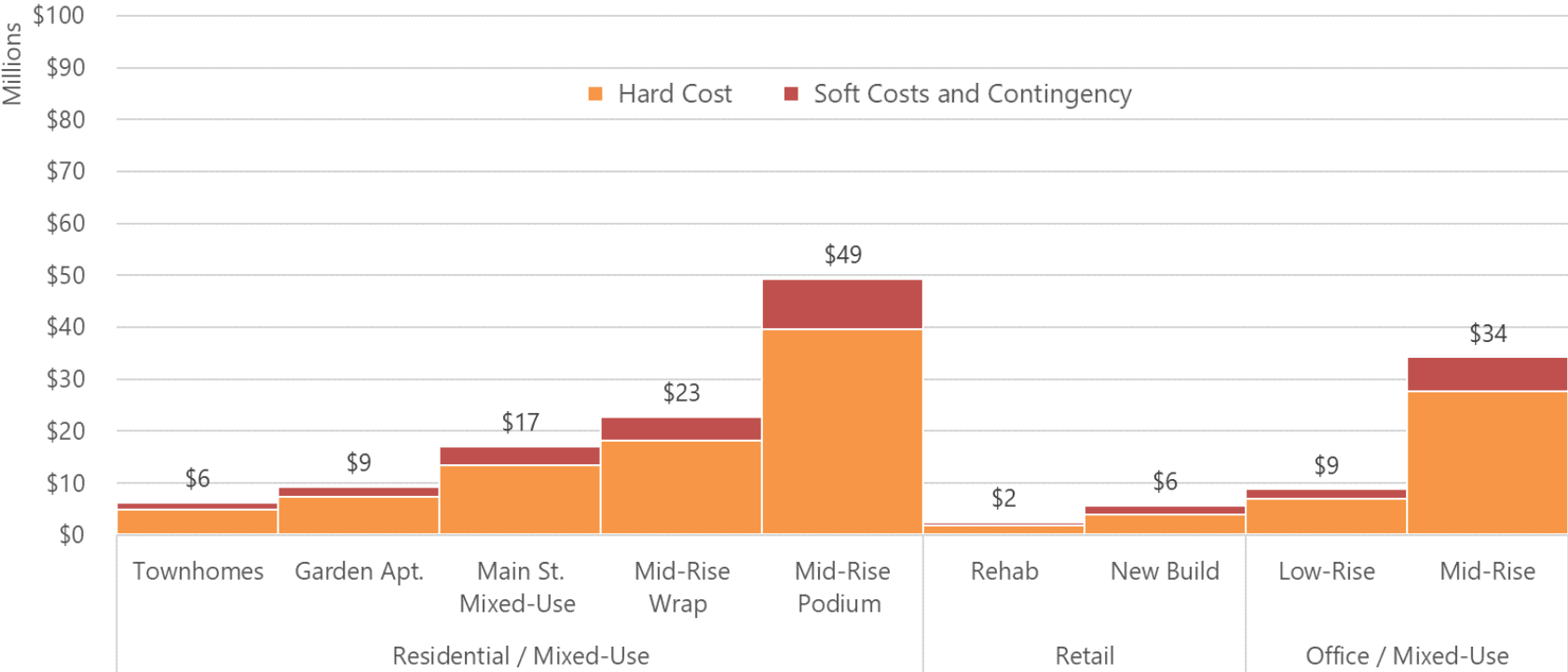
4: Total Project Cost (\$ millions)

The chart below shows the total project cost (in millions of dollars) for each of the ten development prototypes as tested in alternative 4. This shows the significant differences in total investment between the project types, and the fact that hard and soft costs, not the cost of land,

make up the majority of total project cost.

The higher density housing and office projects are major investments. They are therefore often riskier, and undertaken by a smaller group of developers.

Land	
Rent Premium	20%
Parking Reduction	30%
Tax Exemption	Yes



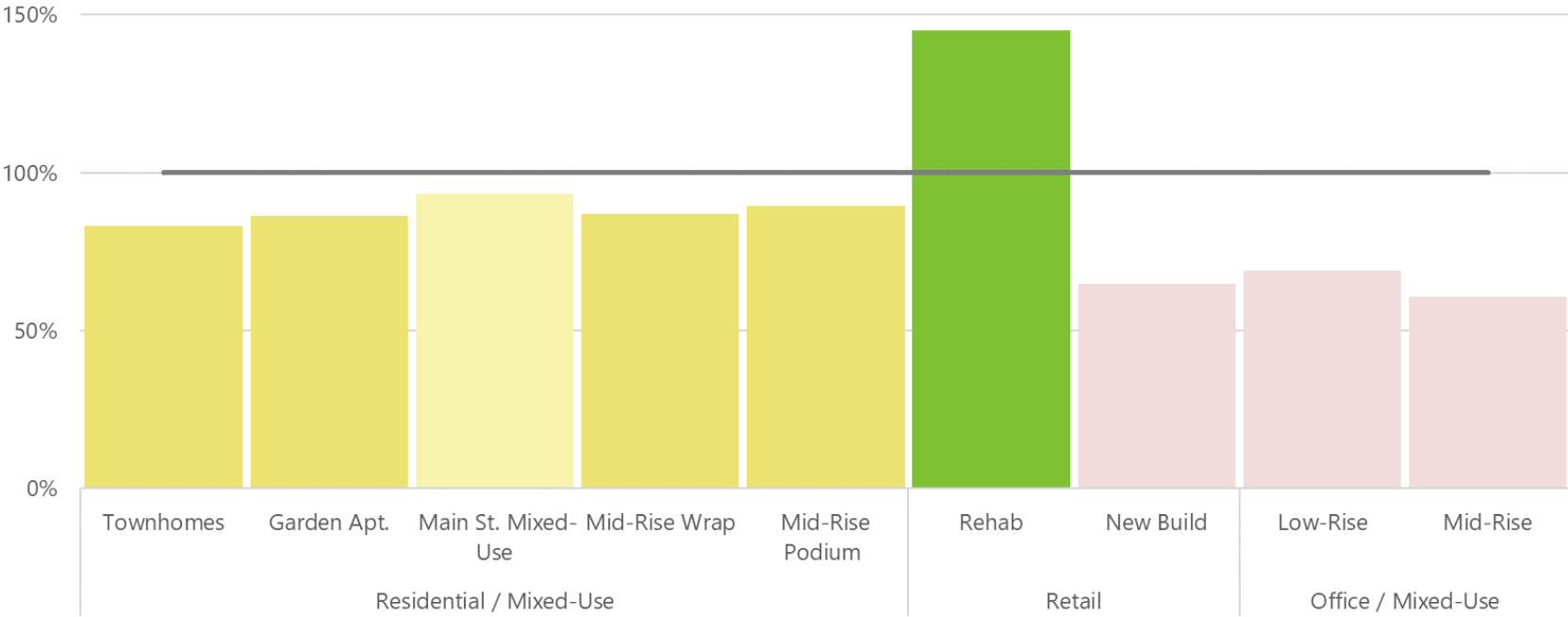
5: Baseline with Land/Building Acquisition

The ROI results for alternative 5 are shown below. The change made from alternative 1 is that the developer must acquire a one-story commercial building prior to development (at \$50 per square foot of land). The retail rehab project is

exempt from this assumption since a developer will *usually* own the building to be renovated. Therefore, retail rehab continues to be feasible. However, the other projects do not meet their return thresholds.

All housing projects are either challenged or marginal due to significant land costs, while new-construction retail and office projects are infeasible.

Land	Building
Parking Reduction	0%
Rent Premium	0%
Tax Exemption	No



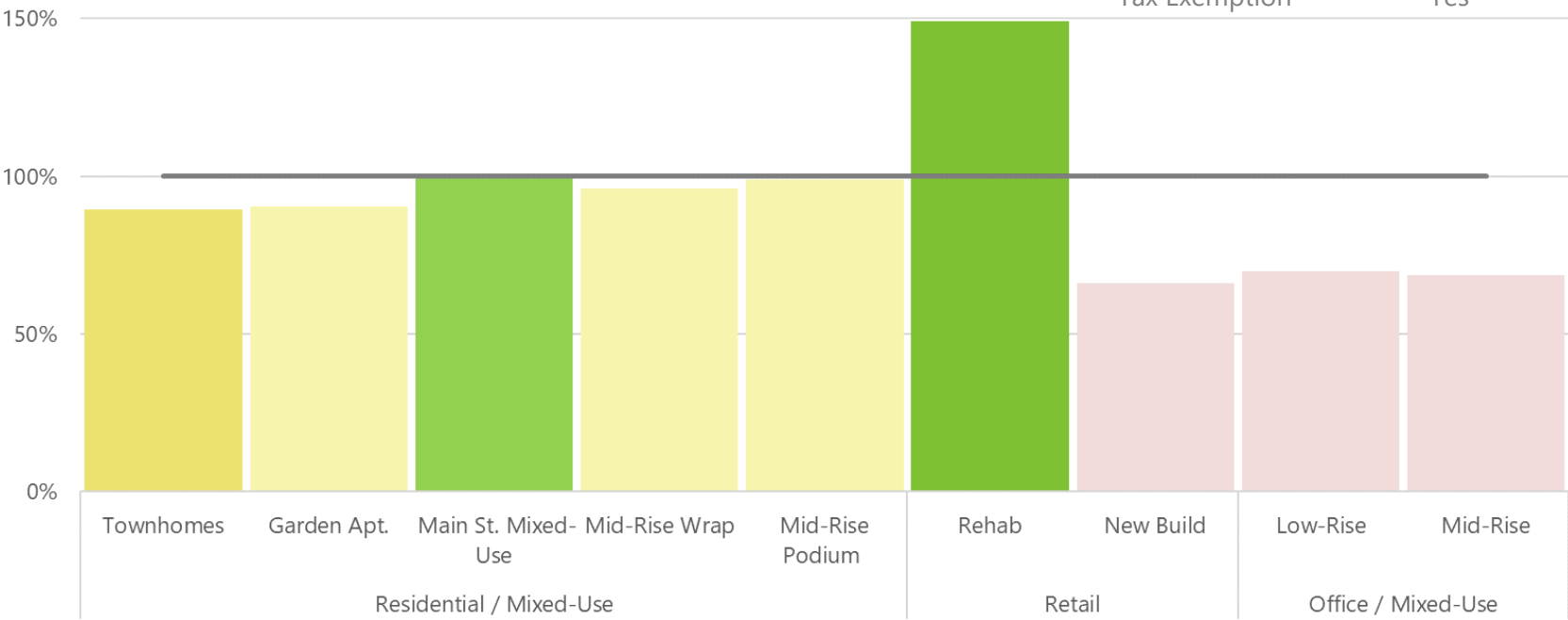
6: Parking Reduction & Tax Abatement

The ROI results for alternative 6 are shown below. The changes made from alternative 5 are to assume a 30 percent parking reduction and property tax abatement, similar to alternative 2. The tax abatement does not apply to retail and office projects.

Making these changes results in significant improvements to the feasibility of the residential development types. The most notable change is to the main street project, which becomes feasible.

The new-build retail and office projects continue to be infeasible, since the parking reduction does not lower costs enough to offset the higher land/building acquisition costs.

Land	Building
Parking Reduction	30%
Rent Premium	0%
Tax Exemption	Yes



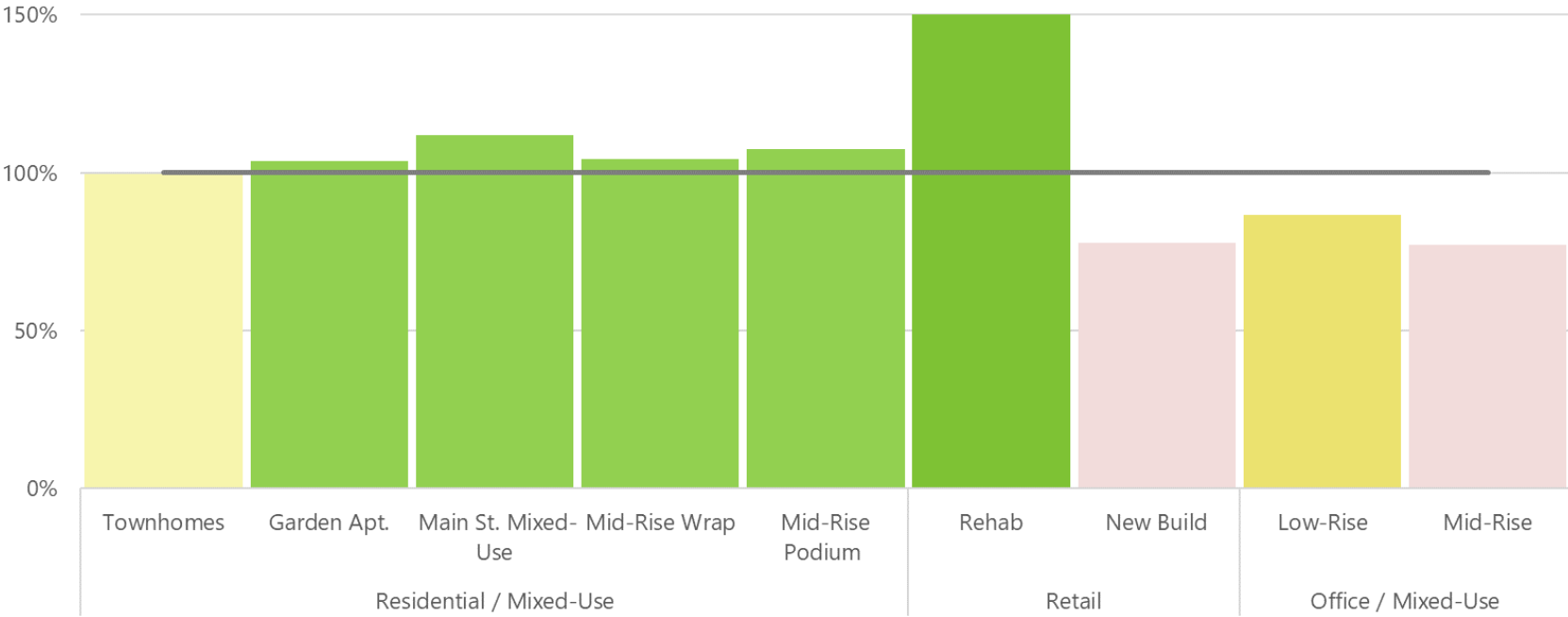
7: 20 Percent Rent Premium

The ROI results for alternative 7 are shown below. The change made from alternative 5 is to increase all rents by 20 percent, similar to alternative 2. This rent premium improves returns for all projects, particularly the housing/mixed use projects. The four denser housing types are now feasible.

Notably, office development remains infeasible, reflecting the fact that nearly all recent office development has taken place near Portland’s central city, where gross rents are around \$40 per square foot, significantly higher than the \$23 to \$28 range (current average and high) in the Wilsonville Town Center.

Likewise, new retail development cannot overcome the costs of building acquisition.

Land	Building
Parking Reduction	0%
Rent Premium	20%
Tax Exemption	No



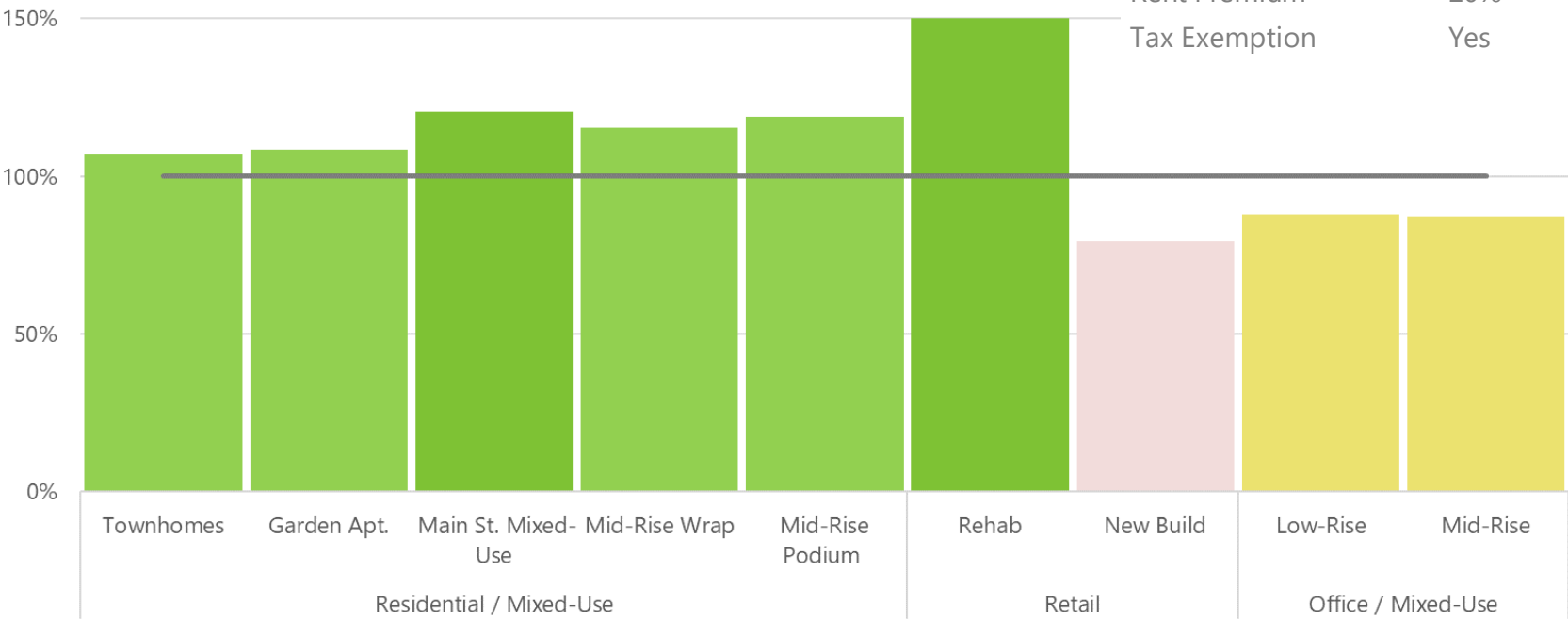
8: Favorable Development Conditions

The ROI results for alternative 8 are shown below. In this alternative, the 20% rent premium is paired with the parking reduction, property tax abatement, and acquisition of a one-story commercial building. Under these “optimal” economic conditions, the model indicates that developers

of mixed-use residential projects should be able to acquire and redevelop low to medium-value commercial buildings in the Wilsonville Town Center. This would require the project to achieve significantly higher rents.

Consistent with the findings for alternative 4, some higher-density housing projects will be able to pay more for land than retail projects, and thus “out compete” retail projects to acquire commercial sites in the area.

Land	Building
Parking Reduction	30%
Rent Premium	20%
Tax Exemption	Yes



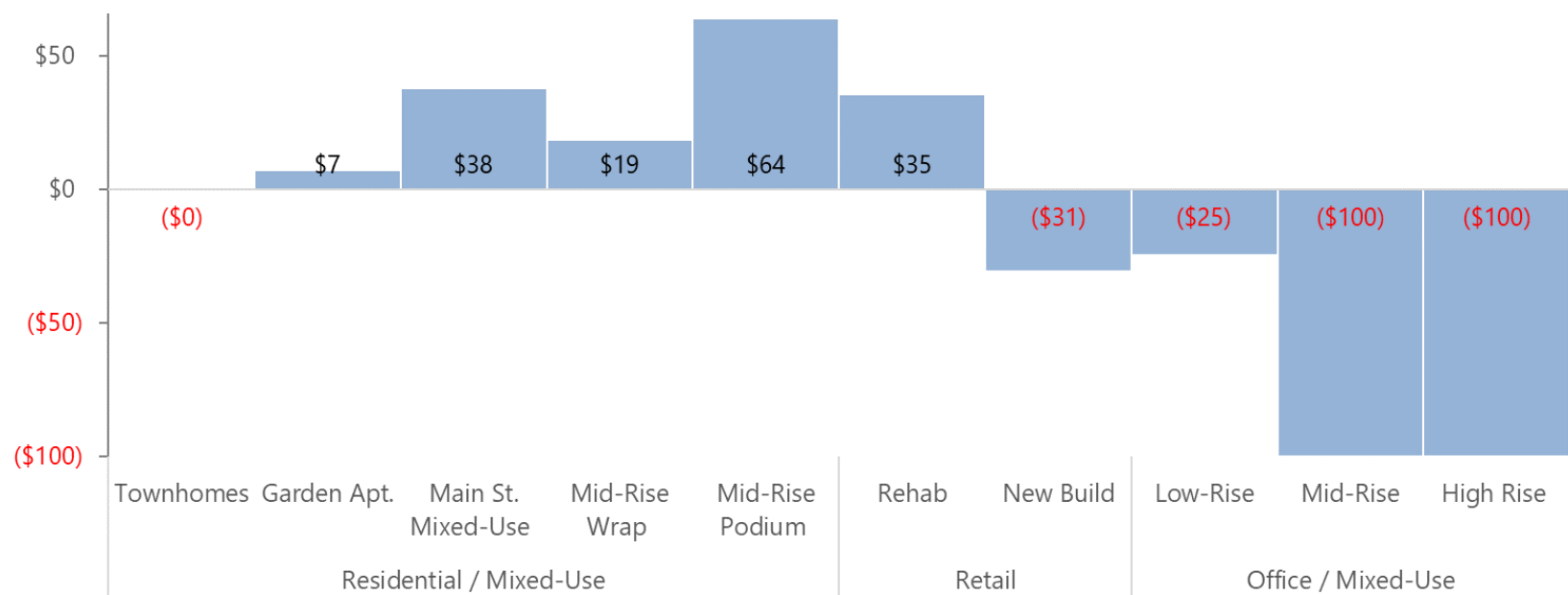
Residual Land Value

The chart below shows residual land value assuming a 20 percent rent premium. This is the maximum amount that developers would be willing to pay for the site in addition to the base land cost of \$50, while still meeting their return thresholds. This shows that higher-density housing projects begin to generate the capacity to pay significant amounts for land and

building acquisition, when higher rents may be achievable. This is due to the fact that they are taller and denser projects, with overall larger project budgets, compared to one-story retail projects, for example.

The podium project generates the highest values at \$64 per square foot (or \$114 including the base of \$50).

This analysis also shows that higher-density residential projects will tend to outbid lower-density projects for land, when rents increase. Infeasible office projects are unable to pay for land. These projects show a negative land value.



Limitations of this Analysis

This report uses established methods of real estate financial feasibility analysis, and is intended to reflect the thought process that many developers would go through if they were evaluating whether or not to build in the Wilsonville Town Center. However, no development feasibility analysis can be comprehensive, and some types of development may be more feasible than those shown here.

Every developer and property owner is unique and will bring their own thinking about what financial returns are adequate and what risks are acceptable. For example, some developers—often locals—are willing to accept lower returns, or wait longer until larger returns materialize (“patient capital”) because of a belief in the long-term prospects of the market. Developers’ costs may be lower if they are vertically integrated. Local developers may be less mobile—i.e., not looking to alternative developments in other metro-area cities, and may already own property.

This analysis is focused on “spec” or speculative development, in which developers build projects for unknown tenants, who will be recruited and signed during the leasing process. An alternative is “build to suit,” in which a corporation engages a developer to build a custom building specifically for them to occupy. This is a less risky form of development. If there are medium to large-scale businesses with very compelling non-financial reasons to locate in the Wilsonville Town Center, build to suits could overcome some of the economic challenges identified here.

Real estate development is inherently unpredictable. It is cyclical, and can be fickle. For example, the single family and condominium markets dried up abruptly after 2008, as did most office, retail, and hotel development. This was a trend that sometimes had more to do with national dynamics than local conditions.

The future of office and particularly retail development is likewise uncertain and may be affected by online shopping, automated vehicles, and other technological advances. Travel agents and video stores, once common in most retail centers, are nearly nonexistent today.

Lastly, this analysis only looks at certain common development categories. There are other development concepts and categories that may be more (or less) feasible. For example, while this analysis focuses on market-rate, rental multifamily projects, there are other types of urban housing, such as student and senior; affordable and mixed-income; and for sale condos (discussed above). Many other development types exist beyond those evaluated here and include hotel, healthcare/medical, educational, self storage, and public (e.g., library).

Conclusions: Context

- A significant share of all real estate development is built within a defined series of **prototypes** that are familiar to the development industry; 10 different prototypes have been modeled for this analysis.
- The key **inputs** to this development feasibility analysis are program, timing, development costs, operating revenue and expenses, and preferred rate of return on investment (this changes depending on land use).
- **Rents** are a critical driver of financial feasibility and are often one of the first figures developers want to know about a particular area. A rule of thumb in the industry is that for every \$1 of rent revenue, developers can spend \$10 on the project (this is a rough indicator and a more detailed analysis is included throughout the pages of this report).
- **Rents vary** in the Wilsonville Town Center and Market Area. LCG established an opening year “target” for new projects that would be built in the Wilsonville Town Center. That target is based on the top rents found within a half-mile of the Wilsonville Town Center, escalating the rents for two years, and adding a 10% premium. The premium is based on the assumption that new projects in the Town Center will be high quality, be differentiated from less distinctive projects elsewhere, and benefit from special amenities in the Town Center. No escalation was assumed for retail rents, since rents have been flat or declining.
- **Construction costs** have been escalating rapidly in the Portland region, and nationwide, over the past decade as the economy and construction have continued to boom. Housing is the primary development type whose rents have kept up with the increasing cost of construction. Office rents have been essentially flat over the past decade. Retail rents have declined, likely reflecting the ongoing challenges associated with the retail sector, particularly the impact of online retailing.
- High demand for housing and moderate demand for other uses has meant housing has been the primary land use built in Wilsonville and most other town centers.
- Denser development types that require more structured parking have higher construction costs per square foot and therefore require higher rents.
- **Land cost** is another important input to feasibility. Existing healthy commercial buildings in the Town Center will be expensive for developers to purchase and are likely to remain in place in the near term. In the near term, development is most likely to occur on property that is already owned by potential developers or has low rents and/or high vacancies and is therefore low-value.
- Commercial buildings cannot be high-density and have surface **parking**. High-density buildings require structured parking, or significantly lower parking ratios than are now seen in the Wilsonville Town Center.

Conclusions: Alternatives

- In the event that developers already own land in the Wilsonville Town Center and are open to development (Alternative 1), a number of development types should be feasible, including townhome, garden apartment, main street apartment, retail rehab, and new retail development.
- Reducing developers' parking requirements (either through changes to City regulations, improved alternative transportation modes, public parking garages, or other approaches) makes more development types feasible on developer-owned land (Alternative 2). The 10-year property tax abatement also improves feasibility for mixed-use housing projects (including the wrap and podium mid-rise projects and the Town Center apartments).
- As discussed above and shown in Alternative 3, 20% higher rents increase developers' returns and makes more projects feasible. Alternative 4 underscores these findings as most projects are feasible or almost feasible. Development feasibility is a function of revenue compared to cost. When revenue increases significantly and costs remain the same, feasibility increases and developers are more likely to build projects.
- Some higher-density housing projects will be able to move for land than retail projects, and thus "out compete" retail projects to acquire commercial sites in the area. Therefore, despite the greater level of feasibility shown for Town Center retail, higher-density residential projects are likely to be a more favorable building type for prospective developers.
- Parking reductions, tax abatement, and higher rents are once again shown to have a positive impact on feasibility Alternatives 5 through 8.
- Alternatives 5 through 8 show that Wilsonville Town Center development becomes significantly less feasible when developers must acquire an existing one-story commercial building prior to building. For example, where Alternative 1 indicates that garden apartments are feasible on "owned" land, they are "challenged" when developers must acquire a building first. This is a challenge that Wilsonville Town Center redevelopment will need to contend with, since much of the Wilsonville Town Center is currently developed as one-story commercial buildings and rehab of these buildings was deemed to be feasible throughout all the alternatives.
- When rents increase by 20% or more, the economics of higher-density mixed-use housing projects (main street apartment, wrap and podium) become stronger and they generate significant residual land values (the maximum amount that developers can pay for land). However, even with a rent increase, new-build retail and office projects do not have the economics to merit the acquisition and redevelopment of commercial buildings.
- Higher rents (of 20% or more) should make more types of development feasible in the Wilsonville Town Center and should enable developers to purchase and redevelop some average- to lower-value commercial land. However, this theoretical 20% increase may take several years.

Conclusions: Preliminary Actions

There are a number of potential actions that the City can take in order to increase development feasibility. Some actions are listed below, and more may emerge from the Town Center plan going forward:

- **Build Amenities, complete the Town Center Plan.** A high-quality environment, with parks, pedestrian and bicycle infrastructure, and a mix of easily accessible goods and services, should increase demand and rents.
- **Consider reducing parking requirements.** Town Center residents typically own fewer cars, and transportation technology is expected to reduce on-site parking demand¹, even in the suburbs. Structured and tuck under parking is expensive and less parking reduces developers' costs. Encouraging additional shared parking in the Town Center, and/or a shared parking structure, may also help.
- **Consider adopting the Vertical Housing Program developed by the State of Oregon.** This is a partial tax abatement (20 to 80 percent) for a 10-year period, intended to encourage mixed-use development (residential with ground floor retail/commercial) in designated zones.
- **Consider taking other actions** such as implementing reduced SDCs within the Town Center for desired development types or certain project components (e.g. affordable units); setting up a local improvement district to finance shared capital infrastructure projects such as utilities or streetscapes; or utilizing Urban Renewal to make improvements; and/or selling publicly-owned land to developers willing to build the desired development types (which may involve entering into a public-private partnership).

¹ Walker Consultants, 2018, *Parking in the Age of Uber and AVs*; Metropolitan Transportation Commission, 2007, *Reforming Parking Policies to Support Smart Growth*; Andy Cohen, 2018, Gensler, *The Game Changer for Cities and Driverless Cars*; Patrick Sisson, 2016, Curbed, *How Driverless Cars can Reshape our Cities*



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Wilsonville Town Center
Key Development Feasibility Inputs

Site and Building Attributes

Location (State)	Washington		
Site			
Gross Site Size (acres)	1.5		
Residential			
Avg unit size (sf)	850		
Efficiency (%)	85%		
Parking			
Residential	1.0 /unit		
Retail	4.1 /1,000 SF		
Office	2.7 /1,000 SF		
Parking Area	350 SF per space		

Timing

Construction Start	6/1/2018
Construction Duration	18 months
Opening Day	11/30/2019
Lease Up	12 months
Average Leasing Date	5/31/2020

Cost

Land Cost			
PSF by Type			
Developer-owned	Owned	\$0	
Vacant	Vacant	\$20	
Commercial Building	Building	\$50	
Site Prep			
Site Prep PSF	\$3 /PSF		

Cost, continued

Hard Cost

Source: RS Means Construction Cost Estimating Data.

Residential Component

Townhomes	\$167 /PSF
Garden Apt	\$159 /PSF
Wrap Apt	\$165 /PSF
Podium Apt	\$160 /PSF

Retail Component

Rehab discount	
Core and Shell	\$131 /PSF
Tenant Improvement Allowance (LL)	\$60 /PSF
Subtotal	

Office Component

Core and Shell	\$162 /PSF
Tenant Improvement Allowance (LL)	\$45 /PSF
Subtotal	

Parking Component	/PSF	/Space
Rehab discount		
Surface	\$8	\$2,800
Tuck under	\$43	\$15,182
Structured	\$87	\$30,363
Underground	\$119	\$41,550
Post Tensioned Slab	\$47	\$16,291

Soft Costs and Contingency

	% of HC
Architectural & Engineering	6.0%
Development Admin	3.5%
Permits, Fees, & Entitlement	below
Insurance	1.0%
Legal	1.0%
Construction Loan Interest	5.0%
Marketing	0.0%
%	3.0%
Contingency	0.0%
Professional Fees and Contingency %	19.5%

SDCs and development fees

Multifamily	\$15,250 /DU
Retail New	\$47 PSF
Retail Rehab	\$12 PSF
Office	\$12 PSF

Revenue and Expenses

Revenue Source: CoStar.

Residential

Target Rent PSF per Month, Opening Year (2020)	\$2.03 /PSF/month
Potential Gross Income	
Asking Rent, per unit / month	\$1,727
Vacancy	5.0%
Operating Expenses as % of PGI	26.1%

Office

Lease Rate per year (Full Service) PSF	\$31.70 /PSF/year
Vacancy	9.0%
Operating Expenses	\$8.50 /PSF/year

Retail

Lease Rate per year (NNN) PSF	\$25.85 /PSF/year
Vacancy	9.0%
Operating Expenses	\$0.00 /PSF/year

Parking (multifamily only)

Gross revenue per month	\$40.00
Vacancy	10%
Operating Expenses	30%

Return on Investment

Cap Rates

(Net operating income / Current value)

Source: Integra Realty Resources.

Multifamily	4.71%
Retail	6.23%
Office	6.31%

Target Yields

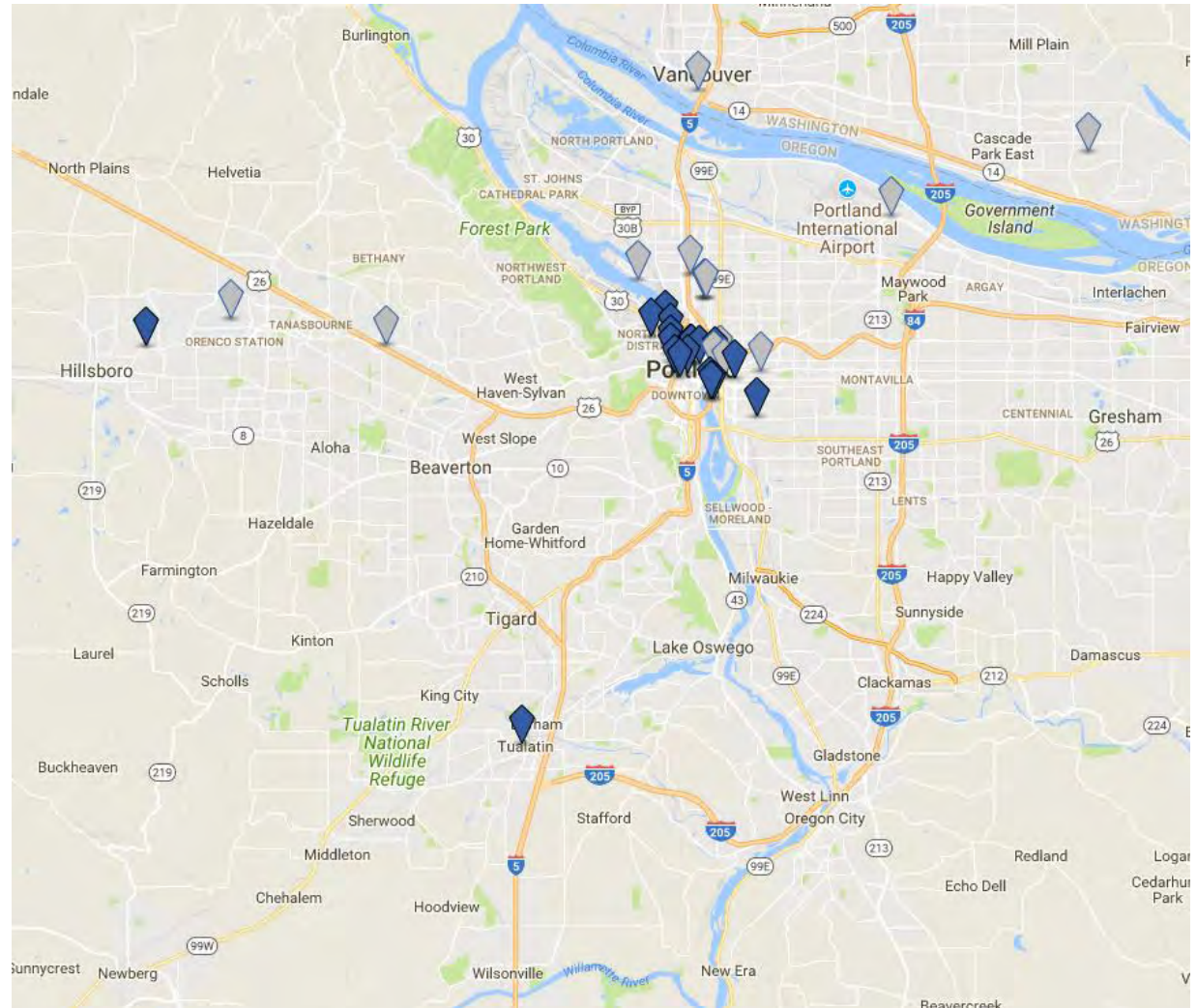
vs. Cap Rates	125%
Apartments	5.9%
Office	7.8%
Retail	7.9%

10/11/2018

Mid Rise Office Development

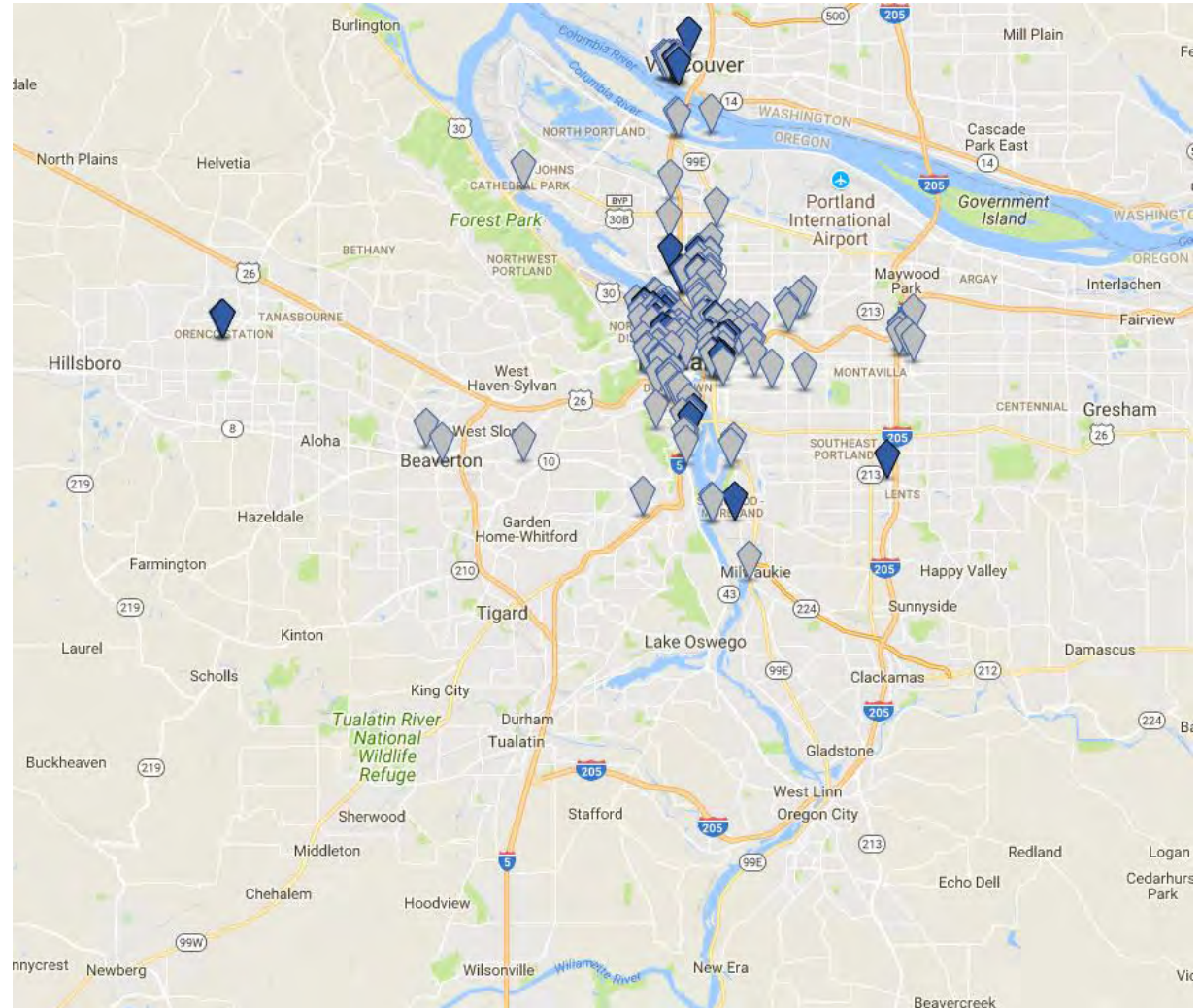
The figure at right shows all 3+ story office buildings that have been completed in the Portland region since 2011.

Many buildings above three stories will require some structured parking. The construction of mid-rise/structured-parking office buildings takes place in a limited set of areas.



Mid Rise Apartment Development

The figure at right shows all 5+ story apartment/mixed use buildings that have been completed in the Portland region since 2010. The construction of mid-rise/structured-parking apartment buildings takes place in a limited set of areas due to demand (rent) and cost factors.



10-Mile Radius Market Area

