



# PROTOTYPICAL FINANCIAL GAP ANALYSIS

Midvale Main Street Community Development Project Area

Salt Lake County | July 12, 2021



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# PROTOTYPICAL FINANCIAL GAP ANALYSIS

## Midvale Main Street Community Development Project Area

SB Friedman was engaged by Salt Lake County (the “County”) to conduct a prototypical financial gap analysis to understand the level of public assistance that may be needed to support redevelopment efforts within the Midvale Main Street Community Development Project Area (the “PA”)

As part of this analysis, SB Friedman estimated the financial gap associated with the construction of three prototypical mixed-use developments, which were defined in consultation with the County and the Redevelopment Agency (RDA) of Midvale City.

The resulting analysis will be used to:

- Evaluate whether development, as envisioned, would proceed “but-for” public assistance; and
- Assist in right-sizing County financial participation in the PA.

FIGURE 1: City of Midvale and Midvale Main Street PA



Source: City of Midvale, Esri, Salt Lake County, SB Friedman

# METHODOLOGY

- SB Friedman outlined three development prototypes for mixed-use projects containing multifamily rental, office, and retail spaces
  - Development prototypes were derived from proposed development projects in Midvale and the greater Salt Lake County region
- Key assumptions, which were derived as a part of this analysis, include:
  - Land acquisition prices
  - Estimated hard and soft costs of construction
  - Net operating income (NOI) based on rents, occupancies, operating expenses, and property taxes
  - Benchmark-level of returns on total costs
- Assumptions for this analysis were sourced from third-party data sources and SB Friedman project experience nationwide

# **PROTOTYPE 1 LARGER-SCALE MIXED-USE DEVELOPMENT**

# LARGER-SCALE MIXED-USE DEVELOPMENT

## Prototype 1 | Overview

- Prototype derived from Jeff Beck development proposal, dated February 24, 2021, and provided by the RDA
- Development program includes:
  - 293 market rate multifamily units
  - 19,200 SF of office space
  - 4,500 SF of retail space
  - 325 above-ground parking spaces
- Comparable scale to largest mixed-use developments delivered in south suburban Salt Lake County market

**TABLE 1: Prototype 1 Development Program**

Development Program	RBA/Units /Parking Spaces
Multifamily	188,100 SF / 293 units
Office	19,200 SF
Retail	4,500 SF
Parking	325 above-ground parking spaces

**FIGURE 2: Comparable Larger Scale Mixed-Use Developments**



Image Source: National Corporate Housing, Utah Apartment Association

# LARGER-SCALE MIXED-USE DEVELOPMENT

## Prototype 1 | Key Assumptions

TABLE 2: Prototype 1 Key Assumptions

Development Costs	Combined	Multifamily	Office	Retail	
Land Costs	\$18 PSF	\$14,00/unit	\$10 PSF	\$44 PSF	[1]
Parking Ratio (per 1,000 SF)	1.3 spaces	1.1 spaces/unit	---	---	
Parking Costs (per space)	\$18,000	\$18,000	---	---	[2, 3]
Hard Costs (HC)	\$185/GSF	\$188/GSF	\$147/GSF	\$147/GSF	[2, 3]
Soft & Financing Costs	4% of HC	4% of HC	4% of HC	4% of HC	[4]
Developer Fee	4% of TDC	5% of TDC	5% of TDC	4% of TDC	[4, 5, 6]
Operating Assumptions					
Efficiency (RSF/GSF)	84%	83%	85%	85%	[2]
Rents	---	See Table 3	\$27.50 PSF (NNN)	\$27.50 PSF (NNN)	[2]
Parking Revenues (per space)	\$25	\$25	---	---	[3]
OpEx (% of Revenue)	24%	24%	25%	25%	[2]
Taxable Value (PSF)	\$156 PSF	\$116,700/unit	\$200 PSF	\$200 PSF	[3][4]
Vacancy Loss (% of Revenue)	5%	5%	5%	5%	[4]
Returns					
Yield on Cost Hurdle	6.7%	6.5%	7.5%	8.0%	[4]

TABLE 3: Prototype 1 Multifamily Rental Unit Assumptions

Type	Unit Count	Average Size	Average Rent (PSF/Chunk)
Studio	78	508 RSF	\$2.05 PSF / \$1,043
1 Bed	168	625 RSF	\$1.80 PSF / \$1,124
2 Bed	47	925 RSF	\$1.58 PSF / \$1,459
<b>Total</b>	<b>293</b>	<b>642 RSF</b>	<b>\$1.80 PSF / \$1,156</b>

[1] Based on projects delivered in Salt Lake County after 2011 and information provided by the County and City of Midvale

[2] Based on Jeff Beck Development assumptions

[3] Based recently reviewed projects in other cities (adjusted for location and year of construction).

[4] Industry benchmark

[5] Total development costs (TDC)

[6] Percent of TDC, less land acquisition

Sources: City of Midvale, CoStar, Jeff Beck Development, PricewaterhouseCoopers (PwC), RERC, RS Means, Salt Lake County Assessor, SB Friedman

# **PROTOTYPE 2**

## **MID-SCALE MIXED-USE DEVELOPMENT**

# MID-SCALE MIXED-USE DEVELOPMENT

## Prototype 2 | Overview

- Prototype derived from Architecture Belgique, Inc. concept, dated May 12, 2021, and provided by the RDA
- Development program includes:
  - 64 market rate multifamily units
  - 8,200 SF retail space
  - 71 parking spaces; 27 tuck-under spaces and 44 surface parking spaces
- Prototype occupies approximately 1.2 acres

**TABLE 4: Prototype 2 Development Program**

Development Program	RBA/Units/Parking Spaces
Multifamily	41,000 SF / 64 units
Retail	8,200 SF
Parking	71 parking spaces 27 tuck-under; 44 surface

**FIGURE 3: Architecture Belgique Project Site Plan**

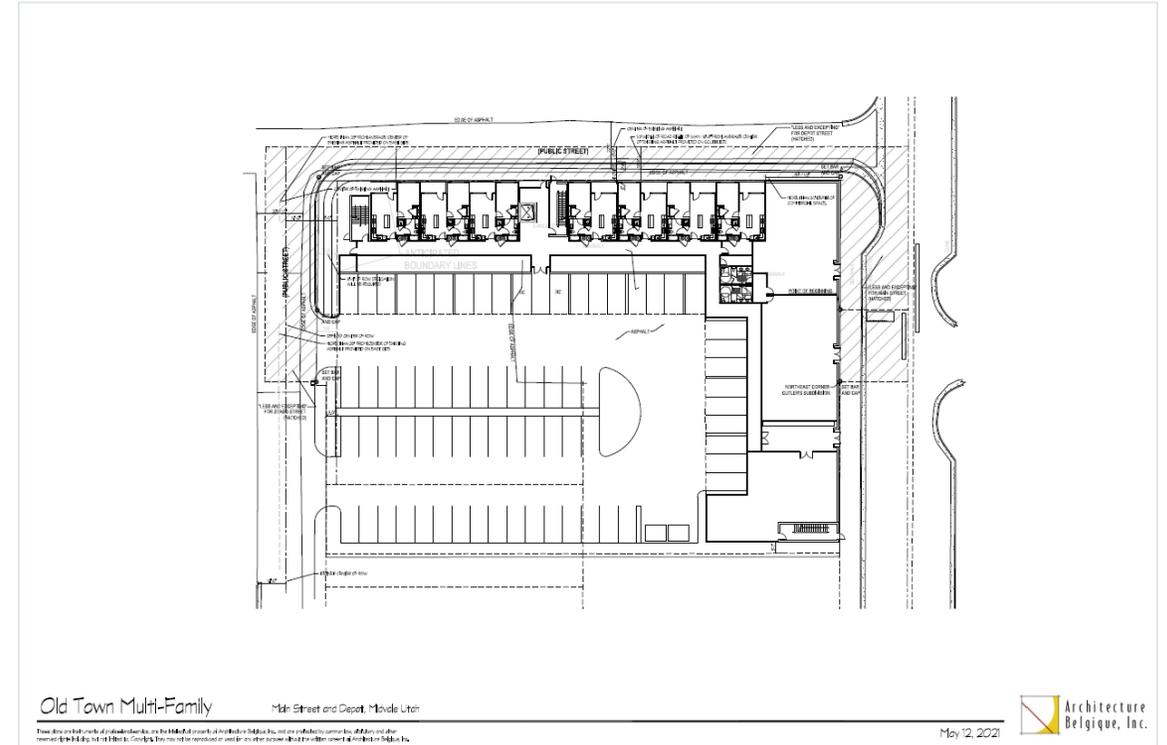


Image Source: Architecture Belgique, Inc.

# MID-SCALE MIXED-USE DEVELOPMENT

## Prototype 2 | Key Assumptions

TABLE 5: Prototype 2 Key Assumptions

Development Costs	Combined	Multifamily	Retail	
Land Costs	\$25 PSF	\$25 PSF	\$25 PSF	[1]
Parking Ratio (per 1,000 SF)	1.5 spaces	0.9 spaces/unit	---	
Parking Costs (per space)	\$10,000	\$10,000	---	[2]
Hard Costs (HC)	\$155/GSF	\$155/GSF	\$155/GSF	[2]
Soft & Financing Costs	11% of HC	11% of HC	11% of HC	[3]
Developer Fee	4% of TDC	4% of TDC	4% of TDC	[3, 4, 5]
Operating Assumptions				
Efficiency (RSF/GSF)	93%	92%	85%	[2]
Rents	---	See Table 6	\$27.50 PSF (NNN)	[2]
Parking Revenues (per space)	\$25	\$25	---	[2]
OpEx (% of Revenue)	24%	25%	25%	[2]
Taxable Value (PSF)	\$154 PSF	\$107,800/unit	\$250 PSF	[2]
Vacancy Loss (% of Revenue)	5%	5%	5%	[3]
Returns				
Yield on Cost Hurdle	6.8%	6.5%	8.0%	[3]

TABLE 6: Prototype 2 Multifamily Rental Unit Assumptions

Type	Unit Count	Average Size	Average Rent (PSF/Chunk)
Studio	4	474 RSF	\$2.05 PSF / \$973
1 Bed	55	571 RSF	\$1.80 PSF / \$1,027
2 Bed	5	851 RSF	\$1.58 PSF / \$1,342
<b>Total</b>	<b>64</b>	<b>587 RSF</b>	<b>\$1.79 PSF / \$1,048</b>

[1] Based on projects delivered in Salt Lake County after 2011 and information provided by the County and City of Midvale

[2] Based recently reviewed projects in other cities (adjusted for location and year of construction).

[3] Industry benchmark

[4] Total development costs (TDC)

[5] Percent of TDC, less land acquisition

Sources: Architecture Belgique, City of Midvale, CoStar, PwC, RERC, RS Means, Salt Lake County Assessor, SB Friedman

# **PROTOTYPE 3 SMALLER-SCALE MIXED-USE DEVELOPMENT**

# SMALLER-SCALE MIXED-USE DEVELOPMENT

## Prototype 3 | Overview

- Prototype derived from Hive Design Group concept, dated January 21, 2021, and provided by the RDA
- Development program includes:
  - 12 market rate multifamily units
  - 3,400 SF retail space
  - 13 surface parking spaces
- Prototype occupies approximately 0.4 acres

**TABLE 7: Prototype 3 Development Program**

Development Program	RBA/Units /Parking Spaces
Multifamily	8,900 SF / 12 units
Retail	3,400 SF
Parking	13 parking spaces, surface

**FIGURE 4: Hive Design Group Project Elevation Drawing**



Image Source: Hive Design Group

# SMALLER-SCALE MIXED-USE DEVELOPMENT

## Prototype 3 | Key Assumptions

TABLE 8: Prototype 3 Key Assumptions

Development Costs	Combined	Multifamily	Retail	
Land Costs	\$25 PSF	\$25 PSF	\$25 PSF	[1]
Parking Ratio (per 1,000 SF)	1.1 spaces	1.1 spaces/unit	---	
Parking Costs (per space)	\$5,000	\$5,000	---	[2]
Hard Costs (HC)	\$155/GSF	\$155/GSF	\$155/GSF	[2]
Soft & Financing Costs	11% of HC	11% of HC	11% of HC	[3]
Developer Fee	4% of TDC	4% of TDC	4% of TDC	[3, 4, 5]
Operating Assumptions				
Efficiency (RSF/GSF)	87%	85%	93%	[2]
Rents	---	See Table 9	\$27.50 PSF (NNN)	[2]
Parking Revenues (per space)	\$25	\$25	---	[2]
OpEx (% of Revenue)	24%	25%	25%	[2]
Taxable Value (PSF)	\$163 PSF	\$107,800/unit	\$250 PSF	[2]
Vacancy Loss (% of Revenue)	5%	5%	5%	[3]
Returns				
Yield on Cost Hurdle	7.0%	6.5%	8.0%	[3]

TABLE 9: Prototype 3 Multifamily Rental Unit Assumptions

Type	Unit Count	Average Size	Average Rent (PSF/Chunk)
Studio	9	540 RSF	\$2.05 PSF / \$1,108
1 Bed	3	842 RSF	\$1.80 PSF / \$1,515
2 Bed	0	---	---
<b>Total</b>	<b>12</b>	<b>616 RSF</b>	<b>\$1.97 PSF / \$1,210</b>

[1] Based on projects delivered in Salt Lake County after 2011 and information provided by the County and City of Midvale

[2] Based recently reviewed projects in other cities (adjusted for location and year of construction).

[3] Industry benchmark

[4] Total development costs (TDC)

[5] Percent of TDC, less land acquisition

Sources: City of Midvale, CoStar, Hive Design Group, PwC, RERC, RS Means, Salt Lake County Assessor, SB Friedman

# CONCLUSIONS

# FINANCIAL GAP ANALYSIS FINDINGS

## Each development prototype, as envisioned, would likely not proceed “but-for” public assistance

- Financial feasibility appears to be impacted by market-supportable rents, which do not fully support anticipated development costs
- Without public assistance, all three scenarios demonstrate a financial gap:
  - Prototype 1: Commercial development could be feasible, but does not appear to be able to offset financial gaps associated with the multifamily component of the project and structured parking, a key component of the PA Plan
  - Assistance required in order to make each prototype financially feasible ranges from ±\$20-54 PSF, ±\$14,000-17,000 for small- and mid-scale residential and ±\$50,000/multifamily unit (plus parking) for large-scale residential, depending on the contemplated density and mix of uses
- Each development prototype, as contemplated, would likely not proceed “but-for” public assistance

TABLE 10: Financial Gap Analysis Findings – Midvale Market Rate Rents

Prototype 1	Multifamily	Retail	Office
Gap PSF/Unit	-\$64,300/unit	\$0 PSF	\$0 PSF
Gap PSF/Unit, less parking	-\$49,800/unit	\$0 PSF	\$0 PSF

Prototype 2	Multifamily	Retail
Gap PSF/Unit	-\$21,900/unit	-\$39 PSF
Gap PSF/Unit, less parking	-\$16,600/unit	-\$39 PSF

Prototype 3	Multifamily	Retail
Gap PSF/Unit	-\$14,200/unit	-\$19 PSF
Gap PSF/Unit, less parking	-\$13,500/unit	-\$19 PSF

# FINANCIAL GAP ANALYSIS FINDINGS

Financial gaps will likely decrease over time as the objectives of the PA plan are realized

- SB Friedman conducted a sensitivity analysis to estimate the resulting financial gap, should rents increase to “top-of-the-market” rents currently observed in southern Salt Lake County:
  - Studio Apartments - \$2.24 PSF
  - 1-Bedroom Apartments - \$1.96 PSF
  - 2-Bedroom Apartments - \$1.70 PSF
  - Commercial: \$27.50 PSF (NNN)
- This increase in rents is likely not achievable in the near-term
- Without public assistance, all three scenarios continue to demonstrate a financial gap, though at a lower level
- This indicates that the need for public assistance will likely decrease over time as the objectives of the PA plan are realized and achievable rents increase.

**TABLE 11: Financial Gap Analysis Findings – Regional Market Rate Rent Sensitivity**

Prototype 1	Multifamily	Retail	Office
Gap PSF/Unit	-\$51,900/unit	\$0 PSF	\$0 PSF
Gap PSF/Unit, less parking	-\$37,400/unit	\$0 PSF	\$0 PSF

Prototype 2	Multifamily	Retail
Gap PSF/Unit	-\$9,800/unit	-\$39 PSF
Gap PSF/Unit, less parking	-\$4,500/unit	-\$39 PSF

Prototype 3	Multifamily	Retail
Gap PSF/Unit	\$0/unit	-\$19 PSF
Gap PSF/Unit, less parking	\$0/unit	-\$19 PSF

# CONCLUSIONS

Key conclusions from our analysis are outlined below:

- Achievable rents appear to be impacting the financial feasibility of redevelopment within the PA.
- These rents do not fully support the cost of mixed-use, infill development and structured parking, as envisioned in the PA Plan.
- Modifications could be made to reduce identified financial gaps, such as value engineering to reduce costs or adjusting the mix of land uses and multifamily units.
- Lower density projects appear to generate a lower financial gap and would therefore require a lower level of public assistance to be financially viable.
- Larger scale development, which would be a new development typology along Main Street proper, is challenged by both higher construction costs associated with denser development, as well as the need for structured parking.
- Investment in shared or publicly-owned parking garages could reduce the financial gap on these projects.
- For PA planning purposes, the following metrics could be used to right-size PA budgets:
  - Larger-scale multifamily:  
Up to \$50,000/unit, plus structured parking
  - Small-to-mid-scale multifamily:  
Up to \$17,000/unit, plus parking
  - Commercial: Up to \$40 PSF, plus parking.
- It is important to note that the need for public assistance will likely decrease over time as the objectives of the PA plan are realized.
- Should projects achieve rents observed elsewhere in southern Salt Lake County, the need for assistance would decrease (see page 15).
- SB Friedman recommends a detailed review of individual projects as public assistance is requested, given that variations in development costs and operating assumptions impact financial gaps.

# APPENDIX

# APPENDIX A – FINANCIAL GAP ANALYSIS FINDINGS

## Midvale Market Rate Rents

Financial Gap Analysis Findings				
Prototype 1	Combined	Multifamily	Retail	Office
Targeted Yield on Cost	6.6%	6.5%	8.0%	7.5%
Stabilized NOI	\$2.7M	\$2.3M	<\$0.1M	\$0.3M
Supportable Dev. Costs	\$41.9M	\$36.2M	\$1.0M	\$4.7M
Total Dev. Costs	\$59.3M	\$55.0M	\$1.0M	\$3.3M
<b>Financial Gap</b>	<b>-\$18.8M</b>	<b>-\$18.8M</b>	<b>\$0</b>	<b>\$0</b>
<b>Financial Gap, less parking</b>	<b>-\$14.6M</b>	<b>-\$14.6M</b>	<b>\$0</b>	<b>\$0</b>
<b>Gap PSF/Unit</b>	<b>-\$77 PSF</b>	<b>-\$64,300/unit</b>	<b>\$0 PSF</b>	<b>\$0 PSF</b>
<b>Gap PSF/Unit, less parking</b>	<b>-\$54 PSF</b>	<b>-\$49,800/unit</b>	<b>\$0 PSF</b>	<b>\$0 PSF</b>

Prototype 2	Combined	Multifamily	Retail
Targeted Yield on Cost	6.8%	6.5%	8.0%
Stabilized NOI	\$0.6M	\$0.5M	\$0.1M
Supportable Dev. Costs	\$9.0M	\$7.7M	\$1.3M
Total Dev. Costs	\$10.7M	\$9.1M	\$1.7M
<b>Financial Gap</b>	<b>-\$1.7M</b>	<b>-\$1.4M</b>	<b>-\$0.3M</b>
<b>Financial Gap, less parking</b>	<b>-\$1.4M</b>	<b>-\$1.1M</b>	<b>-\$0.3M</b>
<b>Gap PSF/Unit</b>	<b>-\$36 PSF</b>	<b>-\$21,900/unit</b>	<b>-\$39 PSF</b>
<b>Gap PSF/Unit, less parking</b>	<b>-\$30 PSF</b>	<b>-\$16,600/unit</b>	<b>-\$39 PSF</b>

Prototype 3	Combined	Multifamily	Retail
Targeted Yield on Cost	7.0%	6.5%	8.0%
Stabilized NOI	\$0.2M	\$0.1M	\$0.1M
Supportable Dev. Costs	\$2.3M	\$1.7M	\$0.6M
Total Dev. Costs	\$2.6M	\$1.9M	\$0.7M
<b>Financial Gap</b>	<b>-\$0.3M</b>	<b>-\$0.2M</b>	<b>-\$0.1M</b>
<b>Financial Gap, less parking</b>	<b>-\$0.2M</b>	<b>-\$0.3M</b>	<b>-\$0.2M</b>
<b>Gap PSF/Unit</b>	<b>-\$19 PSF</b>	<b>-\$14,200/unit</b>	<b>-\$19 PSF</b>
<b>Gap PSF/Unit, less parking</b>	<b>-\$19 PSF</b>	<b>-\$13,500/unit</b>	<b>-\$19 PSF</b>

# APPENDIX B – FINANCIAL GAP ANALYSIS FINDINGS

## Regional Market Rate Rents Sensitivity

Financial Gap Analysis Findings				
Prototype 1	Combined	Multifamily	Retail	Office
Targeted Yield on Cost	6.7%	6.5%	8.0%	7.5%
Stabilized NOI	\$3.0M	\$2.6M	\$0.1M	\$0.4M
Supportable Dev. Costs	\$45.5M	\$39.8M	\$4.7M	\$1.0M
Total Dev. Costs	\$59.3M	\$55.0M	\$1.0M	\$3.3M
<b>Financial Gap</b>	<b>-\$15.2M</b>	<b>-\$15.2M</b>	<b>\$0</b>	<b>\$0</b>
<b>Financial Gap, less parking</b>	<b>-\$9.7M</b>	<b>-\$9.7M</b>	<b>\$0</b>	<b>\$0</b>
<b>Gap PSF/Unit</b>	<b>-\$62 PSF</b>	<b>-\$51,900/unit</b>	<b>\$0 PSF</b>	<b>\$0 PSF</b>
<b>Gap PSF/Unit, less parking</b>	<b>-\$40 PSF</b>	<b>-\$37,400/unit</b>	<b>\$0 PSF</b>	<b>\$0 PSF</b>

Prototype 2	Combined	Multifamily	Retail
Targeted Yield on Cost	6.8%	6.5%	8.0%
Stabilized NOI	\$0.7M	\$0.6M	\$0.1M
Supportable Dev. Costs	\$9.8M	\$8.5M	\$1.4M
Total Dev. Costs	\$10.7M	\$9.1M	\$1.7M
<b>Financial Gap</b>	<b>-\$0.9M</b>	<b>-\$0.6M</b>	<b>-\$0.3M</b>
<b>Financial Gap, less parking</b>	<b>-\$0.6M</b>	<b>-\$0.3M</b>	<b>-\$0.3M</b>
<b>Gap PSF/Unit</b>	<b>-\$20 PSF</b>	<b>-\$9,800/unit</b>	<b>-\$39 PSF</b>
<b>Gap PSF/Unit, less parking</b>	<b>-\$14 PSF</b>	<b>-\$4,500/unit</b>	<b>-\$39 PSF</b>

Prototype 3	Combined	Multifamily	Retail
Targeted Yield on Cost	7.0%	6.5%	8.0%
Stabilized NOI	\$0.2M	\$0.1M	\$0.1M
Supportable Dev. Costs	\$2.5M	\$1.9M	\$0.6M
Total Dev. Costs	\$2.6M	\$1.9M	\$0.7M
<b>Financial Gap</b>	<b>-\$0.1M</b>	<b>\$0</b>	<b>-\$0.1M</b>
<b>Financial Gap, less parking</b>	<b>-\$0.1M</b>	<b>\$0</b>	<b>-\$0.2M</b>
<b>Gap PSF/Unit</b>	<b>-\$5 PSF</b>	<b>\$0/unit</b>	<b>-\$19 PSF</b>
<b>Gap PSF/Unit, less parking</b>	<b>-\$5 PSF</b>	<b>\$0/unit</b>	<b>-\$19 PSF</b>



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# LIMITATIONS OF OUR ENGAGEMENT

Our deliverables are based on estimates, assumptions and other information developed from research of the market, knowledge of the industry, and meetings/teleconferences with the County and developers during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the deliverable. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our report, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise analyses or the deliverables to reflect events or conditions that occur subsequent to the date of the deliverable. These events or conditions include, without limitation, economic growth trends, governmental actions, changes in state statute or city ordinance, additional competitive developments, interest rates, and other market

factors. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our deliverables are intended solely for your information and do not constitute a recommendation to issue bonds or other securities. The report should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document intended for use in obtaining funds from individual investors without our prior written consent.

We acknowledge that upon submission to Salt Lake County, the report may become a public document within the meaning of the Freedom of Information Act. Nothing in these limitations is intended to block the disclosure of the documents under such Act.