

MEMORANDUM

TO: Craig Lewis, Stantec
FROM: Sarah Woodworth, W-ZHA
RE: Development Economics – Birmingham City Center
DATE: September 17, 2019

INTRODUCTION

W-ZHA analyzed the financial feasibility of four prototype projects in Birmingham's City Center. If a project's operating income was sufficient to cover the project's debt service and an acceptable return-on-investment it was considered financially feasible. If not financially feasible, incentives like the provision of public parking and/or infrastructure, land write-downs, and/or tax abatement are necessary.

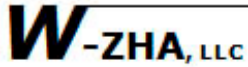
The four prototype projects analyzed are as follows:

1. A new, 4-story multi-family residential with limited ground floor retail;
2. A new, 68,000 square foot office building with an anchor tenant and rent at \$35 per square foot;
3. A 36-unit for-sale townhouse project; and,
4. An adaptive reuse to office historic tax credit project

Development feasibility is sensitive to property acquisition costs and rent/sales price. Land prices and rents vary by location in City Center Birmingham. For this reason, feasibility findings are presented on a grid with variable rents/prices and land acquisition costs.

Supportable rents and sales prices are from the market analyses conducted as part of the Birmingham City Center planning process. Development costs and investment return assumptions were vetted by Birmingham developers.

Birmingham's City Center is within an Opportunity Zone and an Opportunity Zone scenario has been included for each project-type, as appropriate. Opportunity Zones are an attractive investment opportunity for investors with capital gains tax exposure. In an Opportunity Zone capital gains may be invested with the capital gains tax deferred and, potentially, reduced. If the investor keeps their investment in the project for 10 years, the capital gains generated by the project investment is not subject to tax. For purposes of this analysis, the Opportunity Zone scenario assumes that the equity investor is an Opportunity Zone Fund that stays invested for the 10 year term.



4-STORY MULTI-FAMILY RESIDENTIAL WITH LIMITED GROUND FLOOR RETAIL

Zimmerman/Volk Associates conducted an analysis of residential market potential for the City Center Study Area. According to this analysis, there is market for rental apartments ranging in size from 450 square feet to 1,350 square feet. The market analysis concluded that the average size of a market rate unit was 698 square feet. Financial feasibility was analyzed using this average unit size.

Development Program 4-Story Residential Mixed-Use			
	GSF	Units	Avg Unit Size
Residential	78,028	92	698
Retail	4,000		
Total	82,028	92	
	Spaces	/Unit	Type
Parking	110	1.20	Surface

Source: Zimmerman/Volk Associates, "Residential Market Analysis"; W-ZHA
 F:\8000s, misc\82374 Birmingham CC\[Resi Prototypes.xlsx]Development Program

A parking ratio of 1.2 spaces per unit was assumed in the analysis. Surface parking was assumed.

Development Program and Cost 4-Story Residential Mixed-Use			
Building	82,028		
Residential	78,028 GSF	92	Units
Retail/Restaurant	4,000 RSF	4,000	RSF
On-Site Parking	1.2 /Unit Retail -->	0.000	110 Spaces
Avg Unit Size	698 Sq Ft	Resi RSF	63,983
Gross Sq Ft	82% Bldg Efficiency	GSF	78,028
Land Value	76,000 Land Sq Ft	\$0.00 /Land Ft	\$0
Hard Cost	\$142 /GSF	82,028 GSF	\$11,648,041
Soft Cost	22% of HC		\$2,562,569
Total Bldg Construction		\$173.24 /GSF	\$14,210,610
Retail/Restaurant TI	\$100.00 /RSF		\$400,000
Parking	Surface	\$2,500 /Space	\$275,000
Development Cost + Land			\$14,885,610
Financing Cost			\$362,140
Total Development Cost		\$185.88 /GSF	\$15,247,750

Source: Zimmerman/Volk Associates, "Residential Market Analysis: Birmingham City Center"; W-ZHA
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Exclusive of land cost, the cost to develop the 4-story, residential mixed-use building was estimated to average approximately \$186 per square foot. This includes a tenant improvement allowance for the retail space which is assumed to be restaurant space.

Stabilized Year of Operation 4-Story Residential Mixed-Use					
Building	82,028				
Residential	78,028 GSF		92	Units	
Retail/Restaurant	4,000 RSF		4,000	RSF	
Parking	1.2 /Unit Retail -->		0.000	110	Spaces
Gross Potential Rent	\$2.11 '/RSF		\$1,473 /Month		\$1,625,949
Less: Vacancy	5% of GPR				(\$81,297)
Rent					\$1,544,652
Other Income @	2.5%				\$38,616
Operating Expenses	\$5,750 /Unit				(\$529,000)
Property Taxes	\$2,000 /Unit				(\$184,000)
Residential NOI					\$870,268
Retail/Restaurant	\$24.00 NNN				\$96,000
Less: Vacancy	10% of GPR				(\$9,600)
Retail NOI					\$86,400
Net Operating Income					\$956,668

Source: Zimmerman/Volk Associates, "Residential Market Analysis: Birmingham City Center"; W-ZHA

The operating assumptions are summarized in the table above. According to the Zimmerman/Volk Market Analysis, supportable apartment rents range from \$1.96 per square foot per month to \$2.22 per square foot per month or between \$1,000 per month to \$2,650 per month. The weighted average rent is \$2.11 per square foot per month or \$1,473 per month.

Retail rent will vary depending upon where the project is in the City Center. A \$24 per square foot rent (triple-net) was assumed for the retail space.

The following matrix illustrates feasibility at different rental rates and land acquisition costs. The column outlined in red represents market rent. The green boxes indicate that the combination of rent and property acquisition cost create a feasible project. White boxes indicate that the project is not feasible for the rent and acquisition cost assumed.



**Land Cost and Rent Sensitivity
4-Story Residential Mixed-Use**

		Rent (Per Sq Ft and Monthly)															
		\$1,256	\$1,326	\$1,396	\$1,431	\$1,473	\$1,501	\$1,536	\$1,571	\$1,605	\$1,640	\$1,675	\$1,710	\$1,745	\$1,780	\$1,815	\$1,850
/Mo ---->		\$1.80	\$1.90	\$2.00	\$2.05	\$2.11	\$2.15	\$2.20	\$2.25	\$2.30	\$2.35	\$2.40	\$2.45	\$2.50	\$2.55	\$2.60	\$2.65
Acquisition Cost / Land Ft	\$0																
	\$10																
	\$20																
	\$30																
	\$35																
	\$40																
	\$45																
	\$50																
	\$55																
	\$60																
	\$65																
	\$70																

As is illustrated above, the project is not financially feasible at a rent of \$1,473 per month or \$2.11 per square foot per month even with no land cost.

The following matrix indicates feasibility with Opportunity Zone benefits to the investor. The project's feasibility is enhanced with these benefits.

**Land Cost and Rent Sensitivity with Opportunity Zone Funding
4-Story Residential Mixed-Use**

		Rent (Per Sq Ft and Monthly)															
		\$1,256	\$1,326	\$1,396	\$1,431	\$1,473	\$1,501	\$1,536	\$1,571	\$1,605	\$1,640	\$1,675	\$1,710	\$1,745	\$1,780	\$1,815	\$1,850
/Mo ---->		\$1.80	\$1.90	\$2.00	\$2.05	\$2.11	\$2.15	\$2.20	\$2.25	\$2.30	\$2.35	\$2.40	\$2.45	\$2.50	\$2.55	\$2.60	\$2.65
Acquisition Cost / Land Ft	\$0																
	\$10																
	\$20																
	\$30																
	\$35																
	\$40																
	\$45																
	\$50																
	\$55																
	\$60																
	\$65																
	\$70																

At a monthly rent of \$1,473 and Opportunity Zone funding the project is only feasible if land can be acquired for \$10 or less.

This analysis suggests that incentives will likely be necessary to realize rental residential development in Birmingham's City Center.



NEW OFFICE BUILDING

The office market is not strong in Birmingham. There is a considerable amount of for-lease office space available in Birmingham's City Center. Much of this space is available for rent in the low- to mid-\$20's. The prototype office building assumes that a large tenant commits to anchoring a new Downtown office building at a rent of \$35 per square foot, full-service. This is the rent many developers and brokers quote as necessary to support new construction.

Development Cost with Structured Parking			
Office Prototype			
Building	68,000 GSF		
Office Sq Ft	64,000 GSF		
Retail/Restaurant	4,000 RSF		
Parking	0.0047 /USF Retail -->	0.000	256 Spaces
Parking Solution	Structure Pkg Fee /Sp/Mo	\$100	
Structure	256 @	\$25,000	
Land Value	\$0.00 /FAR Foot	38,000 Land SF	\$0
Hard Cost	\$150 /GSF	68,000 GSF	\$10,200,000
Soft Cost	22% of HC		\$2,244,000
Total Bldg Construction		\$183.00 /GSF	\$12,444,000
Office TI	\$40.00 /RSF		\$2,560,000
Retail/Restaurant TI	\$100.00 /RSF		\$400,000
Parking		\$25,000 /Space	\$6,400,000
Development Cost + Land +Parking			\$21,804,000
Financing Cost			\$942,200
Total Development Cost		\$334.50 /GSF	\$22,746,200

Source: W-ZHA

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In the Birmingham market, office requires 4 parking spaces per 1,000 square feet of space. The office prototype assumes that the parking is structure-parked and that the cost of the parking is borne by the private developer. As a result, the cost to develop office space is considerable higher than the cost to develop residential space.



**Stabilized Year of Operation
Office Prototype**

Office		
Gross Potential Rent	\$35.00 '/RSF	\$2,083,200
Less: Vacancy	10% of GPR	(\$208,320)
Rent		\$1,874,880
Parking Income	\$100 /Space/Month	\$307,200
Less: Op Ex	\$9.25 /RSF	(\$550,560)
Residential NOI		\$1,631,520
Retail /Restaurant		
Retail/Restaurant	\$24.00 NNN	\$96,000
Less: Vacancy	10% of GPR	(\$9,600)
Retail NOI		\$86,400
Net Operating Income		\$1,717,920

Source: W-ZHA

For new construction, the full-service rent is assumed to be \$35 per rentable square foot.

The following matrix illustrates feasibility at different rental rates and land acquisition costs. The column outlined in red represents market rent.

Land Cost and Rent Sensitivity Office Prototype														
		Rent (Per Sq Ft)												
		\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	\$36.00	\$37.00
Property Acquisition /Land Ft	\$0													
	\$10													
	\$20													
	\$30													
	\$35													
	\$40													
	\$45													
	\$50													
	\$55													
	\$60													
	\$65													
	\$70													

With the project bearing the cost of structured parking, it is only feasible with higher rent and low property acquisition costs.



**Land Cost and Rent Sensitivity with Opportunity Zone Funding
Office Prototype**

		Rent (Per Sq Ft)												
		\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	\$36.00	\$37.00
Property Acquisition / Land Ft	\$0													
	\$10													
	\$20													
	\$30													
	\$35													
	\$40													
	\$45													
	\$50													
	\$55													
	\$60													
	\$65													
	\$70													

Opportunity Zone funding improves office project economics.

**Land Cost and Rent Sensitivity - 75% of Req Parking Public Parked
Office Prototype**

		Rent (Per Sq Ft)												
		\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	\$36.00	\$37.00
Property Acquisition / Land Ft	\$0													
	\$10													
	\$20													
	\$30													
	\$35													
	\$40													
	\$45													
	\$50													
	\$55													
	\$60													
	\$65													
	\$70													

If public parking is available to accommodate 75% of the office building's parking needs, project economics improve considerably even without Opportunity Zone funding.



FOR-SALE TOWNHOMES

According to the Residential Market Analysis, there is market for for-sale townhomes in Birmingham’s City Center. According to the analysis, the market is seeking townhomes from 1,200 square feet to 2,000 square feet with an average size of 1,498 square feet. Financial feasibility was analyzed using the average unit size.

**Development Program
Townhouses**

	GSF	Units
Residential	54,000	36
Retail	0	
Total	54,000	36

Source: W-ZHA

F:\8000s, misc\82374 Birmingham CC\[Twn.xlsx]Development Program

The analysis assumes a density of 24 townhomes per acre. With a 1.5 acre block, 36 townhomes may be developed. The analysis assumes that all townhomes are developed by a single developer.

**Development Program and Cost
Townhouses**

Building	54,000		
Residential	54,000 GSF	36	Units
Avg Unit Size	1,500 Sq Ft	Resi RSF	54,000
Gross Sq Ft	100% Bldg Efficiency	GSF	54,000
Land Value	76,000 Land Sq Ft	\$0.00 /Land Ft	\$0
Hard Cost	\$138 /GSF	54,000 GSF	\$7,452,000
Soft Cost	22% of HC		\$1,639,440
Total Bldg Construction		\$168.36 /GSF	\$9,091,440
Retail/Restaurant TI	\$40.00 /RSF		\$0
Parking	Surface	\$0 /Space	\$0
Development Cost + Land			\$9,091,440
Financing Cost			\$227,286
Total Development Cost		\$172.57 /GSF	\$9,318,726

Source: W-ZHA

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Parking is within the townhouse structure. The average cost to develop a townhome was estimated to be approximately \$173 per square foot.



**Economics
Townhouses**

Building 54,000
Residential 54,000 GSF 36 Units

Gross Sales

Sales Price \$258.68 '/RSF \$388,017 /Unit \$13,968,625

Source: Zimmerman/Volk Associates, "Residential Market Analysis: Birmingham City Center"; W-ZHA

The analysis assumes a sales price per unit commensurate with the Zimmerman/Volk Market Analysis conclusions. The average townhouse sale price is approximately \$388,000.

**Land Cost and Price Sensitivity
Townhouses**

Sale Price -->		Sale Price/SF											
		\$375,000	\$378,000	\$381,000	\$384,000	\$388,020	\$390,000	\$393,000	\$396,000	\$399,000	\$402,000	\$405,000	\$408,000
		\$250.00	\$252.00	\$254.00	\$256.00	\$258.68	\$260.00	\$262.00	\$264.00	\$266.00	\$268.00	\$270.00	\$272.00
Property Acquisition /Land Ft	\$0												
	\$10												
	\$20												
	\$30												
	\$35												
	\$40												
	\$45												
	\$50												
	\$55												
	\$60												
	\$65												
	\$70												

Source: W-ZHA

Because townhomes are a lower density product, they are highly sensitive to land cost. Townhomes are only feasible in those parts of City Center where land costs are relatively low (\$20 or less per land foot).

Because townhomes are a for-sale product Opportunity Zone funding is not likely.



ADAPTIVE RE-USE TO OFFICE – HISTORIC TAX CREDIT

In this case, the prototype is the adaptive re-use of an old warehouse building to office space. The analysis assumes that the project is eligible for (and receives) historic tax credits from the State of Alabama and the Federal government. The Federal historic tax credit totals 20% of eligible rehabilitation costs. The State of Alabama’s tax credit totals 25% of eligible costs.

Development Program Adaptive Reuse - Historic Building	
Building Height in Stories	2
Office Sq Ft	42,500
Retail Sq Ft	0
Total Sq Ft	42,500
 Parking Spaces On-Site Surface	 153

Source: W-ZHA

F:\8000s, misc\82374 Birmingham CC\Office Prototype.xlsx]Sheet1

The analysis assumes that the building is surface-parked at 4 spaces per 1,000 square feet of office.



**Development Cost
Adaptive Reuse - Historic Building**

Building	42,500 GSF			
Office Sq Ft	42,500 GSF			
Retail/Restaurant	0 RSF			
Parking	0.0040 /RSF Retail -->	0.000	153	Spaces
Land Value	\$0.00 /FAR Foot		77,350 Land SF	\$0
Hard Cost	\$146 /GSF		42,500 GSF	\$6,222,000
Soft Cost	25% of HC			\$1,555,500
Total Bldg Construction			\$183.00 /GSF	\$7,777,500
Office TI	\$40.00 /RSF			\$1,700,000
Retail/Restaurant TI	\$100.00 /RSF			\$0
Parking			\$2,500 /Space	\$382,500
Development Cost + Land +Parking				\$9,860,000
Financing Cost				\$408,000
Total Development Cost			\$241.60 /GSF	\$10,268,000

Source: W-ZHA

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The same building construction cost is assumed as a new office building (\$183 per gross square foot) except with adaptive reuse hard costs are lower and soft costs are higher.



**Stabilized Year of Operation
Adaptive Reuse - Historic Building**

Office		
Gross Potential Rent	\$26.00 '/RSF	\$1,027,650
Less: Vacancy	10% of GPR	(\$102,765)
Rent		\$924,885
Parking Income	\$50 /Space/Month	\$91,800
Less: Op Ex	\$9.25 /RSF	(\$365,606)
Office NOI		\$651,079
Retail /Restaurant		
Retail/Restaurant	\$24.00 NNN	\$0
Less: Vacancy	10% of GPR	\$0
Retail NOI		\$0
Net Operating Income		\$651,079

Source: W-ZHA

A full service rent of \$26 per square foot was assumed. This rent is \$9 less than the rent assumed for newly constructed office.

**Land Cost and Rent Sensitivity
Adaptive Reuse - Historic Building**

		Rent (Per Sq Ft)												
		\$22.00	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00
Property Acquisition /Land Ft	\$0													
	\$10													
	\$20													
	\$30													
	\$35													
	\$40													
	\$45													
	\$50													
	\$55													
	\$60													
	\$65													
	\$70													

With the State and Federal Historic Tax Credit, the adaptive reuse to office is a financially feasible project if the property can be acquired for \$10 per land foot or less.



**Land Cost and Rent Sensitivity with Opportunity Zone Funding
Adaptive Reuse - Historic Building**

		Rent (Per Sq Ft)											
		\$22.00	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00
Property Acquisition / Land Ft	\$0	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$10	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$20	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$30	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$35	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$40	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$45	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$50	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$55	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$60	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$65	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$70	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

With the State and Federal Historic Tax Credit and Opportunity Zone funding, the adaptive reuse to office is a financially feasible at \$26 in rent if the property can be acquired for \$20 or less per land foot.

**Land Cost and Rent Sensitivity - 75% Required Parking Publicly Parked
Adaptive Reuse - Historic Building**

		Rent (Per Sq Ft)											
		\$22.00	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00
Property Acquisition / Land Ft	\$0	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$10	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$20	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$30	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$35	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$40	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$45	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$50	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$55	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$60	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$65	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	\$70	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

Convenient and nearby public parking enhances feasibility. The exhibit above illustrates feasibility when 75% of the parking requirement is served by public parking. Public parking reduces the amount of land required to support the building and reduces capital costs.



**Land Cost and Rent Sensitivity with Opportunity Zone Funding - 75% Required Parking Publicly Parked
Adaptive Reuse - Historic Building**

		Rent (Per Sq Ft)											
		\$22.00	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00
Property Acquisition /Land Ft	\$0												
	\$10												
	\$20												
	\$30												
	\$35												
	\$40												
	\$45												
	\$50												
	\$55												
	\$60												
	\$65												
	\$70												

With off-site public parking available and tax credits, Opportunity Zone funding supports higher land acquisition costs at the market rental rate.