

# TODCONNECTS

EQUITABLE GROWTH  
THROUGH TRANSIT  
ORIENTED DEVELOPMENT

FINANCIAL FEASIBILITY ANALYSIS



# CATALYTIC SITES ANALYSIS

# Catalytic Sites Analysis

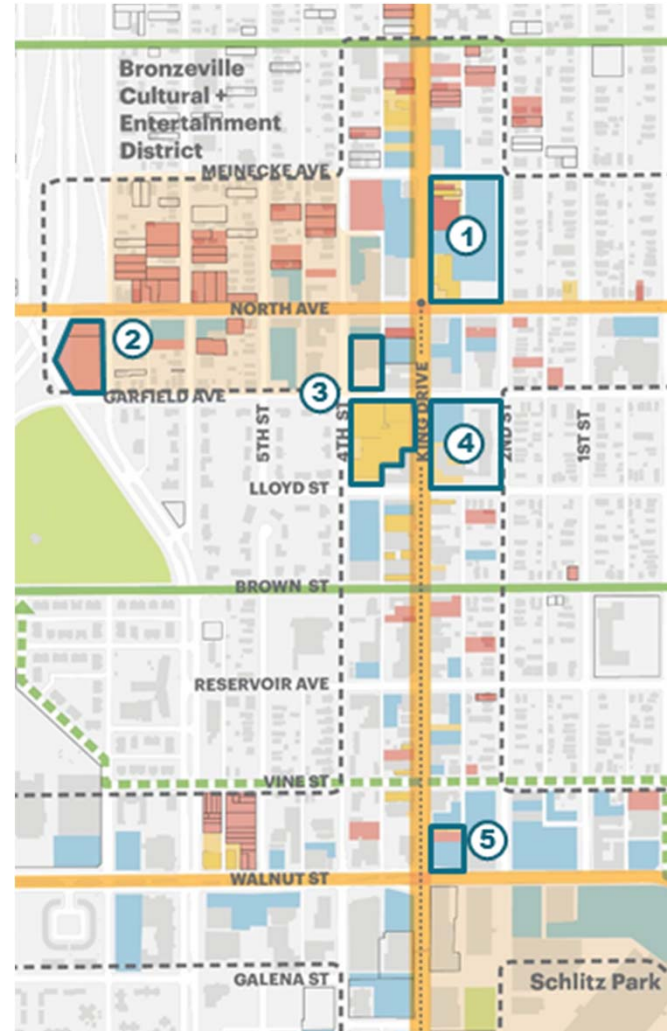
## *Purpose of Our Analysis*

The purpose of the catalytic site analysis is to evaluate, at a conceptual level, the feasibility of new development within the two study areas. Sites selected for analysis are located within close proximity to key nodes and have the potential to catalyze further neighborhood investment. Development programs were prepared for each site that:

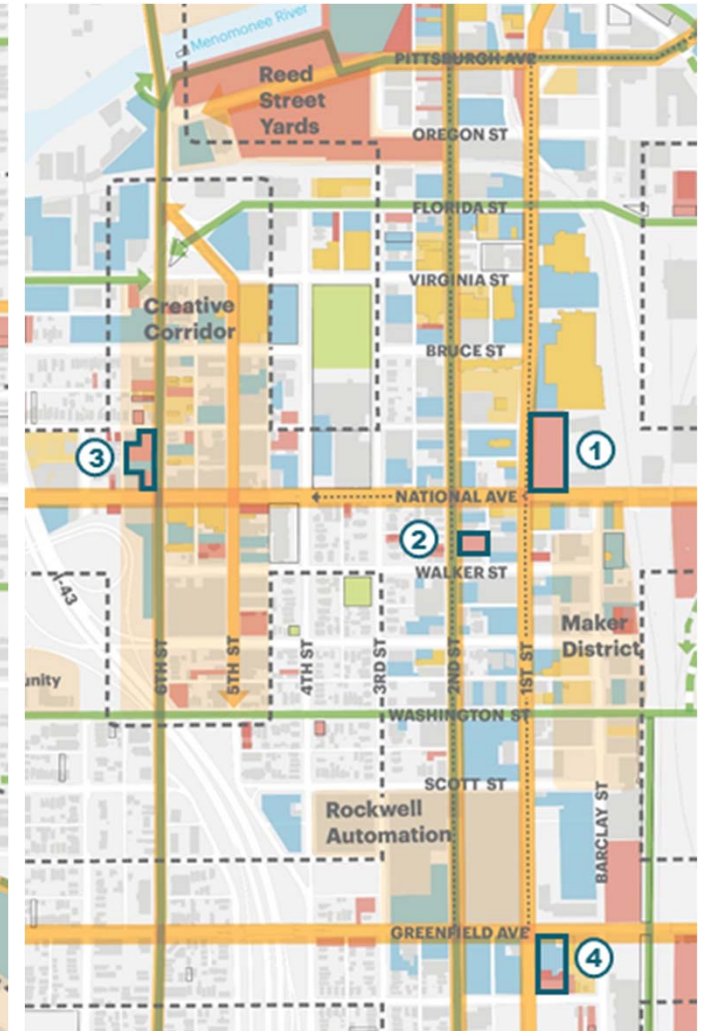
- Demonstrate a mix of uses, scale and intensity;
- Reflect a range of geographic locations;
- Respond to a range of development options (townhomes, stacked flats, mid rise buildings etc.); and
- Respond to unique neighborhood opportunities (new construction, adaptive reuse, infill, addition/expansion).

Through the catalytic sites analysis, the City, key stakeholders and the planning team are able to:

- Evaluate existing market conditions and factors that are impacting project feasibility;
- Develop strategic actions to facilitate new development and achieve planning goals; and
- Understand the impact of potential strategic actions on project feasibility.



CATALYTIC SITES | Bronzeville & King Drive



CATALYTIC SITES | Walker's Point



# Catalytic Sites Analysis

## Analysis Framework

The catalytic sites analysis evaluates project feasibility through a **financial gap analysis approach**. Stabilized pro formas by land use were developed for each site. Assumptions within the analysis were derived from SB Friedman’s experience with comparable projects in the Milwaukee market and elsewhere, as well as from third-party industry data sources. The analysis employs two frameworks, as described below and illustrated to the right.

- **Market Rate Development.** Estimates total development costs (TDC) and stabilized market value. If stabilized market value is greater than or equal to TDC, then the project is feasible. If stabilized market value is below TDC, the project is likely not feasible without public assistance.
- **Affordable / Mixed-Income Development.** Estimates TDC and likely sources of funds, based on project characteristics and cash flow. If sufficient sources of funds cannot be supported by the project, then public assistance will likely be required.

The following pages illustrate the financial feasibility of prototypical market-rate and affordable/mixed-income projects, outlining key assumptions and sensitivities.

### ANALYSIS FRAMEWORK | Market Rate Development

#### TOTAL DEVELOPMENT COSTS

Land Costs  
+ Hard Costs  
+ Soft & Financing Costs  
+ Developer Fees  
= Total Development Costs

#### MARKET VALUE

Rents/Revenues  
- Operating Costs  
- Taxes  
- Vacancy  
= Net Operating Income (NOI)  
÷ Capitalization Rate  
= Market Value

#### PROJECT FEASIBILITY

Total Development Costs  
- Market Value  
= Funding Gap/(Surplus Profit)

### ANALYSIS FRAMEWORK | Affordable / Mixed-Income Development

#### TOTAL DEVELOPMENT COSTS

Land Costs  
+ Hard Costs  
+ Soft & Financing Costs  
+ Developer Fees  
= Total Development Costs

#### SOURCES OF FUNDS

Conventional debt  
+ Market-rate equity  
+ Deferred developer fee  
+ LIHTC equity  
= Total Sources of Funds

#### PROJECT FEASIBILITY

Total Development Costs  
- Sources of Funds  
= Funding Gap/(Surplus Profit)

# Prototypical Market-Rate Multifamily Project

*153 MFH units; 14,000 sf Retail; Structured Parking (0.8 spaces/unit)*

The analysis below evaluates the impact of rent and land price changes on the feasibility of a prototypical market-rate multifamily project.

	\$1.65 MF RENT \$15 RETAIL RENT \$10/SF LAND	\$1.83 MF RENT \$17 RETAIL RENT \$23/SF LAND	\$2.00 MF RENT \$19 RETAIL RENT \$36/SF LAND
<b>TOTAL DEVELOPMENT COSTS</b>			
Land Price	\$0.64 M	\$1.47 M	\$2.30 M
+ Hard Costs (Base Building)	\$25.78 M	\$25.78 M	\$25.78 M
+ Hard Costs (Structured Parking)	\$2.33 M	\$2.33 M	\$2.33 M
+ Soft & Financing Costs	\$4.29 M	\$4.29 M	\$4.29 M
+ Developer Fee	\$1.30 M	\$1.30 M	\$1.30 M
<b>= TOTAL DEVELOPMENT COSTS</b>	<b>\$34.33M</b>	<b>\$35.16 M</b>	<b>\$35.99 M</b>
<b>MARKET VALUE</b>			
Total Rental Revenue	\$2.92 M	\$3.22 M	\$3.52 M
- Operating Expenses	\$1.13 M	\$1.21 M	\$1.28 M
<b>= Net Operating Income (NOI)</b>	<b>\$1.79 M</b>	<b>\$2.02 M</b>	<b>\$2.23 M</b>
÷ Capitalization Rate	6.0%	6.0%	6.0%
<b>= MARKET VALUE</b>	<b>\$29.79 M</b>	<b>\$33.60 M</b>	<b>\$37.23 M</b>
<b>FINANCING (GAP) SURPLUS</b>	<b>(\$4.54 M)</b>	<b>(\$1.55 M)</b>	<b>\$1.24 M</b>
<i>Financing (Gap) Surplus (% of TDC)</i>	<i>(13.2%)</i>	<i>(4.4%)</i>	<i>3.5%</i>

## EXAMPLE DEVELOPMENT

Frederick Lofts | Milwaukee, WI

Image source: CoStar



# Prototypical Mixed-Income (4%) Multifamily Project

*87 MFH units; 14,000 sf Retail; Structured Parking (0.8 spaces/unit)*

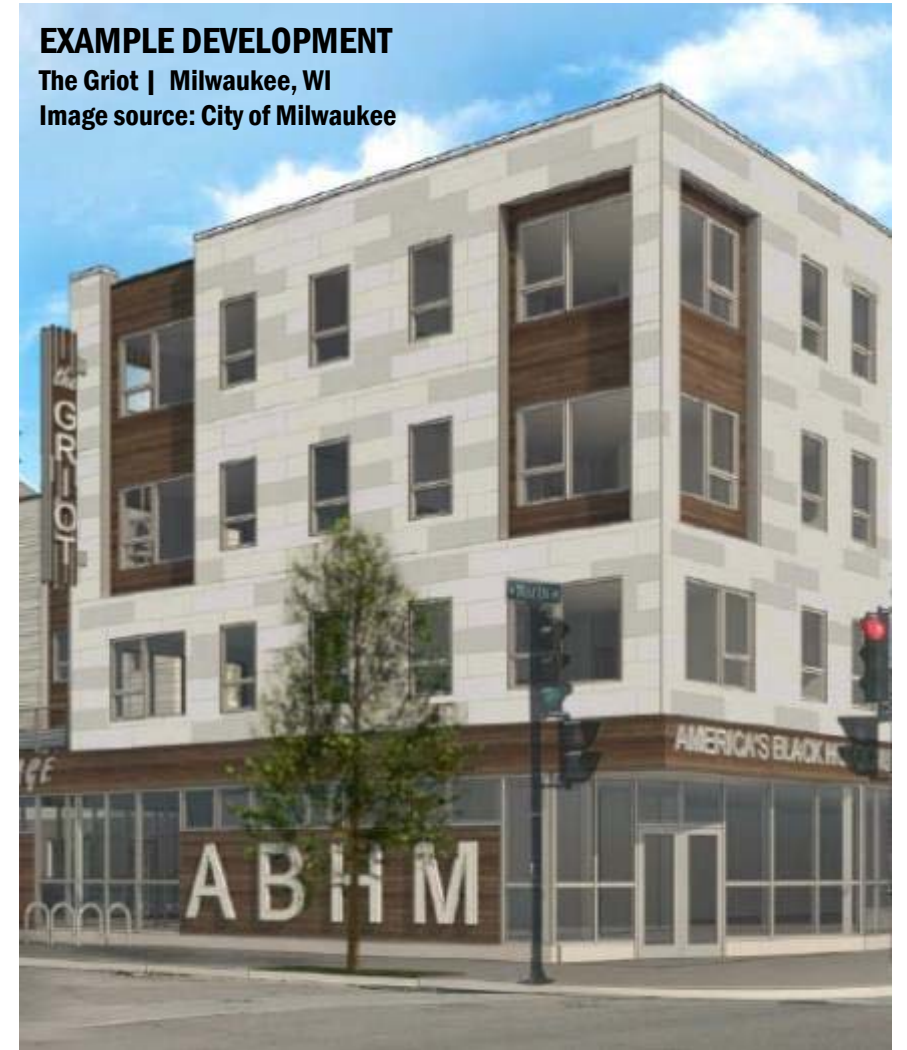
The analysis below evaluates the impact of incorporating affordable units into market-rate development, resulting in a mixed-income development that leverages Low Income Housing Tax Credits and other affordable housing programs (the latter of which is not assumed in this analysis).

AFFORDABILITY	40% MARKET RATE	50% MARKET RATE	60% MARKET RATE
Market Rate Rent	\$1.85	\$1.85	\$1.85
Affordability Level	60% AMI	60% AMI	60% AMI
Unit Mix			
- 1-bed	40%	40%	40%
- 2-bed	60%	60%	60%
<b>TOTAL DEVELOPMENT COST</b>	<b>\$36.18 M</b>	<b>\$35.98 M</b>	<b>\$35.78 M</b>
- WHEDA debt	\$17.19 M	\$18.83 M	\$20.48 M
- Market-rate equity	\$3.61 M	\$4.33 M	\$5.04 M
- Deferred developer fee	\$0.86 M	\$0.71 M	\$0.58 M
- LIHTC Equity (4%)	\$7.36 M	\$6.14 M	\$4.91 M
- Affordable Housing Funds	\$0.0 M	\$0.0 M	\$0.0 M
<b>FUNDING GAP</b>	<b>(\$7.16 M)</b>	<b>(\$5.97 M)</b>	<b>(\$4.77 M)</b>
<i>Financing (Gap) Surplus (% of TDC)</i>	<i>(19.8%)</i>	<i>(16.6%)</i>	<i>(13.3%)</i>

## EXAMPLE DEVELOPMENT

The Griot | Milwaukee, WI

Image source: City of Milwaukee



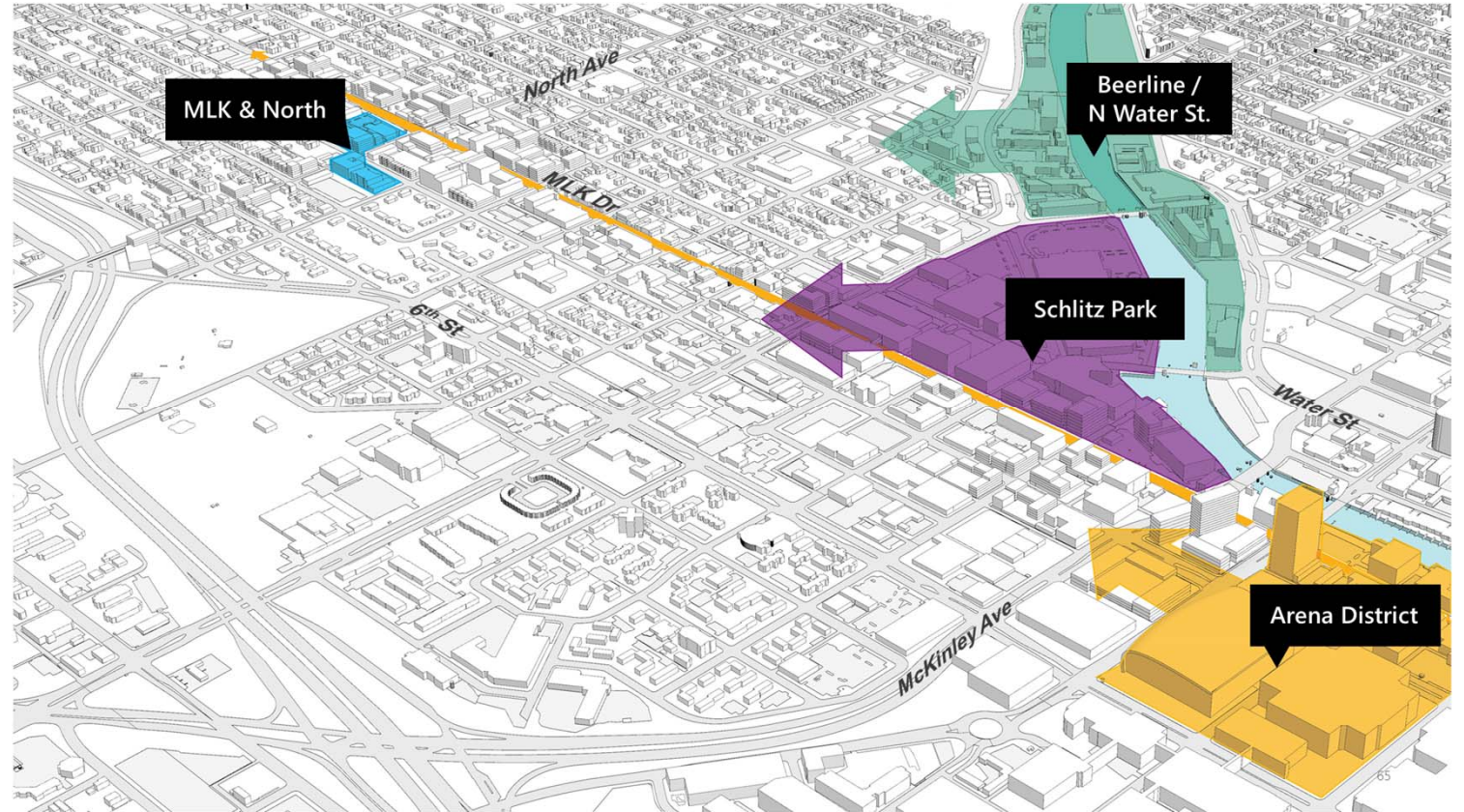


# Market Conditions: At the Doorstep of Development

## *Bronzeville & King Drive*

Bronzeville and King Drive are beginning to feel development pressures as a result of redevelopment activity occurring in adjacent neighborhoods to the south and southeast. In recent years, the Arena District, the Beer Line/Water Street Corridor, and Schlitz Park have all benefited from significant investment in residential, office and entertainment uses.

The catalytic impact of these investments has resulted in some spinoff redevelopment within the study area, particularly on the south end of King Drive. However, reinvestment activity has been limited as you travel north along King Drive towards Bronzeville. New development on the north end of the corridor has been largely subsidized by the City through its Tax Incremental Financing (TIF) program and/or has leveraged state and federal tax credit programs (i.e., Historic Tax Credits (HTC), Low-Income Housing Tax Credits (LIHTC), and New Markets Tax Credits (NMTC)). These strategic public investments have set the stage for further private investment, which will be important as the availability of redevelopment sites to the south and southeast of the study area becomes limited and reinvestment pushes north along King Drive.

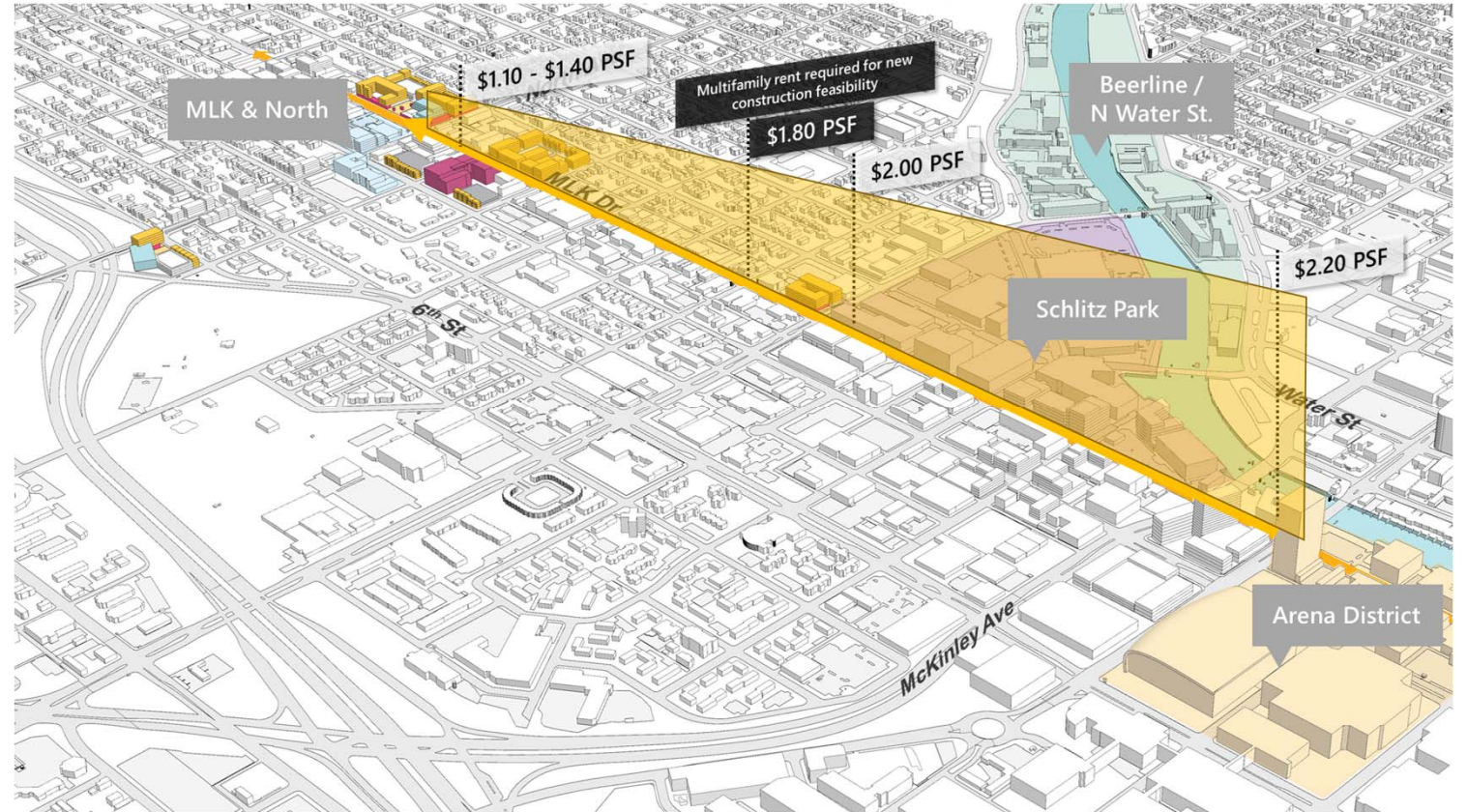




# Challenging Investment Environment

## *Bronzeville & King Drive*

Currently, real estate markets in the south end of the study area are performing much like their revitalizing neighbors; however, given the high number of tax credit-supported projects on the northern end of the corridor, the market for new market-rate residential and commercial development is largely unproven. This creates a challenging investment environment as developers, lenders, and equity investors are unable to rely on market rent and absorption data when evaluating project feasibility. The varied real estate market conditions from south to north have resulted in a significant rent gradient in the corridor, with rents decreasing as you head north along King Drive. Within large portions of the study area, it is unlikely that high enough rents can currently be achieved for new construction market-rate projects to be financially feasible.

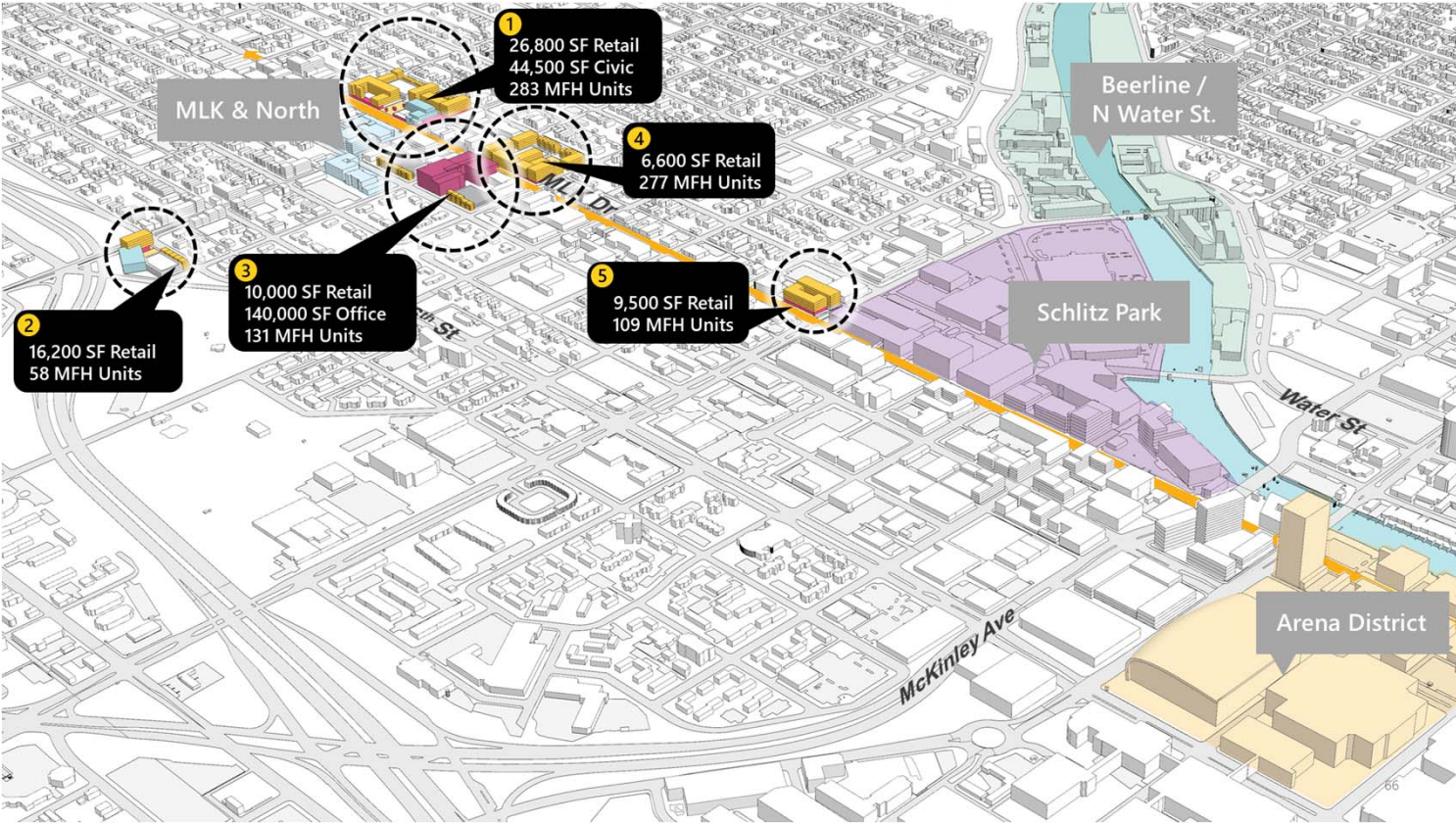




# Catalytic Sites

## Bronzeville & King Drive

Five catalytic sites were analyzed in Bronzeville and King Drive to evaluate project feasibility.



Summaries of the catalytic site analyses are presented on the following pages and illustrate both existing market conditions and the impact of escalating rent and land values on project feasibility.

# Financial Feasibility by Catalytic Site

## Bronzeville & King Drive - Existing Market Conditions



	<b>BRONZEVILLE 1</b> 283 MFH units <i>(50% market rate;                      25% (9%) affordable;                      25% (4%) affordable)</i> 26,800 sf Retail [1]	<b>BRONZEVILLE 2</b> 58 MFH units <i>(40% market rate;                      60% (9%) affordable)</i> 16,200 sf Retail	<b>BRONZEVILLE 3</b> 131 MFH units <i>(100% market rate)</i> 140,000 sf Office 10,000 sf Retail <b>Assumes \$14.7 M in HTC</b>	<b>BRONZEVILLE 4</b> 277 MFH units <i>(50% market rate;                      25% (9%) affordable;                      25% (4%) affordable)</i> 6,600 sf Retail	<b>BRONZEVILLE 5</b> 109 MFH units <i>(80% market rate;                      20% (4%) affordable)</i> 9,500 sf Retail 50 Add't'l Parking Spaces
Land Price / Land SF	\$10	\$10	\$0	\$10	\$24
MF Rent / RSF (Mkt. Rate)	\$1.65	\$1.65	\$1.65	\$1.65	\$2.00
Affordable Rent / RSF	\$0.90 (50% AMI) \$1.08 (60% AMI)	\$0.90 (50% AMI) \$1.08 (60% AMI)	n/a	\$0.90 (50% AMI) \$1.08 (60% AMI)	\$0.90 (50% AMI) \$1.08 (60% AMI)
Annual Retail Rent / RSF	\$15	\$15	\$15	\$15	\$19
Annual Office Rent / RSF	n/a	n/a	\$13	n/a	n/a
<b>Funding Gap</b>	<b>(\$12.6 M)</b>	<b>(\$2.3 M)</b>	<b>(\$4.9 M)</b>	<b>(\$11.3 M)</b>	<b>(\$3.0 M)</b>
<i>Financing (Gap) Surplus (% of TDC)</i>	<i>(19.0%)</i>	<i>(13.9%)</i>	<i>(10.0%)</i>	<i>(18.9%)</i>	<i>(11.6%)</i>

[1] Civic space not included in financial feasibility analysis (it is assumed that sufficient revenue will be generated by the civic uses to amortize construction, or donations will fund construction)



# Financial Feasibility by Catalytic Site

*Bronzeville & King Drive - Premium Applied to Rent Assumptions & Land Sale Cost*



	<b>BRONZEVILLE 1</b> 283 MFH units <i>(50% market rate;                      25% (9%) affordable;                      25% (4%) affordable)</i> 26,800 sf Retail [1]	<b>BRONZEVILLE 2</b> 58 MFH units <i>(40% market rate;                      60% (9%) affordable)</i> 16,200 sf Retail	<b>BRONZEVILLE 3</b> 131 MFH units <i>(100% market rate)</i> 140,000 sf Office 10,000 sf Retail <b>Assumes \$14.7 M in HTC</b>	<b>BRONZEVILLE 4</b> 277 MFH units <i>(50% market rate;                      25% (9%) affordable;                      25% (4%) affordable)</i> 6,600 sf Retail	<b>BRONZEVILLE 5</b> 109 MFH units <i>(80% market rate;                      20% (4%) affordable)</i> 9,500 sf Retail 50 Add't'l Parking Spaces
Land Price / Land SF	\$20	\$20	\$0	\$20	\$36
MF Rent / RSF (Mkt. Rate)	\$1.80	\$1.80	\$1.80	\$1.80	\$2.15
Affordable Rent / RSF	\$0.90 (50% AMI) \$1.08 (60% AMI)	\$0.90 (50% AMI) \$1.08 (60% AMI)	n/a	\$0.90 (50% AMI) \$1.08 (60% AMI)	\$0.90 (50% AMI) \$1.08 (60% AMI)
Annual Retail Rent / RSF	\$16.50	\$16.50	\$16.50	\$16.50	\$20
Annual Office Rent / RSF	n/a	n/a	\$14	n/a	n/a
<b>Funding Gap</b>	<b>(\$11.0 M)</b>	<b>(\$2.2 M)</b>	<b>(\$0.65 M)</b>	<b>(\$9.9 M)</b>	<b>(\$1.6 M)</b>
<i>Financing (Gap) Surplus (% of TDC)</i>	<i>(16.2%)</i>	<i>(12.6%)</i>	<i>(1.3%)</i>	<i>(16.2%)</i>	<i>(6.2%)</i>

[1] Civic space not included in financial feasibility analysis (it is assumed that sufficient revenue will be generated by the civic uses to amortize construction, or donations will fund construction)

# Financial Feasibility by Catalytic Site

*Bronzeville & King Drive - Premium Applied to Rent Assumptions & Land Sale Cost*



	<b>BRONZEVILLE 1</b> 283 MFH units <i>(50% market rate;                      25% (9%) affordable;                      25% (4%) affordable)</i> 26,800 sf Retail [1]	<b>BRONZEVILLE 2</b> 58 MFH units <i>(40% market rate;                      60% (9%) affordable)</i> 16,200 sf Retail	<b>BRONZEVILLE 3</b> 131 MFH units <i>(100% market rate)</i> 140,000 sf Office 10,000 sf Retail <i>Assumes \$14.7 M in HTC</i>	<b>BRONZEVILLE 4</b> 277 MFH units <i>(50% market rate;                      25% (9%) affordable;                      25% (4%) affordable)</i> 6,600 sf Retail	<b>BRONZEVILLE 5</b> 109 MFH units <i>(80% market rate;                      20% (4%) affordable)</i> 9,500 sf Retail 50 Add't'l Parking Spaces
Land Price / Land SF	\$30	\$30	\$0	\$30	\$45
MF Rent / RSF (Mkt. Rate)	\$1.90	\$1.90	\$1.90	\$1.90	\$2.30
Affordable Rent / RSF	\$0.90 (50% AMI) \$1.08 (60% AMI)	\$0.90 (50% AMI) \$1.08 (60% AMI)	n/a	\$0.90 (50% AMI) \$1.08 (60% AMI)	\$0.90 (50% AMI) \$1.08 (60% AMI)
Annual Retail Rent / RSF	\$18	\$18	\$18	\$18	\$22
Annual Office Rent / RSF	n/a	n/a	\$15	n/a	n/a
<b>Funding Gap</b>	<b>(\$10.3 M)</b>	<b>(\$2.2 M)</b>	<b>\$2.8 M</b>	<b>(\$9.3 M)</b>	<b>(\$0.0 M)</b>
<i>Financing (Gap) Surplus (% of TDC)</i>	<i>(14.8%)</i>	<i>(12.1%)</i>	<i>5.7%</i>	<i>(14.9%)</i>	<i>(0.1%)</i>

[1] Civic space not included in financial feasibility analysis (it is assumed that sufficient revenue will be generated by the civic uses to amortize construction, or donations will fund construction)