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West Broadway Economic Feasibility

Community Meeting #4

March 10, 2008

What is Economic Feasibility?

- **Developers and investors are able to earn a competitive rate of return**
- **Involves market feasibility – sufficient demand from buyers / renters at market prices**
- **Also involves financial feasibility – value of finished project greater than development cost**
 - Have to be able to pay market value for land
- **Need both market and financial feasibility – they are not necessarily linked**

Market Potential for W. Broadway

- **Seaside is rebounding from effects of the closure of former Fort Ord**
 - Future growth – potentially 10,000+ by 2030
- **Seaside is family-oriented, larger households**
 - 1/3 of the population was under 18 years in 2007
 - Per-capita income is 2/3 of CA average
- **Employment growth at former Fort Ord**
 - Potentially 6,000+ by 2030
- **Demand for W. Broadway comes from current residents and future growth**

Current Residential Real Estate Market

- **Median home prices peaked in 2005; declined 3% from 2006 to 2007**
 - Median price in 2007: \$650,000
- **Approved plans for former Fort Ord for 4,000+ homes – on hold due to market conditions**
 - Seaside evaluating master-planned community
- **Most rental residential in single-family homes; few apartment complexes**
 - Rents rose 1.9% 2005 to 2007, average rents \$797 for studio apartment to \$1,400 for 3-bedroom

Current Commercial Real Estate Market

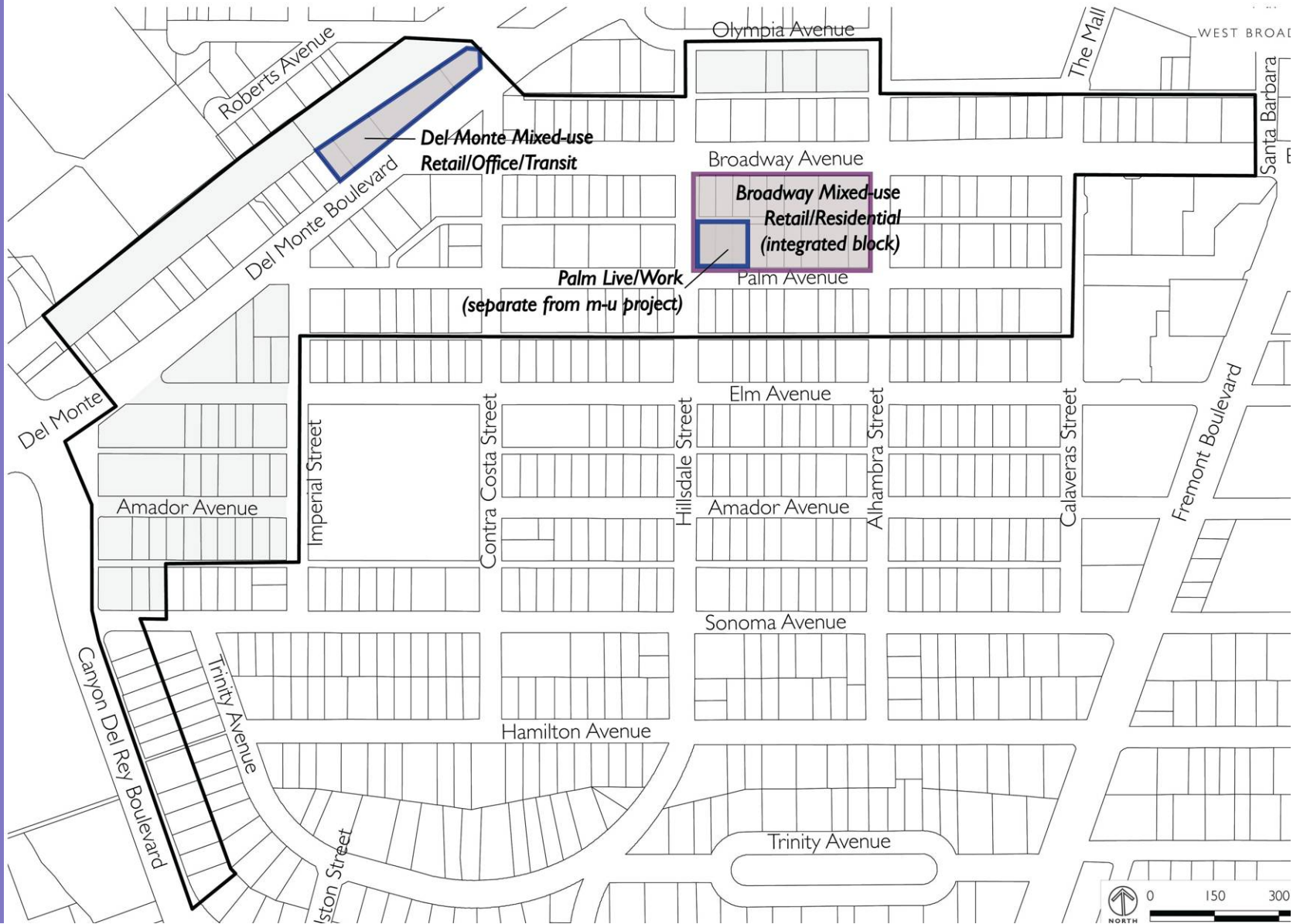
- **Small office market – small professional firms, office buildings / storefronts, low rents**
 - Ryan Ranch strongest area. Office condos increasing in popularity
- **Much new retail planned in Seaside, other cities**
 - Rents vary, but high in visible, high traffic locations
- **Downtown needs to seek a distinctive niche**
 - Family-oriented dining and entertainment, specialty retail and services, neighborhood service
 - Design and home improvement another opportunity

Financial Feasibility of Projects

- **Prepared pro forma financial analysis – what developer do when considering projects**
- **Looked at three prototype projects**
 - Small live/work, townhouses, mixed-use
- **Key assumptions**
 - Condos: \$280,000 to \$480,000
 - Townhouses: \$475,000 to \$550,000
 - Live/work units: \$480,000 to \$560,000
 - Include 20% inclusionary housing per ordinance
 - Commercial rents: \$28 / sq. ft. / yr NNN

Site Locations

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Broadway Avenue Mixed Use Retail/Residential Concept

- 16,400 square feet of ground floor retail
- Parking under a reinforced concrete podium
- 34 for-sale condominiums above the retail
- 20 for-sale townhouse units facing Palm Avenue at the rear of the project
- 20% of all residential units below market rate per City's inclusionary housing ordinance (all projects)

Palm Avenue Live/Work Concept

- Five for-sale live/work units, with ground floor work space for artists or others, and residential space above
- One unit would be below market-rate, per inclusionary ordinance
- Parking is tuck-under, contained within unit

Del Monte Boulevard

Mixed Use Transit/Retail/Office Concept

- 7,000 square feet of ground floor retail space
- 15,000 square feet of office space on a second level
- A larger second floor provides tuck-under parking along with surface parking

Financial Feasibility Steps

- **Formulate development programs that describes site, development density, uses, mix of uses and unit types, and parking requirements.**
- **Estimate hard and soft construction costs**
 - On- and off-site costs
 - Financing costs
 - Include required developer rate of return
- **Calculate total development costs based upon the development program, financing cost, and developer profit.**

Financial Feasibility Steps

- **Estimate the sale proceeds**
 - For-sale projects (e.g., residential units) and
 - Value of completed investment properties (e.g., commercial space)
- **Calculate residual land value**
 - Amount total sale proceeds, value of completed projects exceeds total development cost
- **Compare residual land value to current market value for land**
 - If residual value < market value, have a “feasibility gap”

Financial Feasibility Findings

- **Design based on plans shown earlier**
- **Based on current construction costs, interest rates, reasonable developer profit**
- **All projects feasible without subsidy**
 - Supports land values of \$25 to \$50 / sq. ft.
- **Still key role for City to encourage projects:**
 - Assist “catalyst” projects to “prove” market
 - Help assemble development sites
 - Promote shared parking / parking districts

Other Considerations

- **Current downturn driven by “credit crunch” – projects feasible, but loans not available**
- **Decrease in housing values in Monterey Peninsula limited by development constraints**
- **Residential market looks soft through 2009**
- **That timing works well given time needed to complete plan for downtown, new projects**