

Date: May 25, 2010

To: John Downs, Fresno Council of Governments

From: Sujata Srivastava, Senior Associate

Project: Public Transportation Infrastructure Study, Phase II

Subject: Fresno County TOD Demand Estimates

This memorandum updates Strategic Economics' previous evaluation of the market for transit and transit-oriented development (TOD) in Fresno County for the Regional Public Transportation Infrastructure Study. This memorandum provides the following:

1. A forecast of market demand for TOD among households in Fresno County in the short term (2007-2020), medium term (2020-2035), and long term (2035-2050), segmented by household type and household income.
2. Preliminary findings of financial analysis testing the development feasibility of a range of compact single-family and attached multi-family TOD housing types.
3. Preliminary findings of the affordability of TOD units to Fresno County households.
4. Preliminary conclusions and recommendations.

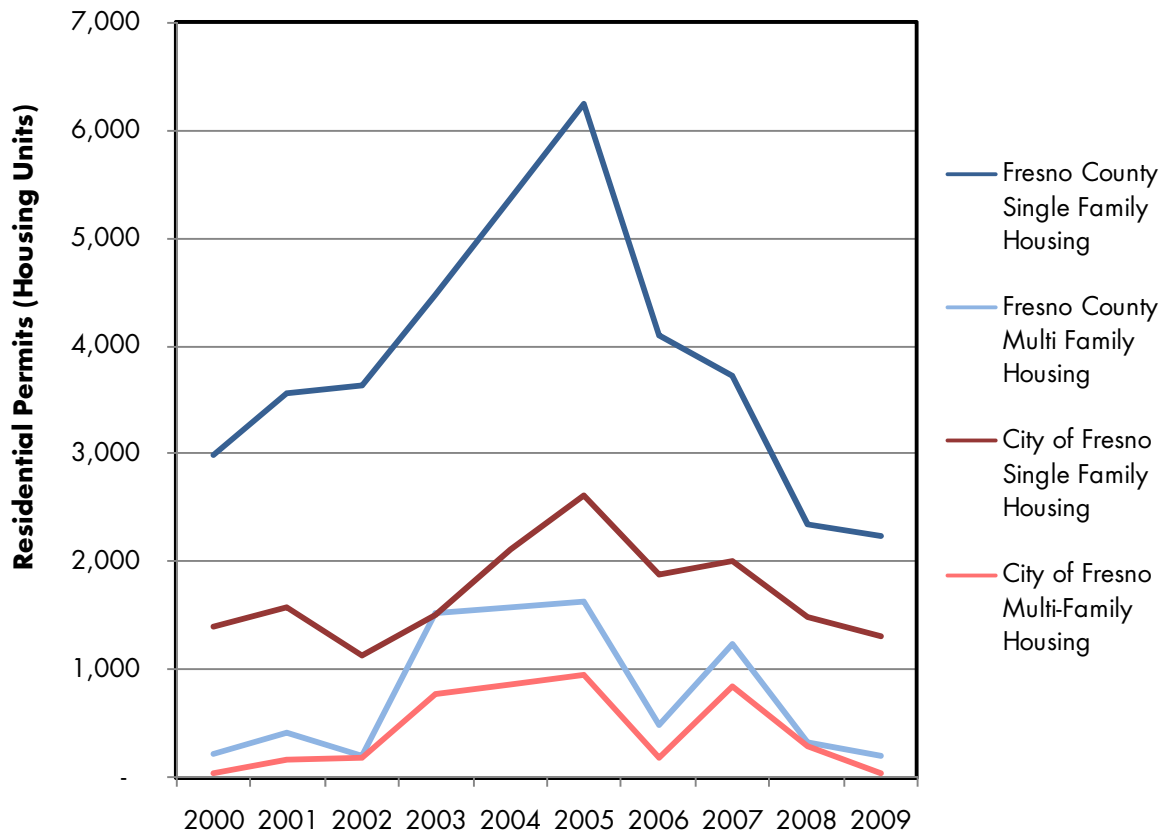
1. Forecast of market demand for transit-oriented development (TOD) in Fresno County

In July 2009, Strategic Economics estimated the demand for housing near transit in Fresno County in 2035. The demand estimate drew upon the national forecasts from the Center for Transit-Oriented Development (CTOD), which projects that there will be demand for nine million new housing units near transit by 2030. Transit is defined as fixed-guideway rail or rapid bus. The growth in demand for TOD is driven by factors such as demographic trends, rising energy costs, and the growing popularity of compact, mixed-use, urban environments. While there is a higher propensity for single person households, non-family households, and married couples without children to live near transit, one-fifth of the national TOD demand is among households with children. The diversity of this TOD demand across numerous household types, age groups, and income levels suggests that there are a variety of product types that can be built to accommodate these households.

Because the Fresno region does not have rail or rapid bus transit, in order to apply the national TOD demand methodology to Fresno, SE defined TOD demand more broadly as the demand for living in full-service, compact neighborhoods that offer opportunities for non-auto modes of transportation

(transit, walking, and biking). Compact and transit-oriented development is a largely untested development type in the Fresno area. During the recent housing boom, the share of construction in multifamily housing increased in many Central Valley cities, particularly in the Sacramento area. However, Fresno County area lagged behind the rest of the Central Valley in this regard: the share of development in multifamily housing was 20% of total units permitted.

Figure 1: Housing Permit Activity in Fresno County and City of Fresno, 2000-2009



There are nonetheless signs that there may be pent-up demand for compact housing types in Fresno County, driven in part by the desire to reduce commute time and transportation costs by living closer to job centers. Although 55 percent of Fresno County households do not have children, two-thirds of the housing stock is in single-family homes.¹ Recent multifamily projects in Downtown Fresno have attracted households that desire more urban lifestyles, and there are several additional planned and proposed projects.

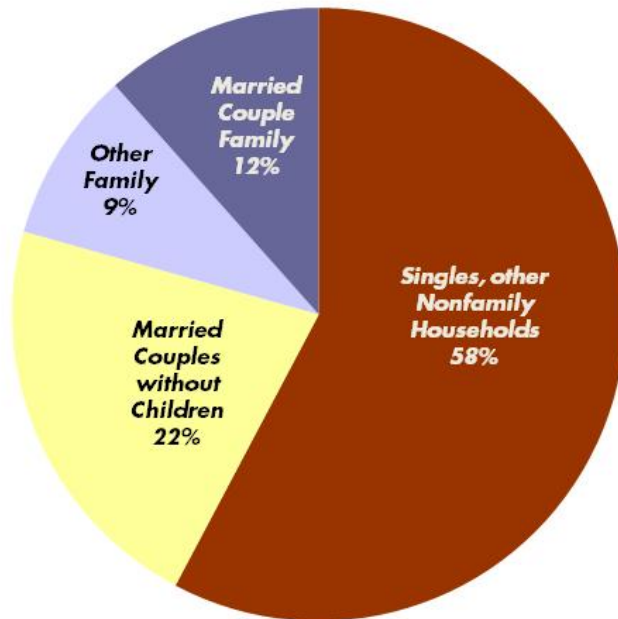
In order to realize the potential for more compact housing in the region, and to encourage densities that can support transit service, it is critical for local governments to allow for a wider range of housing types, including rental and for-sale multi-story flats, small-lot/attached single family homes, and townhomes.

¹ Sources: U.S. Census Bureau, American Community Survey, 2007; California Department of Finance, 2009.

Demand for Transit-Oriented Development

Strategic Economics forecasted the demand for transit-oriented development (TOD) in Fresno County based on a methodology developed by the Center for Transit-Oriented Development (CTOD) to forecast the national demand for TOD.² This methodology uses information about the current households living near transit, including household type and age, to project future demand. Among regions with the largest transit systems in the country,³ CTOD has estimated that approximately 25 percent of households live near transit. As shown in Figure 2 below, smaller households without children have a higher propensity to live near transit.

Figure 2: Distribution of National Demand for TOD by Household Type, 2030



Source: Center for Transit-Oriented Development, 2006

From 2007 to 2050, the number of households in Fresno County is projected to increase from 282,100 to 663,500, adding nearly 400,000 new households. As the Baby Boomer generation enters retirement age, the share of senior households will increase dramatically. Almost two-thirds of future housing demand will be from households with no children. These demographic trends will fuel the demand for more walkable, compact, and transit-friendly housing options (see **Table 1** and **Table 2**).

² For more about this methodology, please see *Hidden in Plain Sight: Capturing the Demand for Housing Near Transit* (2004), which is available at www.reconnectingamerica.org

³ The Boston, Chicago, New York, Philadelphia, and San Francisco regions

Table 1: Forecasted Household Growth in Fresno County by Age, 2007-2050

	2007	2050	Change	% Growth
Households	282,100	663,494	381,394	135.2%
Households with Head Over 65	52,000	187,227	135,227	260.1%
Share over 65	18%	28%	35%	

Sources: California Department of Finance Population Projections by Age, 2005; Strategic Economics, 2010.
Note: Numbers may not add due to rounding

Table 2: Forecasted Household Growth in Fresno County by Type, 2007-2050

	2007	2050	Change	% Growth
Households	282,100	663,494	381,394	135.2%
Households without Children	175,669	417,568	241,899	131%
Share of Households without Children	62%	63%	63%	

Sources: California Department of Finance Population Projections by Age, 2005; Strategic Economics, 2010.
Note: Numbers may not add due to rounding

Strategic Economics has calculated that Fresno County could capture up to 14 percent of its total households near transit, or about 92,900 of its 663,500 households by 2050. While this 14 percent estimate is significantly lower than the 25 percent share reported at the national level, it is reasonable for Fresno County, which is likely to have a smaller transit system than other metropolitan areas, and which is forecasted to maintain a higher than average share of family households with children. This estimate is also consistent with a forecast of compact development completed by Economic and Planning Systems in 2004 for the San Joaquin Valley Growth Response Study, which forecasted that 12 percent of households in Fresno and Madera counties would have a demand for compact development.⁴ The total projected TOD demand for Fresno County in the short term (2007-2020), medium term (2020-2035), and long term (2035-2050) is summarized in **Table 3** and illustrated in **Figure 3** below.

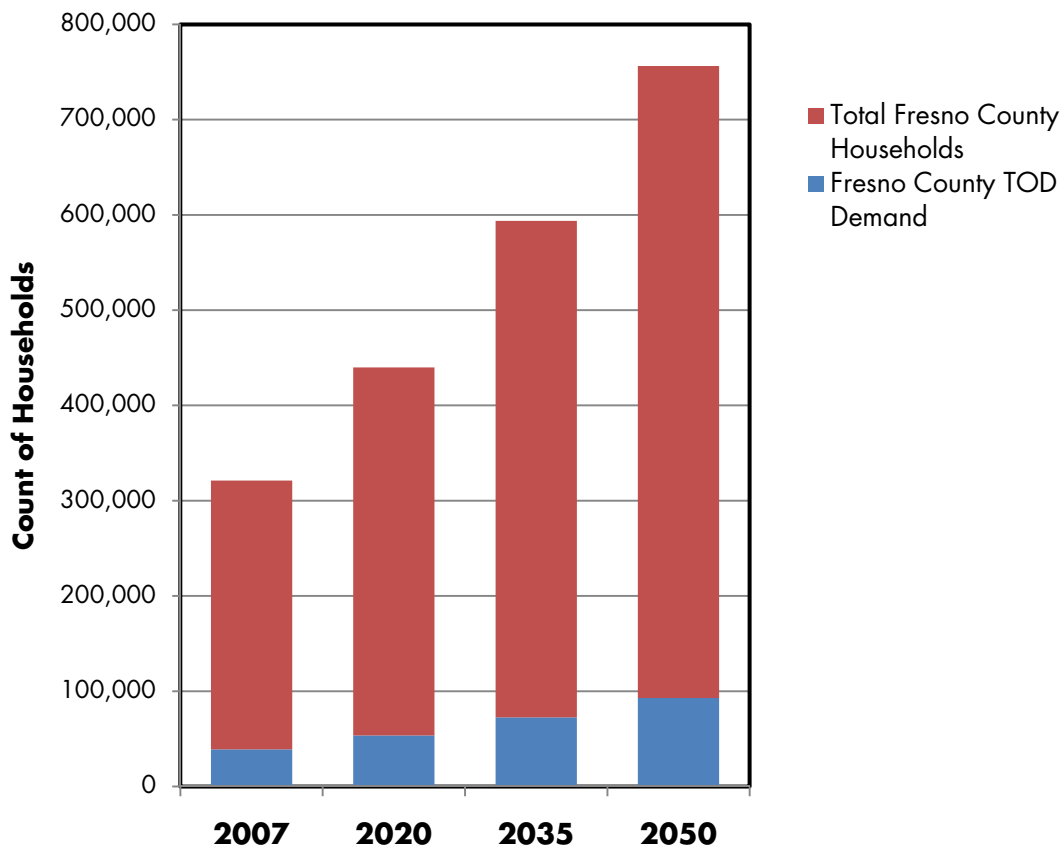
⁴ Economic and Planning Systems, "An Economic Assessment of the Prospects for Compact Development in Fresno and Madera Counties," completed for the San Joaquin Valley Growth Response Study, Phase II, October 2004.

Table 3: Forecasted Demand for TOD in Fresno County by Period

	2007	2020	2035	2050	Change 2007-2050
Total Households	282,100	386,300	521,200	663,500	381,400
TOD Demand	38,600	53,600	72,600	92,900	54,300

Source: US Census ACS 2005-2007; California Department of Finance, 2010; Strategic Economics, 2010

Figure 3: Forecasted Demand for TOD in Fresno County, 2007-2050



Source: US Census ACS, 2007; California Department of Finance, 2010; Strategic Economics, 2010

Table 4 on the following page shows more detailed tables on TOD demand by household type.

Table 4: Forecasted Demand for TOD by Household Type, 2007-2050

Household Type	2007		2020		2035		2050	
	Number of Households	Percent	Number of Households	Percent	Number of Households	Percent	Number of Households	Percent
Married-Couple Family	14,119	37%	19,300	36%	25,930	36%	32,810	35%
Other Family Households	9,428	24%	12,915	24%	16,935	23%	21,075	23%
Householder Living Alone	12,207	32%	17,420	32%	24,580	34%	32,480	35%
Householder Not Living Alone	2,852	7%	4,020	7%	5,220	7%	6,480	7%
Total	38,607	100%	53,655	100%	72,665	100%	92,845	100%

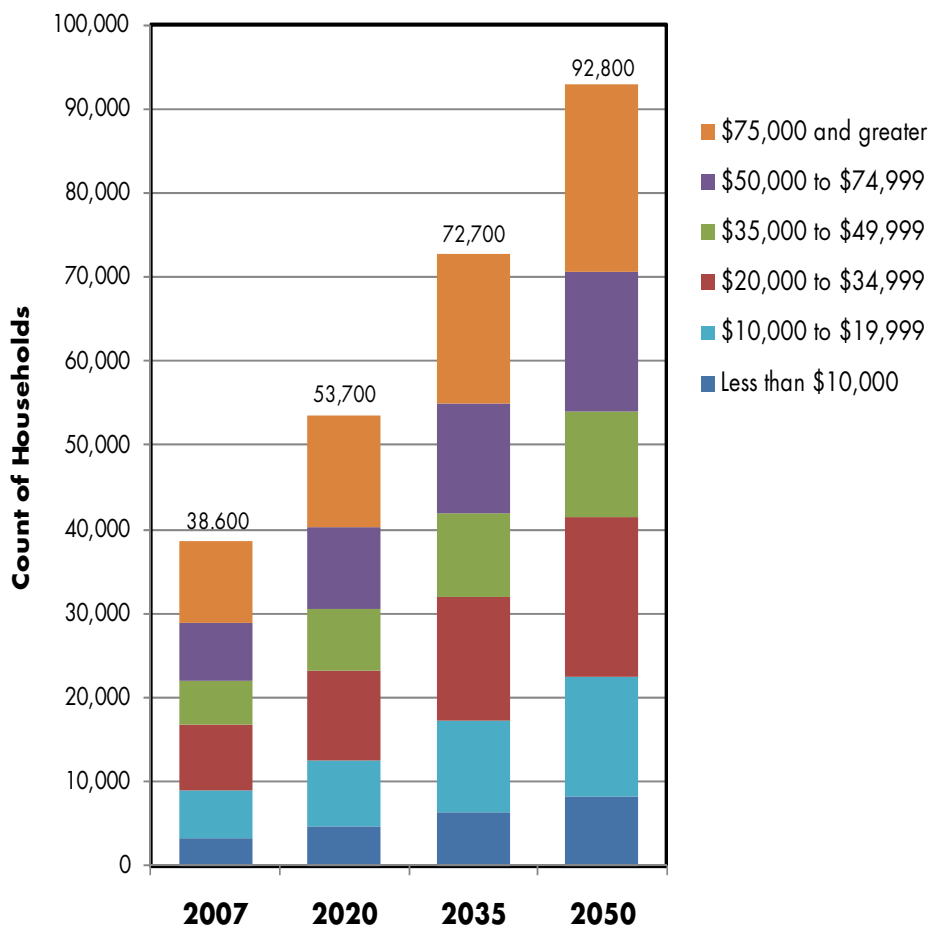
SE further segmented the TOD demand by household income based on the current household income distribution in Fresno County, as shown in Table 5 and Figure 4 below.

Table 5: TOD Demand by Household Income, 2007-2050

Household Income (constant 2007 dollars)	2007	2020	2035	2050
Less than \$10,000	3,364	4,667	6,445	8,400
\$10,000 to \$19,999	5,618	7,873	10,860	14,128
\$20,000 to \$34,999	7,741	10,784	14,737	19,013
\$35,000 to \$49,999	5,216	7,281	9,803	12,492
\$50,000 to \$74,999	7,062	9,764	13,092	16,574
\$75,000 and greater	9,606	13,286	17,729	22,239
Total TOD Households	38,607	53,655	72,665	92,845

Source: US Census ACS 2005-2007; California Department of Finance, 2010; Strategic Economics, 2010

Figure 4: TOD Demand by Income Distribution



2. Financial Feasibility of Multi-family Residential Development

Generally, the per square foot construction of attached housing types is more costly than single-family homes. Typically, the unit costs decline as density on the site increases. Higher density projects however often require a larger upfront investment, and are less proven in the Fresno marketplace. Therefore, it is important to test the financial feasibility of a range of compact single-family and attached multi-family housing development that is both profitable to developers and affordable to local households.

As part of this assignment, SE prepare a static pro forma analysis of four building types, including small-lot single-family units, townhouses, warehouse rehabilitation, and a four-story mixed-use building on a “typical” one-acre development parcel. The financial analysis tested overall feasibility from the perspective of the developer using a residual land value methodology. SE worked with building typologies defined by Fregonese Associates, and conducted interviews with local developers to derive key inputs such as unit sizes, parcel sizes, densities, parking ratios, and cost and revenue assumptions for the financial model. From the pro forma analysis, SE then derived the per-unit cost of constructing each building type and the likely market that it could serve. The detailed financial pro forma can be found in the Appendix to this report. Table 6 summarizes our preliminary findings:

- The home price of a compact single-family home is approximately \$325,000 per unit, compared to \$260,000 per unit for a townhouse and \$375,000 per unit for a mixed-use four-story apartment building. While the cost of rehabilitating existing buildings can vary tremendously, the conversion of a prototypical warehouse building into loft apartments is estimated to be valued at about \$200,000 per unit (see Figure 5).
- Due to the depressed housing market in Fresno County and the existing inventory of low-cost single-family housing, all of the building types tested are infeasible given current values.
- Once the housing market recovers and housing prices once more begin to appreciate, the development of more compact for-sale products, such as small-lot single-family homes and townhouses will likely become financially attractive.
- The development of high density rental products, such as the rehabilitation of a warehouse building into loft units, or the construction of a new mixed-use four-story building, will take much longer to realize. The rents that can be currently achieved for these products are not sufficiently high to justify the higher development costs.
- SE’s market research confirms these findings. The majority of recent higher density multi-family development that has occurred in Fresno has received some form of public subsidy.

Figure 5: Estimated Prices per Unit of Higher Density Building Types



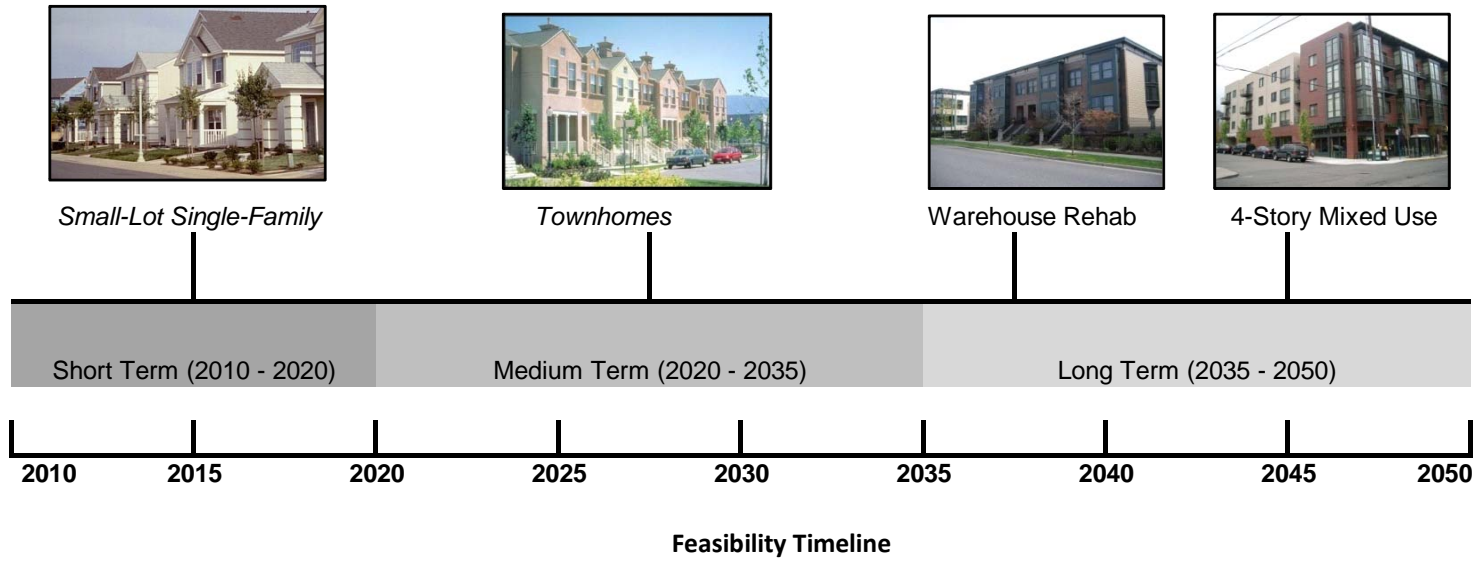
Table 6: Results of Financial Analysis of Building Types

Unit Type	Average Density	Likely Development Feasibility Timeframe	Required Percent Increase in Revenue	Development Cost per Unit
Ownership				
Small Lot Single Family	9 du/acre	Short (2010 - 2020)	20%	\$325,019
Townhouse	18 du/acre	Medium (2020 - 2035)	33%	\$259,802
Rental				
Warehouse Rehab	50 du/acre	Long (2035 - 2050)	41%	\$196,099
4-Story Mixed Use	55 du/acre	Long (2035 - 2050)	86%	\$375,041

*Assumes 20% downpayment and 5.5% interest rate.

Source: RS Means; Developer Interviews; Fregonese Associates, 2010; Strategic Economics, 2010.

Figure 6: Likely Time Frame for Development of Prototypical Buildings



3. Preliminary Findings of Affordability Analysis

In order to determine the affordability of each building type, SE calculated the household income required to rent or purchase a unit in each of the prototypical building types. SE then compared this to the TOD demand forecasts by household income in order to determine whether the cost of each new housing type will meet or exceed the income ranges among transit-friendly households.

As shown, all of the building prototypes tested would be affordable to higher income households with annual incomes of over \$65,000. The four-story mixed-use units would be affordable to households earning over \$100,000.

Table 7: Affordability of Prototypical Higher Density Units

Unit Type	Average Density	Development Cost per Unit	Required Income*
Ownership			
Small Lot Single Family	9 du/acre	\$325,019	\$87,460
Townhouse	18 du/acre	\$259,802	\$73,746
Rental			
Warehouse Rehab	50 du/acre	\$196,099	\$65,550
4-Story Mixed Use	55 du/acre	\$375,041	\$101,250

*Assumes 20% downpayment and 5.5% interest rate.

Source: RS Means; Developer Interviews; Fregonese Associates, 2010; Strategic Economics, 2010.

When compared to the TOD demand estimates by household income, it becomes clear that the higher density housing types modeled in the financial analysis would be affordable to only 42 percent of total TOD households (see Figure 7 and Table 8).

Figure 7: TOD Households Qualified to Purchase or Rent Higher Density Units

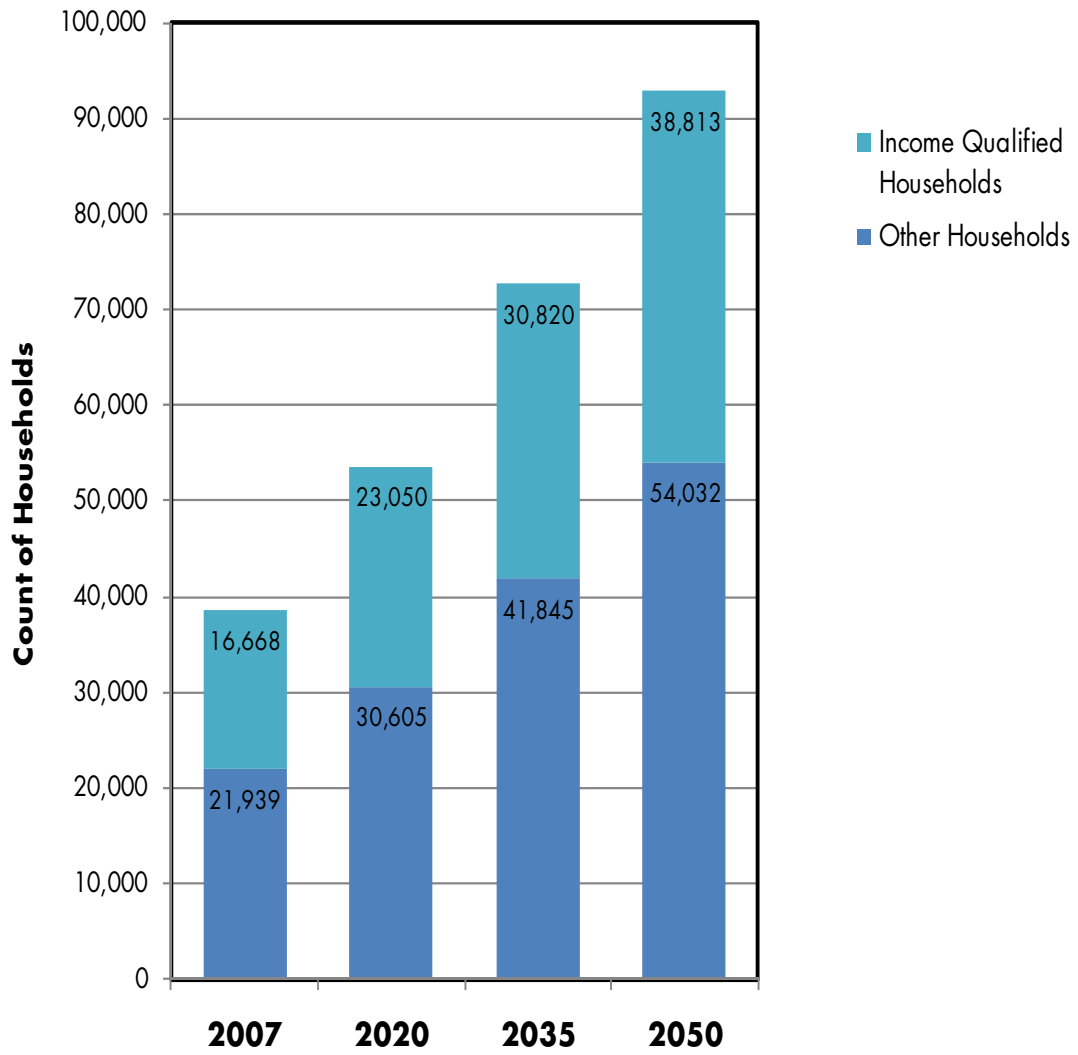


Table 8: TOD Households by Income, 2007-2050

Household Income (constant 2007 dollars)	2007		2020		2035		2050	
	Number of Households	Percent	Number of Households	Percent	Number of Households	Percent	Number of Households	Percent
Less than \$10,000	3,364	9%	4,667	9%	6,445	9%	8,400	9%
\$10,000 to \$19,999	5,618	15%	7,873	15%	10,860	15%	14,128	15%
\$20,000 to \$34,999	7,741	20%	10,784	20%	14,737	20%	19,013	20%
\$35,000 to \$49,999	5,216	14%	7,281	14%	9,803	13%	12,492	13%
\$50,000 to \$74,999	7,062	18%	9,764	18%	13,092	18%	16,574	18%
\$75,000 and greater	9,606	25%	13,286	25%	17,729	24%	22,239	24%
Total TOD Households	38,607	100%	53,655	100%	72,665	100%	92,845	100%

Source: US Census ACS 2005-2007; California Department of Finance, 2010; Strategic Economics, 2010

4. Conclusions and Recommendations

Prioritize Areas for Compact Housing Development

Although there is demand for compact, multifamily housing in Fresno County, there are significant market challenges due to the continued popularity and affordability of suburban detached single-family housing compared to higher cost multifamily units. The City of Fresno, through its Activity Centers Study for the General Plan, has identified the need to accommodate over thirty years of future growth in more compact and transit-oriented land use patterns. These Activity Centers are depicted in Figure 8. Because the capacity for development in the Activity Centers far exceeds the potential demand for compact housing, it is important to establish a phasing plan that prioritizes areas for intensification. Certain high-priority areas should be targeted for early redevelopment activity, while other areas may remain undeveloped until there is sufficient long-term demand to necessitate their growth.

Future growth should be targeted to existing job centers to support the goals of future compact development.

Proponents of compact development plans generally focus on providing more dense residential development, but it can be even more impactful to concentrate jobs in areas that are central to the transit network. Such a land use strategy can open up employment opportunities to all residents, and encourage commuters to use alternative commute modes. Intensification in corridors or SEGA should be supported by a quality transit network that reduces congestion and VMT.

Figure X shows Strategic Economics' identification of major job concentrations throughout the Fresno/Clovis area. These centers have been identified through a GIS analysis of address level InfoUSA employment data, and have been refined using aerial and land use maps, to limit their geography to employment-related land uses. Strategic Economics worked closely with VRPA and CD+A to synchronize these identified job centers with the future Activity Centers in the City's General Plan. These existing job centers account for approximately 75 percent of all jobs in the Fresno/Clovis urbanized area, with the remainder of employment dispersed throughout the rest of the two cities.

Downtown Fresno and the cumulative North Fresno area are the largest consecutive job concentrations in the area, with approximately 30,000 jobs each (Figure X). However, Fresno's major corridors (Blackstone and Shaw Avenues) account for a large share of jobs in the Fresno/Clovis area as well. While many of these job centers do not currently have the pedestrian orientation or job density needed to support significant transit ridership, the nodal and corridor-shaped employment pattern that exists in the Fresno/Clovis area offers significant potential for future transit accessibility. Centers with a high share of jobs in office-based sectors, or with a mix of office- and retail-based sectors are more likely to be transit supportive than job centers with a stronger concentration in industrial-based industries. Through this analysis, Strategic Economics made preliminary recommendations on transit alignments and priorities in its previous memorandum report.

Based on this work, Strategic Economics recommends the following areas be targeted for intensification:

- Downtown Fresno - Although new regional job centers have sprouted up in northern Fresno and Clovis, Downtown Fresno is still a job center of regional significance, and continues to draw a significant share of commuters from all of Fresno and Clovis's neighborhoods.
- North Fresno East and West/Blackstone North – The Blackstone corridor links the large job centers at the northern end of the city to the Downtown.

- *Shaw Central/West - Second only to Blackstone, the Shaw corridor maintains a strong economic presence in the City, and accommodates many of Fresno County's office based jobs.*

Many of these job centers also experienced economic growth from 2002 to 2006, suggesting that there is potential to leverage future growth in a way that creates a more pedestrian-friendly and transit-supportive land use pattern.⁵

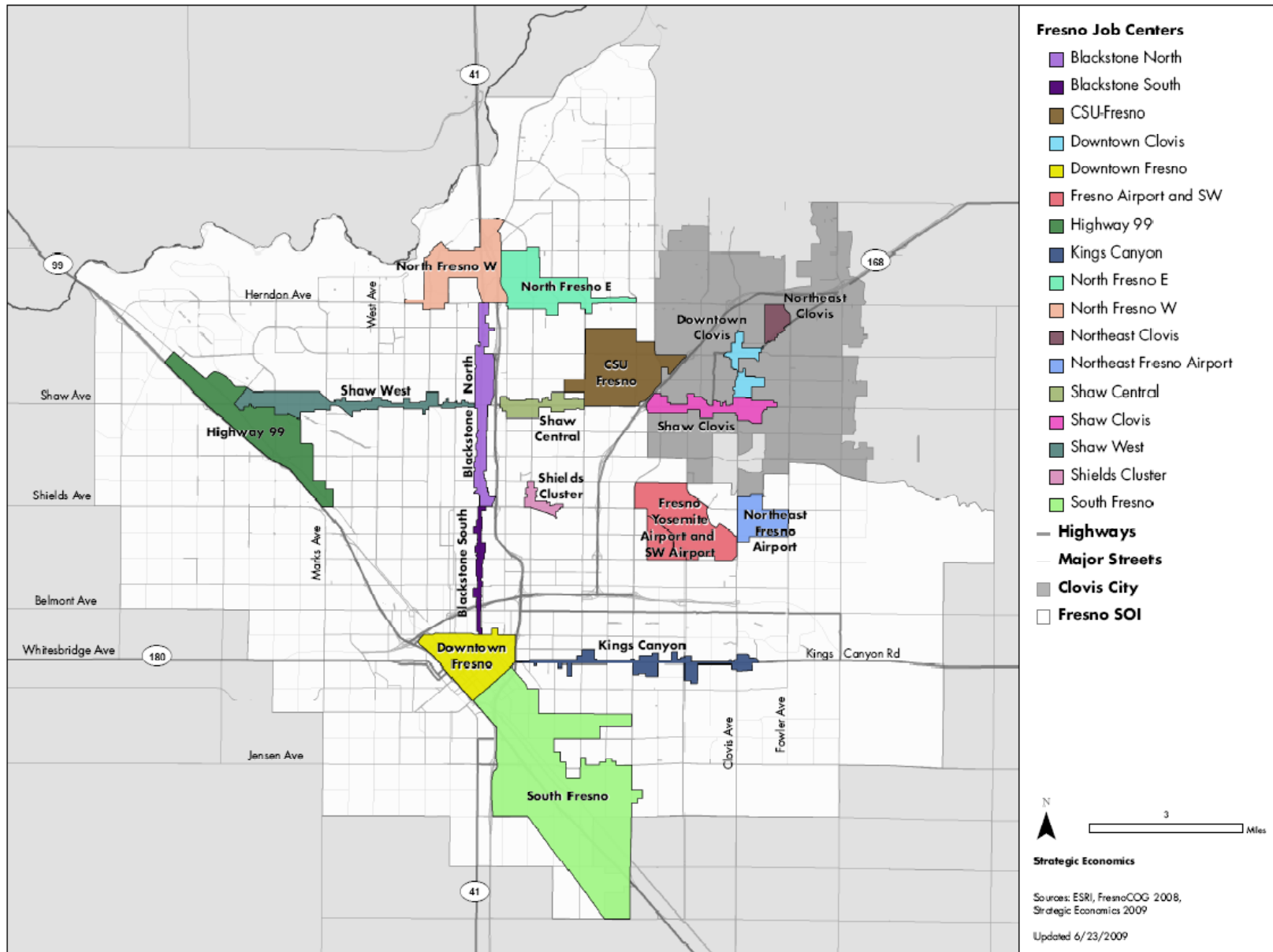
Conduct a Detailed Assessment of Redevelopment Opportunities

The opportunities and challenges of infill development can vary from place to place depending on specific physical and market conditions that must be assessed at the parcel level. For example, sites on auto-oriented corridors like Shaw and Blackstone are often large, shallow, and high value due to existing commercial uses, while Downtown Fresno has many large underutilized sites that could be redeveloped fairly inexpensively, but would require significant "placemaking" investments to attract private development. In order to gain a better understanding of the actual development potential Downtown, on key corridors and in the major employment centers, Strategic Economics recommends that the region conduct an in-depth assessment of the characteristics of the opportunity sites, including parcel configuration (size and dimensions), ownership (single vs. fragmented), pedestrian and transit connectivity, amenities, etc. This type of analysis would allow for a realistic assessment of the financial feasibility of redevelopment and intensification, as well as the types of public investments and potential fiscal and economic benefits that could be realized from "smart" growth.

⁵ A 2002 to 2006 time series evaluation may not cover enough years to represent a statistically significant job growth trend. However, this is the maximum time frame that is currently available at a sub-city geography for the data sets available.

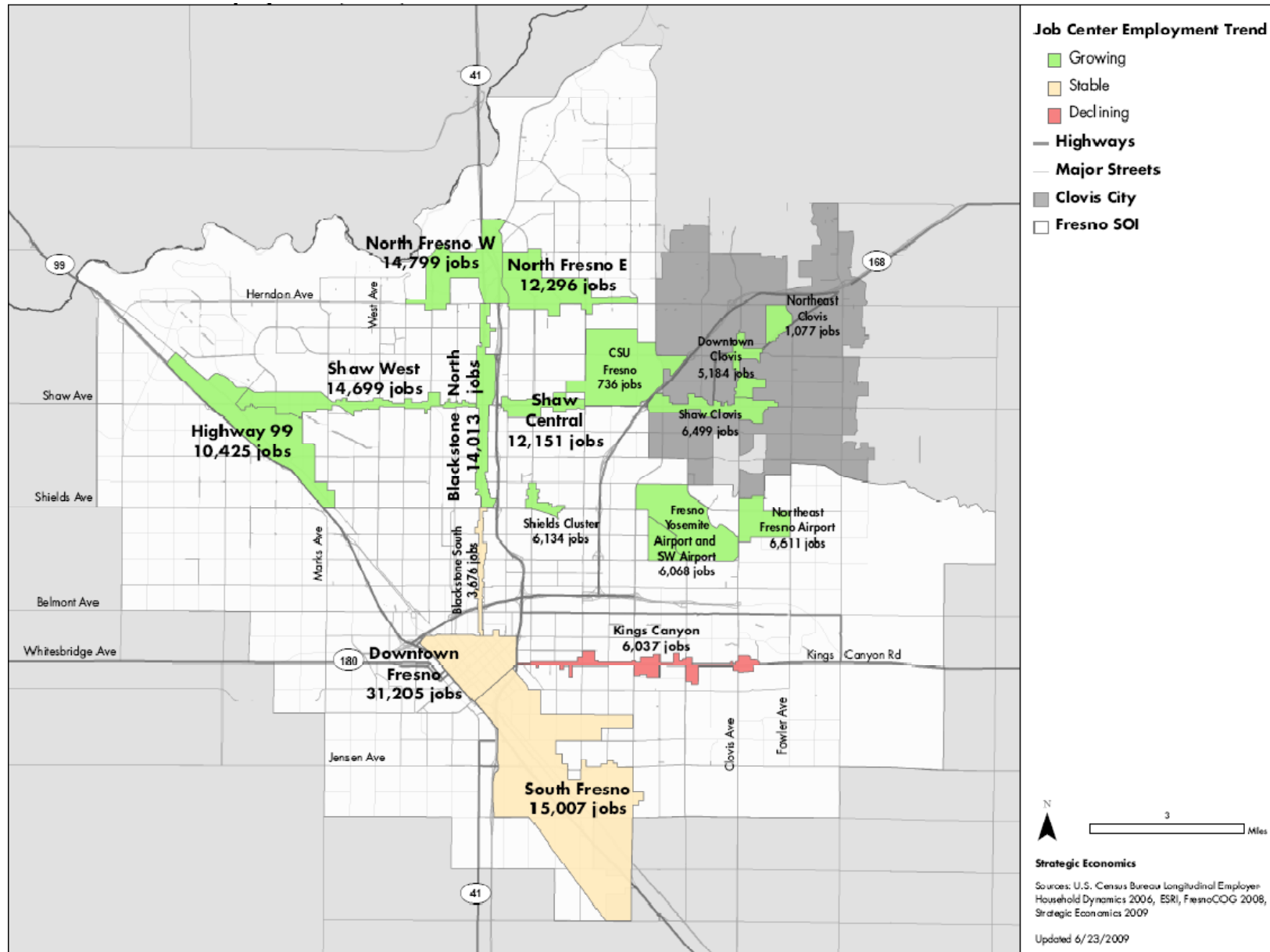
Figure 8: Activity Centers

Figure 9: Job Centers in the Fresno/Clovis Urbanized Area



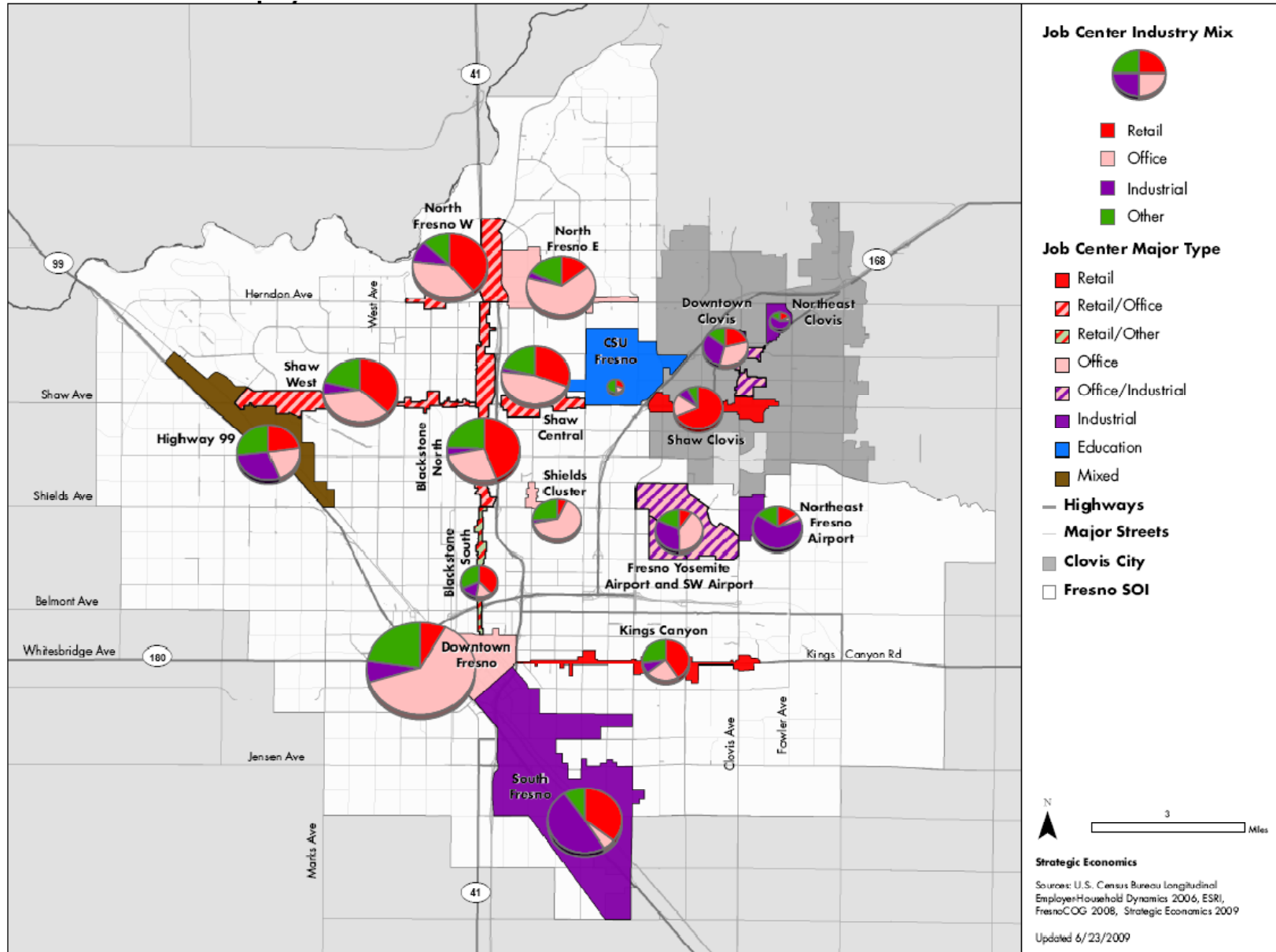
Sources: InfoUSA, 2003; Dowling Associates; Strategic Economics, 2009.

Figure 10: Employment Estimates and Growth Trends for Fresno/Clovis Job Centers, 2002-2006



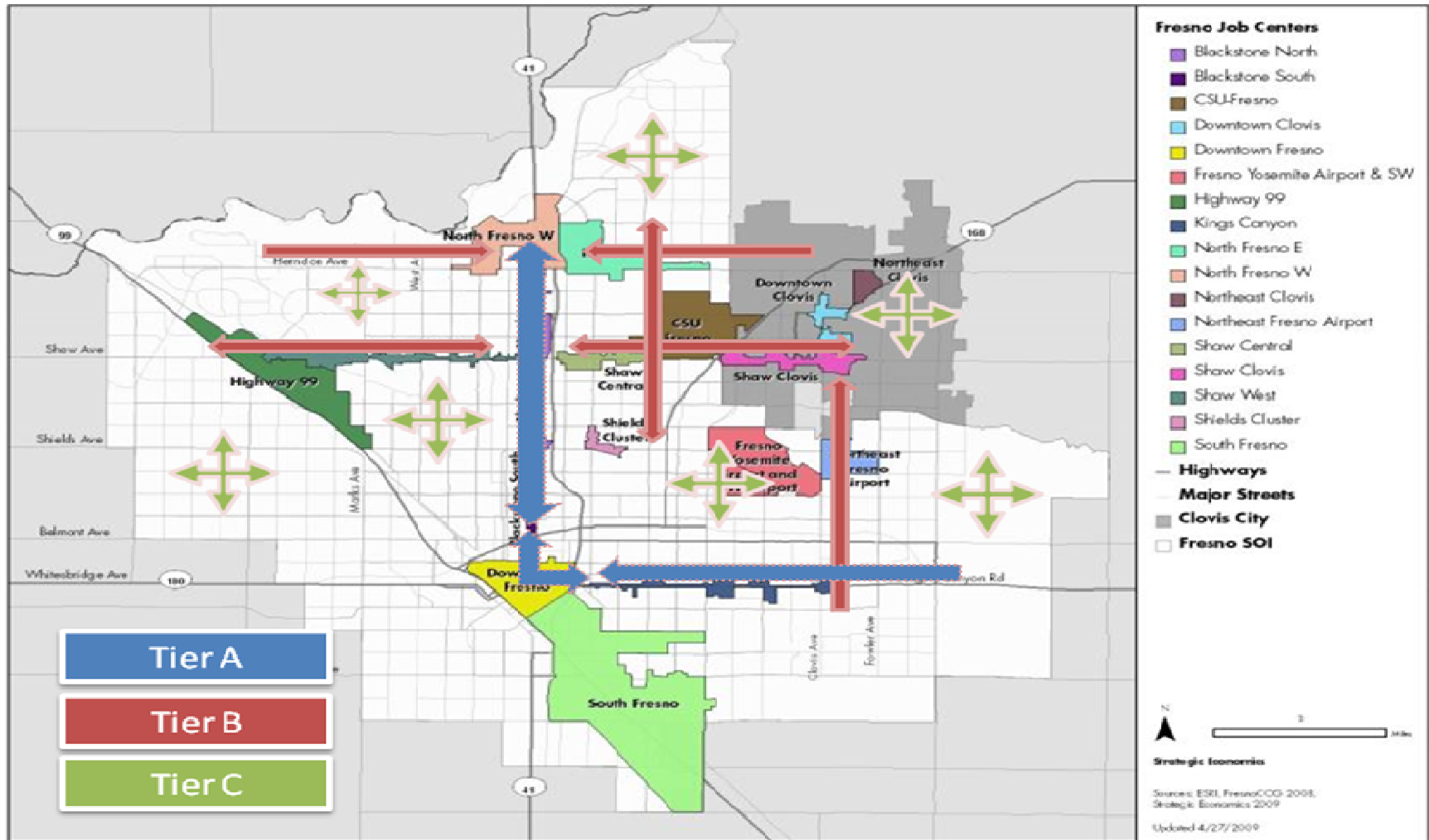
Source: U.S. Census Bureau: Longitudinal Employer Household Dynamics, 2002-2006; Strategic Economics, 2009.

Figure 11: Industry Mix for Fresno/Clovis Job Centers, 2006



Source: U.S. Census Bureau: Longitudinal Employer Household Dynamics, 2006; Strategic Economics, 2009.

Figure 12: Transit Priorities Based on Economic and Market Analysis



Appendix A: Financial Feasibility Analysis Methodology and Assumptions

The following section provides the methodology and key development assumptions used in the financial feasibility analysis, including a description of the process used to create the hypothetical development programs tested. The development programs were developed in close collaboration with Fregonese Associates, and are summarized in the Table A-1 on the following page:

Developer Profit Method

Financial feasibility was tested using the Developer Profit method. The pro forma analyses are structured to solve for the financial return for the developer or investors (Developer Profit or IRR). In this static analysis, all project costs are tallied, an assumed land value is included as a cost, and developer profits are excluded from total costs. Revenues are also summed and the total costs are then subtracted from the total revenue. The remaining amount is the profit or return specific to the development type being tested. This amount is effectively a measure of the likelihood of developer interest given the particular development project tested.

Because land values are variable in Fresno, Strategic Economics conducted two parallel analyses for each development program using a low land value (\$5 per square foot) and a high land value (\$25 per square foot) in order to assess the sensitivity of land costs to the project's feasibility. This allows for a determination of whether a project is feasible at the low and high ends of the spectrum of land costs recently seen in Fresno. A survey of transactions and interviews with local real estate professionals shows that sales prices for land can range from \$5 to \$30 per square foot.

Table A-1: Development Programs Tested

	FAR	Du/Acre	Total Commercial SF Net	Total Comm SF Gross	Ave Unit Size - Net	Ave Unit Size - Gross	Parking				
							# Parking Spaces	# spaces / res unit	# spaces per 1000 SqFt	Total SF	SF/parking space
Small Lot Single Family	0.41	9	0	0	1,800	1,800	2	2.00		510	255
Townhouse	0.58	18	0	0	1,400	1,400	36	2.00		9,180	255
Warehouse Rehab	1.38	53	0	0	900	1,100	53	1.00		13,515	255
4-Story Mixed Use, podium parking	2.28	55	10,717	13,396	1,100	1,400	96	1.25	3.00	24,429	255

Prototypical Parcels

Based on an assessment of the existing block and street patterns along corridors and in the Downtown, SE assumed a prototypical parcel size of one acre.

Hard Costs

Project construction costs are based on Strategic Economics' research, published estimates from RS Means, and informal surveys of a number of area developers engaged in building the construction type represented by this analysis. The objective of this exercise was to establish an average construction cost. One could expect that this average is roughly in the middle third of actual costs though it is possible to envision specific projects that would have costs outside this range. **Table A-A-2** shows the gross hard costs used for this analysis by unit type.

Table A-2: Estimate of Hard Costs

Use	Cost/SF
Small Lot Single Family	\$ 100.0
Townhouse	\$ 100.0
Warehouse Rehab	\$ 100.0
4-Story Mixed Use, podium parking	\$ 125.0
Podium Parking	\$ 80.0
Surface Parking	\$ 20.0
Site	\$ 7.0

Soft Costs

Estimated soft costs include permits, architectural fees, engineering fees, developer overhead, insurance, taxes, legal, accounting fees, and marketing costs.

The remainder of the soft costs was estimated based on standard industry ratios and conversations with local developers and architects, and calculated as a percentage of hard costs.

Financing Costs

Financing costs were estimated assuming that a construction loan would be obtained for 80 percent of the cost of development for a term of 6 months (14 months for the warehouse rehab and multifamily building construction), with a 6.5 percent interest rate and a one percent loan fee. Given that the construction loan would be drawn down over the course of the project, the total financing cost was estimated assuming an average outstanding loan balance of 55 percent.

Developer Profit

The land residual method requires making an assumption about expected developer profit, since projects will not be built unless a developer feels that they have the potential to generate a return. The analysis assumes developer profit equal to 12 percent of other development costs, not including land. While profit margin expectations change depending on a variety of factors including market conditions, expected timeframes to receive entitlements, and other factors, 12 percent is considered a conservative assumption for a threshold that would attract larger scale multifamily developers to Fresno.

Project Value

As mentioned earlier, the residual land value of a property is calculated by subtracting the estimated development costs (described above) from the estimated value of the property. The value of condominium units was estimated based on their expected sale prices. The value of apartments, office space, and retail space were estimated using the income capitalization approach, wherein the value is estimated based on expected ongoing rental revenues from the space.

Ownership units

Ownership unit sales prices and sizes were estimated based on a review of market conditions in Fresno and Clovis. Average values were set at \$150 per square foot for small lot single-family homes and \$140 per square foot for townhomes. This is representative of the values achieved for recently constructed units in the area.

Table A-3: Condominium Value Assumptions

<u>Unit Type</u>	<u>Avg. Price/Sq. Ft.</u>	<u>Avg. Unit Size</u>	<u>Avg. Unit Price</u>
Small lot SF	\$150	1,800	\$270,000
Townhouse	\$140	1,400	\$200,000

Source: Hanley Wood Market Intelligence; Developer Interviews; Strategic Economics

Apartments

Apartment rents were estimated at \$1.15 a square foot, or \$1,265 a month for a 1,100-square-foot apartment. The net income from apartments was estimated assuming 5 percent vacancy and operating expenses equal to 25 percent of gross income. The value of the units was estimated using a 6.0 percent capitalization rate. The capitalization rate is a standard industry ratio that represents the relationship between the net operating income of an income-producing property and its current estimated value.

Table A-4: Operating and Valuation Assumptions for Apartments

<u>Assumptions</u>		
Monthly Rent	Per SF	\$1.15
Stabilized Vacancy Rate	Percent	5.0%
Operating Expenses	Percent Gross Rev	25.0%
Capitalization Rate	Percent	6.25%
<u>Estimated Value</u>		
Gross Annual Res. Income	Per Unit	13.80
Less Vacancy	Per Unit	-\$0.69
Less Operating Expenses	Per Unit	-\$3.45
Net Operating Income	Per Unit	\$9.66
Capitalized Value	Per Unit	\$154.56

Source: Marcus & Millichap; Strategic Economics.

Retail

Based on market research, SE estimated rent for the retail component of mixed-use project at \$1.00 per square foot per month. The average vacancy rate was assumed at 5 percent for both areas. Operating expenses not paid by the tenant were estimated at 10 percent of revenue. The value of the retail component was estimated assuming a 6.25 percent capitalization rate. Based on this calculation, the value of retail development was estimated to be \$163 per rentable square foot.

Table A-5: Operating and Valuation Assumptions for Retail

<u>Assumptions</u>		
Monthly Rent (NNN)	Per SF	\$1.00
Vacancy	Percent	5.0%
Operating Expenses	Percent	10.0%
Capitalization Rate	Percent	6.25%
<u>Estimated Value</u>		
Gross Annual Retail Income	Per SF	12.00
Less Retail Vacancy	Per SF	-\$0.60
Less Non-Reimbursable Exp	Per SF	-\$1.20
Net Operating Income	Per SF	\$10.20
Capitalized Value	Per SF	\$163.20

Source: Marcus & Millichap; Broker and developer interviews; Strategic Economics.

FRESNO FEASIBILITY ANALYSIS

Building Type 1: Small Lot Single Family

			Per SF Land Costs	Per SF Land Costs
			\$ 5.00	\$ 25.00
	Unit	Amt	Total	Total
Project Revenues				
Retail	Per Net SF	\$163.20		
Residential	Per Net SF	\$150.00	\$2,430,000	\$2,430,000
Total Revenues			\$2,430,000	\$2,430,000
	Per Unit		\$270,000	\$270,000
Development Costs				
<u>Hard Costs</u>				
Construction				
Retail Construction	Per Bldg SF	\$0	\$0	\$0
Residential Construction	Per GSF	\$100	\$1,620,000	\$1,620,000
Parking Garage	Per SF	\$100	\$0	\$0
Parking Surface	Per SF	\$20	\$0	\$0
Contingency	% Hard Costs	10.0%	\$162,000	\$162,000
Site Improvements	Per GSF	\$7	\$21,280	\$21,280
Subtotal Hard Costs			\$1,803,280	\$1,803,280
<u>Soft Costs</u>				
Soft Costs (1)	% Hard Costs	30.0%	\$540,984	\$540,984
Subtotal Soft Costs			\$540,984	\$540,984
<u>Financing Costs</u>				
Construction Loan Fee	% of Loan	1.0%	\$18,754	\$18,754
Construction Interest	Rate	6.0%	\$30,944	\$30,944
Subtotal Financing Costs			\$49,698	\$49,698
<u>Land Costs</u>				
Subtotal Land Costs	1-Acre Site	43,560	\$217,800	\$1,089,000
Total Costs			\$2,611,762	\$3,482,962
Per Unit Cost			\$290,195.82	\$386,995.82
			(\$181,762.40)	
<u>Developer Profit</u>	Return on Costs	>12%	-7%	-30%
			(\$181,762)	(\$1,052,962)
<u>Revenue Increase Required for Feasibility</u>				
		Total Value	\$495,174	\$1,470,918
		Percent	20%	61%
		Sale Price Per Unit	\$325,019	\$433,435

(1) Includes insurance, taxes, legal, accounting, marketing, permits & fees, architecture & engineering and developer overhead.

Source: Strategic Economics, Fregonese Associates

FRESNO FEASIBILITY ANALYSIS

Building Type 2: Townhouse

			Per SF Land Costs	Per SF Land Costs
			\$ 5.00	\$ 25.00
	Unit	Amt	Total	Total
Project Revenues				
Retail	Per Net SF	\$163.20		
Residential	Per Net SF	\$140.00	\$3,528,000	\$3,528,000
Total Revenues			\$3,528,000	\$3,528,000
	Per Unit		\$196,000	\$196,000
Development Costs				
<u>Hard Costs</u>				
Construction				
Retail Construction	Per Bldg SF	\$100	\$0	\$0
Residential Construction	Per GSF	\$100	\$2,520,000	\$2,520,000
Parking Garage	Per SF	\$100	\$0	\$0
Parking Surface	Per SF	\$20	\$183,600	\$183,600
Contingency	% Hard Costs	10.0%	\$270,360	\$270,360
Site Improvements	Per GSF	\$7	\$7,140	\$7,140
Subtotal Hard Costs			\$2,981,100	\$2,981,100
<u>Soft Costs</u>				
Soft Costs (1)	% Hard Costs	30.0%	\$894,330	\$894,330
Subtotal Soft Costs			\$894,330	\$894,330
<u>Financing Costs</u>				
Construction Loan Fee	% of Loan	1.0%	\$31,003	\$31,003
Construction Interest	Rate	6.0%	\$51,156	\$51,156
Subtotal Financing Costs			\$82,159	\$82,159
<u>Land Costs</u>				
Subtotal Land Costs	1-Acre Site	43,560	\$217,800	\$1,089,000
Total Costs			\$4,175,389	\$5,046,589
Per Unit Cost			\$231,966.06	\$280,366.06
<u>Developer Profit</u>	Return on Costs	>12%	-16%	-30%
			(\$647,389)	(\$1,518,589)
<u>Revenue Increase Required for Feasibility</u>				
		Total Value	\$1,148,436	\$2,124,180
		Percent	33%	60%
	Sale Price Per Unit	\$	259,802	\$ 314,010

(1) Includes insurance, taxes, legal, accounting, marketing, permits & fees, architecture & engineering and developer overhead.

Source: Strategic Economics, Fregonese Associates

FRESNO FEASIBILITY ANALYSIS

Building Type 3: Warehouse Rehab

			Per SF Land Costs	Per SF Land Costs
			\$ 5.00	\$ 25.00
	Unit	Amt	Total	Total
Project Revenues				
Retail	Per Net SF	\$163.20	\$0	\$0
Residential	Per Net SF	\$154.56	\$7,372,512	\$7,372,512
Total Revenues			\$7,372,512	\$7,372,512
	Per Unit		\$139,104	\$139,104
Development Costs				
<u>Hard Costs</u>				
Construction				
Retail Construction	Per Bldg SF	\$0	\$0	\$0
Residential Construction	Per GSF	\$100	\$5,830,000	\$5,830,000
Parking Garage	Per SF	\$100	\$0	\$0
Parking Surface	Per SF	\$20	\$270,300	\$270,300
Contingency	% Hard Costs	10.0%	\$610,030	\$610,030
Subtotal Hard Costs			\$6,710,330	\$6,710,330
<u>Soft Costs</u>				
Soft Costs (1)	% Hard Costs	30.0%	\$2,013,099	\$2,013,099
Subtotal Soft Costs			\$2,013,099	\$2,013,099
<u>Financing Costs</u>				
Construction Loan Fee	% of Loan	1.0%	\$69,787	\$69,787
Construction Interest	Rate	6.0%	\$268,682	\$268,682
Subtotal Financing Costs			\$338,469	\$338,469
<u>Land Costs</u>				
Subtotal Land Costs	1-Acre Site	43,560	\$217,800	\$1,089,000
Total Costs			\$9,279,698	\$10,150,898
Per Unit Cost			\$175,088.64	\$191,526.38
Developer Profit	Return on Costs	>12%	-21%	-27%
			(\$1,907,186)	(\$2,778,386)
<u>Revenue Increase Required for Feasibility</u>				
	Total Value		\$3,020,750	\$3,996,494
	Percent		41%	54%
	Sale Price Per Unit \$		196,099	\$ 214,510
	Rental Price Per Unit		\$1,459	\$1,596

(1) Includes insurance, taxes, legal, accounting, marketing, permits & fees, architecture & engineering and developer overhead.

Source: Strategic Economics, Fregonese Associates

FRESNO FEASIBILITY ANALYSIS

Building Type 4: 4-Story Mixed Use

			Per SF Land Costs	Per SF Land Costs
			\$ 5.00	\$ 25.00
	Unit	Amt	Total	Total
Project Revenues				
Retail	Per Net SF	\$163.20	\$1,749,014	\$1,749,014
Residential	Per Net SF	\$154.56	\$9,350,880	\$9,350,880
Total Revenues			\$11,099,894	\$11,099,894
	Per Unit		\$201,816	\$201,816
Development Costs				
<u>Hard Costs</u>				
Construction				
Retail Construction	Per Bldg SF	\$125	\$1,674,500.00	\$1,674,500.00
Residential Construction	Per GSF	\$125	\$9,625,000.00	\$9,625,000.00
Parking Garage	Per SF	\$80	\$952,000.00	\$952,000.00
Parking Surface	Per SF	\$20	\$0.00	\$0.00
Contingency	% Hard Costs	10.0%	\$1,225,150.00	\$1,225,150.00
Subtotal Hard Costs			\$13,476,650	\$13,476,650
<u>Soft Costs</u>				
Soft Costs (1)	% Hard Costs	30.0%	\$4,042,995	\$4,042,995
Subtotal Soft Costs			\$4,042,995	\$4,042,995
<u>Financing Costs</u>				
Construction Loan Fee	% of Loan	1.0%	\$140,157	\$140,157
Construction Interest	Rate	6.0%	\$539,605	\$539,605
Subtotal Financing Costs			\$679,762	\$679,762
<u>Land Costs</u>				
Subtotal Land Costs	1-Acre Site	43,560	\$217,800	\$1,089,000
Total Costs			\$18,417,207	\$19,288,407
Per Unit Cost			\$334,858.31	\$350,698.31
Developer Profit	Return on Costs	>12%	-40%	-42%
			(\$7,317,313)	(\$8,188,513)
<u>Revenue Increase Required for Feasibility</u>				
	Total Value		\$9,527,378	\$10,503,122
	Percent		86%	95%
	Sale Price Per Unit		\$375,041	\$392,782
	Rental Price Per Unit		\$2,351	\$2,462

(1) Includes insurance, taxes, legal, accounting, marketing, permits & fees, architecture & engineering and developer overhead.

Source: Strategic Economics, Fregonese Associates