

Development Feasibility Analysis

Simple Calculations

- Development Cost Summary

Muk Office Plaza	
Land	\$30 per gross foot
Hard Costs	\$90 per gross foot
Soft Costs	\$30 per gross foot
Total Cost Gross	\$150 per gross foot
Rent	\$30 per leaseable foot
Operating Cost	\$10 per gross foot
Occupancy	95% of leaseable footage
Loss Factor	30% of gross footage

- Build to Calculation

Build to Calculation
$\text{Build to } 10 = \text{Expected Stabilize NOI} / \text{Expected Total Costs} = \$15 / \$150$

Simple Calculations (cont'd)

- Rent Per Leaseable Foot Calculation

Rent on Occupied Space

Rent per Leaseable Foot = Expected Market Rent * %Occupancy + Rent Received on Vacant Space * % Vacant Space

Rent on occupied leaseable space = $30 * 0.95 + 0 * 0.05 = \$28.50$ per occupied foot

- Converting Leaseable Rent to Gross Rent

Converting Rent Per Leaseable Foot to Rent Per Gross Foot

Rent Per Gross Foot = Rent on Leaseable Space * (1-Loss Factor)

Rent Per Gross Foot = $\$28.5 * 0.7 = \19.95

Simple Calculations (cont'd)

- Stabilized NOI (Per Gross Foot)

Stabilized NOI Calculation (Per Gross Foot)

Stabilized NOI = Rental Revenues – Operating Costs

Stabilized NOI = \$19.95-\$10 = \$9.95

- Return on Total Development Cost

Expected Return on Total Development Cost

Expected Stabilized NOI / Expected Total Costs = \$9.95 / \$150 = 6.63% < 10%

Solve Backwards for Replacement Rent

Build to Calculation

Replacement Rent per Gross Foot = (Build To Return * Expected Total Cost) + Expected Operating Costs

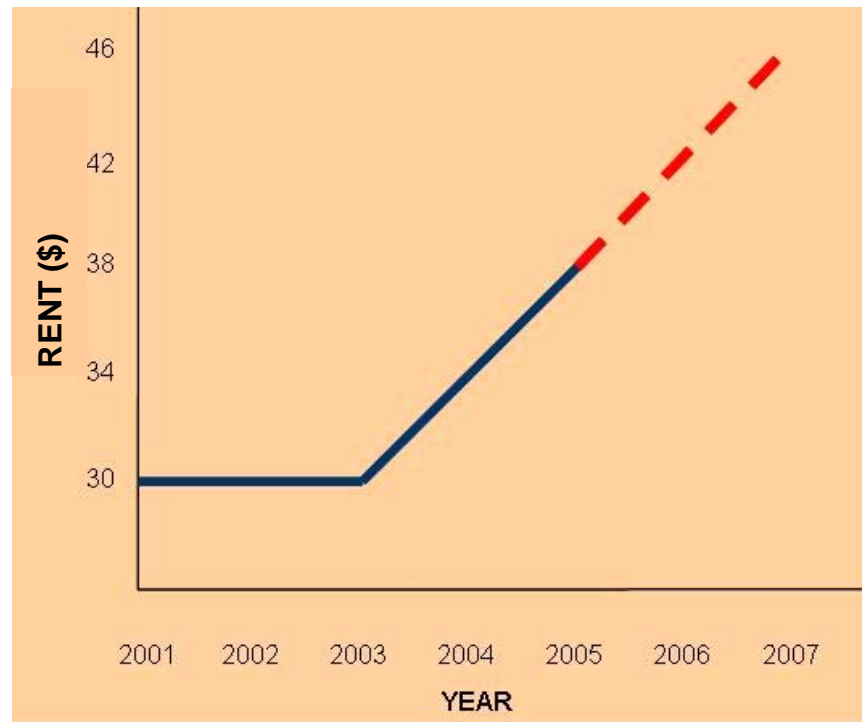
Replacement Rent per Gross Foot = (10%)*(\$150) + \$10 = \$15 + \$10 = \$25

Replacement Rent per Leaseable Foot

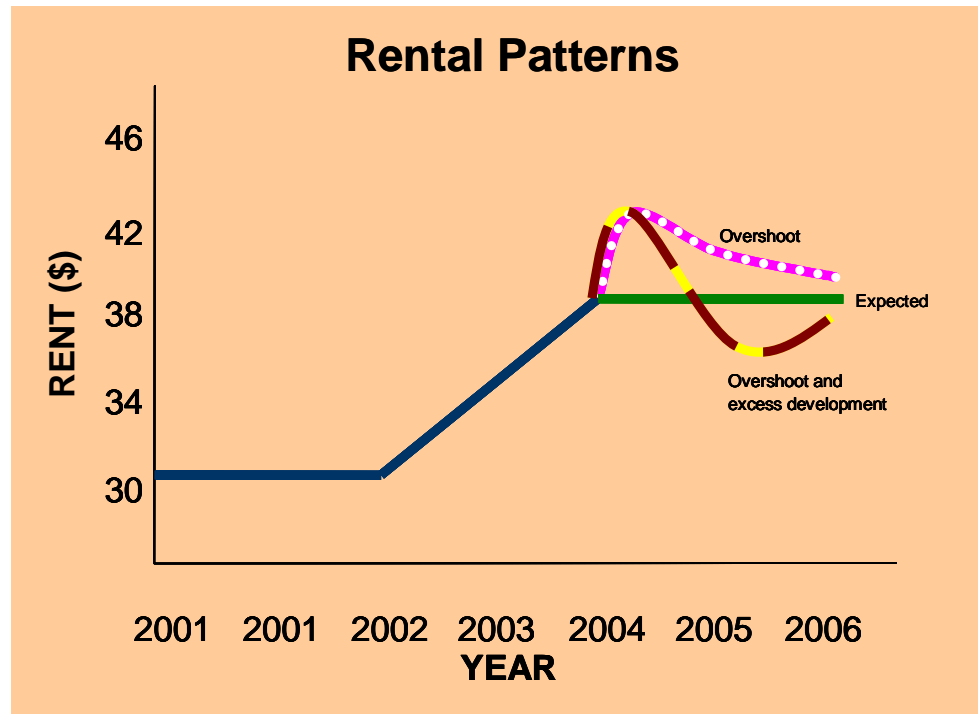
Rent per Leaseable Foot = Replacement Rent per Gross * (1/(1-Loss Factor))*(1/(1-Vacancy))

Rent per Leaseable Foot = \$25 * (1/0.7) * (1/0.95) = \$37.59

Incorrect Rental Projections



Observed Rental Patterns



Land Cost

Solving for Maximum Land Price

Given

Required Return: 10%

Leaseable space: 70%

Vacancy: 5%

NOI Calculation

Rent per gross foot: $(\$38 \times 0.7) \times (1 - 0.05) = \25.27

Operating costs per gross foot = \$10

NOI = $\$25.27 - \$10 = \$15.27$

Costs

Soft costs per gross foot = \$30

Hard costs per gross foot = \$90

Land costs = X

$10\% = \$15.27 / (\$30 + \$90 + \$X)$

$(10\%)(\$120 + \$X) = \$15.27$

$\$12 + (\$X/10) = \$15.27$

$(\$X/10) = \3.27

Land Cost = $\$X = \32.70

FAR and Land Costs

Land Cost Per Gross Foot of Building	\$32.70	\$32.70	\$32.70
FAR	1	0.5	2
Gross Square Footage	43,560	21,780	87,120
Price Able to Pay (Land Cost * FAR * SF)	\$1,424,412	\$712,206	\$2,848,824

An Example: Anoop Court

Anoop Court		
	<u>Total</u>	<u>Per Unit</u>
Total Costs	\$30,000,000	\$116,279

Anoop Court			
<u>Sources</u>			
		<u>Total</u>	<u>Per Unit</u>
Total Costs	\$	30,000,000	\$ 116,279
Construction Mortgage	\$	23,513,000	\$ 91,136
Interim Income	\$	-	\$ -
Equity	\$	6,487,000	\$ 25,143
Total Sources	\$	30,000,000	\$ 116,279
<u>Uses</u>			
Land	\$	2,326,923	\$ 9,019
Hard Costs			
Rezoning Costs	\$	150,000	\$ 581
Construction	\$	21,500,000	\$ 83,333
Arch/Engineering/Tap Fees	\$	1,850,000	\$ 7,171
Subtotal	\$	23,500,000	\$ 91,085
Soft Costs			
Owner Allowances	\$	150,000	\$ 581
Construction Loan Fee	\$	176,348	\$ 684
Permanent Conversion Fee	\$	-	\$ -
Lending Inspection	\$	50,000	\$ 194
Transfer/Recordation	\$	259,457	\$ 1,006
Capitalized Real Estate Taxes	\$	200,000	\$ 775
Capitalized Insurance	\$	23,420	\$ 91
Capitalized Marketing	\$	200,000	\$ 775
Furniture	\$	350,000	\$ 1,357
Borrower Legal	\$	50,000	\$ 194
Lender Legal	\$	50,000	\$ 194
Development Overhead	\$	750,000	\$ 2,907
Contingency	\$	800,000	\$ 3,101
Subtotal	\$	674,518	\$ 2,614
Construction Interest	\$	3,498,559	\$ 13,560
Total Uses	\$	30,000,000	\$ 116,279

An Example: Anoop Court (cont'd)

- Hard Costs

Anoop Court		
	<u>Total</u>	<u>Per Unit</u>
Hard Costs		
Rezoning Costs	\$ 150,000	\$ 581
Construction	\$21,500,000	\$ 83,333
Arch/Engineering/Tap Fees	\$ 1,850,000	\$ 7,171

- Soft Costs

Anoop Court		
	<u>Total</u>	<u>Per Unit</u>
Soft Costs		
		\$ -
Owner Allowances	\$ 150,000	\$ 581
Construction Loan Fee	\$ 176,348	\$ 684
Permanent Conversion Fee	\$ -	\$ -
Lending Inspection	\$ 50,000	\$ 194
Transfer/Recordation	\$ 259,457	\$ 1,006
Real Estate Taxes	\$ 200,000	\$ 775
Insurance	\$ 23,420	\$ 91
Marketing	\$ 200,000	\$ 775
Furniture	\$ 350,000	\$ 1,357
Borrower Legal	\$ 50,000	\$ 194
Lender Legal	\$ 50,000	\$ 194
Development Fee	\$ 750,000	\$ 2,907
Contingency	\$ 800,000	\$ 3,101

An Example: Anoop Court (cont'd)

- Development Cost Daily Run Rate

