# 2015

## Roosevelt Feasibility Analysis



Leshinsky Finance, LLC 6/1/2015



## TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
OVERVIEW	3
AREA OVERVIEW	3
MARKET ANALYSIS	3
FINANCIAL ANALYSIS	4
CONCLUSION AND RECOMMENDATION	5
1. BACKGROUND	7
1.1 OVERVIEW OF THE ROOSEVELT PROJECT PLAN	7
1.2 STUDY OVERVIEW	10
1.3 ABOUT LESHINSKY FINANCE, LLC	13
2. AREA OVERVIEW	15
2.1 ACCESS TO TRANSPORT	16
2.2 SURROUNDING AREA	
2.3 COMPETETIVE LANDSCAPE	21
3. MARKET ECONOMIC TRENDS	23
3.1 DEFINING THE MARKET	23
3.2 POPULATION	24
3.3 Households	26
3.4 HOUSEHOLD INCOME	27
3.5 EMPLOYMENT	29
3.6 retail	
4. REAL ESTATE MARKET TRENDS	
4.1 RESIDENTIAL SPACE	
4.2 OFFICE SPACE	47
4.3 RETAIL SPACE	52



#### Leshinsky Finance, LLC 2 Roosevelt Feasibility Analysis

5. MARKET ASSESSMENT	54
5.1 TRENDS OVERVIEW	54
5.2 RESIDENTIAL OPPORTUNITY	55
5.3 OFFICE OPPORTUNITY	56
5.4 RETAIL OPPORTUNITY	56
5.5 CONCLUSION	57
6. ORIGINAL PLAN FINANCIAL ANALYSIS	59
6.1 METHODOLOGY	59
6.2 PRODUCT PLAN AND SCOPE	59
6.3 PROFIT AND LOSS ESTIMATION	62
6.4 COST OF CONSTRUCTION	66
6.5 CAPITALIZATION RATE	67
6.6 NPV AND IRR CALCULATIONS	68
6.7 CITY CONCESSIONS	72
6.8 Sensitivity analyses	76
6.9 SUMMARY AND RECOMMENDATIONS	84
7. OPTIMIZED PLAN FINANCIAL ANALYSIS	
7.1 SCENARIO ANALYSIS	88
7.2 OPTIMIZED PLAN FINANCIAL ANALYSIS	91
7.3 CITY CONCESSIONS AND SUPPORT	95
7.4 SENSITIVITY ANALYSES	98
7.5 SUMMARY AND RECOMMENDATIONS	
8. CONCLUSION & RECOMMENDATIONS	
8.1 MARKET OPPORTUNITY	105
8.2 FINANCIAL OPPORTUNITY	
8.3 CITY CONCESSIONS AND PARKING	
8.4 LESHINSKY FINANCE RECOMMENDATIONS	110
APPENDIX A - BIBLIOGRAPHIC RESOURCES	
APPENDIX B – PROPOSED PLAN DESIGN	



### **EXECUTIVE SUMMARY**

#### OVERVIEW

- This report analyzes the opportunity of developing prime land in the center of Pawtucket that is currently used for parking lots.
- ➢ The report follows closely a mixed use development plan (from 2007) that includes:
  - Residential (approximately 68 units), retail and office space
  - Parking garage with 734 parking spaces
- The report evaluates the feasibility of this plan in current market conditions and if a better plan would be possible. To achieve this, a thorough economic and real estate market analysis (to assess demand for the project) as well as a financial analysis is presented.

#### AREA OVERVIEW

The proposed project is located in Roosevelt Avenue between Main Street and Exchange Street. It offers easy access to key transport routes and stations allowing easy access to Boston and Providence. In addition, the immediate surrounding area offers access to tourist attractions, parks and city services.

#### MARKET ANALYSIS

- ➢ The market overwhelmingly supports new high end multi-unit residential spaces:
  - A forecasted increase in the average household income, in addition to the growing professional job market leads to changes in residential preferences. In the recent years, the demand for more expensive and newer apartments grew significantly.
  - The vacancy rate for new apartments in the area is 3.3%, absorption is growing as well as rent prices, leading to an increase in total rent revenue.
- ➢ Market research revealed a significant opportunity for retail in the area:



- The residents of the area spend the majority of their retail expenditure outside the area. It shows a demand for proper alternatives in the area and an opportunity for retail projects to be successful.
- High rent price and low vacancies indicate a growing demand in the area.
- ➢ Office market is improving slightly from past years:
  - The high vacancy rates (8.7%) and low absorption rates in the past years are expected to improve over the next few years.
  - Analyzing the growth of small companies (under 5 employees) in Pawtucket shows an annual increase in employment. It is indicative of an increase in the demand for small offices in the area.

#### FINANCIAL ANALYSIS

This report closely analyzes the proposed plan as well as an alternative that is deemed to have optimal investment value after examining numerous alternatives.

	Original plan	Optimized plan
Scope	2 floors - retail (19,000 SF)	2 floors - retail (100,559 SF)
	1 floor - office space (66,000 SF)	3 floors –residential (150,839 SF)
	2 floors residential (94,000 SF)	(no office space)
<b>Residential units</b>	68 units	109 units
Parking	276 parking spaces for the project	511 parking spaces for the project
	458 parking spaces for the city	
Revenue year 1	\$2.24 million	\$3.61 million
NOI year 1	\$1,396,959	\$2.38 million
Construction cost	\$31.9 million	\$42.39 million
Cap Rate	4.38%	5.62%
Financing	Debt = \$23.9 million,	Debt = \$31.79 million
	Equity = \$7.97 million	Equity = \$10.59 million
In 10 years	Value = \$33.14 million	Value = \$56.56 million
	Potential sale profit = \$13.62 million	Potential sale profit = \$30.24 million
NPV	\$3.2 million	\$18.4 million
IRR	6%	15.15%



#### CONCLUSION AND RECOMMENDATION

	Original plan	Optimized plan
Market support	Strong demand for high-end apartments and for retail opportunity. Less support for office space	Strong demand for residential high end units and significant retail opportunity in the area
Unit mix	Good mix combining residential, retail and office	Industry standard mix, retail and residential create demand for each
Local area	Easy access to transport, local services and tourist attraction drives demand for business, retail and residential	Easy access to transport, local services and tourist attractions generates demand for retail and residential
Financial	Low, but positive NPV	High positive NPV
Risks	High risks – small changes could make the project fail (for example – NOI must grow 2%, vacancy must not fall below 90% etc.)	Low risks – unlikely to fail. Only extreme (and unlikely) changes could make the project fail
City concessions	Heavily relies on city support – help to secure loan, real estate tax benefits, soft cost assistance	Does not rely on city support – city help will make it more attractive but not required
Parking	734 parking spaces include allocation for 458 spaces for city use (developed by the city)	511 parking spaces to support the project. No current allocation for city parking, but can afford 100-200 spaces (developed by the city)

- The optimized plan offers overwhelmingly better investment opportunity and lower risks. It also offers better (industry standard) product mix that utilizes the advantages of the area (close to tourist attraction, city services, transport, etc.).
- The original plan, although less advantageous and with higher risk, still has a chance to be successful with proper management and support from the city.
- ➢ Leshinsky Finance recommendations:
  - **Pursuing the project using the optimized plan** retail and residential use only.
  - Parking if additional parking spaces are deemed necessary for city use, it is recommended that space is allocated from the public space and not the identified retail space (although possible).
  - **City concessions** the project is not dependent on city assistance, but considering the value to the city, supporting the project will increase likelihood of development.



## CHAPTER 1: BACKGROUND



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### 1. BACKGROUND

This feasibility analysis presents the market conditions and development opportunity for the Slater Mill property located at 67 Roosevelt Avenue, Pawtucket, RI. In 2007 the Pawtucket Foundation prepared a development plan that included an architect assessment and project recommendation. Due to unfavorable market conditions, the project did not move forward. It is this 2007 plan that serves as the basis for this current analysis.

#### **1.1 OVERVIEW OF THE ROOSEVELT PROJECT PLAN**

The proposed site is in a prime location, across from the Pawtucket City Hall and the historic Slater Mill (an attractive tourist location) and near the Pawtucket Library. Currently, the land is not developed and is being used for parking for the city center.

#### **PROJECT PLAN SCOPE**

The proposed project would be built on 3.5 acres of land donated by the city of Pawtucket (worth over \$2.4 million). The development would include retail space (19,000 SF), office space (66,000 SF) and residential space (94,000 SF) totaling 179,000 SF. The project plan also includes an adjacent parking garage with 734 parking spaces.

The total cost of the proposed plan has been estimated at \$41,678,500.00, while the parking



cost is estimated at \$24,000 per space. In addition to the land donation, there were ongoing discussions with the city of Pawtucket to provide a \$2.4 million grant to help develop 100 parking spaces.

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Figure 1: Roosevelt project – potential final look



#### Figure 2: Proposed plan breakdown by floor

The project plan includes five floors, with each floor having dedicated parking as well as:

- First & Second Floor retail. The project would be built on a hill, allowing for an entrance from Roosevelt Avenue to the first floor and an entrance from Exchange Street to the second floor.
- 2. Third Floor office space.
- 3. Fourth & Fifth Floor includes residential and program space.

The plan outlines executing the development in two phases (and five steps):

- Phase One Step 1: develop a new parking structure with 490 spaces to solve the parking deficiency in the city. Step 2: add mixed-use buildings that are connected to the parking garage.
- Phase Two add 244 parking spaces and additional buildings.





#### **PROJECT BENEFITS**

#### Policy White Paper – July 28, 2010

#### Thomas A. Mann Jr., Executive Director of the Pawtucket Foundation

"The development site is located next to the Blackstone Valley Visitor Center and across the street from historic Slater Mill. There is a tremendous opportunity to bolster tourism and create ground-level retail uses that can complement these two tourist attractions. This project should be a priority for the City as it will create substantial tax revenues, housing density, jobs and tourism. Also, with the prospect of Slater Mill becoming a National Park, additional building and retail infrastructure at the historic site will significantly benefit the City of Pawtucket as well as the region. This site is an important Gateway to the Blackstone Valley River National Heritage Corridor."

In addition, the project benefits include transit development and job creations:

"Another benefit this project provides is with its proximity to a planned RIPTA rapid bus route 11/99 and terminal as well as walking proximity to a future MBTA commuter rail stop [...] This project positions Pawtucket as a location for continued reinvestment and location efficiency [...] Development of this site could generate approximately 76 retail employees and 152 office jobs, most likely in the financial and services industries. The direct effect multiplier in employment for retail trade is 1.49 and the multiplier for business services is 1.678. Therefore, the total long-range jobs stimulated in retail could be 113 jobs, and in office, 255 jobs. The 90 housing units provided by this project would increase residential density by approximately 140 people."

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#### **1.2 STUDY OVERVIEW**

The current study focuses on the project outline described above as the basis for evaluation. In addition to examining the validity of the proposed plan in the current market place, this study includes proposals for optimizing the investment opportunity.

#### GOAL

The goal is to determine if and how to best move forward with the development of the Roosevelt Avenue project. To provide a thorough and confident recommendation, this analysis report answers and addresses the following key questions:

- 1. Is the proposed plan financially feasible?
- 2. What is the current and future market condition in the area? Would the market support the proposed plan?
- 3. Is there a better use of land that will lead to a better investment opportunity?

In addition, the report includes an analysis of the parking situation and possible solutions.

#### STRUCTURE

The analysis report is structured in the following manner:

- Area Overview (Chapter 2) provides information for the area surrounding the project location. This includes transport overview, description landmarks and other relevant facts.
- 2. Market Economic Trends (Chapter 3) presents key economic trends and drivers that have a direct impact on the project success. This chapter presents macro trends (such as population, employment, income, etc.) that have a broad impact on the project.

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- **3.** Real Estate market trends (chapter 4) focuses on specific real estate trends (such as rent, absorption and vacancy) which have a specific impact on the project.
- 4. Market Assessment (Chapter 5) after describing the location and the main drivers, this chapter reviews all of the information and presents an analysis of the market opportunities for each unit type (residential, office and retail).
- 5. Proposed Plan Financial Analysis (Chapter 6) focuses on the financial analysis for proposed plan. The comprehensive financial analysis includes analysis of land use and parking, pro-forma for first year, cash flow projections and NPV. In addition, the analysis will test multiple scenarios to evaluate the risks and likelihood for success.
- **6. Optimized Plan Financial Analysis (Chapter 7)** –tests different options to figure out the best possible (optimal) plan. Then presents a comprehensive financial analysis.
- **7. Conclusion & Recommendations (Chapter 8)** compares the possible plans and offers recommendations based on the analysis.

#### LIMITS

Given the broad scope of the development opportunity, this study closely follows the proposed plan (presented above). Although the Alternative Scenario Analysis chapter presents additional suggestions, it maintains the approach to build retail, office and/or residential spaces.

In following the lead of the original project plan, this report does not offer a comprehensive analysis that incorporates additional options such as a hotel.

#### DATA SOURCES

The analysis is based on two forms of data sources:

 Basic Survey – at the initial stage, Leshinsky Finance conducted basic undocumented conversations with area professionals. This included local realtors, city hall employees, local developers and member of the Pawtucket Foundation. These conversations helped gain a better understanding of the market.



2. Database Research – Leshinsky Finance gathered abundant qualitative and quantitative information from numerous data providers. This data, included throughout the report, helped support the general understanding that resulted from the initial survey.

#### Key data sources include:

1. SimplyMap (Geographic Research Inc.) – the database is widely used

in geographical researches. It combines and adjusts data from

credible providers for a specific location. SimplyMap's data partners include D&B, Experian, the Nielsen Company, Mediamark Research and others. Data collected from this source is used to evaluate the majority of market trends in the area as well as retail opportunities.

- 2. **D&B** the world's most trusted source of sales and marketing data. It includes valuable information about millions of businesses around the world. Data collected from this source is used to evaluate business conditions around Pawtucket.
- 3. Public Real Estate Boards such as Zillow.com, Hotpads.com, Cityfeet.com and Loopnet.com. The data collected and compiled from these sources helped assess rent, vacancy, average SF and unit mix (in accordance with data collected from SimplyMap).
- 4. National Apartment Association used the 2014 survey of "Operating Income & Expense" as the guideline for the financial analysis.
- 5. Government Statistics included research data from such resources as the Rhode Island Statewide Planning Program (used for population forecast), RI Labor Department, Government Census Reports and others.



Figure 3: Pawtucket Public Library



SimplyMap®



#### **1.3 ABOUT LESHINSKY FINANCE, LLC**

Leshinsky Finance, LLC is a strategic financial consulting and investing firm that specializes in financial analysis, modeling and valuations. The firm and its principles have been actively involved with real estate projects and investments for years. Over the years, the firm gained extensive experience and understanding of the real estate market and developed proprietary analysis methods.

This report has been prepared and written by Michael Leshinsky (President) and Leon Leshinsky (Senior Financial Analyst).

Michael Leshinsky is a resident of Pawtucket, RI and has over 10 years of experience in finance, working in retail and real estate industries. Michael has personally been involved in multiple properties investments in the Providence and Pawtucket areas. As a result, he has a deep personal understanding of the market and real estate partners (developers, investors, financial institutions and city officials). Michael is also a member of the Providence Apartment Association, and is currently in the process of finishing his second Master's in real estate valuation, financing and investing from Boston University (following an MBA from Providence College).

Combining Michael's deep understanding of the market and Leon's expertise in financial analysis and modeling, the report presents a thorough analysis of the investment opportunity.



## CHAPTER 2: AREA OVERVIEW





### 2. AREA OVERVIEW

Project Location - Roosevelt Avenue, Pawtucket, RI, between Main Street and Exchange Street.





#### **2.1 ACCESS TO TRANSPORT**

#### **INTERSTATE 95**

The proposed site provides easy access to on/off ramps on Interstate 95. Both access points are approximately ¼ mile away from the site. The site is located conveniently between Providence, RI (approximately 5 miles to the south) and Boston, MA (approximately 45 miles to the north).



#### RHODE ISLAND PUBLIC TRANSIT AUTHORITY (RIPTA) BUS STATION



Pawtucket's Transit Center is currently located at 175 Main Street, which is adjacent to the proposed site. The RIPTA bus routes provide commuters with convenient access to destinations throughout RI, including Kennedy Plaza in downtown Providence, RI.

#### MBTA COMMUTER RAIL STATION (PROPOSED)

While the proposed commuter rail station has been in the works for several years, Mayor Donald Grebien noted in a January 2015 report by ABC 6, that he "expects to see the station completed within the next 5 years".

The station would be located in downtown Pawtucket and within walking distance to the project site. The station would provide commuters with service to Providence, T.F. Green Airport in Warwick and Boston. The station would enhance downtown Pawtucket, making the city an attractive home for those who travel to school or work in Providence (approximately 5-10 minutes to the south by train) and Boston (approximately 50-60 minutes to the north).



Building the MBTA station has the potential to influence the market conditions. Qishng Pan, from the Department of Urban Planning and Environmental Policy in Texas Southern University, wrote an article in 2012 which identified both positive and negative effects that result from a proximity to a rail station. A well-managed rail station can have a positive impact on the host city. In general, the study proclaims:

A majority of recent empirical studies found that rail stations have positive effects on nearby property values, which is consistent with the standard urban economics theory on the relationship between accessibility and property values.



#### 2.2 SURROUNDING AREA



#### **CITY SERVICES**

Located directly across the street from the proposed site are:

- Pawtucket City Hall
- Pawtucket Police Department
- Pawtucket Fire Department
- Pawtucket Municipal Court (among other city departments).

Located directly across High Street from the proposed site is the Pawtucket Public Library.





#### **SLATER MILL**

Slater Mill is located directly across the street from the proposed site. The Slater Mill is accredited by the Alliance of American Museums, and is the cornerstone of the John H. Chafee Blackstone Valley National Heritage Corridor. Because of its exceptional value in illustrating the heritage of the United States of America, the Slater Mill Historic Site was designated a National Historic Landmark District by the Secretary of the Interior, and the National Park Service.



#### **PAWTUCKET VETERANS MEMORIAL PARK**

The park is located directly across the proposed site, on the corner of Exchange Street and Roosevelt Avenue. Overlooking the Blackstone River, the park contains a monument to all Pawtucket Veterans and an amphitheater area seating 225 people with a covered stage. Free summer concerts are offered on Sunday nights from July through August.



#### **PAWTUCKET ARMORY**

Located across the river from the proposed site is the Pawtucket Armory. This historic building was built in 1894-5 and is listed on the National Register of Historic Places. It currently houses the Pawtucket Armory Arts Center that hosts events and festivals.

#### **BLACKSTONE VALLEY VISITORS CENTER**

The Center is located adjacent to the proposed site (171 Main Street). The Visitors Center provides visitors information on places of interest, lodging and dining.

#### PET FOOD EXPERTS

The Pet Food Experts Company is planning to move its corporate headquarters, and approximately 80-90 jobs, from Cumberland, RI to the Blackstone Valley Visitors Center located adjacent to the proposed Roosevelt Avenue site. The company frequently has sales representatives, as well as retailers, from across the country visiting its headquarters. They also have a need for a nearby hotel where its visitors can stay.

#### **ARTS & ENTERTAINMENT DISTRICT**

The district covers 307 acres in highly urbanized areas, including historic Downtown Pawtucket, and encompasses 23 mills and 60 streets.

#### **BLACKSTONE VALLEY BIKEWAY**

The path runs from Worcester to Providence and is an on-road and off-road bike path in the Pawtucket area.

#### HOPE ARTISTE VILLAGE

Artiste Village is a mill restoration project recently completed in Pawtucket, 10 minutes from the proposed project. The successful project combines office, retail and light industrial space.



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#### 2.3 COMPETITIVE LANDSCAPE



#### **SLATER COTTON MILL**

The Mill, located at 75 South Union Street, was renovated into studio, one and two bedroom apartments. It is owned and managed by Brady Sullivan Properties. This property is 5 stories and has 124 units. According to our research, this property is at full capacity, with a waiting list. The two bedroom, 1 bathroom, apartments (996 square feet) rent for \$1,325 per month.

#### THE LOFTS 125

Located at 125 Goff Avenue, this property has recently been renovated, is 4 stories and has 144 units. The two bedroom, 1 bathroom, apartments (1000 - 1500 square feet) rent for \$1,355 per month.

#### COMFORT INN HOTEL

Located at 2 George Street, this 138 room property offers rooms starting at \$99/night plus tax. According to our research, this hotel normally operates at 65% occupancy.

## CHAPTER 3: ECONOMIC TRENDS







### 3. MARKET ECONOMIC TRENDS

This chapter presents the main economic drivers and trends that will influence the likelihood of success for this project. To allow a comprehensive overview of the situation, we have divided the key drivers into two sections:

- Economic Trends general economic trends that influence the city of Pawtucket. These drivers include population change, employment, income, etc. Understanding these factors are important to gain a broad picture of the area landscape and get a general sense of the opportunities and risks that face the project.
- Real Estate Trends these factors include real estate trends in the areas and have a specific impact on the project. This section presents a specific analysis of the local residential, retail and office markets focusing on vacancy rates, net absorption, rent prices etc.

This chapter focuses on the economic trends and the next chapter will focus on the real estate trends.

#### **3.1 DEFINING THE MARKET**

Due to the different nature of the various neighborhoods in Pawtucket, the report focuses on the immediate area (close circle around the intended project) for the comparable analysis. The area is defined as the 02860 zip code or an area covering a 1 mile radius around City Hall.

Note: since the analysis is dependent on the availability of data from the various data providers, in some cases we would have to use data covering a broader area such as the entire city of Pawtucket.



#### **3.2 POPULATION**

Population growth is a key factor when considering a new development project. To assess the population trend in Pawtucket, Leshinsky Finance used the projection by the Rhode Island Statewide Planning Program.



Chart 1: Population forecast 2010-2040 Pawtucket and RI (Rhode Island Statewide Planning Program)

Pawtucket population is forecasted to decrease by 7.6% (5,411 people) by 2040

*In the same time, RI population is forecasted to increase by 2%*  According to this forecast, although Pawtucket population is predicted to decline by the year 2040, the overall population in the state of Rhode Island is predicted to increase. This may indicate a migration from Pawtucket to other cities in the state.

Looking at the percentage changes allows us to see a big decrease in population between 2005 and 2010. Looking forward, the population is forecasted to keep decreasing with a slower pace that will pick up pace after 2025. In contrast to Pawtucket, RI population is expected to grow after 2015.





Chart 2: Population growth in Pawtucket and RI

Another way to look at the change is comparing the forecasted numbers to the population forecast year (2010). We can see in Table 1 that by 2040, the population of Pawtucket will decrease by almost 5,500 residents, which accounts for 7.6% of the population.

<b>Table 1: Pawtucket</b>	population	change	compared	to	2010
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	2015	2020	2025	2030	2035	2040
Change	-1,531	-2,437	-2,706	-3,226	-4,112	-5,411
% change	-2.2%	-3.4%	-3.8%	-4.5%	-5.8%	-7.6%

It is important to note that another data source, SimplyMap, forecasts an opposite trend that shows an increase of 3% in population (relative to 2010). According to their estimation, by 2019 Pawtucket will total 73,497 people opposed to the 69,617 forecasted in the RI research.

Since Rhode Island Statewide Planning Program research has performed a deeper analysis on this subject, we should consider their numbers more reliable and expect a negative trend. However, we should not take their numbers as an ultimate truth.



#### 3.3 HOUSEHOLDS

Another way to examine the possible trends in population is by examining the change in number of households in the area.



Chart 3: Number of households - historical and forecasted. Source: Simply Map data

According to this forecast, by 2019 the number of households in the study area will increase by 450 households (2%). This is consisted with the positive trend in the past four years (from 2011) in which the households increased by 1,018 (6%).



Chart 4: Household annual change RI and Pawtucket 02860 (Simply Map)





Chart 5: Average household income (Simply Map)



Chart 6: Average Household Income Projections (Simply Map)

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Looking at the historic comparison, it is evident that the average household income in the study area is higher than the city of Pawtucket (by average 118%) and Providence (by 112%). However, it is lower than the average in Rhode Island.

Average size of household i to:	ncome in study area in comparison
Entire city of Pawtucket	118%
Providence	112%
Rhode Island	85%
USA	87%

In addition to the relative location of the study area, it is easy to see a positive historic and projected trend. Between 2009 and 2014, the study area average income grew 5% annually (in comparison to only 3% in RI). It is forecasted that the trend will continue until 2018 with an average of 7% annual growth.



Chart 7: Average Household Income - Annual Change (Simply Map)



#### **3.5 EMPLOYMENT**



Chart 8: Rhode Island Department of Labor

According to the Rhode Island Department of Labor statistics, the total labor force has decreased in the last five years while the number of employed workers is consistently increased. This shows that workers are leaving the work place (either by retirement or emigration), but the total number of potential jobs is increasing which shows a positive trend for the economy.

If we look at the accumulated change compared to 5-10-20 years ago, we can see that there is a general negative trend in the labor force. The change from 2009 seems to be drastic by itself, but looking at the 20 year it shows only minors changes. The employment rates however show the opposite picture – there is a drastic decrease over the past 10 years, but the last 5 years show an optimistic positive trend of job creation.

	Labor Force		Employed	
2014	36,398		33,127	
Difference from 1994 (20 years)	-471	-1%	-896	-3%
Difference from 2004 (10 years)	-524	-1%	-1,501	-4%
Difference from 2009 (5 years)	-1,265	-3%	390	1%





Looking at the employment trends more closely shows an interesting shift in the Pawtucket employment landscape: in the past five years, the number of white-collar workers has surpassed the total number of blue-collar workers. This is even more dramatic if we look at the percentage of workers – we can see that the majority of the city's work force is white-collar employees.







This trend is even more evident in the study area, where the number of white-collar workers is more than double compared to the blue-collar workers. This is important to take into account when making decisions for new development projects.

Employer name	Zip code	Sales (this site)	Current employees	% of Pawtucket
HASBRO MANAGERIAL SERVICES INC	2861	157,700,000	5000	15%
THE MEMORIAL HOSPITAL	2860	142,185,313	2109	6%
HASBRO- INC.	2861	4,082,157,000	2011	6%
SOUTHEASTERN HEALTHCARE SYSTEM-	2860	174,388,339	1653	
INC.				5%
TEKNOR APEX COMPANY	2861	996,847,000	1600	5%
HASBRO INTERNATIONAL- INC	2861	380,700,000	1000	3%
PAWTUCKET CITY SCHOOL DISTRICT	2861	52,900,000	992	3%
MILL RIVER COMMUNITY HOUSING	2860	194,804	750	
CORPORATION				2%
THE ARC OF BLACKSTONE VALLEY	2860	361,574	456	1%
APEX STORES- LLC	2860	27,700,000	309	1%

#### **EMPLOYERS**



This table shows the ten largest employers in Pawtucket, according to D&B. It is easy to see that Hasbro (appears in this table three times) is the largest employer in Pawtucket. In addition, these ten employers (out of a total of 2,404 operational companies) employ almost 50% of the RI employees. This shows a large level of centralization.

The following chart shows that almost 60% of the companies in Pawtucket have 1 or 2 employees. Furthermore, 87% of the companies have less than 10 employees, and 77% have less than 10%. Only 13% of the companies have more than 10 employees and only 3% have more than 50 employees. These top 3% employers employ 21,237 employees – which is 64% of the total RI employed work force.



Looking closer at the 74% of the companies that employ less than 5 workers, reveals potential opportunity for the project. These companies currently employ 3,657 workers, which is 281 workers more than a year ago (8% increase) or 1,641 more (81% growth) compared to two years ago.



#### 3.6 RETAIL

Nielsen Retail Market Power (RMP) is an analytical tool that allows us to compare retail sales with household expenditure in a defined geographic area. If the total expenditure of the households in a specific area is higher than the sales in that area, it means that a portion of those expenses are spent elsewhere. In that situation, there is an opportunity to build a new retail store that will offer a more convenient alternative.

On the other side, if the total expenditure is lower than the total sales, this means that people are coming from outside the area to buy retail goods. This case could also be an opportunity to capitalize on the incoming customers (has more risks and demands a closer examination of the situation). As a general rule, this will not be considered as an opportunity.

BMP: Total Retail Sales (\$), 2014 BMP: Expenditures for Total Retail Sales (\$), 2014 \$1,026,302,019.00 \$589,585,805.00 \$401,086,184.00 \$237,083,675.00 02860, Pawtucket, RI Pawtucket, RI

Total sales in Pawtucket:

Chart 9: Nielsen data (Simply Map)

Looking closely at the numbers in the study area (02860 zip code), the total expenditure is \$589 million, but only \$237 is at retail stores that are located in that area, which means that \$352





million (60%) are spent outside the zip code – this is an opportunity for retail in the area. Furthermore, the sales in the entire city of Pawtucket (that includes the \$237 million in the zip code) is only \$401 million, which is also less than the expenditure in the study area. This means that at least \$188 million are not even spent in Pawtucket (32%).

This opportunity is even more significant with Nielsen projecting an increase of 1% in expenditure by 2019.

Since the consumer does not often make decisions based on city limits, it is more acceptable to make this analysis based on a distance radius. This is accomplished by organizing the information based on a radius of 1 mile, 3 miles and 5 miles from the study area (zip code 02860) and includes more households than the city of Pawtucket. The following households are based on Nielsen data:

02860 radius	City of Pawtucket	1 Mile Radius	3 Miles Radius	5 Miles Radius
18,277	28,974	41,108	91,779	138,566



The chart below shows the comparison between the expenditure in the area (estimated that sales in the area equal to the expenditure in that area), and expenditure outside the area. The expenditure outside the area indicates the retail opportunity in that area. Thus, the total expenditure for households in a 1 mile radius is \$1,492 million. From that expenditure, only \$662 million is in that zone (44%) and \$829 million is outside, which indicates an \$829 million for retail stores inside that area. We see that as we go further, the opportunity shrinks in relative size.

Looking at a higher resolution, we get a sense of what retail stores have the highest demand. Here are a few examples for the 1 mile radius:

Subject	Expenditure In area (sales)	Expenditure Outside the area	Expenditure Total
General Merchandise Stores [NAICS 452] (\$), 2014	\$20,037,927	\$167,442,282	\$187,480,209
Groceries and Other Foods (\$), 2014	\$126,707,922	\$159,676,620	\$286,384,542
Automotive Dealers [NAICS 4411] (\$), 2014	\$76,443,369	\$132,678,158	\$209,121,527
Gasoline Stations [NAICS 447] (\$), 2014	\$35,408,544	\$119,939,017	\$155,347,561
Building Material & Garden Equipment & Supply Dealers [NAICS 444] (\$), 2014	\$37,794,173	\$101,076,815	\$138,870,988
Women's, Juniors', and Misses' Wear (\$), 2014	\$13,187,516	\$47,009,383	\$60,196,899
Men's Wear (\$), 2014	\$6,679,843	\$31,218,143	\$37,897,986



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## **CHAPTER 4: REAL ESTATE MARKET**





## 4. REAL ESTATE MARKET TRENDS

With a good understanding of the general economic trends in the area, we can now analyze the specific real estate trends that directly influence the project.

## 4.1 RESIDENTIAL SPACE

The project includes residential spaces for rent, so the report looks at rental units in the city of Pawtucket. Census Bureau data (up until 2013) was referenced as it has the most credible and reliable figures.

Interestingly, Pawtucket has more rented units (55%) than owner occupied units. The vacancy rate of rental units was 8.3% in 2013, which is a decrease from the year before.

		16 000	
16,602	16,816	16,990	16,625
		0.004	
8.9%	9.0%	9.0%	8.3%
2010	2011	2012	2013
1,478	1,513	1,529	1,380
15,124	15,303	15,461	15,245
	<b>16,602</b> 8.9% 2010 1,478 15,124	16,816   16,602   8.9%   9.0%   2010   2010   2011   1,478   15,124	16,816 16,990   16,602 9.0%   8.9% 9.0%   2010 2011   2010 2011   1,478 1,513   15,124 15,303

Chart 10: Rent housing inforation in Pawtucket (Census)





#### **BREAKDOWN BY RENTAL PRICE**

#### Chart 11: Census

According to the Census rental data, most units are rented at \$750 to \$1,000. However, there is a shift in 2013 where the price range of \$1,000-\$1,500 is the second highest range for rent paid.

The following chart reveals an even more interesting shift – the apartments that cost more than \$1,500 showed the highest growth. This trend correlates with the increase in average household income and shows that although the population is decreasing, the population that remains has a higher demand for higher quality residential space.



Chart 12: Census

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#### **BREAKDOWN BY NUMBER OF APARTMENTS**

#### Chart 13: Census

Most of the buildings in Pawtucket include less than 4 apartments but reviewing the average growth over 2009 – 2013, we can see that buildings with more than 10 apartments have shown the biggest growth rates. This is another indicator of the shift in rental trends in Pawtucket.

	Average change
1 apartment	0.0%
2 apartments	-1.6%
3 or 4 apartments	0.8%
5 to 9 apartments	-3.7%
10 or more apartments	2.4%





The following graph shows that large apartment buildings are consistently growing in popularity.

Chart 14: Census

#### **UNIT MIX**

Unit mix	Census	Unit mix	Market
No bedroom	4.44%	Studio	2%
1 bedroom	27.84%	1 bedroom	32%
2 or 3 bedrooms	65.20%	2 bedrooms	62%
4 or more bedrooms	2.52%	3 or more bedrooms	4%

In addition to the Census information, Leshinsky Finance conducted its own market research to look at the preferable unit mix. The research included 362 units in 52 different locations (including multi apartment buildings and smaller 1 - 2 unit homes). The research resulted in similar results. However, it showed that 2-bedroom apartments are more favorable than apartments with 3 or more bedrooms.

	Studio	1 bedroom	2 bedroom	3 bedroom	Average unit
Average SF	624	1,014	1,286	1,516	1,110

This research also found that the average price per SF for residential units is **\$13.11**. In addition the average SF per unit is as follows:

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#### **ESTIMATING ABSORPTION RATES**

Absorption rate is one of the key indicators used to estimate the demand for units.

Looking at the total number of units, we can see the absorption rate in the following chart:

	2011	2012	2013
Supply beginning of year	1,478	1,513	1,529
Change in Supply	215	174	-365
Absorbed	179	158	-216
Supply end of year	1,513	1,529	1,380

The years 2011 - 2013 had a negative trend in absorption. Particularly, 2013 had 365 units removed from the market in addition to 216 that returned to the market due to negative absorption. It is possible to see this in the absorption rate changes as well. Although looking at the average rate for those years show that an average of 13% of the units were absorbed annually.

It is important to distinguish between the total residential market and the multi-unit buildings. Buildings with 10 or more units are growing in spite of a general negative trend. This fact, in addition to the growth of high rent apartments, demands a closer look. To be conservative we will assume the same vacancy rate (although it is probably lower than the general).





#### Chart 15: Census

We see that buildings with 10 or more apartments are most consistent with a positive absorption each year, while others have negative absorptions. This is evident when looking at the average rate of absorption:

	Average rate of absorption
1-2 apartments	18%
3-9 apartments	-52%
10 or more apartments	27%

The chart below shows the absorption of units in multi apartment buildings:

	2011	2012	2013
Total units	2,892	2,650	2,311
Supply beginning of year	250	260	239
Change in Supply	-87	242	340
Absorbed	-97	264	386
Supply end of year	260	239	192

The absorption of units in multi-apartment building, shows a positive trend. This is consistent with the survey conducted in this area and the fact that new apartment building have 100% occupancy.





#### AREA ABSORPTION RATES

#### Chart 16: Source - Co Star

CoStar allows us to examine current rates in the broader area of Pawtucket.

	Units	% Metro	Rank
Inventory	14,650	12.4%	2
Deliveries last 12 months	15		6
Under Construction	0	0%	0

The inventory in the Northeastern Providence area (that includes Pawtucket) is the second largest in the Providence area market. There were 15 new deliveries in the past 12 months that constitutes only 0.1% of the total inventories. Fall River has the biggest inventory of units in the area (23,659 units).

	Units	Percent	Rank
Vacancy	484	3.3%	11
Absorption last 12 months	44	1.2%	6

According to CoStar, 3.3% of the available units are vacant and about 1.2% of the units were absorbed in the past year.



	2015	2016	2017	2018	2019
Inventory growth	0.2%	0.4%	0.4%	0.4%	0.3%
Net absorption growth	0.1%	0.3%	0.2%	0.2%	0.2%
Vacancy rates	2.9%	3%	3.1%	3.3%	3.5%
Vacancy rates change	4%	3%	3%	6%	6%

CoStar forecasts the following trends for the Providence Metro market:

#### **RESIDENTIAL RENT PRICES**

According to our survey of comparable rentable units in the area conducted during May 2015:

	\$ Total per unit	\$ Per SF
Average	\$1,135	\$13.11
Median	\$1,025	\$13.42
Lowest	\$725	\$9.67
Highest	\$1,935	\$18.00

This is close to the CoStar estimate for the Northeastern Providence market, which is estimated to be \$13.2 per SF (\$12.9 effective rent that includes different concessions or discounts). CoStar also estimates the average rent per unit to be \$1,206. This area is ranked in the middle (9<sup>th</sup> place), where Down City/East Side is considered to be most expensive with \$1,599 per unit or \$17.4 per SF – which is 30% more expensive than the rent in the Pawtucket area.

CoStar forecasts a steady rental growth for the entire Providence metro market in the coming years:

	2015	2016	2017	2018	2019
Asking rent	2.8%	2.6%	2.7%	2.4%	1.9%





The CoStar analysis is consistent with the insight from the Census information. Between 2010 and 2013 the median price grew consistently by an annual average of 1%.



Chart 17: Census

Another way to assess the area rent trend is by looking at the total rent revenue for Pawtucket. Although this factor includes both the change in units and in price, it allows us to see the

June 1, 2015

growing opportunity. The following chart shows that starting in 2009, the rent market in Pawtucket has been rising steadily. In this market, the study area (02860 zip area) is taking a high percentage.



Chart 18: Simply Map



Chart 19: Simply Map

The average annual change shows that there is a consistent 4% annual growth. It is forecasted that by 2019, there will be a 19% growth. The growth trend is projected to be the same for the area, the city and the state, demonstrating opportunity.

## 4.2 OFFICE SPACE

#### PAWTUCKET ABSORPTION, INVENTORY AND VACANCY

The CoStar quarterly report provides the following information about the Pawtucket market:

	SF	% Metro	Rank
Inventory	1,578,000	2.9%	11
Deliveries last 12 months	0	0	0
Under Construction	0	0	0

The inventory of available office space in Pawtucket is only 1,578,000 SF, which is less than 3% of the office space in the Providence Metro area. Pawtucket is ranked 11<sup>th</sup> out of 20 submarkets in the Providence area. Providence is the biggest submarket in the metro area, holding 30% of the inventory (16,202,000 SF). In addition, there is no new constructions.

	SF	Percent	Rank
Vacancy	137,000	8.7%	10
Absorption last 12	33,000	2.5%	5
months			

Almost 9% of the inventory in Pawtucket is vacant, while in the last year 2.5% of it was absorbed, which shows an increase in demand. As a comparison, Providence has a larger vacancy rate (9%) and higher absorption rate (3.5%) over the last year.

CoStar forecasts the following trends for the Providence Metro market:

	2015	2016	2017	2018	2019
Inventory growth	0.3%	0.5%	1.2%	1.3%	1.2%
Net absorption growth	1.2%	1%	0.9%	0.7%	0.6%
Vacancy rates	7.3%	6.8%	7.1%	7.6%	8.1%
Vacancy rates change	-10%	-7%	4%	7%	7%



#### AREA VACANCY AND ABSORPTION RATES



CoStar's periodic review displays the office market in the Providence metro area:

This graph shows that the net absorption which increased in 2014 will continue to be strong, but will decline steadily by 2019. In the same time frame, the vacancy rate is forecasted to reach its lowest in 2016 and start increasing as a result of new projects that will be built in the area.



Chart 20: Source - Co Star

#### ESTIMATING FUTURE DEMAND

According to a National Association for Industrial and Office Parks article (NAIOP website):

According to the CoreNet Global Corporate Real Estate 2020 survey of 500 corporate real estate executives, the metric has changed from 225 square feet in 2010 to 176 sf in 2012, and is projected to reach 151 in 2017, with 40 percent of survey respondents indicating they would go below 100 by this period.

This estimate is in accordance with the 185 square feet estimated in CoStar's article from March 13, 2013 that was written by Mark Heschemeyer. Based on this information, we will use **180 SF** per worker for our calculations.

This data shows the growth trend for companies with less than 5 workers:

Year	2013	2014	2015
Number of employees	2,016	3,376	3,657
Growth %		67%	8%

Looking at this positive trend, and understanding the landscape in the area, we can estimate that the small companies in Pawtucket will continue to grow and attract employees. The table shows a sensitivity analysis to possible growth rates.

Potential growth	2016	2017	2018	Total
2%	73	75	76	224
5%	183	192	202	576
8%	293	316	341	950
10%	366	402	442	1,210
12%	439	492	550	1,481
Average	271	295	322	888
Required SF	48,711	53,148	58,029	159,888

Assuming that each new worker would require 180 SF of office space, we can estimate that an average of 159,888 SF will be demanded over the next 3 years.



#### OFFICE RENT PRICE

According to our survey with available office spaces in the area:

	\$ Total per unit	\$ Per SF
Average	\$1,880	\$12.02
Median	\$1,475	\$12.00
Lowest	\$375	\$6.96
Highest	\$5,938	\$18.05

This is closely matched with the analysis done by CoStar, which estimates the gross asking rents in Pawtucket to be \$12.07 per SF (growth of 1.9%). Pawtucket is ranked in 17<sup>th</sup> place among neighboring submarkets. Providence has the highest rent rate in the area with an asking price of \$23.40 per SF which is almost double the rate in Pawtucket.



#### Chart 21: Source - Co Star

Looking at the entire market, according to CoStar analysis, the rent in the area is forecasted to continue growing.

	2015	2016	2017	2018	2019
Rent growth	3%	3.8%	2.8%	1.5%	0.4%



#### We can learn additional information by looking at this LoopNet analysis:

The LoopNet data shows that the city trend correlates with the trends in the state and the country. Based on the graph, we can see that the county is showing a positive trend, which can indicate that, a growth for Pawtucket office prices will follow.

The rent in Pawtucket is almost 20% lower than it is in the state or county.

Additional information available from LoopNet shows that the average number of days a property stays on market in the Metro area of Providence and Pawtucket is 204 (Rhode Island is 208), which is lower than previous years. This is in accordance with the increase in demand and supply of office space.



## 4.3 RETAIL SPACE

#### DEMAND

As stated in the previous chapter, there is a vast opportunity for retail in the area. This fact is in accordance with the CBRE Report: "New England has very little retail vacancy and has a lot of demand for retailers". In addition, in the survey we conducted in the study area, it was evident that vacant retail space is low.

#### **RETAIL RENT PRICES**

	\$ Total per unit	\$ Per SF
Average	\$1,650	\$12.12
Median	\$1,438	\$10.50
Lowest	\$899	\$6.24
Highest	\$3,801	\$20.00



We can see that in the past 8 years, the retail price in the broader area stayed within a specific

range, between \$13.00 and \$14.50. This provides a good range for understanding the area.



# **CHAPTER 5: MARKET ASSESSMENT**





## 5. MARKET ASSESSMENT

## 5.1 TRENDS OVERVIEW

The information in the previous chapters allows the data to be categorized into positive or negative factors. The positive factors are defined as those that show opportunities and strengths for the project and support moving forward with the project. Negative factors, however, are factors that show threats and weaknesses and support not moving forward with the project.

	Positive factors	Negative factors
Surrounding area	Proximity to transport (highway, bus station, future MBTA station)	
	Proximity to services, parks (river) and entertainment within walking distance	
	Proximity to a hotel and tourist attractions	
Competitive landscape	Similar residential and office projects in the area are very successful	
Population		Pawtucket population decline – forecasted to decrease by 7.6% in the next 25 years
Households	Total number of households in Pawtucket is forecasted to grow by 2% by 2019	
	Average household income is forecasted to grow by almost \$20,000 by 2019	
	Average household income in the area is higher than the city's or Providence	
Employment	Number of employed workers is increasing	Total labor force is consistently decreasing
	Shift in working structure – more white- collar than blue-collar workers	
	Job growth in small companies	
Retail	Big retail opportunity	

	Positive factors	Negative factors
Residential rental market	Rental market in Pawtucket is higher than the owner market	Slight decline in rental units in 2013 (last available census data year)
	Declining vacancy rate (very low in similar projects)	
	Higher demand for luxury apartments (more than \$1,000 rent) in multi apartment buildings (10 apartments or more)	
	High absorption rates for units in multi-apartment buildings	Negative total unit absorption rate in 2013
	Growing rent prices	
	Positive forecast for total revenue from rent in the area	
Office rental market		Low absorption rate and high vacancy rate.
	Growing demand for small companies	
	Expected increase in rental price	
Retail rental market	High demand for retail in New England and low vacancy	

### **5.2 RESIDENTIAL OPPORTUNITY**

The proposed project has an ideal location for residential use. The surrounding area includes (within walking distance) easy access to city services, a library and recreational spaces (park, Slater Mill, river walk, etc.). The project also allows easy access to public transportation (bus and MBTA in the future) as well as easy access to the highway. Adding prime retail to the project makes it a perfect location for people who are looking for urban feel.

The economic trends are favorable for the project as well – although the population is forecasted to decrease in the next years, the composition of population is an opportunity for the project. We can see that the average household income is growing and there are much more white-collar workers in the area. As a result, preference for higher quality apartments in



new and restored multi apartment buildings is growing. We can see the results in the absorption of units in multi-apartment buildings, growing rent and the success of similar multiunit projects.

### **5.3 OFFICE OPPORTUNITY**

The office market opportunity is less evident. The general decline in the labor force, as well as the decline in total population, is a negative indicator for this market. In addition, the high vacancy rate in the area, combined with the long turnaround period does not bode well for office space.

#### **5.4 RETAIL OPPORTUNITY**

Similarly to the residential market, the retail market offers a big opportunity for the project. The easy access to transportation is a major strength for retail spaces. In addition, the proximity to a successful hotel and to a major tourist attraction (Slater Mill) is an opportunity to create a complete experience and attract tourists and residents alike.

The economic conditions are also favorable for retail space in the area – the majority of the spending by local residents is made outside the area, and a big portion is spent outside the city entirely. As a result, there are retail opportunities for clothing, general merchandise, groceries, home supply and others. Furthermore, the growing household income in the immediate area increases the opportunity for retail trade.



## 5.5 CONCLUSION

The market trends are favorable to move forward with the project. The combination of retail and residential in a prime location has a high probability for success. The changing employment landscape in Pawtucket, the increase in household average income and the evident success of similar projects are strong indicators.

Office space could also benefit from the success of the retail and residential side. These factors, combined with the advantages of the area and the improving economy will support the success of small offices in the area.

## CHAPTER 6: ORIGINAL PLAN FINANCIAL ANALYSIS





## 6. ORIGINAL PLAN FINANCIAL ANALYSIS

After analyzing the market conditions and determining that it is favorable to carry on with the project, the next step is to determine the financial opportunity of the project.

### 6.1 METHODOLOGY

This chapter examines the key financial requirements of the investment and determines the potential profitability. This is accomplished by combining the data presented in this report and employing a set of industry estimates.

The Financial Analysis includes these steps:

- 1. Determine the use of land and parking
- 2. Calculate the expected P&L
- 3. Determine the expected cost and capital structure
- 4. Determine expected cash flow and profitability factors

### 6.2 PRODUCT PLAN AND SCOPE

The land (worth over \$2.4 million) is donated by the city.

The first step is to understand the scope of the project and the use of land:

Acres	3.5
Total SF	152,460
Floors	5
<b>Total Available SF</b>	762,300

The proposed project is 3.5 acres and is supposed to include five floors. This gives us a total of 762,300 SF available for the project.



We can see in the plans (Figure 2, Page 3) that some of the areas will not be developed and others will be divided by public open space, program space, retail, office, residential and parking. We estimated the project breakdown as follows:

Use	Percentage	SF
Undeveloped area	17%	131,306
Public (open) space	16%	121,968
Program space	12%	91,476
Retail	2%	19,000
Office	9%	66,000
Residential	12%	94,000
Parking space	31%	238,550
Total	100%	762,300

Note: the standard factor for estimating SF for a parking garage is 300 - 350 SF per space. The average of 325 SF per space was used to calculate the above estimate breakdown. As a result, 734 parking spaces would require 238,550 SF, spread out over the five floors.

#### **RESIDENTIAL UNIT MIX**

By estimating 15% needed for common area, the gross leasable area can be calculated.

Total area	94,000 SF
Common area (15%)	14,100 SF
Gross Leasable Area	79,900 SF

Based on the research, we know that one or two bedroom apartments are most demanded.

Using the average square footage, we can estimate there would be 68 units in the building.

Unit	%	Available SF	Avg. SF	Number of units
1 Bedroom	35%	27,965	1,014	28
2 Bedrooms	65%	51,935	1,286	40
Total	100%	79,900		68



#### **RETAIL AND OFFICE GROSS LEASABLE AREA**

Office and retail gross leasable area is realized by using a 10% allocation for common area.

	Total area	Common area (10%)	Gross leasable area
Retail	19,000	1,900	17,100
Office	66,000	6,600	59,400

#### PUBLIC AREA AND PARKING

Since the development of the public space will not attract developer and investors, this square footage is not included in this financial analysis. This area should be the responsibility of the municipality. Parking spaces that are not directly supporting the project should be considered the responsibility of the municipality. This has a significant impact on the investment success.

We will use the following standards to estimate the parking demand that is required to support the project. Since the city of Pawtucket does not have parking requirements, we will use standard market ranges. The parking requirement would be a matter of decision:

Unit type	Calculation method	Low range	High range
Residential	Space per unit	1	2
Retail	Spaces per 1,000 SF	4	8
Office	Spaces per 1,000 SF	2	4

Next, the total required SF and total spaces needed is calculated:

Unit type	Total SF	Spaces	Total SF	Total Spaces	
	Low range	Low range	High range	High range	
Residential	22,100 SF	68	44,200 SF	136	
Retail	24,700 SF	76	49,400 SF	152	
Office	42,900 SF	132	85,800 SF	264	
Total	89,700 SF	276	179,400	552	



We calculated that 734 parking spaces require 238,550 SF. Using this information, we determined the number of parking spaces required for the project and by Pawtucket. This means the low estimate for the needed project parking spaces would cover 38% of the allocated parking space. The high estimate will would require 75% of the allocated parking space. Since this decision has a material impact on the investment, we shall use the lower range for the following calculations (will analyze it after the NPV Analysis).

#### 6.3 PROFIT & LOSS ESTIMATION

To build the Profit & Loss report, we used the following pro-forma from a 2014 survey of Operating Income and Expense in Rental Apartments (written by Christopher Lee for the National Apartment Association).

		Total	
Number of Properties		3,107	
Number of Units		851,776	
Avg. No. of Units/Property		274	
Avg. No. of Square Feet/Unit		925	
Turnover rate in %		54%	
	\$ Per Unit	\$ Per Sq. Ft.	% of GPR
Revenues			
Gross Potential Rent	12,026	13.00	100.0%
Rent Revenue Collected	11,031	11.92	91.7%
Losses to Vacancy	711	0.77	5.9%
Collection Losses	73	0.08	0.6%
Losses to Concessions	211	0.23	1.8%
Other Revenue	783	0.85	6.5%
Total Revenue	11,815	12.77	98.2%
Operating Expenses			
Salaries and Personnel	1,213	1.31	10.1%
Insurance	260	0.28	2.2%
Taxes	1,290	1.39	10.7%
Utilities	346	0.37	2.9%
Management Fees	340	0.37	2.8%
Administrative	265	0.29	2.2%
Marketing	163	0.18	1.4%
Contract Services	310	0.34	2.6%
Repair and Maintenance	446	0.48	3.7%
Total Operating Expenses	4,635	5.01	38.5%
Net Operating Income	7,180	7.76	59.7%
Capital Expenditures	959	1.04	8.0%

Figure 5: Pro-forma according to the National Apartment Association 2014 Survey

#### REVENUE

Since this project represents new construction in prime location, we believe that it will be possible to demand a higher price than average in the area. We calculated the following prices using the collected data (higher than average assumption) and prices in comparable projects:

	Residential	Office	Retail
SF	79,900	59,400	17,100
Average rent	\$15.42	\$12.22	\$13.47
Gross Potential Rent	\$1,232,340	\$726,000	\$230,280

For residential units, we used the 2013 Census information, reporting a vacancy of 8.3%. However, according to CoStar analysts, the 2015 vacancy in the area is 3.3%. In addition, we know that the vacancy in similar projects in the area is minimal and that the demand for new units in multi-unit buildings is high. For those reasons, we will use the CoStar 3.3% estimate for our calculations. For retail – although we believe the vacancy rate is lower, we will be conservative and use 8%. For office we will use 8.7% vacancy assumptions:

	Residential	Office	Retail
Gross Potential Rent (GPR)	\$1,232,340	\$726,000	\$230,280
Vacancy assumption	3.3%	8.7%	8%
Vacancy loss (% of GPR)	40,667	63,162	18,422

Other items include:

Other revenue6.50%142,260Additional operation revenue like laund parking fees	v or
	1 -
Collection loss0.6%13,132Losses in the collection process	
Losses to concessions1.8%39,395Losses due to discounts or other conces	sions

Another factor that influences the revenue is reimbursement from retail. There are many different potential arrangements between landlords and retail tenants such as profit/sales, sharing or triple net (NNN). In this report, we estimate the use of NNN that will include dividing

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the operating expenses between the different tenants. The only expense not to be shared with the tenants is marketing. This would be calculated based on the total operating expense for retail SF. For our case the total is estimated at \$85,664 (37.2% of the retail GPR).

Taking all of the above into consideration we get the following revenue:

	Residential	Office	Retail	Total
Total Revenue	\$1,242,199	\$692,604	\$306,963	\$ 2,241,766

The project is estimated to generate \$2.2 million dollars in its first year.

#### **OPERATING EXPENSES**

Following the NAA guidelines, the following operating expense evaluated.

Item	% of GPR	Total \$	Explanation
Salaries and Personnel	10.1%	221,051	Payroll and payroll costs (taxes/insurance) for sales and administrative employees
Insurance	2.2%	48,150	Hazard and liability insurance for the building
Taxes	10.7%	234,182	Property and real estate taxes
Utilities	2.9%	63,470	All the utilities for common area
Management fees	2.8%	61,281	Fees that is paid to the management agent
Administrative	2.2%	48,150	Legal fee, bank charges, office supplies etc.
Marketing	1.4%	30,641	Marketing activities like advertising or realtor fees
Contract services	2.6%	56,904	Includes landscaping, security, snow removal, etc.
Repair and maintenance	3.7%	80,979	Ongoing maintenance like painting, small repair, cleaning, etc.

Total operating expenses would be:

	Residential	Office	Retail	Total
Total Operating Expenses	\$475,683	\$280,236	\$88,888	\$844,807



#### ΝΟΙ

Combining revenue and operating expenses we get the expected NOI (Net Operating Income):

	Residential	Office	Retail	Total
Total Revenue	\$1,242,199	\$692,604	\$306,963	\$2,241,766
Total Operating Expenses	\$475,683	\$280,236	\$88,888	\$844,807
Total NOI	\$766,515	\$412,368	\$218,075	\$1,396,959

#### **FULL PROFIT & LOSS**

		Residential	Office	Retail	Total
Total SF		79,900	59,400	17,100	179,000
Rent per SF		\$15.42	\$12.22	\$13.47	
Vacancy		3.3%	8.7%	8.0%	
Gross Potential Rent		1,232,340	726,000	230,280	2,188,620
Other revenue	6.50%	80,102	47,190	14,968	142,260
Reimbursement (retail only)		0	0	85,664	85,664
Vacancy loss	8%	40,667	63,162	18,422	122,252
Collection loss	0.60%	7,394	4,356	1,382	13,132
Losses to Concessions	1.80%	22,182	13,068	4,145	39,395
Total Revenue		1,242,199	692,604	306,963	2,241,766
Operating Expenses					
Salaries and Personnel	10.1%	124,466	73,326	23,258	221,051
Insurance	2.2%	27,111	15,972	5,066	48,150
Taxes	10.7%	131,860	77,682	24,640	234,182
Utilities	2.9%	35,738	21,054	6,678	63,470
Management fees	2.8%	34,506	20,328	6,448	61,281
Administrative	2.2%	27,111	15,972	5,066	48,150
Marketing	1.4%	17,253	10,164	3,224	30,641
Contract services	2.6%	32,041	18,876	5,987	56,904
Repair and maintenance	3.7%	45,597	26,862	8,520	80,979
Total Operating Expenses	38.6%	475,683	280,236	88,888	844,807
NOI	63.8%	766,515	412,368	218,075	1,396,959

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## 6.4 COST OF CONSTRUCTION

After we figured out the possible profit (before depreciation, interest or taxes) the next step is to figure out the required investment. We shall do that by figuring out the construction cost. In order to do that we used as baseline the costs reported in Riders Digest 2015 report, published by Rider Levett Bucknall. The report detailed cost ranges per SF for different constructions in different US and international cities. Because of the proximity to the Boston market, we shall use the Boston estimates. However, since Rhode Island has lower cost, we shall use the lower estimate for our calculations.

Cost per SF	low	high
Retail	\$120	\$210
Office	\$175	\$245
Residential	\$135	\$325
Parking	\$60	\$90

Using the lower estimate we can calculate the required cost for the project. As mentioned before, we shall separate the cost of parking between the parking the project demands and the additional parking for the city use, using the low estimate for parking requirements.

	Cost per SF	SF	Total cost
Retail	\$120	19,000	2,280,000
Office	\$175	66,000	11,550,000
Residential	\$135	94,000	12,690,000
Parking project	\$60	89,700	5,382,000
Parking for city	\$60	148,8500	8,931,000
Total for project			\$31,902,000

We can see that the cost of the project (without the additional parking) will result in \$31.9 million. If we do include the parking for the city in the project cost, it will result in \$40,833,000 which is close to the initial estimate for the project in 2007.

In addition to the construction cost, we should take into account the cost of land (which is donated by the city). This will result in a total of value of construction and land of \$34,302,000.



## 6.5 CAPITALIZATION RATE

Capitalization (Cap) Rate is a prime tool in assessing real estate investment opportunities and the value of an investment. It is calculated as the ratio between the NOI and the cost of the investment. When a purchase decision is made, the buyer will value the property based on the expected Cap Rate to determine the value. The Cap Rate is determined on the return preference of the investor and the risk associate with the purchase – higher risk will increase the Cap Rate (and decrease the total value).

According to a CBRE Cap Rate survey, completed in the second half of 2014, we can get a sense of the investors' preferences in the Boston area (the closest to Pawtucket):

	Low	High	Comments
Retail	4	5	High street
Office	5.75	6.5	Suburban office area
Residential	4.5	5	Suburban multifamily

Rhode Island presents a higher risk than Boston so, it is probable that investors will demand a higher Cap Rate. We used 5.5%, based on the average of the high range values.

Next, we calculate and compare the Cap Rates for the proposed plan:

	Residential	Office	Retail	Total
NOI	\$766,515	\$412,368	\$218,075	\$1,396,959
Construction cost	12,690,000	11,550,000	2,280,000	31,902,000
Cap Rate	6.04%	3.57%	9.56%	4.38%

The total Capitalization Rate of the total project (including the parking) is 4.38% which is on the lower end of the area Cap Rates. Looking more closely at each section, we can see that retail shows the best investment (largely due to the reimbursement structure), after which the residential shows a high Cap Rate as well. The office segment shows the lowest Cap Rate, indicating the weakest investment opportunity.



### 6.6 NPV AND IRR CALCULATIONS

NPV and IRR are key factors in determining if the investment is worth pursuing. To calculate these values we need to do a discounted cash flow analysis by projecting potential future cash flows and discounting it as of today.

#### **STEP 1 – CAPITAL STRUCTURE**

First, a Capital Structure must be chosen. This allows the debt schedule to be calculated. Most banks will provide a loan based on the lower value of Loan-To-Value (LTV) or Loan-To-Cost (LTC). LTV is a percentage of the appraised value, based on NOI divided by Cap Rate. As stated, the Cap Rate is below 5%, but it is probable that the banks would use a higher Cap Rate, which will result in a value that is lower than the construction cost. This will lead to a very high equity demand, which will not be sustainable. Thus, in order for the project to move forward, it would require a loan that will be based on cost (LTC). In order to mitigate the risk and increase the likelihood of a lending institution picking up the LTC ratio, we advise seeking state backing for the project. If successful, it is plausible to expect a Loan-To-Cost (LTC) amount equal to 75%:

Capital structure	-
Cost	31,902,000
Loan To Cost	75%
Loan amount	23,926,500
Equity	7,975,500

We estimate a fixed interest of 3.5% and 30 years amortization schedule, allowing us to calculate the estimated debt schedule for the first 10 years:

Years	1	2	3	4	5	6	7	8	9	10
Interest (\$000)	830	814	797	779	761	742	723	703	682	660
Principal (\$000)	459	476	492	510	528	547	566	586	607	629
Debt Service (\$000)	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289



#### **STEP 2 – CALCULATE NOI**

To project the NOI increase, information was collected from several sources that forecast the rate of annual NOI change in the coming years. In addition, we ran a few projections based on rent, vacancy and operating expense assumptions.

As a result, it was determined that the forecasted NOI change range is between 2% - 4% annual change. For our calculations, we used an average of 3% annual increase in NOI.

#### STEP 3 – PROJECTING AND CALCULATING FUTURE CASH FLOW

Years	1	2	3	4	5	
NOI	1,396,959	1,438,867	1,482,033	1,526,494	1,572,289	
Debt Schedule	1,289,288	1,289,288	1,289,288	1,289,288	1,289,288	
Capital Expenditure	175,090	180,342	185,753	191,325	197,065	
and reserves						
Cash Flow	-67,419	-30,763	6,993	45,881	85 <i>,</i> 936	_
						-
Years	6		7	8	9	10
NOI	1,619	,458	1,668,042	1,718,083	1,769,625	1,822,714
Debt Schedule	1,289,288		1,289,288	1,289,288	1,289,288	1,289,288
Capital Expenditure	202,977		209,066	215,338	221,798	228,452
and reserves						
Cash Flow	127,	193	169,687	213,457	258,539	304,974

We would assume a holding period of 10 years:

Capital expenditure and reserves refers to non-recurring expense that has long term impact. We used the 8% from Gross Potential Rent assumption from the pro-forma of the National Apartment Association in our calculations.

We can see that the projected cash flows are negative in the first year, but they do increase over time. Although a 3% NOI annual growth was used, we estimate that it would be higher due to the results of the market research presented earlier.



#### **STEP 4 – CALCULATING SALE VALUE**

Assuming that in year 10 of operations the property is sold, we can calculate the sale profit.

Step	Method	Amount					
Sale value year 10	NOI year 10 divide by Cap Rate (5.5%)	\$33,140,258					
Sale cost	3% of sale value	-\$994,208					
Balloon payment	Remaining principle amount of loan	-\$18,525,541					
Terminal Value		\$13,620,509					
We see that the notential profit in year 10 is \$13.6 million							

We see that the potential profit in year 10 is \$13.6 million.

#### **STEP 5 – DISCOUNTING CASH FLOWS**

To figure out the discount rate, we used a Weighted Average Cost of Capital (WACC) calculation. It is estimated that the loan will have a 3.5% fixed interest rate (the cost of capital for debt). For our calculation, we used the cost of capital after tax (assuming 40% tax rate). For equity, we used 5% required return.

	Total	% capital	Capital Cost	Cost after tax	Weighted cost
Debt	\$23,926,500	75%	3.50%	2%	1.57500%
Equity	\$7,975,500	25%	5%	5%	1.25000%
	31,902,000	100%			2.82500%

Our calculation shows a 2.8% WACC. This is used as a discount rate for discounting the cash flows (and future value of sale profit):

Year	1	2	3	4	5
Future Value	-67,419	-30,763	6,993	45,881	85,936
Present Value	-65,567	-29,096	6,432	41,043	74,762
Year	6	7	8	9	10
Future Value	127,193	169,687	213,457	258,539	13,925,482
Present Value	107,615	139,624	170,813	201,204	10,539,574

The sum of the present values of the future cash flows is \$11,186,404



#### STEP 6 – NPV AND IRR

Adding the present value of future cash flows with the equity investment (\$7.9 million) gives us the NPV value of \$3.21 million. IRR is the discount rate that will result in the NPV of zero.

The main indicators and deciding factors for this project:



Since NPV is above zero, it is recommended that the project move forward. Additionally, the IRR rule states that if the IRR is higher than the cost of capital (which is 3%), it is a good decision to move forward with the project.

The two main indicators are positive – from now on we will use the NPV calculation as the main indicator for the success or failure of the project.


## **6.7 CITY CONCESSIONS**

There is little constraint on the limitation of what the city can offer. In similar cases, cities have given land, offered city financing, tax stabilization abatements, shares costs, structured joint ventures between public and private (for example, a shared use development), assisted in improving infrastructure such as water, sewer, electric, etc.

Considering the potential value of this project to the city of Pawtucket and the positive impact to the surrounding area, we believe that there would be an interest for the city to create conditions that will allow this project to be successful.

To summarize previous points presented, some possible steps include:

- 1. Develop the public (and open) areas of the project.
- Be responsible for developing the parking spaces that are not directly linked to the project.

Some additional options that could be included (to be discussed in depth):

- 1. Help secure the loan
- 2. Help secure tax credits
- 3. Absorb the soft costs of the project
- 4. Give real estate tax benefits

## HELPING SECURE THE LOAN

Support from the city of Pawtucket could be a key factor in securing the loan (especially loan based on cost that is vital for this project). Banks mitigate risk as much as possible, especially with the scrutiny they have received after the financial collapse and the adoption of new legislations. Generally speaking, banks are risk averse, and lend to strong existing businesses with healthy balance sheets or in this such a case, a new project, they limit their exposure as



much as possible by lending on the lesser of two options, project cost or estimated valuation of the completed project.

The best and easiest approach to get the lender to agree on financing the project based on the cost is to get city, state or federal guarantees. In this case the bank knows that if there is a default, the state would reimburse the outstanding balance to the bank. There are several programs in place on the city, state and federal level and the city's backing could help secure it.

#### TAX CREDITS

City support could help secure tax credits that mitigate the risk for the development. One of the most common used approaches for developers, when calculating if a development will provide the required return to the investors is tax credits. There are many different available tax credits on all levels in the government.

A credit that is popular among developers is "new market tax credits." These credits are issued from the federal government for projects that meet certain criteria and they can be substantial. The federal government can provide a huge percentage of the total cost in a form of tax credits which can be sold in the open market, the amount collected from the sale of the tax credit could even amount as high as the required amount of equity needed from the developer.

#### **SOFT COST**

The city of Pawtucket can take upon itself the soft costs of the project (such as engineering, architecture, legal etc.). Another option is to offer financing the soft costs at a low interest rate that could be paid at a later date or if the project is pursued.



#### **REAL ESTATE TAX BENEFITS**

One of the actions, granted by the city of Pawtucket, that would have a positive material impact on the project is to give a few years of tax breaks to the developer.



Below is the real estate tax calculated for the property as annual 10.7% of the Gross Rent:

This graph shows that if Pawtucket charges an annual 10.7% tax for the first 10 years of the project, the NPV would be only \$3.2 million and the city would profit about \$2.6 million in ten years (average of \$268,463 annually). However, decreasing the tax rate will significantly increase the NPV of the project and increase the likelihood of the project moving forward.

An additional advantage of the city providing tax breaks is the increase on the Cap Rate. In the event of 0% real estate tax, the Cap Rate is above 5%.



#### PARKING

Earlier in this report, we emphasized the importance of the city being responsible for the additional parking. This chart demonstrates the benefit of this commitment:

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Parking for project	276	552	276	276
Parking for city	458	182	458	458
Total parking	734	734	734	734
Parking paid by developer	276	552	734	434
Parking paid by city	458	182	0	300
Cost for developer	\$5,382,000	\$10,764,000	\$14,313,000	\$8,463,000
Cost for city	\$8,931,000	\$3,549,000	0	\$5,850,000
NPV	3,210,904	-2,372,093	-6,053,635	14,840

- Scenario 1 the parking for the project is determined based on the low range. The parking necessary for the project is 276, any additional parking space (at approximately \$20,000 per space) will be paid and built by the city. The parking requirement would be 458 additional parking spaces. In any of the scenarios, this is not included in the calculations of the project. In this case the NPV is optimized at \$3.2 million.
- Scenario 2 the project parking is calculated based on the high estimation. The project would require 552 parking spaces, which would drive the NPV to a negative number and will not allow the project to get under way.
- 3. **Scenario 3** the project parking is calculated based on the low range, but the developer is responsible for all of the costs. It is easy to see that this results in the lowest NPV.
- Scenario 4 a sharing of costs between the developer and the city. It shows the "point of breakeven". If the developer needs to build more than 434 parking space, with the current project assumptions, the result will be a negative NPV.

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#### 6.8 SENSITIVITY ANALYSES

This report has presented a set of assumptions to build the financial analysis. These assumptions were based on thorough research done by Leshinsky Finance and/or by other credible sources. As with all financial analysis reports, even the most sophisticated and reliable forecasts and estimates are based on data available and will never be absolutely correct.

For this reason, we will conduct a series of sensitivity analyses to assess different potential scenarios. The sensitivity analysis is founded on the set of assumptions presented in this report which is the most probable scenario based on our research.

#### **RENT PRICES**

Rent prices are a result of the supply and demand process at which the potential tenants and landlords meet an agreement. So, the question is if the prices we used in our analysis will be enough to meet a full occupancy? If not, the landlord will have to lower the prices. On the other hand there is a scenario that the landlord would be able to increase the rent and increase revenue. We will next examine those scenarios to see what the risks and opportunities are for the project.



June 1, 2015



Our survey revealed that rent for residential units ranges between \$10 and \$18. This graph shows the impact on NPV if the price of the rent changes. It is interesting to see that the average \$13 is the "breakeven" point. This means that at the current configuration, if the asking price for the residential units will be below \$13 per SF, the project will not be successful.



Although very rare, we found in the area units that are rented for \$6 or \$20 at the edges. To give an understanding of the impact we calculated different points in between. It seems that retail rent price (due to the low SF), does not have material impact and even a decrease in price to the lowest point will not cause the project to fail (\$6 is a breakeven point).



We can see that the office prices have more material impact than retail but less material than the residential. We see that any price that is lower than \$8.5 would cause the project to fail.

The next graph examines what will happen if all of the rent prices are changed across the board - decrease all by 20% or increase all by 20%. There is 5% difference between each line (starting with 20% increase the top line).



We can see from the graph that if we decrease the prices by more than 5%, the NPV will be negative (the breakeven point is around -9%). It means that even if the rent prices fall by 5% it won't have a negative impact on the project.



June 1, 2015



The last graph provides additional insight. We can see that residential prices have the most impact on the NPV. It means that even a small change in residential rent price, will cause a big change (positive or negative) to the NPV. However, the retail has the least amount of impact.

#### VACANCY

In addition to cost, vacancy is another critical juncture that could have a material impact on the success of the project. As we saw in the rent, the impact of retail and office is not significant so we would focus on the residential and the general vacancy rates.



We can see that as long as the residential vacancy rate is below 13%, the project will be successful. In addition, we can see that a full vacancy will lead us only to \$4 million NPV.



Another way to look at this is to see the effect of a total vacancy (similar vacancy rate for retail, residential and office) on the NPV. We can see that as long as the property is occupied above 90% (10% vacancy or below) the NPV will be positive. At full occupancy we can expect \$6.5 million NPV and 10% IRR.



#### **CONSTRUCTION COST**

We calculated the cost based on an estimate for Boston. We used the low range because Rhode Island is estimated to be a less expensive market (but not by much). The cost estimates did not include soft costs, so this might have an impact the final cost. Therefore, it is important to understand the limits of the cost. The charts demonstrate that the project can tolerate a cost increase of up to \$35 million (an increase of up to 10% in cost).

Cost Change	-20%	-15%	-10%	-5%
Cost	25,521,600	27,116,700	28,711,800	30,306,900
NPV	9,829,588.07	8,174,917.09	6,520,246.10	4,865,575.12
Cap Rate	5.47%	5.15%	4.87%	4.61%
Cost Change	5%	10%	15%	20%
Cost	33,497,100	35,092,200	36,687,300	38,282,400
NPV	1,556,233.16	-98,437.83	-1,753,108.81	-3,407,779.79
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#### FINANCING

When estimating the capital structure we made several assumptions about the LTC rate, the interest rate and required return on equity.

The following table shows a sensitivity analysis that combines several options for Loan-To-Value with different interest rates and shows the resulting NPV values (shown in thousands \$000).

LTC	30%	45%	60%	75%	80%	85%	90%
Interest Rate							
3.5%	1,193	2,148	2,827	3,211	3,270	3,293	3,280
4.0%	670	1,388	1,849	2,038	2,038	2,005	1,939
4.5%	148	632	882	884	828	743	628
4.9%	-270	31	115	-25	-123	-248	-400
5.5%	-895	-865	-1,020	-1,365	-1,524	-1,705	-1,908
6.0%	-1,414	-1,606	-1,953	-2,461	-2,666	-2,890	-3,133

The interesting result from this analysis is that any interest below 4.5% would lead to a positive NPV with any Loan-to-Cost rate. In addition, it is interesting that even a very low LTC value still leads to a positive NPV, while a larger LTC does not have a material impact on the NPV. The required return on equity that is currently set at 5%, does not have a material impact on the NPV. As long as the required return on equity is below 19%, the NPV will have a positive result.



#### PROJECTIONS

In order to make projections we had to estimate and apply NOI annual growth rate assumption. In addition, we estimated that it would be possible to sell the property in 10 years using a 5.5% Cap Rate.

Cap Rate	4.0%	4.5%	5.5%	6.0%	7.0%	7.5%	8.0%
NOI growth				(\$000)			
-2%	-2,053	-4,428	-7,883	-9,179	-11,215	-12,029	-12,742
-1%	407	-2,195	-5 <i>,</i> 980	-7,400	-9,631	-10,523	-11,304
0%	3,062	214	-3,930	-5,484	-7,926	-8,903	-9,757
1%	5,926	2,810	-1,722	-3,422	-6,092	-7,161	-8,095
2%	9,011	5,606	654	-1,203	-4,121	-5,288	-6,310
3%	12,335	8,618	3,211	1,183	<b>-2,</b> 003	-3,277	-4,392
4%	15,913	11,858	5 <i>,</i> 960	3,748	273	-1,118	- <b>2</b> ,334
5%	19,762	15,343	8,914	6 <i>,</i> 504	2,716	1,200	-126
6%	23,902	19,089	12,088	9,462	5,337	3,687	2,243
7%	28,350	23,113	15,495	12,638	8,149	6,353	4,782

Let's test the limits of these estimations:

The NPV values in this table are in thousands (\$000).

This table gives us very important information about the limits of the investment opportunity.

- 1. Assuming a future Cap Rate of 5.5% (used in our calculations), the project would still be successful even if the NOI grows by only 2%.
- Theoretically (although unlikely) if the property will be sold using a Cap Rate lower than
  5.5%, even average NOI growth of 0% (or negative) could be enough.
- Assuming NOI growth rate of 3% (used in our calculations), any Cap Rate above 6.3% will lead to a negative NPV.
- 4. In order to be able to sell the property to investors that demand 7.5% or 8% Cap Rate, there would have to be at least 5-6% annual NOI growth.

The main conclusion is that it is important to make sure NOI growth of at least 2%.



#### CONSOLIDATED NPV

Looking at all the sensitivity analyses calculated so far, we have collected 142 different possibilities for the NPV. These observations allow us to make a statistical analysis that will provide an indicator for the likelihood of the project's success.

It is important to note that this analysis is highly affected by the scenarios chosen – for example, if most scenarios focused more on the negative possibilities then most NPVs will show a negative trend. This report attempts to strike a balance with the analysis looking at both positive and negative trends. There is another tool to assess the success of the project.

0%	2	5% 5	0% 7	5%	100%
Q1		Q2	Q3	Q4	
-11,305,535	-1,919,	492 86	2,292 4,68	2,957	28,350,406

This boxplot gives us a visual indicator by dividing all of the observations into four quartiles: each quartile holds 25% of the 150 NPV observations. While each box includes the same amount of observation, the length shows if the observations are closely spread or not. Therefore, we can see that the lowest observation showed a negative \$11 million NPV, while the highest showed \$28 million. 25% of the NPVs are below -\$1.9 million, while 50% are below \$862,292. This gives a positive indicator that 50% of the observations are above \$862,292.

Average	1,495,016
Observations below zero	40%

Another positive indicator is that the average is \$1,495,016, and that most observations (60%) are above zero. This means that under the 140 different scenarios there is a higher likelihood of success than failure (if the NPV is negative).



## 6.9 SUMMARY AND RECOMMENDATIONS

### **PROJECT SUMMARY**

Main components of the project:

	Feature	Comment
Scope	68 residential units 2 floors - retail (19,000 SF) 1 floor - office space (66,000 SF)	28 one bedroom 40 two bedrooms
Parking	276 parking spaces	additional 458 will be developed by the city
Revenue year 1	\$2.24 million	residential accounts for more than 55%, proportional to its size
NOI year 1	\$1,396,959	62% of total Gross Potential Rent
Cost of	\$31.9 million	Excluding soft costs
construction		Based on low end Boston prices – so a discount price should be expected
Cap Rate	4.38%	Office – lowest Cap Rate (3.57%) Retail – highest (9.56%) Residential – 6.04%
Financing	Debt = \$23.9 million Equity = \$7.97 million	75% Loan-to-Cost 30 Am schedule, 3.5% interest
In 10 years	$V_{alue} = $ <sup>\$22</sup> 14 million	5% return on equity
In 10 years	Potential sale profit = \$13.62 million	Assuming: 3% annual NOI growth 5.5% Cap Rate at sale
NPV	\$3.2 million	Positive
IRR	6%	Higher than cost of capital



## **KEY INSIGHTS AND CONDITIONS FOR SUCCESS**

Real estate tax	Giving tax break for the first ten years could have a material impact on the success of the project and the likelihood of moving forward with it.
Parking	The project can only sustain developing the low range of direct parking requirement. Anything else should be covered by the city, otherwise the project will not move forward.
Rent prices	Change in residential rent prices holds the biggest impact on the NPV. As long as residential rent is above \$13 per SF, the NPV will be positive.
	General rent price must not fall more than 9% (assuming all else is equal).
Vacancy	Occupancy must be more than 90% for the project to succeed
Cost	Project total cost must be below \$35 million (which is 10% increase from the estimated cost). Considering the cheaper rates in Rhode Island, and the additional soft costs, we believe it is a realistic goal.
Loan and interest	The loan must be calculated based on cost and not value. A state and city backing would improve the probability of success.
	As long as the interest rate is lower than 4.8%, the project will be successful with any loan to cost (would just require more equity)
	Return on equity expectation should be under 19% (which is more than realistic).
NOI growth	With the current Cap Rate estimation, the annual NOI growth must be at least 2%.
Cap Rate	Assuming NOI grows 3% annually, the project would not be successful with a Cap Rate valuation higher than 6.3%.
NPV	Consolidating 140 different scenarios gave a positive average NPV and showed that 60% of the scenarios indicated success.



#### BOTTOM LINE ANALYSIS

Given the market demand, the financial analysis shows that the project is feasible under certain

conditions, especially with the support from the city of Pawtucket.

Here is the summary of the main weaknesses and strengths:

Main Weakness	The NPV does not show the best investment opportunity
	Cap Rate is low and shows signs of concern (high likelihood that
	investors would expect higher Cap Rate)
	The NOI must grow
	The project could not sustain NOI growth less than 2% annually
	Loan must be based on cost and not value
	Vacancy must be lower than 10%

Main Strengths	NPV for base scenario is positive
	Most NPVs in our analysis were positive
	Market analysis showed market support for the project
	City support could make a material impact on investment opportunity
	and project success

Bottom line - we believe this project, in its current form, has the potential to succeed. Although it does have risks and uncertainties, the opportunity to capitalize on the market demand, the prime location and the impact for Pawtucket is the biggest driver for the project. The financials show that with a proper management, this could be successful.



# CHAPTER 7: OPTIMIZED PLAN FINANCIAL ANALYISIS





# 7. OPTIMIZED PLAN FINANCIAL ANALYSIS

This chapter presents several tests to analyze if there is a better optimization for the use of the land. For this analysis, we will adjust the combinations between retail, office and residential spaces. We will build this analysis using the base estimations as were presented in the previous chapter. It should be noted that since the process was explained in the previous chapter, this chapter will not supply thorough explanations.

## 7.1 SCENARIO ANALYSIS

#### SUMMARY OF BASE ASSUMPTIONS AND ESTIMATIONS

Use of land	3.5 acres, 5 floors, 762,300 available SF
(city donated)	344,750 SF (45% of area) not part of development project (will be allocated for public space or undeveloped)
	417,500 SF (55%) to be developed – allocated for parking, retail, residential and office spaces.
Residential unit mix	1 bedroom – 35% (1,014 average SF) 2 bedroom – 65% (1,286 SF)
Common area	Residential – 15% Office and Retail – 10%
Parking	Residential – 1 space per unit Retail – 4 spaces per 1,000 SF Office – 2 spaces per 1,000 SF 325 SF per parking space
Rent prices	Residential - \$15.42 per SF Retail - \$13.47 per SF Office - \$12.22 per SF
Vacancy	Residential – 3.3% Retail – 8.0% Office – 8.7%



Revenue	Includes gross potential rent, other revenue (such as laundry income – 6.5% of gross rent) reimbursement for retail (37.2% from retail rent) and losses to collection (0.6%), vacancy and concessions (1.8%)
Operating expenses	38.6% of Gross Potential Rent includes: salaries (10.1%), insurance (2.2%), <b>real estate taxes</b> (10.7%), utilities (2.9%), management fees (2.8%), administrative (2.2%), marketing (1.4%), contract services (2.6%), repair and maintenance (3.7%)
Construction cost	Using Boston low range: Retail - \$120 per SF Office - \$175 per SF Residential - \$135 per SF Parking - \$60 per SF
Financing	75% Loan-To-Cost, 3.5% interest, 30 years Am schedule 5% return on equity expectation
Projections	WACC – assuming 40% tax on interest NOI growth - 3% annual Sale of property at end of year 10 Cap Rate at sale – 5.5% Sale cost – 3% of sale value Balloon payment

#### **SCENARIO ANALYSIS**

Using the outlined assumptions we will now test different scenarios by optimizing NPV. The scenarios will run only on the area that was allocated for development (417,500 SF). For each scenario, we present the NPV, IRR and first year Cap Rate (based on the cost of construction).

	Scenario description	Land allocation	NPV and other metrics
1	Current scenario	Retail – 19,000SF	NPV = \$3,210,904
		Office – 66,000 SF	IRR = 6%
		Residential – 94,000SF	Cap Rate = 4.38%
2 Only re	Only retail	Retail – 181,543 SF	NPV = \$17,697,509
		Project parking – 726	IRR = 17%
			Cap Rate = 5.8%
3	Only residential	Residential – 338,250 SF	NPV = \$19,287,766
		Project Parking – 224	IRR = 14%
		Apartments – 244	Cap Rate = 5.47%

4	Only office	Office – 253,061 SF Parking – 506	NPV = -\$15,237,365
5	Residential and retail only (1 floor retail, 4 floors residential)	Retail -57,663 SF Residential – 230,651 SF Parking – 398 Apartments – 167	NPV = \$18,760,890 IRR = 15% Cap Rate = 5.55%
6	Residential and retail only (2 floors retail, 3 floors residential)	Retail – 100,559 SF Residential – 150,839 SF Parking – 511 Apartments – 109	NPV = \$18,400,174 IRR = 15% Cap Rate = 5.62%

We can see that building only residential units will result in the highest NPV and building only retail will result in the highest IRR and Cap Rate. Not surprisingly, building only office space will result in a negative NPV.

Since only residential will not be sustainable (and high risk), it would be best to build a mix of residential and retail. Scenarios 5 and 6 show two potential options for the mix – scenario 5 assumes one floor (one fifth of the area) for retail and four for residential, while scenario 6 allocates 2 floors for retail (100,559 SF) and 3 floors for residential. Scenario 5 does have a slightly higher NPV but slightly lower Cap Rate. Comparing the two scenarios we recommend choosing scenario 6 for the following reasons:

- This option offers a more balanced diversification between retail and residential thus mitigating the risk.
- Given the high demand for retail it would make sense to have larger space it would add to the opportunity of becoming a prime tourist and retail location.
- 3. Considering the high demand for groceries it would make sense to build a store such as traders Joe or whole foods that will immediately take half of the space.
- 4. Financially the small change NPV does not have a material impact but higher Cap Rate could be helpful in the future.
- 5. Retail space has better margins due to expense reimbursement.

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## 7.2 OPTIMIZED PLAN FINANCIAL ANALYSIS

#### AREA UNIT MIX

The optimized proposed plan includes development of 100,559 SF for retail and 150,839 SF for residential use, and no office space.

Use	Percentage	SF
Undeveloped area	17%	131,306
Public (open) space	16%	121,968
Program space	12%	91,476
Retail	13%	100,559
Office	0%	0
Residential	20%	150,839
Parking space	22%	166,152
Total	100%	762,300

#### PARKING

Unit type	Unit type Allocation		Total SF		
Residential	1 Space per unit	109	35,425		
Retail	4 Spaces per 1,000 SF	402	130,727		

The parking garage will include 511 spaces - all are linked directly to the project. The parking was calculated based on the low range (as was presented in the previous chapter). In order to add additional parking spaces that are not directly linked to the project, for the city use there would be two options: either increase the developed area (possibly in place of the public space) or decrease the developed space for retail or residential (which would decrease the NPV).

RESIDENTIAL AND RETAIL ALLOCATION
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Residential		Retail	
Total area	150,839 SF	Total area	100,559 SF
Common area (15%)	22,626 SF	Common area (10%)	10,056 SF
Gross Leasable Area	128,213 SF	Gross Leasable Area	90,503 SF



Unit	%	Available SF	Avg. SF	Number of units
1 Bedroom	35%	44,875	1,014	44
2 Bedrooms	65%	83,338	1,286	65
Total	100%	128,213		109

The residential units will include 109 apartments:

### PROFIT AND LOSS PRO-FORMA

	Residential	Retail	Total
Total SF	128,213	90,503	251,398
Rent per SF	15.42	13.47	
Vacancy	3.3%	8.0%	
Gross Potential Rent	\$1,977,497	\$1,218,778	\$3,196,275
Other revenue	128,537	79,221	207,758
Reimbursement (retail only)	0	453,385	453,385
Vacancy loss	65,257	97,502	162,760
Collection loss	11,865	7,313	19,178
Losses to Concessions	35,595	21,938	57,533
Total Revenue	\$1,993,317	\$1,624,631	\$3,617,947
Operating Expenses			
Salaries and Personnel	199,727	123,097	322,824
Insurance	43,505	26,813	70,318
Taxes	211,592	130,409	342,001
Utilities	57,347	35,345	92,692
Management fees	55,370	34,126	89,496
Administrative	43,505	26,813	70,318
Marketing	27,685	17,063	44,748
Contract services	51,415	31,688	83,103
Repair and maintenance	73,167	45,095	118,262
Total Operating Expenses	\$763,314	\$470,448	\$1,233,762
NOI	\$1,230,003	\$1,154,182	\$2,384,185
Capital Expenditure and Reserves	158,200	97,502	255,702



#### **CONSTRUCTION COST**

	Cost per SF	SF	Total cost
Retail	\$120	100,559	12,067,105
Residential	\$135	150,839	20,363,240
Parking project	\$60	166,152	9,969,118
Total for project		417,550	42,399,464

\* The cost excludes soft costs

#### **PROJECT CAP RATE**

	Residential	Retail	Total
NOI	\$1,230,003	\$1,154,182	\$2,384,185
Construction cost	20,363,240	12,067,105	42,399,464
Cap Rate	6.04%	9.56%	5.62%

#### **CAPITAL STRUCTURE**

Capital structure	
Cost	42,399,464
Loan To Cost	75%
Loan amount	31,799,598
Equity	10,599,866

In this case, using a 5.5% Cap Rate the value will be higher than the cost (value will be \$43.34 million and cost \$42.39). Therefore, in this case it is more likely that the bank would prefer Loan-to-Cost than loan to value.

10 year debt schedule for 3.5% interest rate and 30 year amortization schedule:

Years	1	2	3	4	5	6	7	8	9	10
Interest (\$000)	1,103	1,082	1,059	1,036	1,012	987	961	934	906	878
Principal (\$000)	610	632	654	678	702	727	753	779	807	836
Debt Service (\$000)	1,714	1,714	1,714	1,714	1,714	1,714	1,714	1,714	1,714	1,714



### FUTURE CASH FLOWS PROJECTIONS

NOI growing 3% annually:

Years	1	2	3	4	5
NOI	2,384,185	2,455,711	2,529,382	2,605,264	2,683,422
Debt Schedule	1,713,533	1,713,533	1,713,533	1,713,533	1,713,533
Capital Expenditure	255,702	263,373	271,274	279,412	287,795
and reserves					
Cash Flow	\$414,951	\$478,805	\$544,575	\$612,319	\$682,094

Years	6	7	8	9	10
NOI	2,763,924	2,846,842	2,932,247	3,020,215	3,110,821
Debt Schedule	1,713,533	1,713,533	1,713,533	1,713,533	1,713,533
Capital Expenditure	296,429	305,322	314,481	323,916	333,633
and reserves					
Cash Flow	\$753 <i>,</i> 963	\$827,988	\$904,233	\$982,766	\$1,063,655

#### FUTURE SALE VALUE

Step	Comment	Amount	
Sale value year 10	Cap Rate = 5.5%	\$	56,560,387
Sale cost	3% of sale value	\$	-1,696,812
Balloon payment	Remaining principle	\$	-24,621,435
Proceeds from sale		\$	30,242,140

#### **NPV AND IRR**

To discount the future cash flows we use the WACC as in the previous analysis.

NPV	\$ 18,400,174
IRR	15.15%



## 7.3 CITY CONCESSIONS AND SUPPORT

The current plan and the analysis results portray an attractive opportunity for developers.

To summarize, the city of Pawtucket could play a big role in mitigating the risk of the project and increasing the likelihood of development and success.

- The city would develop all the spaces for public use, and potentially the additional parking spaces
- 2. Help secure the loan by backing up the project
- 3. Help secure tax credits
- 4. Help finance or absorb some of the soft costs



#### TAX BENEFITS

In this scenario, we can see that tax benefits could help the project by increasing the NPV, but the impact would not be significant as in the initial plan.



#### PARKING

The proposed plan includes 511 parking spaces that are directly linked to the project. Furthermore, the plan uses the entire area that we estimated as "area for development".

Since the project will be developed on a land that is currently used for parking, the city would want to incorporate the current demand in addition to the parking demand the project will create. Although it is possible that the proposed 511 will be a fitting solution (especially that the development cost is the responsibility of the developer), there are several options of adding additional parking spaces for the city use (with the city funding):

- Adding more space the current plan is based on a portion of the area. This pro-forma is open for changes, and in order to build additional spaces, it is possible to change the designation of some other area (for example program space).
- 2. Using the current space but designating specific spaces for the city since the estimation for project parking is based on the square footage of the development, this method would use space designated for residential and retail. As a result, the required parking spaces for the city will decrease. The combined result would be a lower NPV.

City	Project	Total	Cost for city	Residential	Retail SF	NPV
parking	parking	parking		SF		
0	511	511	\$0	150,839	100,559	18,400,174
50	502	552	\$975 <i>,</i> 000	137,792	100,438	17,636,089
100	473	573	\$1,950,000	137,792	93,373	16,947,345
150	445	595	\$2,925,000	137,792	86,308	16,258,602
200	417	617	\$3,900,000	137,792	79,243	15,569,857
250	389	639	\$4,875,000	137,792	72,178	14,881,116
300	360	660	\$5,850,000	137,792	65,112	14,192,374
350	332	682	\$6,825,000	137,792	58,047	13,503,631
400	304	704	\$7,800,000	137,792	50,982	12,814,888
450	276	726	\$8,775,000	137,792	43,917	12,126,146
500	247	747	\$9,750,000	137,792	36,852	11,437,403



We can see that any additional 50 city parking spaces decreases the NPV by almost \$700,000, which mostly results from reducing the retail space.

This graph illustrates the relationship between allocating the spaces for the city use and the NPV. The NPV is decreasing proportionally with the increase of city parking space.

This analysis demonstrates that it is possible that the city will decide to allocate 100-150 parking spaces for its use, resulting in a slightly lower investment opportunity.

It is important to note that in order to allow the new allocation, and to keep the NPV high, the space is allocated at the expense of retail space. Therefore, adding parking spaces may lead to a loss in retail opportunity (and the possible city revenue resulting from retail sales). Therefore, it might be a good idea to develop the additional parking spaces instead of other area – such as the program space.



## 7.4 SENSITIVITY ANALYSES

#### **RENT CHANGE**



Not surprisingly, we can see that changes in prices will not cause the NPV to become negative.

To cause the NPV become zero:

- 1. Residential rent should be below \$6.50 per SF (58% price drop)
- 2. Retail price should be below \$5.3 per SF (61% price drop)
- 3. If both prices decrease together by 29.5% : 10.87\$ for residential and 9.49\$ for retail.



	Residential	0.0%	3.3%	10.0%	20.0%	30.0%	40.0%	50.0%
Retail								
0%		22,830	21,054	17,448	12,066	6,684	1,302	-4,080
8%		20,176	18,400	14,794	9,412	4,030	-1,352	-6,734
15%		17,854	16,078	12,472	7,090	1,708	-3,674	-9,056
20%		16,196	14,420	10,814	5,432	50	-5,332	-10,714
30%		12,879	11,103	7,497	2,115	-3,267	-8,649	-14,032
40%		9,562	7,786	4,180	-1,202	-6,585	-11,967	-17,349
50%		6,245	4,468	862	-4,520	-9,902	-15,284	-20,666

#### VACANCY

Values in \$000

The above table shows an extreme case scenario by testing the effect of extreme vacancy. It shows that the project will still be successful even with a 20% vacancy rate in both residential and retail units. The fact that the NPV is negative only at the most extreme situations shows the strength of the proposed project.

Here is an analysis with more probable vacancy rates:

	Residential	0%	3%	6%	8%	10%	12%	15%
Retail								
0%		22,830	21,054	19,601	18,524	17,448	16,371	14,757
4%		21,735	19,959	18,506	17,430	16,353	15,277	13,662
6%		20,840	19,064	17,610	16,534	15 <i>,</i> 458	14,381	12,767
8%		20,176	18,400	16,947	15,871	14,794	13,718	12,103
10%		19,513	17,737	16,284	15,207	14,131	13,054	11,440
12%		18,849	17,073	15,620	14,544	13,467	12,391	10,776
15%		17,854	16,078	14,625	13,549	12,472	11,396	9,781

Values in \$000

Even with a 15% vacancy rate, the project will be more successful than the plan we analyzed in the previous chapter. A full occupancy will give NPV of \$22.83 million.



#### **CONSTRUCTION COST**

Cost Change	-20%	-15%	-10%	-5%
Cost	33,919,571	36,039,544	38,159,517	40,279,491
NPV	27,196,759.05	24,997,612.84	22,798,466.63	20,599,320.42
Cap Rate	7.03%	6.62%	6.25%	5.92%
Cost Change	5%	10%	15%	20%
Cost	44,519,437	46,512,212	48,759,383	50,879,357
NPV	16,201,027.99	14,133,830.55	11,802,735.57	9,603,589.36
Cap Rate	5.36%	5.13%	4.89%	4.69%

It is clear that changes in cost do not have major impact on the success or failure of the project. Since Cap Rate is directly linked to the construction cost, the decrease in cost leads to a significant increase in Cap Rate.

Cost Change	41.84%
Cost	60,137,280
NPV	-82.15
Cap Rate	3.96%

Only an increase of over 41.84% in cost (\$60.13 construction cost) will cause the NPV to become negative.



LTC	30%	45%	60%	75%	80%	85%	90%
Interest Rate							
3.5%	14,301	16,023	17,397	18,400	18,648	18,850	19,007
4.0%	13,515	14,870	15,899	16,584	16,732	16,838	16,903
4.5%	12,730	13,724	14,419	14,798	14,852	14,868	14,846
4.9%	12,103	12,814	13,248	13,392	13,374	13,322	13,234
5.5%	11,166	11,458	11,513	11,321	11,201	11,051	10,873
6.0%	10,387	10,339	10,089	9,629	9,429	9,204	8,955

#### FINANCING

Values in \$000

This is another indication of the strength for of the proposed project.

The next chart tests the NPV based on extreme and unlikely interest rates. This allows us to test the limits of the investment:

LTC	0%	25%	50%	75%	80%	85%	90%
Interest Rate							
3.5%	9,901	13,653	16,520	18,400	18,648	18,850	19,007
4.0%	9,901	12,994	15,250	16,584	16,732	16,838	16,903
5.0%	9,901	11,675	12,741	13,044	13,008	12,939	12,836
8.0%	9,901	7,749	5,508	3,177	2,700	2,219	1,735
9.0%	9,901	6,458	3,205	138	-454	-1,038	-1,614
12.0%	9,901	2,668	-3,356	-8,257	-9,109	-9,921	-10,691

Values in \$000

- Even without debt, the projected NPV is \$9.9 million

- The project will be successful even with 8% interest rate



Cap Rate	4.0%	4.5%	5.5%	6.0%	7.0%	7.5%	8.0%
NOI growth				(\$000)			
-2%	9,334	5,281	-616	-3,985	-6,302	-7,691	-8,908
-1%	13,549	9,107	2,647	-1,045	-3,583	-5,106	-6,438
0%	18,095	13,233	6,161	2,120	-658	-2,325	-3,784
1%	22,998	17,680	9,946	5,526	2,487	664	-931
2%	28,281	22,471	14,019	9,189	5,869	3,877	2,133
3%	33,972	27,628	18,400	13,127	9,502	7,327	5,424
4%	40,097	33,177	23,111	17,359	13,405	11,032	8,956
5%	61,388	52,449	39,447	32,018	26,910	23,845	21,164

#### PROJECTIONS

Values in \$000

Using the numbers from the previous plan shows us the difference between the two projects. In this scenario, under certain situations, even an annual decrease in NOI could still produce a positive NPV. Furthermore, if the NOI annual growth will be as expected 2% and above, then even 8% Cap Rate at sale will make the project a success.

#### CONSOLIDATED NPV

After running all the analyses, we have 323 possible NPVs from different scenarios.

Here are the key metrics:

Average NPV	\$11,607,073
Observations below zero	6%

Considering the fact that many analyses used extremely unlikely scenarios just to test the limits of the investment, there are only 6% (19) observations with negative NPV.

Min	First quartile	Median	Third quartile	Max
-20,665,670	5,255,970	11,802,736	16,195,755	38,202,371

Each quartile represents 25% of the observations. 94% of the scenarios are above zero, while 75% are above \$5.25 million.



## 7.5 SUMMARY AND RECOMMENDATIONS

#### **PROJECT SUMMARY**

	Feature	Comment
Scope	2 floors - retail (100,559 SF) 3 floors –residential (150,839 SF)	44 one bedroom 65 two bedrooms
Parking	511 parking spaces	All spaces directly linked to the project (no additional for city)
Revenue year 1 NOI year 1	\$3.61 million \$2.38 million	Residential 55% of total revenue
Cost of construction	\$42.39 million	Excluding soft costs Based on low end Boston prices – so a discount price should be expected
Cap Rate	5.62%	Retail – highest (9.56%) Residential – 6.04%
Financing	Debt = \$31.79 million Equity = \$10.59 million	75% Loan To Cost 30 Am schedule, 3.5% interest 5% return on equity
In 10 years	Value = \$56.56 million Potential sale profit = \$30.24 million	Assuming: 3% annual NOI growth 5.5% Cap Rate at sale
NPV	\$18.4 million	Positive
IRR	15.15%	Higher than cost of capital

### **BOTTOM LINE**

Looking at all of the financial indicators, combined with the market opportunity, this project plan shows strong potential for success. The sensitivity analyses showed that only extreme and unlikely scenarios could make the project fail. With a proper management this project has high probability for success.



## CHAPTER 8: CONCLUSION AND RECOMMENDATIONS





# 8. CONCLUSION & RECOMMENDATIONS

## 8.1 MARKET OPPORTUNITY

Considering the prime location and the economic (real estate and demographic) trends in the area, Roosevelt project offers a unique opportunity for investor to capitalize on the demand. The value this project will bring to Pawtucket generates mutual interest and potential collaboration with investors and developers.

- Area opportunity prime location by the city hall, across from main tourist location (Slater Mill) and right off the highway. This location presents unique opportunity to draw residents and shoppers to the project and capitalize on the tourist attraction.
- Demographic opportunity the changing demographic landscape in Pawtucket characterized by growing average household income, increasing focus on professional jobs (blue collar workers). This creates an evident higher demand for better apartments with higher rents in new multi-unit buildings.
- **Business opportunities** growth of small companies leads a slight growth in demand for small office spaces.
- Retail opportunity large gap between local expenditure (of people who live in the area) to local sales reveals an opportunity for retailers to capitalize. Main industries include groceries, general merchandise and clothing.
- Product mix retail and residential, combined together, help drive demand for each side.
- Real estate low vacancy and rent growth in residential market creates an opportunity to capitalize. Retail shows strong trends as well. Office markets, while getting stronger, are still weak.

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## 8.2 FINANCIAL OPPORTUNITY

	Original plan	Optimized plan
Scope	2 floors - retail (19,000 SF) 1 floor - office space (66,000 SF) 2 floors residential (94,000 SF)	2 floors - retail (100,559 SF) 3 floors –residential (150,839 SF) (no office space)
Residential units	68 units	109 units
Parking	276 parking spaces for the project 458 parking spaces for the city	511 parking spaces for the project
Revenue year 1	\$2.24 million	\$3.61 million
NOI year 1	\$1,396,959	\$2.38 million
Construction cost	\$31.9 million	\$42.39 million
Cap Rate	4.38%	5.62%
Financing	Debt = \$23.9 million, Equity = \$7.97 million	Debt = \$31.79 million Equity = \$10.59 million
In 10 years	Value = \$33.14 million Potential sale profit = \$13.62 million	Value = \$56.56 million Potential sale profit = \$30.24 million
NPV	\$3.2 million	\$18.4 million
IRR	6%	15.15%

It is easy to see that the optimized plan offers an overwhelmingly better opportunity for investors.


### **RISK COMPARISON**

Comparing risk factors reveals additional strength of the optimized plan. The next table compares the conditions that must exist for the project to be successful.

	Original plan will fail if	Optimal plan will fail if	Optimal better by
Rent prices	Residential fall below \$13	Residential below \$6.5	\$6.5
	Retail falls below \$6	Retail below \$5.3	\$0.7
	Office below \$8.5		
	Consolidated prices fall more than 9%	Consolidated fall more than 29.5%	20.5%
Vacancy	Residential – below 13%	Residential – below 40%	27%
	Consolidated – below 10%	Retail – below 50%	40%
Cost	Increases by more than 10%	Increases more than 41.84%	31.84%
Loan and interest	Interest higher than 4.9%	Interest higher than 12%	7.1%
NOI growth	Grows less than 2%	Annual decrease of 2%	4%
Cap Rate at sale	Higher than 6%	Higher than 10%	4%

This table clearly indicates that the optimal proposed plan has a significantly larger buffer to protect the investment from failure.

Other metric shows that for the original plan, 60% of the NPVs tested are higher than zero, versus 94% for the optimal plan.



## 8.3 CITY CONCESSIONS AND PARKING

	Original plan	Optimal plan
City concessions	Heavily relies on city support – help to secure loan, real estate tax benefits, soft cost assistance	Does not rely on city support – city help will make it more attractive but is not required
Parking	734 parking spaces include allocation for 458 spaces for city use (developed by the city)	511 parking spaces to support the project. No current allocation for city parking, but can afford 100-200 spaces (developed by the city)

## **CITY CONCESSIONS**

The original plan relies heavily on city concessions which may include:

- Developing (or funding) majority of the parking spaces
- Backing the project and helping secure a loan from a financial institution
- Helping finance the soft costs of the project
- Real estate tax benefits
- Help receive tax credits

The optimal plan however does not rely on city concessions and should be successful without it. However, given the added value this project could create to the city of Pawtucket it would be in the city's best interest to assist the project by applying the above mentioned or other possible steps to assure the success of the development project.

### PARKING

The original project included an allocation of 458 spaces for the city use (to replace the current parking lot), which is a majority of the parking spaces in the project. For the project to succeed, the city must finance and develop those parking spaces.



The optimized plan however, includes a total of 511 parking spaces (which is heavily supporting the large retail space). An analysis revealed that the project can easily afford an allocation of space for city use, which will not cause a significant loss for the project investment. With that being said, the allocation reduces the potential space available for retail. This will result in lower retail opportunity. To avoid that, the city could develop other area that was designated as public (program) space or find another creative solution not reducing the space allocation in the optimal pro-forma.

## 8.4 LESHINSKY FINANCE RECOMMENDATIONS

The market research revealed that there is high probability for a successful development in the proposed site that will combine retail and residential units. The financial analysis revealed that the original plan falls short next to a more optimized plan that combines only residential and retail (with 3:2 ratio).

Therefore, Leshinsky Finance, LLC have the following recommendations:

- **1.** Pursue the project using the optimal pro-forma residential and retail only (3:2 residential: retail ratio)
- City concessions although not critical for the success, provide various incentives and assistance to the developer to assure the project comes true and is successful. This will create opportunity to additional projects.
- 3. **Parking** if it is decided that additional parking spaces are necessary, it is best to avoid changing the area for retail and residential.



## Appendices





## **APPENDIX A - BIBLIOGRAPHIC RESOURCES**

Source	Additional information	Main use
Pawtucket Foundation	White paper by Thomas A. Mann	Project details and information.
SimplyMap		Demographic and retail information
D&B		Large database of businesses
Zilliow	www.zillow.com	Residential rent information
Hotpads	www.hotpads.com	Residential rent information
Cityfeet	www.cityfeet.com	Office rent information
LoopNet	www.loopnet.com	Lease trends comparison
Census Bureau	www.census.gov	Demographic information
CoStar	Providence market real estate report	Real estate market information
Department of Urban Planning and Environmental Policy, Texas Southern University	Written by: Qisheng Pan Article name: The impacts of an urban light rail system on residential property values: a case study of the Houston METRORail transit line.	study on the impact of new rail station on the local economy
NAIOP – Commercial Development Association	Article name: Changes in Average Square Feet per Worker (Sept. 2012) http://www.naiop.org	Estimate of SF per worker
CoStar website	Article name: Changing Office Trends Hold Major Implications for Future Office Demand. Written by: Mark Heschmeyer (March 13, 2013)	Estimate of SF per worker
CBRE	New England Market outlook 2014	Market conditions
CBRE	Cap Rate survey (second half 2014)	
National Apartment Association	2014 survey of operating income& expenses in rental apartment communities By: Christopher Lee	Baseline for building pro-forma
Rhode Island Statewide Planning Program	Population projections	Population trends
Rhode island Department of Labor	Employment statistics	Employment trends
Nielsen (RMP)	Accessed through Simply Map	Retail opportunity assessment
Rider Levett Bucknall	Quarterly construction cost report, USA, first quarter 2015	Construction costs



June 1,

2015

## APPENDIX B – PROPOSED PLAN DESIGN











#### ROOSEVELT AVENUE CONCEPTUAL MASTER PLAN VIGNETTE STUDIES

DURKEF BROWN VIVEIROS WERENFELS A R C H I T E C T S 300 WIST EXCHANGE STRIET PROVIDINCE. RHODE ISIAND 02003 TEL-01-831-1240 FAX-01-331-1945 WWW.DURKEEBROWN.COM

## Potential floor plans:



June 1, 201





June 1, 201









0 25 50

100

200













Conceptual Master Plan site sections

DURKEE BROWN VIVEIROS WERENFELS A R C H I T E C T S JOO WIST ENCHANGE STRIET PROVIDENCE. RHODE ISLAND 02903 TEH-01-331-1200 FAC 40-133-12945 WWW.DURKEEBROWN.COM



## Potential designs:











# LF

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