

# bae urban economics

## Memorandum – DRAFT FOR DISCUSSION

**To:** Wendy Nowak, Principal, PlaceWorks  
Suzanne Schwab, Senior Associate, PlaceWorks

**From:** BAE Urban Economics

**Date:** March 5, 2019

**Re:** Feasibility and Pro Forma Analysis for Artesia Boulevard Development Concepts

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### Executive Summary

This memorandum summarizes the financial feasibility of four development “concepts” on a hypothetical 1.79-acre block along Artesia Boulevard in the City of Redondo Beach. In addition to testing the financial feasibility of the four development concepts, this Memo also explores potential reasons for why the stretch of Artesia Boulevard between Inglewood Avenue and Aviation Boulevard (the Corridor) has not seen the type of new development and revitalization desired by the local community. Potential explanations to this end are described as follows:

#### ***Low vacancy rates point to already successful businesses***

The retail vacancy rate along the Corridor is currently 3.8 percent (CoStar, 2019). This would seem to indicate that businesses along the Corridor are functioning, even if the retail mix itself is not desired by the local community.

#### ***High underlying land value***

If businesses along the Corridor are already generating sufficient cash flow, there may be little incentive for current landowners to risk an otherwise stable revenue stream. This overall lack of turnover is reflected in land sales data, with very few transactions for which a reliable comparable can be derived. The resulting land value, meanwhile (\$6.9 million/acre), is sufficiently high to prohibit lower-scale types of construction as limited by current zoning development standards.

#### ***Lack of Recent Development and Low Comparables***

The average retail building along the Corridor was constructed in 1963 (CoStar, 2019). Older, Class B and C buildings generally command lower rents, and retail rents along the Corridor are

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significantly lower than they are in other areas of Redondo Beach (\$2.65/sf versus \$3.16/sf, NNN)<sup>1</sup>. This is also the case for the Corridor's office supply, which commands lower rents than the City of Redondo Beach's overall average rent (\$2.22/sf versus \$2.79/sf, Gross Direct). Developers in general are reluctant to invest in areas without a "proof of concept", and the Corridor has not seen any significant market-rate development in this real estate cycle (e.g., post Great Recession).

## Considerations for Improving Feasibility

If the City's goal is to encourage redevelopment of the corridor and/or transition to different uses, it is useful to understand what changes could be made to help incentivize property owners to make a new investment in their properties. Following is a list of approaches for the City to consider to encourage new development on the corridor.

### ***Allow for Flexible Parking Standards for Desired Uses***

Flexibility with local parking standards can have a tremendous impact on a project's financial feasibility. As the community desires the area to be more walkable, there may be an opportunity to reduce the number of parking spaces required for a project (which also may encourage people to walk vs. drive to a business along the corridor). As demonstrated later in this report, land use mixes and concepts that allow for lowered parking ratios and the ability to park vehicles offsite (such as on-street), substantially improve financial feasibility, pushing some otherwise infeasible projects to "marginally" feasible.

### ***Allow a Range of Uses to Harness Market Demand***

A broad range of allowable uses on the Corridor would allow the local market more flexibility to adapt and adjust to local need. For reference, the current commercial mix along Artesia is currently skewed towards retail, with approximately 363,137 square feet tracked by CoStar in 2019. Office inventory is estimated to be 87,163 square feet, making up just under 20 percent of commercial space along the corridor. In addition, the allowance of residential uses will help support existing and new retail uses, and adds to pedestrian activity along the corridor.

### ***Allow for an increase in Floor Area Ratio (FAR) for desired uses***

Brokers with active listings along the Corridor have indicated that for some prioritized uses (e.g., a new restaurant, creative office), it may be necessary to allow for FARs over the current maximum of 0.5. Based on feedback from the GPAC and City staff, further feasibility testing can be performed to test the extent to which a variance in FAR, height, parking, or other incentives might tip the scales to achieve financial feasibility. This could also be paired in

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<sup>1</sup> NNN stands for "net, net, net" or "triple net." It indicates that tenants pay for common area maintenance, taxes, and other operating expenses in addition to their lease rates.

exchange for public benefits such as enhanced streetscape improvements or other desired amenities as expressed by the GPAC and the community.

## Introduction

BAE used pro formas models to test the feasibility of a variety of land uses along the corridor. Project concepts considered were developed based on the land use alternatives considered by GPAC and presented at Community Workshop #1 and the results of the community-wide “Focus Areas” Land Use Alternatives Survey. This tool is not a predictive model for the future, rather it should be viewed as a planning-level tool intended to allow decision-makers and the community to study and compare development scenarios based on today’s conditions and understand the implications of land use decisions under consideration. As part of this process, BAE studied four development concepts created by PlaceWorks and the City that were designed for a prototypical block along Artesia Boulevard.

Since the current mix of uses present in the corridor (predominantly retail) are viable uses with low vacancy rates, the four concepts selected to be analyzed were representative of uses or mixes of uses not prevalent along the corridor. This analysis was prepared to assess the development feasibility of a variety of uses should the General Plan Advisory Committee recommend a change to the existing uses allowed in the General Plan. A detailed site plan for each of the four concepts, including total square footage for each use type, required parking ratios, number of stories, and other relevant factors were developed. The four concepts are as follows:

- Concept 1: Two-story townhomes with 24 residences
- Concept 2: Three-story townhomes with 45 residences
- Concept 3A: “Mixed-Use” with ground-floor retail and 22 multifamily units above
- Concept 3B: “Commercial-Flex” with ground-floor retail and two stories of office

Concept 1 is a conditionally permitted development program using standards similar to MU-1 zoning, with resident parking for each unit located in a private garage and guest parking located onsite. The intensity of residential development for Concept 1 is consistent with nearby residential neighborhoods north and south of Artesia Boulevard.

Concept 2, meanwhile, would require amended parking standards, with private tandem garages for residents and on-street parking for guests. The development intensity represented by Concept 2 is consistent with the City’s highest residential densities allowed per the RH-3 zone. Concept 2 would also be conditionally permitted using standards similar to MU-1 zoning.

Concept 3A consists of 17,000 gross square feet of ground-floor retail space, with 22 multifamily units on two upper floors. This concept would require amended FAR and parking standards. FAR per the MU-1 requires minimum of 0.3 for commercial, and this concept

presents an FAR of 0.22 for commercial. The parking for this concept is a mix of surface and on-street parking. If current MU-1 standards were applied using Concept 3A the site could accommodate up to 62 residences.

Concept 3B maintains the same amount of ground-floor retail space as Concept 3A, but with 14,000 square feet of office space on the upper floors. Current commercial zoning regulations applicable to the corridor limit height for all commercial developments to thirty feet and two stories. Both the commercial and the mixed-use concepts require the use of on-street parking to meet current zoning requirements.

The financial feasibility analysis uses a static development pro forma model that shows the extent to which each of the development scenarios may or may not be feasible. These models are constructed in a manner that calculates the residual land value for the site after accounting for direct costs (hard and soft), financing, and developer return.

## Key Findings

A summary of the findings of the pro forma development feasibility analysis is presented in Table 1.

**Table 1: Summary of Feasibility Findings**

Development	Townhomes		Commercial	
	Concept 1 <u>2-story townhome</u>	Concept 2 <u>3-story townhome</u>	Concept 3A <u>Retail+Residential</u>	Concept 3B <u>Retail+Office</u>
Residential - (# units)	24	45	22	0
Residential - (sf, gross)	47,184	87,642	21,750	0
Ground fl retail (sf, gross)	0	0	17,000	17,000
Office (sf, gross)	0	0	0	14,000
Parking Spaces				
Private Garage (# spaces)	48	90	0	0
Surface (# spaces)	20	0	59	85
On-Street (# spaces)	0	26	26	29
Net Operating Income	N/A	N/A	\$1,199,136	\$882,453
Project Value	\$20,889,563	\$40,477,512	\$23,982,714	\$15,347,016
Development Cost	-\$17,699,381	-\$31,302,670	-\$16,631,471	-\$12,311,492
Residual Land Value (RLV)	\$3,190,182	\$9,174,842	\$7,351,243	\$3,035,524
<b><u>RLV per Acre</u></b>	<b><u>\$1,782,224</u></b>	<b><u>\$5,125,610</u></b>	<b><u>\$4,106,840</u></b>	<b><u>\$1,695,824</u></b>
<b>Feasible?</b>	<b>No</b>	<b>Marginal</b>	<b>Marginal</b>	<b>No</b>

Source: BAE, 2019.

Sources: CoStar, 2019; BAE, 2019.

Of the four development concepts analyzed, Concept 2 (three-story townhomes) yields the highest residual land value, with \$5.1 million/acre.

Concept 3A (Mixed-Use, Retail + Residential), meanwhile, yields the second highest residual land value, with \$4.1 million/acre.

Key findings from the financial analysis are as follows:

***Concept 1 – Two-Story Townhomes:***

Concept 1 is not feasible under current market conditions, with a residual land value of \$1.8 million/acre. This lack of financial feasibility is due to a number of factors, including the relative lack of scale given the size of the parcel (13.4 du/acre), smaller-than-average three-bedroom units, and lower sales estimates on a price-per-square foot basis.

***Concept 2 – Three-Story Townhomes:***

Concept 2, meanwhile, yields a significantly higher residual land value than Concept 1 (\$5.1 million/acre versus \$1.8 million/acre). It benefits from a greater scale, higher sales estimates on a price-per square foot basis, and flexibility with alternative parking standards. The resulting residual land value, however, may not be sufficient to convince a developer to move forward, at least in the near term.

***Concept 3A – Mixed-Use, Retail + Residential:***

Concept 3A (Retail + Residential) yields a higher residual land value than the Concept 3B (Retail + Office). This can be attributed in part to more leasable square footage overall (34,875 versus 27,900), high demonstrated demand for new multifamily residential, lower capitalization rates, and some flexibility with parking standards. A residual land value of \$4.1 million/acre, however, would not likely be sufficient to convince a developer to move forward in the near term.

***Concept 3B– Commercial Mix, Retail + Office:***

Concept 3B (Retail + Office) is not feasible under current market conditions, with a residual land value of \$1.7 million/acre. This is due to a number of factors, including higher capitalization rates for office versus residential, less overall square footage, and potentially significant costs associated with commercial tenant improvements.

## **Methodology**

To assess the financial feasibility of the proposed development concepts, BAE undertook a market-based financial analysis which included the following analytic steps:

1. **Development Program:** BAE reviewed a detailed site plan for each of the four concepts, including total square footage for each use type, required parking ratios, number of stories, and other factors.
2. **Cost Assumptions:** For each development, BAE estimated hard and soft construction costs, including on- and off-site costs, financing costs, and required developer profit.
3. **Revenue and Project Value Assumptions:** For each concept, BAE estimated sales and rental revenues based on current market conditions. For income-generating properties, BAE calculated the value of the completed project components based on capitalizing net operating income (revenues less operating expenses), using market capitalization rates applicable to the land use product category.

More detailed assumptions about the development parameters, project costs, and revenues are appended to this memorandum as Appendix A-1 through Appendix A-3.

Next, BAE used a series of static pro formas to conduct this feasibility analysis. A static pro forma uses the assumptions described above to calculate the residual value of the site without accounting for the time value of money (i.e. inflation and discount rates). Instead, a static pro forma relies on capitalization rates determined in the market to account for the total value of the development if purchased outright at the time of analysis. This is the same method developers use to screen potential projects for feasibility.

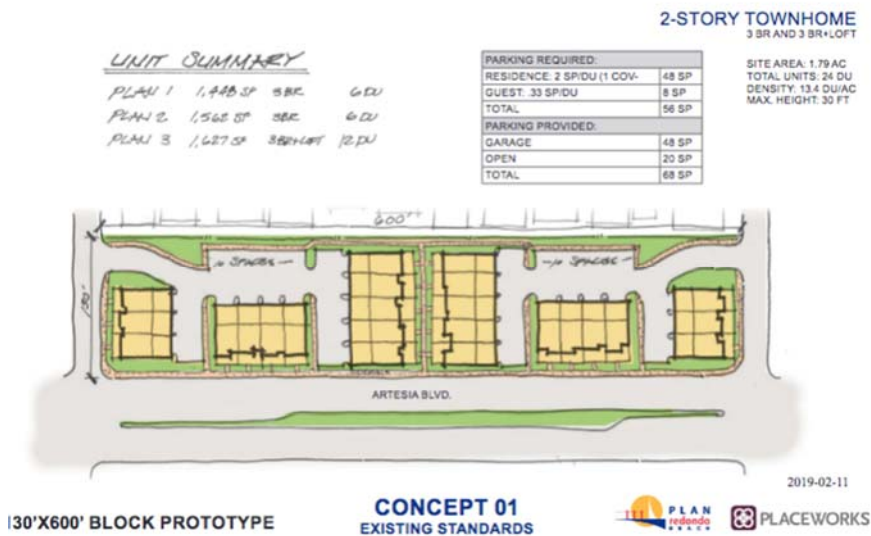
## Development Programs

The pro forma analysis tested the feasibility of four development concepts as summarized below.

### ***Concept 1 – Two-Story Townhomes:***

Concept 1 is configured as a low-rise, two-story townhome-style development with 24 three and three-bedroom-plus-loft units. Gross building area for the project totals 47,184 square feet, which includes a private garage for each residence. Average unit sizes total 1,566 square feet. Residential density is 13.4 dwelling units per acre, with a maximum building height of 30 feet.

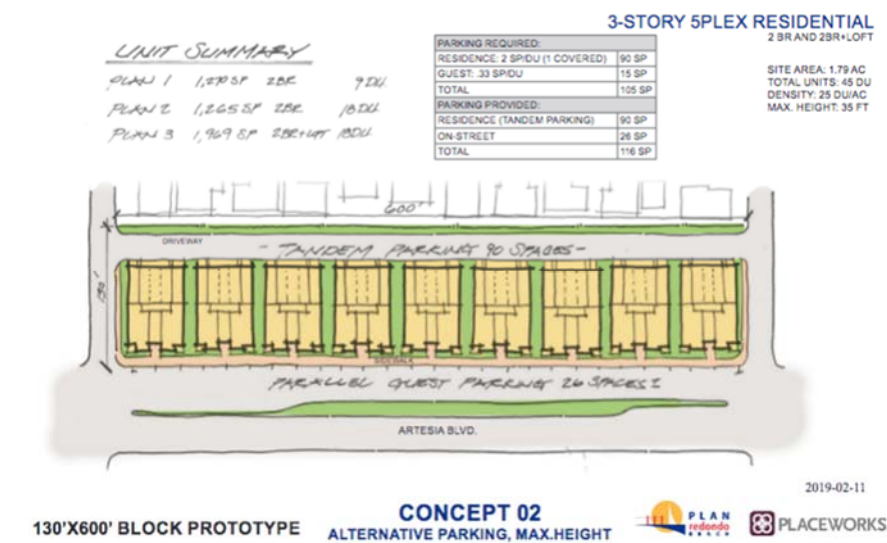
**Figure 1: Concept 1 Site Plan**



**Concept 2 – Three-Story Townhomes:**

Concept 2 is a three-story, townhome-style development with 45 two and two-bedroom-plus-loft units. Gross building area for this project totals 87,642 square feet, including the private garage for each residence. Average unit sizes are 1,548 square feet, which is fairly large for two-bedroom townhomes in this submarket. Residential density is 25 dwelling units per acre, with a maximum building height of 35 feet.

**Figure 2: Concept 2 Site Plan**

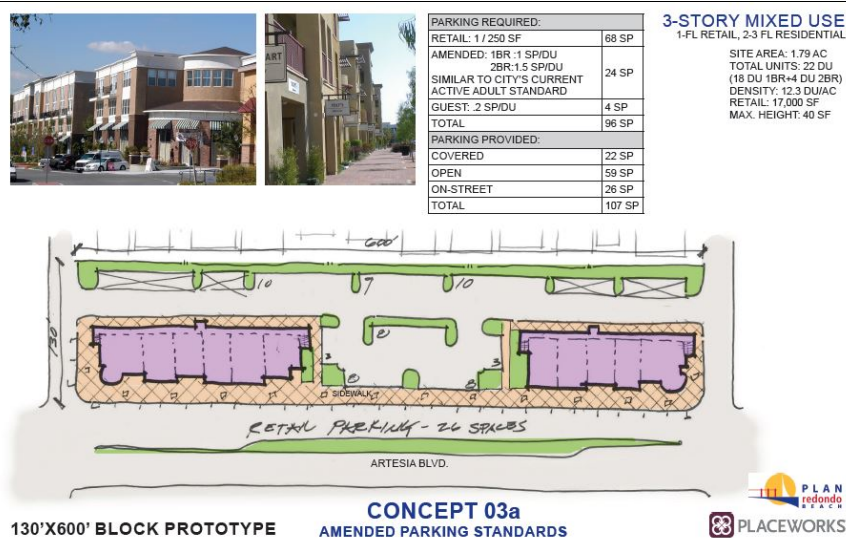


### Concept 3A – Mixed-Use, Retail + Residential:

Concept 3A includes 22 multifamily dwelling units set atop approximately 17,000 square feet of ground-floor retail. The residential portion of the project would comprise 18 one-bedroom units and four two-bedroom units, with an average unit size of approximately 890 square feet, net circulation. For the retail portion of the project, parking would be provided at a ratio of one space per 250 square feet. The residential portion of the project, meanwhile, would feature one parking space per one-bedroom unit, and 1.5 parking spaces per two-bedroom unit.

Total FAR is approximately 0.50, with a maximum building height of 40 feet.

**Figure 3: Concept 3A Site Plan**



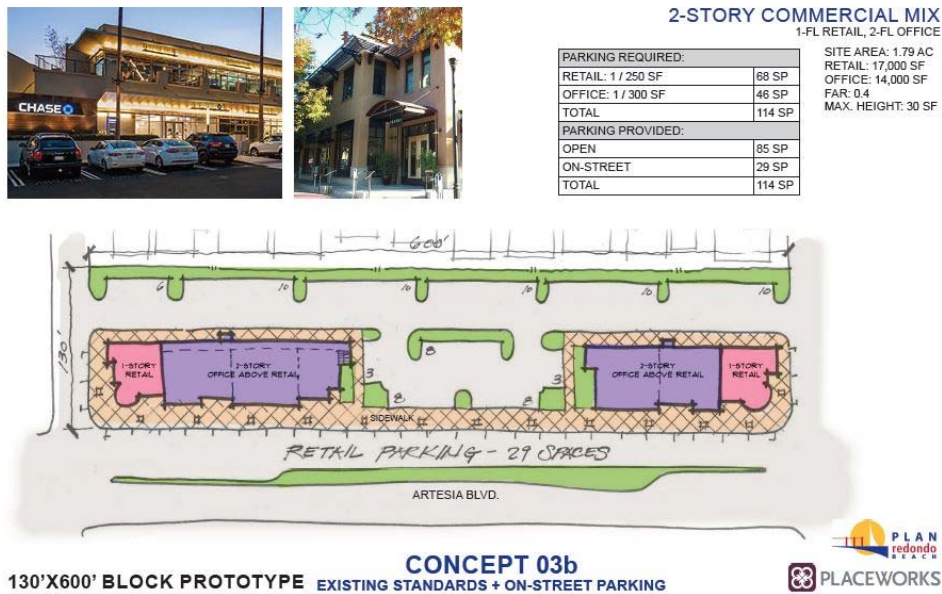
### Concept 3B – Commercial Mix, Retail + Office:

Concept 3B includes 14,000 square feet of office space set atop 17,000 square feet of ground-floor retail. Parking would be provided at a ratio of one space per 250 square feet of retail and one space per 300 square feet of office space, equating to 85 surface spaces and 29 on-street spaces.

Total FAR for this concept is approximately 0.40, with a maximum building height of 30 feet.



**Figure 4: Concept 3B Site Plan**



## Financial Feasibility Findings

The following section discusses the findings of the financial feasibility pro forma analysis for each development concept. The full pro formas can be found in Appendix B.

BAE utilized CoStar and ListSource, two comprehensive commercial real estate and property data platforms, to identify recently sold vacant land within the 90278 zip code that encompasses North Redondo Beach, including the Aviation and Artesia Boulevard corridors.

These sources identified three confirmed vacant land sales comparables within the zip code since 2012 with a median value of approximately **\$6.9 million per acre**—the starting point at which feasibility is measured.

### **Concept 1 – Two-Story Townhomes:**

The baseline pro forma analysis reveals that Concept 1 is not likely feasible under current market conditions. After subtracting total development costs of \$17.7 million from the estimated townhome sales, the resulting residual land value is approximately \$1.8 million per acre (Table 2).

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**Table 2: Summary of Feasibility Findings – Concept 1**

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<b><u>Projected Revenue</u></b>	
Sales ppsf	\$573.00
Gross Sales	\$21,535,632
Less Marketing Costs	<u>(\$646,069)</u>
Total Project Value	\$20,889,563
Less Total Dev Costs	<u>(\$17,699,381)</u>
Residual Land Value	\$3,190,182
<b>RLV/acre</b>	<b>\$1,782,224</b>

Concept 1's lack of feasibility is influenced by several factors, including a less intensive development program overall. In addition, Concept 1's three-bedroom units (averaging 1,566 square feet) would be considered small in the context of similar projects in Redondo Beach, which otherwise range from 1,750 to over 2,000 square feet. This reduces the estimated sales price per square foot slightly when compared to Concept 2.

***Concept 2 – Three-Story Townhomes:***

Concept 2, meanwhile, yields a significantly higher residual land value than Concept 1 (\$5.1 million/acre versus \$1.8 million/acre). Concept 2 benefits from greater scale, higher sales estimates on a price-per square foot basis, and flexibility with alternative parking standards.

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**Table 3: Summary of Feasibility Findings – Concept 2**

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<b><u>Projected Revenue</u></b>	
Sales ppsf (Plans 1&2)	\$626.35
Sales ppsf (Plan 3)	\$573.00
Gross Sales	\$41,729,394
Less Marketing Costs	<u>(\$1,251,882)</u>
Total Project Value	\$40,477,512
Less Total Dev Costs	<u>(\$31,302,670)</u>
Residual Land Value	\$9,174,842
<b>RLV/acre</b>	<b>\$5,125,610</b>

Concept 2's floorplans comprise two and two-bedroom-plus-loft units ranging from 1,265 to 1,969 square feet. Higher estimated sales price per square foot are due in part to the demonstrated success of two-bedroom sales in developments such as the new One South project, where two-bedrooms have sold for at least \$700 per square foot.

The total value of the project is \$40.5 million. After subtracting the total development costs of \$31.3 million, the resulting residual land value is approximately \$5.1 million per acre. While this does not quite reach the \$6.9 million threshold determined in the land value analysis, it comes the closest of all four scenarios analyzed.

**Concept 3A – Mixed-Use, Retail + Residential:**

High demonstrated demand for new multifamily residential, lower capitalization rates, and some flexibility with parking standards allow Concept 3A to yield a higher residual land value than the alternative concept with office.

After subtracting the total development costs of \$16.6 million from the estimated project value, the resulting residual value for Concept 3A is approximately \$4.1 million per acre (Table 4).

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**Table 4: Summary of Feasibility Findings – Concept 3A**


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**Projected Revenue**

Gross Rents - Residential	\$795,193
Less Vacancy	(\$39,760)
Less Operating Expenses	(\$154,000)
<i>Net Operating Income (NOI)</i>	\$601,434

**Commercial**

Gross Rents-Retail	\$667,202
Less Vacancy	(\$66,720)
Less Operating Expenses (NOI)	(\$2,780)
<i>NOI</i>	\$597,702

<b>Total NOI</b>	\$1,199,136
Blended Cap Rate	5.00%

Total Project Value	\$23,982,714
Less Total Dev Costs	(\$16,631,471)
Residual Land Value	\$7,351,243

<b>RLV/acre</b>	<b>\$4,106,840</b>
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**Concept 3B – Commercial Mix, Retail + Office:**

The baseline pro forma analysis reveals that Concept 3B is not likely feasible under current market conditions. After subtracting total development costs of \$12.3 million from the project value at stabilization, the resulting residual land value is approximately \$1.7 million per acre (Table 5).

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**Table 5: Summary of Feasibility Findings – Concept 3B**

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<b>Projected Revenue</b>	
Gross Rents - Retail	\$667,202
Less Vacancy	(\$66,720)
Less Operating Expenses	(\$33,360)
<i>Net Operating Income (NOI)</i>	\$567,122
Gross Rents - Office	\$485,125
Less Vacancy	(\$48,513)
Less Operating Expenses	(\$121,281)
<i>NOI</i>	\$315,331
<b>Total NOI</b>	\$882,453
Blended Cap Rate	5.75%
Total Project Value	\$15,347,016
Less Total Dev Costs	(\$12,311,492)
Residual Land Value	\$3,035,524
<b>RLV/acre</b>	<b>\$1,695,824</b>

Despite low office vacancy rates and little new supply in the last decade, gross direct rents for office space in Redondo Beach submarket have flatlined since 2017. Vacancy rates, meanwhile, have also crept up, enabling residential rents in many cases to surpass office rents on a per-square-foot basis.

## Further Considerations for Improving Feasibility

The Artesia Boulevard corridor has not seen any significant market-rate development in this real estate cycle (e.g., post Great Recession). The following recommendations are meant to augment those discussed in the Executive Summary, could potentially increase residual land values to the point of bringing “marginally feasible” development concepts to fully feasible.

### ***Impact Fee Reduction Targeted to Corridor Revitalization***

Impact Fees can provide an important source of revenue to ensure that adequate infrastructure accommodates new development. Concepts that feature new residential units, however, currently face impact fees in excess of \$37,000 per unit. While these fees alone do not render any individual project infeasible, areas targeted for revitalization such as the Artesia corridor could potentially benefit from an impact fee reduction.

### ***Developer Outreach for Implementation Phase***

Developers in general are reluctant to invest in areas without a “proof of concept”. The Artesia corridor’s lack of recent development activity, for example, precluded BAE from effectively identifying “teardown” sales to derive land values, while the lack of recent market comparables introduces yet another layer of uncertainty.

To the extent that clear, objective development standards for Artesia Boulevard can be effectively marshalled through the planning process, developers may be more open to opportunities for revitalizing the corridor.

## Appendix A-1: Assumptions that Apply to All Uses

The following key assumptions were used for all development types and do not change significantly by use.

1. **Parking Costs:** The analysis assumes that none of the concepts would require structured or podium parking, which in normal circumstances would cost upwards of \$35,000 per stall. Surface parking, meanwhile is estimated to be \$5,000 per space, while costs for private garages for the townhome concepts are included in the hard cost estimates.
2. **Site Prep Costs:** The analysis assumes that site preparation costs are \$10 per site square foot. This includes demolition of existing structures, on/offsite costs (grading, curb cuts), and streetscape amenities. For concepts that require a portion of the parking to be located “on-street”, site preparation costs of \$15 per site square foot are assumed instead.
3. **Land Costs:** Land costs are not included in the pro formas themselves. The pro formas return a residual land value that represents the amount that a developer would be willing to pay for land and still undertake the project.
4. **Developer Profit:** The developer profit is the amount that the developer earns after covering overhead and other internal costs. This analysis assumes that the developer profit must meet a minimum threshold of ten percent of total construction costs.
5. **Loan-to-Cost Ratio:** The construction loan-to-cost ratio is assumed to be 70 percent. This is consistent with standard lending practices for projects of this scale backed by a qualified developer.
6. **Financing Costs:** The analysis assumes that developers will be charged 1.5 percent in loan fees and a 6.5 percent annual interest rate. Changes in the interest rate could change development feasibility.
7. **Capitalization Rates:** Capitalization rates for the commercial concepts vary by use and are listed separately. For concepts with more than one use (for example, multifamily residential atop ground-floor retail), the capitalization rate for the primary use is weighted more heavily.

## Appendix A-2: Assumptions for Commercial Uses

The following assumptions specifically apply to ground-floor retail as well as office uses.

1. **Parking Ratios:** The analysis assumes a parking ratio of one space per 250 gross square feet of retail space, and one space per 300 gross square feet of office space.
2. **Development Costs:** This analysis assumes that construction hard costs for the retail plus office mix are approximately \$191 per gross square foot. This is based on data from RS Means 2018 for a 2-4 story office building with a Los Angeles location factor.
3. **Tenant Improvement Allowance:** This analysis assumes a tenant improvement allowance of \$25 per leasable square foot of office space and \$50 per leasable square foot of retail.
4. **Rents:** Based on Q4 2018 data from CoStar, monthly office rents are assumed to be \$3.21 per square foot, gross. Due to the lack of recent office comparables within the City of Redondo Beach, a fifteen percent premium has been assumed for new construction. Retail rents, meanwhile, are projected to be \$3.63 per square foot, triple-net.
5. **Operating Costs:** Because office rents are expressed as full service, the developer would be expected to pay for common area maintenance, property taxes, and other costs from the gross rent. Thus, operating costs are calculated as 25 percent of total rental revenue. Retail spaces would be leased on a triple net basis, with tenants paying for operating expenses separately.
6. **Vacancy Rate:** A vacancy rate of ten percent is assumed for both office and retail space. Although vacancy rates are currently lower for both, the long-term equilibrium vacancy rate for commercial space is 10 percent. In order to provide a conservative estimate of revenues at stabilization, this analysis uses a 10 percent vacancy rate.
7. **Capitalization Rate:** This analysis uses a capitalization rate of 5.75 percent for the “commercial mix” office project. Cap rates were estimated based on investor reports, data provided by developers, and a review of CoStar data.

### Appendix A-3: Assumptions for Residential (Townhome)

The following assumptions specifically apply to townhome residential uses.

1. **Parking Ratio:** The analysis assumes a parking ratio of two vehicle spaces per townhome unit, with guest parking provided at a rate of 0.33 spaces per unit.
2. **Development Costs:** This analysis assumes that multifamily residential construction hard costs for both townhome scenarios are approximately \$211/sf. This is sourced from RS Means 2018, and models a luxury three-story townhouse w/ brick veneer and Los Angeles location factor.
3. **Sales Prices:** Sales prices are based on 12-month price history for both two and three-bedroom townhomes from Redfin. Adjustments have been made to account for a new construction premium.

### Assumptions for Residential (Multifamily)

The following assumptions specifically apply to the multifamily residential uses.

1. **Parking Ratio:** The analysis assumes a parking ratio of one vehicle space per one-bedroom unit, and 1.5 vehicles spaces per two-bedroom unit. Guest parking would be provided at a rate of 0.2 spaces per unit.
2. **Development Costs:** This analysis assumes that construction hard costs are approximately \$228 per gross square foot. This is based on data from RS Means 2018, for a residential project of up to four stories, along with a Los Angeles location factor.
3. **Market-Rate Rental Unit Prices:** Rents are based on Q4 2018 data from CoStar, and shown on a price-per-square-foot basis for each unit type (one and two bedroom). Due to the lack of recent multifamily comparables within the City of Redondo Beach, a twenty percent premium has been assumed.
4. **Operating Costs:** Multifamily building operating costs are assumed to be \$7,000 per unit per year.
5. **Vacancy Rate:** The overall vacancy rate for market-rate units is assumed to be five percent, which reflects the long-term vacancy rate of multifamily developments.
6. **Capitalization Rate:** Cap rates were based on investor reports, data provided by developers, and a review of CoStar data. While a cap rate as low as 4.75 percent might be assumed for a project with primarily residential uses, the introduction of a sizable mix of retail space in this scenario (17,000 gross square feet) requires a “blended” cap rate of five percent.



## Appendix B: Full Pro Forma Analysis

**Table 6: Pro Forma for Concept 1**

Development Program Assumptions - Concept 1			Cost and Income Assumptions		Development Cost Assumptions		Feasibility Analysis	
<b>Site Size - acres / square feet (sf)</b>	<b>1.79</b>	<b>77,972</b>	<b>Construction</b>		<b>Construction Costs</b>		<b>Condominiums</b>	
Commercial Area (sf)		0	Site Prep Cost (per site sf) (a)	\$20.00	Site Prep Cost	\$1,559,448	Gross Sales	\$21,535,632
			Construction Costs		Hard Costs	\$9,970,642	Less Marketing Costs	(\$646,069)
			Hard Costs (per sf) (b)	\$211.31	Parking Costs	\$340,000		
<b>Dwelling Units (du)</b>			Parking Costs		Soft Costs	\$2,374,018	Total Project Value	\$20,889,563
Total Residences (number du)		<b>24</b>	per surface space	\$5,000	Impact Fees	\$896,509		
Total Liveable Space (gross, sf)		37,584	per podium space	\$35,000	<b>Subtotal Construction Costs</b>	<b>\$15,140,617</b>		
Garage Space - sf per unit / total sf	400	<u>9,600</u>	Impact Fees (per du) (c)	\$37,355			<b>Feasibility</b>	
Gross Building Area (sf)		47,184	Soft Costs, % Hard Costs	20%			Total Project Value	\$20,889,563
							Less Total Dev Costs	(\$17,699,381)
<b>Unit Summary - Total # / sf</b>			<b>Revenue</b>		<b>Financing Costs</b>		Residual Land Value	\$3,190,182
Plan 1 (3 br)	6	1,448	Sales ppsf / sales price (d)		Interest on Construction Loan	\$885,726		
Plan 2 (3 br)	6	1,562	Plan 1	\$573	Points on Construction Loan	\$158,976		
Plan 3 (3 br plus loft)	<u>12</u>	1,627	Plan 2	\$573	<b>Subtotal Financing Costs</b>	<b>\$1,044,703</b>		
Total	24	1,566	Plan 3	\$573				
			Marketing Costs, as % sales price	3.0%				
<b>Required Parking</b>			<b>Financing</b>		<b>Developer Profit</b>			
Residential - per du / total #	2.33	56	Construction Loan to Cost Ratio	70%	Developer Profit, % total const cost	10%		
			Construction Loan Fee (points)	1.5%	Developer Profit	\$1,514,062	RLV	\$3,190,182
<b>Provided Parking</b>			Interest Rate	6.5%	<b>Total Development Cost</b>	<b>\$17,699,381</b>	<b>RLV/acre</b>	<b>\$1,782,224</b>
Garage - total #		48	Period of Initial Loan (months)	18				
Open - total #		<u>20</u>	Drawdown Factor	60%				
Total Spaces Provided		68	Total Hard and Soft Costs	\$15,140,617				
			Total Loan Amount	\$10,598,432				

**Notes:**

- (a) Includes Demolition, On/Offsite Costs (grading, curb cuts), and streetscape amenities
- (b) Per RS Means 2018, luxury two-story townhouse with Los Angeles Location factor
- (c) Includes Impact Fees such as Quimby, school district, wastewater, and public arts.
- (d) Per Redfin, 12-month sales data for 3BR townhomes within Redondo Beach, adjusted for recently built comps

Sources: City of Redondo Beach, 2019; CoStar, 2019; RS Means, 2018; BAE, 2019.

**Table 7: Pro-Forma for Concept 2**

Development Program Assumptions - Concept 2			Cost and Income Assumptions		Development Cost Assumptions		Feasibility Analysis	
<b>Site Size - acres / square feet (sf)</b>	<b>1.79</b>	<b>77,972</b>	<b>Construction</b>		<b>Construction Costs</b>		<b>Condominiums</b>	
Commercial Area (sf)		0	Site Prep Cost (per site sf) (a)	\$25.00	Site Prep Cost	\$1,949,310	Gross Sales	\$41,729,394
			Construction Costs		Hard Costs	\$18,519,986	Less Marketing Costs	<b>(\$1,251,882)</b>
			Hard Costs (per sf) (b)	\$211.31	Parking Costs (e)	\$450,000		
<b>Dwelling Units (du)</b>			Parking Costs		Soft Costs	\$4,183,859	Total Project Value	\$40,477,512
Total Residences (number du)		<b>45</b>	per surface space	\$5,000	Impact Fees	<u>\$1,674,150</u>		
Total Liveable Space (gross, sf)		69,642	per podium space	\$35,000	<b>Subtotal Construction Costs</b>	<b>\$26,777,305</b>		
Garage Space - sf per unit / total sf	<b>400</b>	<u>18,000</u>	Impact Fees (per du) (c)	\$37,203				
Gross Building Area (sf)		87,642	Soft Costs, % Hard Costs	20%			<b>Feasibility</b>	
							Total Project Value	\$40,477,512
			<b>Revenue</b>		<b>Financing Costs</b>		Less Total Dev Costs	<b>(\$31,302,670)</b>
<b>Unit Summary - Total # / sf</b>			Sales ppsf / sales price (d)		Interest on Construction Loan	\$1,566,472	Residual Land Value	\$9,174,842
Plan 1 (2 br)	9	1,270	Plan 1	\$626	Points on Construction Loan	<u>\$281,162</u>		
Plan 2 (2 br)	18	1,265	Plan 2	\$626	<b>Subtotal Financing Costs</b>	<b>\$1,847,634</b>		
Plan 3 (2 br plus loft)	<u>18</u>	1,969	Plan 3	\$573				
Total	45		Marketing Costs, as % sales price	3.0%				
<b>Required Parking</b>			<b>Financing</b>		<b>Developer Profit</b>			
Residential - per du / total #	2.33	105	Construction Loan to Cost Ratio	70%	% total const cost	10%		
			Construction Loan Fee (points)	1.5%	Developer Profit	<b>\$2,677,731</b>	RLV	\$9,174,842
<b>Provided Parking</b>			Interest Rate	6.5%	<b>Total Development Cost</b>	<b>\$31,302,670</b>	<b>RLV/acre</b>	<b>\$5,125,610</b>
Tandem Garage - total #		90	Period of Initial Loan (months)	18				
On Street - total #		<u>26</u>	Drawdown Factor	60%				
Total Spaces Provided		116	Total Hard and Soft Costs	\$26,777,305				
			Total Loan Amount	\$18,744,114				

Notes:

- (a) Includes Demolition, On/Offsite Costs (grading, curb cuts), and streetscaping amenities, and off-street parking.  
(b) Per RS Means 2018, luxury three-story townhouse w/ brick veneer with LA location factor.  
(c) Includes Impact Fees such as Quimby, school district, wastewater, and public arts.  
(d) per Redfin, 12-month sales data for 2BR townhomes within Redondo Beach, adjusted for recently-built comps.  
(e) Excludes costs associated with on-street parking

Sources: City of Redondo Beach, 2019; CoStar, 2019; RS Means, 2018; BAE, 2019.

**Table 8: Pro Forma for Concept 3A – Mixed-Use, Retail + Residential**

Development Assumptions - Concept 3 Retail+Residential			Cost and Income Assumptions		Development Cost Assumptions		Feasibility Analysis	
<b>Site Size - acres / square feet (sf)</b>	<b>1.79</b>	<b>77,972</b>	<b>Construction</b>		<b>Construction Costs</b>		<b>Residential</b>	
Ground Floor Retail Area (gross, sf)		17,000	Site Prep Cost (per site sf) (a)	\$15.00	Site Prep Cost	\$1,169,586	Gross Rents	\$795,193
Commercial Space Net Leasable (sf)	90%	15,300	Construction Costs		Hard Costs	\$8,857,088	Less Vacancy	(\$39,760)
			Hard Costs (per sf) (b)	\$228.57	Comm'l Tenant Improvements	\$765,000	Less Operating Expenses	(\$154,000)
			Tenant Improvements (per sf, Retail)	\$50.00	Parking Costs (f)	\$405,000	<i>Net Operating Income (NOI)</i>	\$601,434
<b>Dwelling Units (du)</b>			Parking Costs		Soft Costs	\$2,239,335		
Total Residences (number du)		22	per surface space	\$5,000	Impact Fees	\$791,084		
Total Residential Space (gross, sf)		21,750	per podium space	\$35,000	<b>Subtotal Const Costs</b>	<b>\$14,227,092</b>	<b>Commercial</b>	
Residential Space Net Leasable (sf)	90%	19,575	Impact Fees (per du) (c)	\$30,462			Gross Rents	\$667,202
			Impact Fees (per sf, comm'l) (c)	\$7.11			Less Vacancy	(\$66,720)
			Soft Costs, % Hard Costs	20%	<b>Financing Costs</b>		Less Operating Expenses	(\$2,780)
<b>Unit Summary - Total # / sf</b>					Interest on Construction Loan	\$832,285	<i>NOI</i>	\$597,702
Plan 1 (1 br)	9	850	<b>Operations</b>		Points on Construction Loan	\$149,384		
Plan 2 (1 br)	9	900	Residential Rent, (average ppsf/mo) (d)		<b>Subtotal Financing Costs</b>	<b>\$981,669</b>	<b>Total NOI</b>	\$1,199,136
Plan 3 (2 br)	4	1,500	Plan 1	\$3.56			Blended Cap Rate (g)	5.00%
Total	22		Plan 2	\$3.56				
			Plan 3	\$2.92	<b>Developer Profit</b>		<b>Feasibility</b>	
Average Unit Size (net circulation)		890	Vacancy Rate, annual average	5.0%	% total construction cost	10%	Total Project Value	\$23,982,714
			Annual Operating Cost (per du)	\$7,000	Developer Profit	<b>\$1,422,709</b>	Less Total Dev Costs	(\$16,631,471)
<b>Required Parking</b>			Retail		<b>Total Development Costs</b>	<b>\$16,631,471</b>	Residual Land Value	\$7,351,243
Retail, per 1,000 sf / total #	4.0	68	Rental Rate, ppsf/mo, NNN (e)	\$3.63				
Residential, per du / total #	1.3	28	Vacancy Rate, annual average	10.0%				
Total Required Parking		96	Annual Operating Cost (% comm'l rev)	5.0%				
<b>Parking Configuration (# spaces)</b>								
Open Parking (Surface)		59	<b>Financing</b>					
Covered Parking (Surface)		22	Construction Loan to Cost Ratio	70%			RLV	\$7,351,243
On-Street Parking		26	Construction Loan Fee (points)	1.5%			<b>RLV/acre</b>	<b>\$4,106,840</b>
Total Parking		107	Interest Rate	6.5%				
			Period of Initial Loan (months)	18				
			Drawdown Factor	60%				
			Total Hard and Soft Costs	\$14,227,092				
			Total Loan Amount	\$9,958,964				

Notes:

- (a) Includes demolition, on/offsite costs (grading, curb cuts), on-street parking, and streetscape amenities.
- (b) Per RS Means 2018, 4-story residential with LA location factor
- (c) Includes Impact Fees such as Quimby, Redondo School District, Storm Drain, Wastewater, and Public Art.
- (d) per CoStar, Q4 2018, Redondo Beach multifamily, ppsf, with new construction premium.
- (e) per CoStar, Q4 2018, Redondo Beach retail, ppsf, with new construction premium.
- (f) Excludes costs associated with On-Street parking
- (g) Cap rates were estimated based on investor reports, data provided by developers, and a review of CoStar data.

Sources: City of Redondo Beach, 2019; CoStar, 2019; RS Means, 2018; BAE, 2019.

**Table 9: Pro Forma for Concept 3B – Commercial Mix, Retail + Office**

Development Assumptions - Concept 3 Retail+Office			Cost and Income Assumptions		Development Cost Assumptions		Feasibility Analysis	
<b>Site Size - acres / square feet (sf)</b>	<b>1.79</b>	<b>77,972</b>	<b>Construction</b>		<b>Construction Costs</b>		<b>Retail</b>	
Ground Floor Retail Area (sf)		17,000	Site Prep Cost (per site sf) (a)	\$15.00	Site Prep Cost	\$1,169,586	Gross Rents	\$667,202
Commercial Space Net Leasable (sf)	90%	15,300	Construction Costs		Hard Costs	\$5,918,024	Less Vacancy	(\$66,720)
			Hard Costs (per sf) (b)	\$190.90	Comm'l Tenant Improvements	\$1,080,000	Less Operating Expenses	(\$33,360)
			Tenant Improvements (per sf, Office)	\$25.00	Parking Costs (e)	\$425,000	Net Operating Income	\$567,122
			Tenant Improvements (per sf, Retail)	\$50.00	Soft Costs	\$1,718,522	(NOI)	
<b>Commercial Office</b>			Parking Costs		Impact Fees	\$220,512		
Total Office Space (gross, sf)		14,000	per surface space	\$5,000	<b>Subtotal Const Costs</b>	<b>\$10,531,644</b>	<b>Office</b>	
Office Space Net Leasable	90%	12,600	per podium space	\$35,000			Gross Rents	\$485,125
			Impact Fees (per sf, comm'l) (c)	\$7.11			Less Vacancy	(\$48,513)
			Soft Costs, % Hard Costs	20%	<b>Financing Costs</b>		Less Operating Expenses	(\$121,281)
<b>Office Floorplate - sf</b>					Interest on Construction Loan	\$616,101.17	NOI	\$315,331
Floor 1		7,000	<b>Operations</b>		Points on Construction Loan	\$110,582		
Floor 2		7,000	Retail		<b>Subtotal Financing Costs</b>	<b>\$726,683</b>		
			Rental Rate, sf/mo, NNN (d)	\$3.63			<b>Total NOI</b>	<b>\$882,453</b>
			Vacancy Rate, annual average	10.0%	<b>Developer Profit</b>		Blended Cap Rate (f)	5.75%
			Annual Operating Cost (% comm'l rev)	5.0%	% total construction cost	10%	<b>Feasibility</b>	
<b>Required Parking</b>			Office		Developer Profit	<b>\$1,053,164</b>	Total Project Value	\$15,347,016
Retail, per 1,000 sf / total #	4.0	68	Rental Rate, sf/mo, Gross (e)	\$3.21	<b>Total Development Costs</b>	<b>\$12,311,492</b>	Less Total Dev Costs	(\$12,311,492)
Office, per 1,000 sf / total #	3.3	46	Vacancy Rate, annual average	10.0%			Residual Land Value	\$3,035,524
Required Parking		114	Annual Operating Cost (% comm'l rev)	25.0%				
<b>Parking Configuration (# spaces)</b>			<b>Financing</b>					
Open Parking (Surface)		85	Construction Loan to Cost Ratio	70%			RLV	\$3,035,524
On-Street Parking		29	Construction Loan Fee (points)	1.5%			<b>RLV/acre</b>	<b>\$1,695,824</b>
Total Parking		114	Interest Rate	6.5%				
			Period of Initial Loan (months)	18				
			Drawdown Factor	60%				
			Total Hard and Soft Costs	\$10,531,644				
			Total Loan Amount	\$7,372,151				

**Notes:**

- (a) Includes demolition, on/offsite costs (grading, curb cuts), on-street parking, and streetscape amenities.
- (b) Per RS Means 2018, 2-4 story office with LA location factor
- (c) Includes Impact Fees such as stormwater and public art.
- (d) per CoStar, Q4 2018, Redondo Beach office, ppsf, assumes 15 percent premium on new construction
- (d) per CoStar, Q4 2018, Redondo Beach retail, ppsf, w new construction premium
- (e) Excludes costs associated with On-Street parking
- (f) Cap rates were estimated based on investor reports, data provided by developers, and a review of CoStar data.

Sources: City of Redondo Beach, 2019; CoStar, 2019; RS Means, 2018; BAE, 2019.