

Roswell Old Municipal Airport Economic Development Plan

Prepared for

CITY OF **ROSWELL** NEW MEXICO



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Index of Tables

Table 1: Summary OMA Site SWOT	6
Table 2: City of Roswell Business Climate Rankings, 2017	7
Table 3: OMA Site Redevelopment Plan – Estimated Wastewater Volume (Gallons/Day).....	11
Table 4: Demographic Characteristics & Trends – City of Roswell & OMA Site 60-Minute Drive Time, 2010-2016.....	12
Table 5: Residential Development Assumptions.....	15
Table 6: Retail Spending Power Growth, OMA Site 60-Minute Drive Time (2016-2021).....	16
Table 7: OMA Site Supportable Retail Space (Retail Leakage/Pent Up Retail Demand), 60-Minute Drive Time, 2016	17
Table 8: OMA Site Retail Space Oversupply (Retail Supply Greater than Demand), 60-Minute Drive Time, 2016.....	19
Table 9: Retail Site Selection Criteria	20
Table 10: Proposed OMA Site Redevelopment Program	21
Table 11: OMA Site Conceptual Redevelopment Program – Phase I	22
Table 12: Summary of OMA Site Private Development Financial Feasibility	23
Table 13: Project Hurdle Rate Targets (Minimum and Maximum Estimates).....	25
Table 14: Roswell Multifamily Rental Market Comparable Rents – New Construction	25
Table 15: Fiscal and Economic Impacts – OMA Site Phase I Commercial & Public Use Development (One-Time Construction Benefits).....	28
Table 16: OMA Site Fiscal Benefits – Annual Ongoing Real Property Taxes (Stabilized Year).....	28
Table 17: OMA Site Fiscal Benefits – Annual Ongoing State and Sales Taxes (Stabilized Year)	29
Table 18: OMA Site Ongoing Economic Benefits – Jobs and Payroll at Buildout (Stabilized Year)	31
Table 19: Evaluation of Developer/Investor Interest in OMA Site.....	33
Table 20: OMA Site Redevelopment Action Plan	36

Index of Figures

Figure 1: Project for Public Spaces – Placemaking 101	9
Figure 2: OMA Site Demolition, 2015	10
Figure 3: Chavez County Demographic Overview, 2016	14
Figure 4: New Mexico Best States Rankings, Total Score (2016)	43

Index of Appendix Figures

Appendix Figure 1: City of Roswell & OMA Site 60-Minute Drive Time Demographic Overview, 2010-2021	38
Appendix Figure 2: Household Income Trends & Projections.....	39
Appendix Figure 3: OMA Site 60 Minute Drive Time Demographic Characteristics – Race, 2016	40
Appendix Figure 4: Roswell OMA Site 60-Minute Drive Time Housing Tenure & Home Values, 2010-2021.....	41
Appendix Figure 5: Roswell OMA Site 60-Minute Drive Time Housing Tenure Trends, 2010-2021 (% of Total Units)	42
Appendix Figure 6: Roswell OMA Site 60-Minute Drive Time Housing Tenure Trends, 2010-2021 (Number of Units).....	42
Appendix Figure 7: Chavez County Area Median Income & Maximum Housing Rent Payment per Month (2016)	43
Appendix Figure 8: New Mexico Best States Rankings, Economic Opportunity Ranking (2016)	44
Appendix Figure 9: Chavez County Employment by Industry, 2016	45
Appendix Figure 10: Chavez County Employed Population by Industry, 2016	46

I. Introduction and Executive Summary

To spur much needed revitalization and mixed-use redevelopment activity, the City of Roswell is currently evaluating the feasibility of redevelopment of the City-owned Old Municipal Airport Site. The primary objective of the proposed mixed-use residential opportunities is to spearhead a catalytic public-private redevelopment project that will serve as an anchor for the City of Roswell and to attract much needed qualified labor to the Chavez County market area.

The City of Roswell engaged Willdan Financial Services to prepare an Economic Development Study of the Old Municipal Airport Site, including a market and financial feasibility analysis to test the extent to which public investment is warranted to attract private development activity and to provide for a redevelopment strategy and implementation plan. This Economic Development Study also measures the direct, indirect and induced fiscal and economic activity the could be expected to result from construction and ongoing operations of the redeveloped OMA Sites.

Economic Development Plan Intent

The City of Roswell is in the process of creating a master plan for the Old Municipal Airport site, with the potential for subsequent disposition (in parts or as a whole) to developers for redevelopment. The design criteria which will be established as part of the master plan would be a condition of sale and the Development Agreement with a private developer/investor.

The overarching intent is to develop a mixed-use project that will incorporate various housing types and densities anchored by a mix of attractive commercial uses. The first phase of the proposed OMA property is focused on the northwest quadrant of the site as a new "Town Center" site which would include mixed- or multi-use buildings that would have commercial space on the ground floors, and multifamily residential (rental apartments) above. These units would be surrounding a community park in the center of the site to include a gazebo for a range of community programs and events (music concerts, performing arts, and other cultural arts events). Radiating outward from the core area, the OMA Site would offer for-sale or rental townhome parcels (16 dwelling units per acre). The outer boundary ring area of the OMA Site is planned for single family homes (rental or for sale, 4 to 8 dwelling units per acre to reflect compact smart growth planning factors in an urban setting).

This Economic Development Plan is structured to prepare a demographic and economic profile, conduct primary research on local real estate market conditions, and ultimately to inform the OMA Site redevelopment strategy. In particular, the study is intended to identify the types and scale of residential and commercial uses would be financially feasible within a mixed- or multi-use context.

Taking these primary goals and objectives as the framework for the economic development study, the following Old Municipal Airport Economic Development Plan provides a comprehensive perspective of both community expectations and real estate market conditions to ultimately meet the overall economic development goals and vision of the City of Roswell.

OMA Economic Development Plan Vision Statement

To achieve redevelopment of the Roswell Old Municipal Airport Site as a mixed-use community anchor and gathering space offering new housing development, retail/dining/entertainment, targeted neighborhood services, and cultural arts events and programming.

There are several conditions of financial feasibility that will ultimately drive the market demand required to support a high-density mixed-use concept. These considerations include:

- Site connectivity to Downtown Roswell and Roswell Industrial Air Center critical mass of activity (wayfinding, dedicated programming to push/pull traffic from these locations to the OMA Site)
- Visibility of entrances and egress locations from major highways to OMA Site
- Shared parking strategy (configuration of lower cost shared parking is key – apply Smart Growth principles to parking plan)
- Town Square anchor design and programming that will serve to improve the City of Roswell's perception of a competitive market in which to relocate (for residents, businesses and their workers)
- Enhanced involvement of the City and County partners, along with the Roswell Main Street and others, to ensure extensive marketing of the OMA Site opportunity

Each of these factors are critical to assessing the actual potential for success of market rate uses at the site. The success of the center and any ancillary real estate uses depends upon the actual and perceived marketability of the OMA Site. The developer will question whether the OMA Site redevelopment concept can achieve required rents and sales per square foot to support the capital costs of new construction.

The following market analysis concluded that a project incorporating high quality mixed- or multi-use product could successfully attract private investment interest in the OMA Site with certain caveats. However, to be successful the OMA Site must achieve a significantly higher level of market capture than is currently evidenced in the Roswell regional market area. This will require a dedicated marketing and branding campaign coordinated with County officials, the Roswell International Air Center and other employers, and economic counterparts within the State of New Mexico (Albuquerque and the State of New Mexico Economic Development Administration).

A summary of the financial feasibility and economic benefits findings that could be expected to result from a multifamily rental-anchored mixed- or multi-use development at the OMA Site is provided in the following discussion.

- The financial feasibility analysis assumes a minimum target return (hurdle rate) of 7.5%, a maximum target return (hurdle rate) of 15%, and an average target multifamily rental rate of \$1.17 per square foot. Office and retail rents are targeted at \$20 per square foot.
- Taking these development costs and revenue assumptions into consideration, the Residual Land Value Analysis ("RLV") indicates that the total estimated capitalized market value (project revenues) at reversion (the year the project is stabilized) are estimated to be \$34.33 million for multifamily apartment, office, and retail operations (private sector development component only).
- Total estimated project costs for the commercial and residential components are estimated to be \$30.42 million (excluding the cost of land, the Town Center anchor structure, and parking).
- Assuming a targeted return on investment of \$2.58 million (7.5% hurdle rate) to \$5.15 million (15% hurdle rate), the maximum supported investment is \$29.18 million (15% hurdle rate) to \$31.76 million (7.5% hurdle rate).

office space strategy of individual tenants, this figure could be much lower by half if telecommuting or office space sharing is employed). The fiscal and economic benefits generated by office worker payroll is expected to be in the range of **\$4.10 million** (80 FTEs and \$51,000 in annual payroll) assuming a new build-to-suit office tenant is secured for the project.

- Taking the residential and commercial operations together, total payroll is expected to be in the range of **\$6.33 million** annually, with additional indirect and induced spending generating **\$3.67 million** to create a total potential payroll impact of nearly **\$10 million** in the local and regional market

The underlying rationale in support of the proposed OMA Site's financial feasibility and potential fiscal and economic benefits is provided in the following discussion.

OMA Site Strengths, Weaknesses, Opportunities and Challenges (SWOT)

The following strengths, weaknesses, opportunities and threat/challenges (SWOT) are derived from stakeholder input and site-related research related to the City of Roswell's current economic development capacity. To foster the redevelopment of the Old Municipal Airport Site, the City of Roswell's economic development policies and programs should serve to promote the following strengths/opportunities and mitigate weaknesses/challenges where and when possible.

The implications of these SWOT findings on the potential for redevelopment of the OMA site are important to take into consideration when formulating the most effective role of the City of Roswell in development strategy implementation plan.

First is the why undertake the redevelopment? Is this a good use of City resources given other competing needs for public funding? The answer is clearly yes if evaluating the capacity of the City of Roswell to attract a professional, talented workforce to the market.

Successful workforce development requires a sustained focus on business retention, attraction and entrepreneurship activities (the "three-legged stool" of economic development). It also requires fostering a high quality of life.

Trends in Business Climate Rankings and Roswell's Performance

IEDC reports that businesses relocate or expand in places with business climates favorable to their industry. States and localities targeting specific sectors fine-tune their regulations, policies and other site location factors to create a business climate favorable to a specific industry or group of industries. This applies to the industrial sector as well as for mixed-use residential and commercial developers. Key trends and the City of Roswell's performance are summarized in the following business climate assessment.

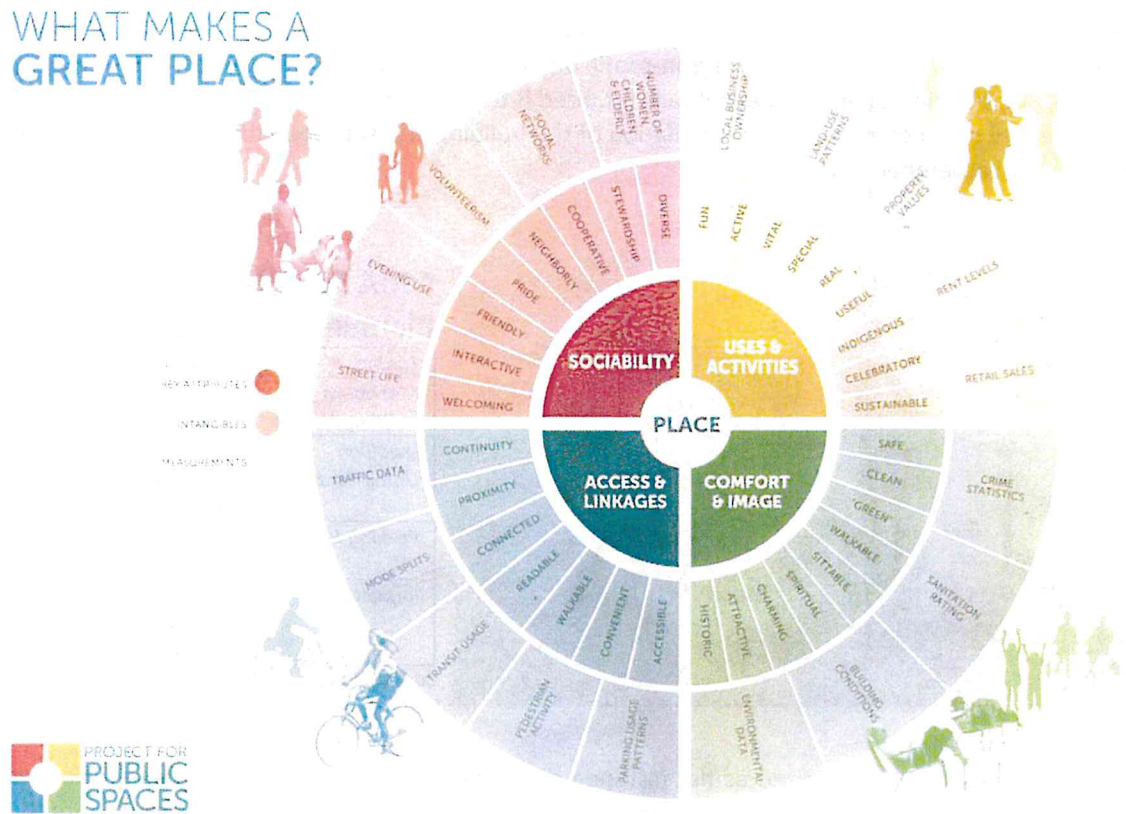
Table 3: City of Roswell Business Climate Rankings, 2017

Business Climate Factor	Description	Roswell Ranking
Skilled Workforce	The pervasive need for an available skilled workforce has spurred workforce development initiatives, with a particular emphasis on training in new technologies	Needs Improvement
Utility Costs	De-regulation of utilities has allowed businesses to purchase lower cost energy. Roswell's electricity cost is 4.1¢/kWh to 7.63¢/kWh compared to 5.8¢/kWh to 12.3¢/kWh (Albuquerque) and 4.8¢/kWh to 8.2¢/kWh in Lubbock for industrial and residential uses, respectively. ¹	Competitive
Business Incentives	Localities now offer incentives, such as tax breaks, to businesses that are expanding locally not just those that are relocating to the area for the first time. Roswell/Chavez County offers competitive business incentives (tax credits, worker training, public infrastructure).	Average
Income Tax Rate	Income tax is kept as low as possible because many skilled workers demand high net pay and prefer working and living where they have maximum purchasing power. The State Personal Income Tax Rate in New Mexico is 1.7% to 4.9% as compared to Texas (no State income tax) and Utah (5%) and Colorado (4.63%).	Average
Expedited (Electronic) Permitting	Local governments create one-stop centers to streamline the process for obtaining business or construction permits when beginning or expanding operations, or undertaking large scale real estate development. Electronic permitting is an efficient, low cost, and competitive form of permitting allowing for same day, concurrent review. More information available from American Planning Association and the International Economic Development Council	Average
Telecomms Infrastructure	Public and private sector investment initiatives in telecommunications infrastructure ensure that high speed, high bandwidth communications are available for business.	Unknown
Internet Tax Freedom Act	To encourage the growth of e-commerce, the Internet Tax Freedom Act signed in 1998 imposed a three-year moratorium on new state and local taxes for online transactions and sales.	Unknown
Cultural Arts/ Entertainment & Placemaking	Localities focus resources on improving arts, culture and other the quality of life factors to attract and retain skilled workers that businesses seek. Roswell's Main Street Strategic Plan and other initiatives are seeking to enhance the City's sense of place and quality of life.	Needs Improvement
Affordable Housing	Development of affordable housing attracts and retain key workers who may otherwise be priced out of the local housing market in a growing economy	Needs Improvement

Source: City of Roswell; International Economic Development Council; Willdan, 2017

¹ <https://www.electricitylocal.com/states/new-mexico/roswell/>

Figure 1: Project for Public Spaces – Placemaking 101



Source: Project for Public Spaces, *Placemaking 101*, <https://www.pps.org/reference/grplacefeat/>.

II. Site Existing Conditions and Capacity Assessment

The Old Municipal Airport site offers a prime 400-acre redevelopment opportunity. The site is bounded by the East by Montana Avenue, to the West by Sycamore Avenue, to the North by Country Club Road (south of privately-owned land), and to the South by 8th Street. located at the intersection of West College Boulevard

The site's trade area boundaries are defined as the primarily the City of Roswell, Chavez County, and the OMA Site market area (within a 60-minute drive time of the intersection of West College Boulevard and Sycamore Avenue).

The terminal was built in 1949 after donation of the site to the City of Roswell by the U.S. Army Air Corps, which operated the site in the 1940s as an auxiliary airfield to the new bombardier training base at Roswell. That training base, which later became Walker Air Force Base, was one of five World War II air bases in New Mexico.

The OMA Site has immediate access to existing utilities (water, wastewater, power, and fiber optic cabling). Renovation of the Roswell Wastewater Treatment Plan (WWTP) was completed in 2008. The WWTP is designed to treat 7.0 million gallons per day (MGD), with a peak flow of 15.0 MGD. Current average flow is approximately 3.4 MGD, indicating excess capacity of 3.6 to 11.6 MGD. Assuming existing excess system flow capacity (with no known pipeline construction), the following Table 4 illustrates an order of magnitude estimate of the impact of the proposed OMA Site redevelopment program on future water/wastewater capacity of approximately 76,260 gallons per day⁷.

Table 4: OMA Site Redevelopment Plan – Estimated Wastewater Volume (Gallons/Day)

Development Type	# of Units/ Sq. Ft.	Wastewater Volume (Gallons per Month/ Unit)	Total Gallons/ Month
Apartment Units	250 units	150	37,500
Townhomes	75 units	225	16,875
Single Family Detached Homes	75 units	225	16,875
Commercial Uses (# Retail Connections)	70,000 sq. ft.	500	5,000
Total Wastewater Demand (Gallons/Month)			76,250

1/ Commercial uses (retail) assumes 7 connections to support 70,000 sq. ft. (subject to further engineering analysis).

Source: City of Roswell; Willdan, 2017

The following discussion provides a summary of the demographic and real estate market conditions that directly influence the opportunity to attract private investment and development to the OMA Site.

III. Mixed-Use Development Market Opportunities

Demographic & Economic Overview

The OMA Economic Development Plan is informed by a primary real estate market analysis to define the conditions of feasibility for mixed- and multi-use redevelopment at the Old Municipal Airport site.

The baseline demographic and economic profile that analyzes the City of Roswell and its economic relationships to the region are provided in the Appendix to this Economic Plan.

The detailed profile of the City of Roswell's current economy and forecast trends for the short-term (5 years from 2016 to 2021) for: demographic and lifestyle characteristics (population growth by age, income and race), poverty rates, unemployment, education levels, housing characteristics, labor force characteristics, industries, workforce, number and types of businesses, employment by sector, annual payroll, and taxable sales.

⁷ Source: <http://roswell-nm.gov/215/Existing-Sanitary-Sewer-System>; estimates subject to further refinement of the OMA Site redevelopment plan and wastewater capacity at the time of development.

- **Housing Tenure Characteristics:** Currently, 27% of housing is occupied by renters, 62% is owner-occupied and 11% of housing stock is vacant. Notably, rental housing stock is expected to increase to 29% of all units by 2021. According to Trulia, the rate of homeownership nationally declined by 5% from 2006 to 2014, and the trend of an increasing share of housing renters over buyers is expected to continue.⁹
- **Household Income:** 41% of households earn less than \$35,000 annually; 25% of households earn between \$35,000 to \$50,000 annually; 31% earn 50,000 to \$75,000 annually; and 27% earn more than \$75,000. Notably, the households earning more than \$50,000 annually within the OMA Site market area are expected to increase to from 43% to 47% of the total market by 2021 (approximately 1,180 new households in the \$50,000+ income bracket targeted for new residential construction). This growth is due to a combination of new household formation and increasing household incomes within the existing population.
- **Economic Vitality Rankings:** According to US News and World Report¹⁰, the State of New Mexico is ranked 46 of 50 states as a composite score of: health care; education; crime; infrastructure; opportunity; economy; and government. Competing markets within the region scored as follows: Utah – 15; Colorado – 11; Arizona - 28; and Texas - 30. These indicators are important to consider when marketing a Master Developer RFQ and RFP for the OMA Site. Based on interviews with developers and brokers regarding the opportunity of the OMA Site, the City of Roswell should focus on marketing the project within the local region (Albuquerque or Lubbock) given the economic context of other investment opportunities of these competing markets.
- **Educational Attainment:** The following Figure 2 provides a snapshot of educational attainment in Chavez County. As of 2016, 21% of residents held no high school diploma. Approximately 33% of residents reported some college, and 19% of residents hold a bachelor's, graduate, or professional degree as compared to the U.S. average of 33% of adults holding a bachelor's degree or higher. The rate of educational attainment is an important metric in site selection for business expansions and locations.
- **Businesses and Employment:** Chavez County is home to 2,379 businesses and 23,884 employees. Employment is projected to grow by 1.75% over the next five years as is evidenced by stakeholder interviews with area businesses who have indicated employment expansion plans. Approximately 53% of employees are white collar or professional, 28% are blue collar, and 19% are employed in the service sector. The current unemployment rate in Chavez County is 7.3% as compared to the U.S. average of 4.9%. Relatively higher unemployment is a challenging metric when attracting new housing development to a market.

⁹ <https://www.trulia.com/blog/trends/own-to-rent/>

¹⁰ <https://www.usnews.com/news/best-states/rankings>.

Economic Development Corporation approximately 4,000 hotel room nights per month are occupied by extended-stay guests related to seasonal employment.

Area employers have indicated a critical shortage of quality housing at a variety of price points needed to attract a professional workforce. The majority of housing in Roswell is over 50 years old, therefore, maintaining housing quality remains an ongoing economic development priority.¹¹ Anecdotally, a large share of existing housing in the City of Roswell is considered substandard. The U.S. Housing and Urban Development defines “substandard” to mean housing which is dilapidated, without operable indoor plumbing or a usable flush toilet or bathtub inside the unit for the family’s exclusive use, without electricity or with inadequate or unsafe electrical service, without a safe or adequate source of heat, and should but does not have a kitchen, or has otherwise been declared unfit for habitation by the government.

There is one apartment complex currently under construction in the City of Roswell. Spring River Luxury Apartments at Sycamore Avenue and College Boulevard is the first apartment complex to be built in Roswell since 2014 that is not restricted to seniors or the disabled. It is also the first non-restricted project larger than 100 units built since 1984. Developer Stephen Emery Holdings Ltd. of Tucson, Arizona, co-owner Chad Lydick of Clovis and Icon Builders of Scottsdale, Arizona, are partners in the upscale project, with starting rents expected to be in the range \$800 to \$1,100 per month. The first phase, valued at \$15 million by online Dodge Lead Reports, will include 144 units and amenities, which are slated to include a pool, spa, exercise room and business center. The units will have one to three bedrooms. The first phase initiated construction in August 2016 and is not yet complete due to a change in construction contracting management. The second phase will include an additional 112 units and is expected to be completed by July 2018 according to project members.

Taking the regional population growth projections along with the condition of current housing stock and additional demand from inflow (seasonal/temporary employment), there is evidence of sufficient demand to support the OMA Site’s proposed residential development program.

However, a caveat to this evidence of support for new housing is the challenge of attracting a private developer/investor to the Roswell market. Given that the OMA Site would be the first large scale mixed- or multi-use development project in the Roswell market, it is important to attract an experienced developer with the capacity to undertake such a project (both in terms of construction contracting and capital for investment). Based on the OMA Site’s land capacity and other factors, the financial analysis assumes the following development program, construction costs and lease rates (for the purpose of the financial analysis, for sale product is excluded).

Table 6: Residential Development Assumptions

	Units	Dwelling Units/ Acre	Construction Cost/Sq. Ft.	Lease Rate/Sales Prices/Sq/ Ft.
Phase 1: Multifamily Rental	125	30-40	\$125	\$1.10
Phase 2: Multifamily Rental & Townhomes	125	20-40	\$125	\$1.10
	75	8-16	\$115	\$1.30
Phase 3: Single Family Units	75	4-8	\$135	\$
Total	400			

Source: City of Roswell; Willdan, 2017

¹¹ City of Roswell 2015 Comprehensive Master Plan, <http://roswell-nm.gov/Archive/ViewFile/Item/108>

According to data reported by ESRI Business Analyst, 2016, retail spending is expected to grow by \$40.8 million with the capacity to support approximately 102,000 square feet of new retail space anywhere within the OMA Site market area. However, the estimated net new retail spending must be analyzed in the context of existing retail supply and demand.

The following table provides a summary snapshot of the retail leakage and surplus within a 60-minute drive time of the OMA Site according to data reported by ESRI Business Analyst, 2016¹². Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars.

The Leakage/Surplus Factor presents a snapshot of retail opportunity. This is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. The Retail Gap represents the difference between Retail Potential and Retail Sales.

Based on these factors, there are several retail categories that indicate greater available retail spending power when compared to area retail sales (supply). In total (excluding online mail order and other unrelated spending categories), approximately 310,000 square feet of net new retail space could be supported today in the OMA Site market area. The categories that would most likely be targeted by the OMA Site redevelopment plan retail tenanting strategy could include:

- Specialty food stores (urban grocery)
- Specialty beer, wine & liquor
- Health & personal care stores
- Sporting goods, hobby, books & music
- Home goods, gifts, florists
- Clothing, accessories & shoes
- Garden/local hardware supplies

Conversely, there are several retail categories that indicate greater available retail spending power when compared to area retail sales (supply). In total (excluding online mail order and other unrelated spending categories), approximately 1.06 million square feet of existing retail space exceeds area spending power (demand).

¹² ESRI uses the North American Industry Classification System (NAICS) to classify businesses by their primary type of economic activity. Retail establishments are classified into 27 industry groups in the Retail Trade sector, as well as four industry groups within the Food Services & Drinking Establishments subsector. Source : http://www.esri.com/data/esri_data/methodology-statements.

Table 9: OMA Site Retail Space Oversupply (Retail Supply Greater than Demand), 60-Minute Drive Time, 2016

Retail Spending Categories	Retail Over-Supply	# of Existing Businesses	Supportable Retail Space (Sq. Ft.) /1
Restaurants/Other Eating Places	\$(277,185)	134	(700)
Other Motor Vehicle Dealers	\$(1,199,692)	9	(3,000)
Used Merchandise Stores	\$(1,267,642)	17	(3,200)
Direct Selling Establishments	\$(2,581,592)	3	(6,500)
Specialty Food Stores	\$(3,102,004)	15	(7,800)
Food Services & Drinking Places	\$(4,127,334)	140	(10,300)
Drinking Places - Alcoholic Beverages	\$(4,329,591)	5	(10,800)
Auto Parts, Accessories & Tire Stores	\$(4,663,824)	31	(11,700)
Food & Beverage Stores	\$(21,615,063)	67	(54,000)
Grocery Stores	\$(21,672,966)	48	(54,200)
Other General Merchandise Stores	\$(49,349,545)	23	(123,400)
Department Stores Excluding Leased Depts.	\$(76,509,726)	16	(191,300)
Automobile Dealers	\$(113,477,447)	23	(283,700)
Motor Vehicle & Parts Dealers	\$(119,340,963)	63	(298,400)
General Merchandise Stores	\$(125,859,271)	39	(314,600)
Total Oversupply of Existing Retail Space (Sq. Ft.), 2016			(1,063,100)

1/ Assumes sales productivity of \$400 per square foot.

Source: ESRI Business Analyst; Willdan, 2017

The OMA Site offer several characteristics that would be highly supportive of ancillary retail uses such as retail and dining. Any commercial or residential use on the site would be enhanced by a minimal amount of food and beverage or other neighborhood-scale service retail (less than 10,000 square foot of supportive ancillary is a general rule of thumb for mixed-use urban infill redevelopment projects according to an informal survey of members of ULI-the Urban Land Institute's Redevelopment and Reuse Council). Based on these factors, the OMA Site offer several competitive characteristics attractive to the mixed-use development community.

Together, the residential and daytime employment market spending power is sufficient to support such retail uses. However, there are other several important site characteristics that will directly impact the ability of the OMA Site to attract retailers. The following Table 10 provides an overview of industry standards for retail site selection criteria and the OMA Site's competitive context.

IV. Recommended Redevelopment Alternatives

Taking into consideration the comprehensive evaluation of prevailing site conditions, Roswell business climate, demographic analysis, and real estate market economics, the OMA Site redevelopment will require a phased approach over a 10- to 20-year period. The first phase should focus on creating an urban infill core and community anchor.

Based on interviews with developers, it is recommended that Phase 1 focus on developing rental apartments in a mixed- or multi-use setting, with ancillary pad retail and community amenities supported by public/private investment. Developers indicated that a typical Phase 1 investment would yield approximately 250 rental units and 70,000 square feet of retail, dining and neighborhood service uses. However, based on current market conditions, it is recommended that the City or Roswell target a more modest development program as a catalyst for longer-term, large scale development at the OMA Site.

The following Table 11 provides a summary of the proposed development program, including later phases that could include attached townhomes and detached single family homes (rental and/or for sale, to be determined by market conditions at the time of development).

Table 11: Proposed OMA Site Redevelopment Program – Phase I

Development Program	Land Plan Designation	Units	Gross SF/ Unit	Construction Cost / Sq Ft	Construction Cost / Unit
Residential Development					
Multi-Family Apartments	Phase 1/2	250	1,000	\$ 125	\$ 125,000
Single Family Attached Townhome:	Phase 2	75	1,500	\$ 125	\$ 187,500
Single Family Homes	Phase 3	75	2,400	\$ 150	\$ 360,000
		400			
Commercial Development					
			Square Feet	Est. Sales Productivity / Sq Ft	Construction Cost/ Sq Ft
Office	Phase 1/2		20,000	\$ 300	\$ 200
Neighborhood Services	Phase 1/2		12,000	\$ 300	\$ 200
Specialty/Anchor Grocery	Phase 1/2		15,000	\$ 400	\$ 200
Restaurants	Phase 1/2		25,000	\$ 500	\$ 250
Corner Store	Phase 1/2		3,000	\$ 300	\$ 200
Total			75,000		
Other Public Amenities					
			Square Feet		
Open Air Farmers' Market			5,000		
Community Meeting Building/Public Square Anchor			5,000		
American Legion, Aquatic Center, Noon Optimist Park, Ballfield, Tot-Lots			Existing		
Multi-Use Trail, Pedestrian Sidewalks and Open Spaces			Existing		
Commercial Parking Spaces /1			150		

1/ Parking requirement assumes: 2 spaces per 1,000 square feet of commercial uses.

Source: City of Roswell; ULI-the Urban Land Institute; U.S. Census; Willdan, 2017.

To test the feasibility of the mixed-use development program concept and its ability to attract interest by a private developer/investor through a PPP or other Master Developer RFP process, the Willdan Team conducted an analysis to test the order-of-magnitude “Residual Land Value” or “Supported Investment” related to redevelopment of the OMA Site.

Following is a summary of financial feasibility findings, and a description of the methodology and approach to the analysis. The detailed assumptions and calculations supporting these findings are provided in the Appendix to this report.

Summary of Supportable Investment

In the following discussion, the financial feasibility of the preferred OMA Site redevelopment program is evaluated assuming a minimum target return (hurdle rate) of 7.5%, a maximum target return (hurdle rate) of 15%, and an average target multifamily rental rate of \$1.17 per square foot. Taking these development costs and revenue assumptions into consideration, the Residual Land Value Analysis (“RLV”) indicates that total project revenues at reversion (the year the project is stabilized) are estimated to be \$34.33 million.

Total estimated project costs for the commercial and residential components are estimated to be \$30.42 million (excluding the cost of land, the public Town Square anchor, and parking). Assuming a targeted return on investment of \$2.58 million (7.5% hurdle rate) to \$5.15 million (15% hurdle rate), the maximum supported investment is \$29.18 million (15% hurdle rate) to \$31.76 million (7.5% hurdle rate).

The residual land value per square foot is positive assuming the minimum target hurdle rate at \$5.30 per square foot and negative assuming the maximum target hurdle rate (\$-4.88 per square foot) indicating that the project would be considered financially feasible only if:

- Publicly subsidized land and parking costs;
- Minimum threshold multifamily rental rates of \$1.17 per square foot; and
- The developer is willing to accept the lower threshold for return on investment closer to 7.5% as opposed to 15%.

Table 13: Summary of OMA Site Private Development Financial Feasibility

		Min ROI 7.5%	Max ROI 15%
Total Project Income (\$ M)	a	\$34.33	\$34.33
Hurdle Rate	b	7.5%	15.0%
Required Return on Investment-ROI (\$ M)	c	\$2.58	\$5.15
Maximum Supported Investment (\$ M)	d	\$31.76	\$29.18
		Min ROI 7.5%	Max ROI 15%
Total Costs of Development Without Land (\$ M)	e	\$30.42	\$30.42
Residual Land Value (\$ M)	(d-e)	\$1.34	\$(1.23)
RLV/Sq. Ft. of Site Area (\$)		\$5.30	\$(4.88)
RLV/Acre of Site Area (\$)		\$230,870	\$(212,520)

Source: ULI-the Urban Land Institute; City of Roswell; Willdan, 2017

month; however, given that the shared use parking plan is still unknown at this time, parking revenue is excluded from the financial feasibility analysis.

To calculate total project value, the model makes certain assumptions regarding the expected market capitalization rate (applied to Net Operating Income) based on market research for each use type.

A high and low hurdle rate is applied to each redevelopment scenario. A hurdle rate is the minimum rate of return anticipated on a project. In this analysis, the project's target hurdle rate (required return) assumes a range of debt and absorption factors resulting in a required return in the range of 7.5% to 15%. The low end assumes development risks are mitigated such as by right entitlements, anchor tenant or build-to-suit operator identified prior to construction, or other factors that would serve to reduce the absorption timeframe or generate project incomes in the near term after construction is complete.

Table 14: Project Hurdle Rate Targets (Minimum and Maximum Estimates)

Minimum & Maximum Months to Achieve Project Value	Debt		Equity		Hurdle Rate
	Share of Funding	Interest Rate	Share of Funding	Annual Return	
12	75%	7%	25%	20%	7.5%
18	60%	6%	40%	20%	15.0%

Source: ULI-the Urban Land Institute; Willdan, 2017

The targeted hurdle rate is also impacted by the complexity of the use-mix and building types. For example, if the project were to assume a single multifamily rental use, it is plausible to assume a hurdle rate in the range of 7.5%. It is important to note that the Master Developer will rely on their own assumptions at the time of application based on current market conditions and the site plan so these figures should be considered illustrative for planning purposes only.

Taking into consideration target rents for multifamily residential, office and retail, the analysis assumes market-rate residential with a target rent range of \$1.17 per square foot, a build-to-suit office tenant, and a nominal amount of retail (20,000 square feet) to serve as an amenity to the transit center and other tenants in the complex.

Current multifamily apartment asking rental rates for new construction in the Roswell market are in the range of \$1.08 to \$1.42 per square foot (before concessions). Given that the proposed product type (Town Square-anchored mixed- or multi-use residential over retail with ancillary office) is unknown in this market, it is not known if this concept would attract the minimum threshold rents required to support new construction costs. It will be important for the City of Roswell to track the absorption rate of other properties under construction to demonstrate pent-up demand for new apartments with rents in the range of \$1,000 per month or higher).

Table 15: Roswell Multifamily Rental Market Comparable Rents – New Construction

	Asking Rent	Square Feet	\$/Sq. Ft./1
1 BR/1 BA	\$910	642	\$1.42
2 BR/2 BA	\$1,110	984	\$1.13
2 BR/1 BA	\$1,010	889	\$1.14
3 BR/ 2 BA	\$1,210	1124	\$1.08
Weighted Average			\$1.17

1/ Asking rent before concessions as of Sept. 2017.

Source: www.apartments.com; City of Roswell; Willdan, 2017

VI. Fiscal and Economic Benefits of Redevelopment Alternatives

To better inform justification for public investment in the residential, commercial, and public uses at the OMA Project Site, Willdan conducted a high-level fiscal and economic impact analysis of the recommended Phase I redevelopment program.

In addition to providing an important expansion of the City of Roswell's housing stock and high-quality eating/drinking/entertainment gathering spaces, the proposed redevelopment initiative will also serve to generate one-time and annual ongoing fiscal and economic benefits to the City and County.

This analysis examines the expected one-time and annual ongoing job creation, payroll and tax revenues from the construction phase of the project. Note that this analysis excludes the cost of providing any new public services resulting from the proposed OMA Site redevelopment (to be further tested at the time of more refined site planning).

The following section provides a summary of the key assumptions and values necessary to estimate the fiscal and economic benefits of the recommended redevelopment program at buildout, including:

- Development program assumptions and related assessed values by use type
- Net new project-related residents and employees
- Fiscal revenues at buildout (stabilized year)

The inputs informing key assumptions are explained below.

The following Table 16 illustrates that the combined residential, commercial and public uses identified in the recommended OMA Site redevelopment program would require approximately **\$30.42 million in construction investment** (excluding the cost of land, infrastructure, parking, any structures associated with the Town Square anchor).

Assuming 60% of construction costs are attributable to construction materials, approximately **\$18.25 million** of spending on **construction materials** could be expected to occur in the local and regional market.

It is estimated that the OMA Site project could be expected to generate approximately **\$12.17 million in construction wages** (40% of total development costs). Assuming an average annual construction wage of **\$41,780**, the project could be expected to create approximately **291 construction jobs** (or **58 full-time equivalent construction workers** assuming a 24-month construction timeframe).

Assuming a state and local tax rate of 7.6875%, spending on construction materials could be expected to generate approximately **\$1.40 million in state and local sales taxes** (although the sourcing of materials is unknown and some portion of sales tax benefits are expected to occur outside the State of New Mexico).

City of Roswell Millage	
Chavez County Millage	
Roswell Independent School District	
Total County, School & City Millage/ 1	25.801
Total Estimated Project Value (100% of Market)/1	\$30,418,755
Estimated Annual Real Property Taxes	\$784,834

1/ Based on construction cost value, subject to adjustment based on real property assessment,
www.co.chaves.nm.us/156/Tax-Rate-Comparison : 1 Roswell Out / Nonresidential.

Source: Chavez County Assessor; Willdan, 2017

At buildout and assuming 100% occupancy, the OMA Site's retail operations could be expected to generate approximately **\$615,000** in state and local **retail sales tax revenues**, of which **\$205,000** annually would accrue to the **City of Roswell**.

Table 18: OMA Site Fiscal Benefits – Annual Ongoing State and Sales Taxes (Stabilized Year)

Ongoing Fiscal Benefits from OMA Site Retail Operations		
Retail Uses (Sq. Ft.)	20,000	
Estimated Annual Retail Sales Productivity/ Sq Ft	\$400	
Total Annual Retail Sales	\$8,000,000	
State of New Mexico Sales Tax	5.13%	\$410,000
City of Roswell Sale Tax	2.5625%	\$205,000
Total State & Local Sales Tax	7.6875%	\$615,000

Source: www.taxrates.com/state-rates/new-mexico/cities/roswell/; City of Roswell, NM; Willdan, 2017

In terms of job generation (

Table 19: OMA Site Ongoing Economic Benefits – Jobs and Payroll at Buildout (Stabilized Year)

Development Program	Square Feet or Units	FTEs/Sq. Ft. or Unit	Total Jobs (Stabilized Year)	Average Wage	Total Annual Payroll	Total Direct, Indirect & Induced Benefits/1
						1.58
Residential (Units)	125	0.0640	8	\$37,030	\$296,000	\$468,000
Retail (Sq. Ft.)	20,000	450	44	\$43,850	\$1,949,000	\$3,079,000
Office (Sq. Ft.)	20,000	250	80	\$51,030	\$4,082,000	\$6,450,000
Town Square (Sq. Ft.)	10,500	N/A		N/A		
Total			132		\$6,327,000	\$9,997,000

1/ Based on indirect and induced multipliers for similar industries nationally reported by IMPLAN.

Source: ULI-the Urban Land Institute; https://www.bls.gov/oes/current/oes_nm; IMPLAN; Willdan, 2017

Given relatively low achieved office rental rates reported in the Roswell/Chavez County regional market, the analysis does not presume that developing office space necessarily equates to creating new office employment (as new space could be occupied by existing office workers relocating from older/obsolete space) and these fiscal benefits should be evaluated with this specific caveat.

Taking the residential and commercial operations together, total payroll is expected to be in the range of **\$6.33 million** annually, with additional indirect and induced spending generating **\$3.67 million** to create a total potential payroll impact of nearly **\$10 million** in the local and regional market

Conclusion

The proposed OMA Site redevelopment strategy includes approximately 195,000 square feet of mixed-use development including office, 125 units of multifamily rental housing, 57 shared-use parking spaces, and a nominal amount of initial ancillary retail to serve as an amenity to the OMA Site tenants and visitors (20,000 square feet).

Based on the market findings in this analysis, if the project were to meet the conditions of feasibility outlined in this study, the project could potentially attract a private sector developer to enter into a PPP (land sale or long-term ground lease) to construct and operate the residential, office, and retail components of the project while achieving a minimum threshold return on investment of 7.5%.

The one-time construction activity and ongoing operations are anticipated to generate fiscal and economic benefits in the form of jobs, payroll and taxes that could justify public funding in infrastructure and public realm improvement components of the project.

The detailed assumptions and calculations in support of these financial and economic findings are provided in the following Appendix to this report.

Table 20: Evaluation of Developer/Investor Interest in OMA Site

#1: Strength of Regional Demographics	
Evaluation Criteria: ▪ Strength of demographics as related to the specific market for the end user of the facilities constructed such as: ○ Population growth; ○ Job growth; ○ Unemployment rate; ○ Median household income; ○ Income growth rates; ○ Educational attainment and ○ Poverty rate.	Recommended Goals & Objectives: The Roswell/Chavez County regional market is challenged by demographic trends reported by the U.S. Census. However, these data do not necessarily reflect the full picture of economic activity in the market since temporary/seasonal employees are not counted as residents. Furthermore, the data in this report are derived from ESRI Business Analyst, a GIS-based for-purchase demographic and economic forecasting service based on 2015 Community Survey data, inflated to 2016. It is recommended that the City of Roswell update the OMA Economic Development Plan as soon as the 2016 U.S. Census Community Survey data is released in October 2017.
#2: Strength of Regional Real Estate Economics	
Evaluation Criteria: ▪ Demand for new office construction requires evidence of job growth by industry. ▪ Demand for new multifamily rental development requires evidence of job creation and median household incomes greater than \$55,000 annually to support the rents associated with new unsubsidized residential construction. It is also important to show evidence of multifamily absorption rates associated with new housing stock in the local market (Spring River Apartment complex remains partially under construction; absorption and rent data is not available). ▪ New retail development requires evidence of retail leakage and growth in households and household income. Leakage of Roswell residents' retail spending to other jurisdictions must tie to the specific retail categories targeted by the OMA Economic Plan retail tenanting strategy (evidence of pent up demand by category of retail such as restaurants, grocery, etc.).	Recommended Goals & Objectives: The combined economics form the foundation of investor interest and bank interest in financing the development program. Currently, the Roswell/Chavez market is reporting job growth with wages greater than \$55,000 annually. ESRI data indicates retail leakage (retail supply/gross retail sales less than area spending power). These factors are supportive of new residential and retail development in Roswell and should be marketed to potential developers/investors throughout the Master Developer RFQ/RFP process.
#3: Strength of OMA Site Location	
Evaluation Criteria: ▪ Access to transportation road networks/linkages to employment centers.	Recommended Goals & Objectives: The OMA Site is reportedly adequately served by existing infrastructure with capacity to support new development. Site visibility and traffic counts are challenging.

Source: City of Roswell; Chavez County Economic Development Corporation; Willdan, 2017

VIII. OMA Site Redevelopment Implementation Plan

The success of this ambitious redevelopment initiative requires alignment of goals and funding priorities between City departments, external organizations and multiple regional jurisdictions, as well as creative public-private funding mechanisms to attract redevelopment and revitalization activity (and retail tenants, in particular) to the Old Municipal Airport Site.

Effective funding for the strategy will require multi-year operating support for key initiatives, debt products to finance the growth of existing businesses, investment capital for start-up and emerging businesses, strategic investment funds to jump-start new programs and facilitate collaboration, and regulations and policies that provide financial incentives to businesses and developers.

Following is a summary of the recommended goals, objectives, and action steps that, if implemented, will enhance Roswell's competitive position in the regional market place and increase the potential to attract private investment and development to the OMA Site:

- **Goal 1:** Adopt Old Municipal Airport Site Master Plan (Pre-Planning)
- **Goal 2:** Goal 2: Attract Private Investment and Development
- **Goal 3:** Goal 3: Enhance the Roswell/Chavez County Residents' Quality of Life through Innovative Placemaking Initiatives
- **Goal 4:** Encourage Private Investment and Revitalization Activity in Downtown Roswell as a Community Anchor
- **Goal 5:** Enhance Employment Opportunities for Local Residents

To fully implement the OMA Site redevelopment plan, it is envisioned that the City of Roswell and Chavez County Economic Development Corporation will require a targeted and sustained effort to implement the recommendations.

The OMA Site redevelopment plan will also require greatly enhanced strategic partnerships with local, State and Federal entities to secure state/federal grants, Tax Increment Financing or other Redevelopment funds.

The total estimated construction cost of Phase 1 of the OMA Site is estimated to be approximately \$30.42 million over five years.

The following Table 21: OMA Site Redevelopment Action Plan provides the detailed steps required to implement this study's key economic development recommendations. Assuming a 3:1 multiplier associated with the estimated Phase 1 construction investment, the City could expect \$91.26 million in catalytic economic development activity to occur from redevelopment of the OMA Site. Implementation of the OMA Site redevelopment plan is subject to funding availability on an annual basis and it is recommended that the plan be modified as needed over time.

Table 21: OMA Site Redevelopment Action Plan, continued

Goal 4: Encourage Private Investment and Revitalization Activity in Downtown Roswell as a Community Anchor						
Actively support the full implementation of the Roswell Main Street Strategic Plan						
4.1	(2016-2017) with increased staff support and financial resources.	◇	◇	◇	◇	TBD
Organization: Appoint an OMA Master Plan liaison to participate in meetings between the Chamber, City and EDC and other stakeholders. Provide quarterly or monthly updates.						
4.2	Promotion: Appoint an OMA Master Plan liaison to support the Main Street Strategic Plan's Promotion Committee work plan to produce quality events and identify new partnerships.	◇	◇	◇	◇	◇
4.3	Design: Provide staff resources and funding to implement the Main Street Strategic Plan's goal to work with the City, EDC and New Mexico Main Street on architectural improvements to create more curb-appeal and place-making, wayfinding banners, and festival arts programming	◇	◇	◇	◇	◇
4.4	Appoint a Main Street Strategic Plan liaison to promote urban infill revitalization activity in Downtown Roswell to increase density and expand the tax base for greater economic sustainability. Achieving the Roswell Main Street's revitalization objectives Downtown would serve to drive population growth in the City of Roswell overall and accelerate redevelopment of the OMA Site.	◇	◇	◇	◇	◇
4.5						
Goal 5: Enhance Employment Opportunities for Local Residents						
5.1	Foster Economic Development Partnerships at the Local, Regional and State Level	◇	◇	◇	◇	TBD
Economic Restructuring: Implement a Business Recruitment & Expansion Plan in cooperation with the Chamber, EDC and other key partners. See Appendix 2:						
5.2	Business Recruitment & Expansion Program Guidelines for more information.	◇	◇	◇	◇	◇
Actively support the full implementation of the 2017 RIAC Economic Feasibility Study and Action Plan with increased staff support and financial resources.						
5.3		◇	◇	◇	◇	◇

<https://www.epa.gov/brownfields/2017-national-brownfields-training-conference>

Source: City of Roswell; Chavez County Economic Development Corporation; Roswell Main Street; Roswell International Air Center; International Economic Development Council; ULI-the Urban Land Institute; Willdan, 2017

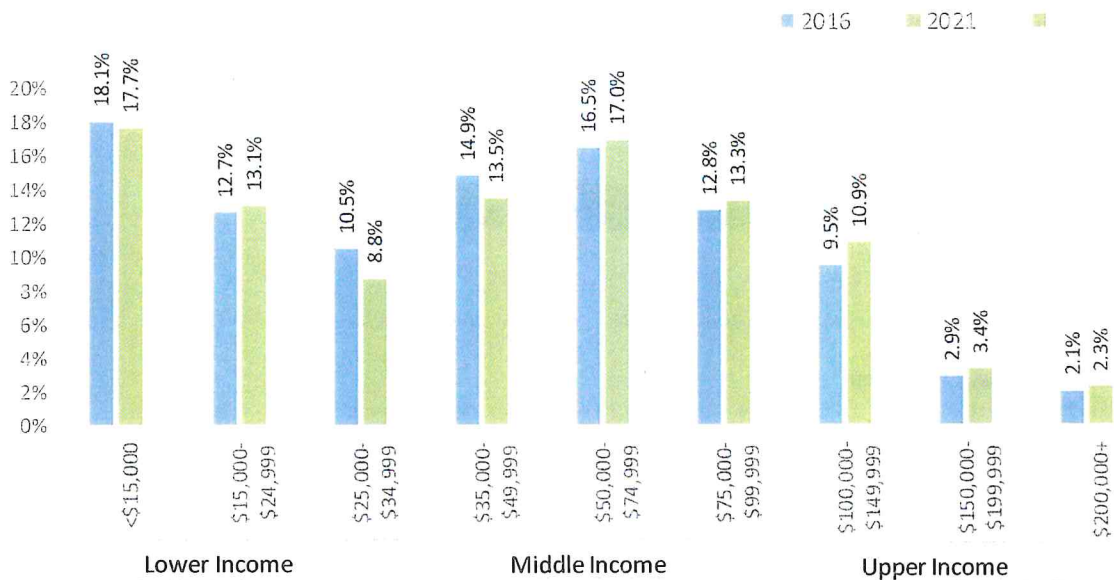
Appendix Figure 2: Household Income Trends & Projections

Household Income Trends & Projections

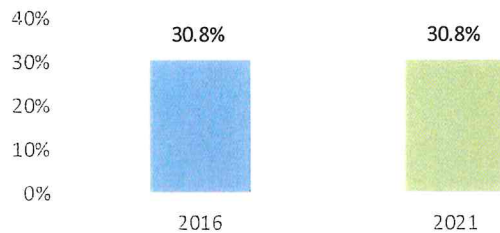
Roswell Old Municipal Airport Market Area (60-Min Drive Time) Change 2016-2021

	2016	2021	\$	%
Median Household Income	\$42,581	\$45,664	\$3,083	1.4%
Average Household Income	\$57,609	\$61,912	\$4,303	1.5%
Per Capita Income	\$21,170	\$22,612	\$1,442	1.3%

Household Income Growth Rate Trends - Old Municipal Airport Market Area (60-min Drive Time)



% of Households Below Poverty Level

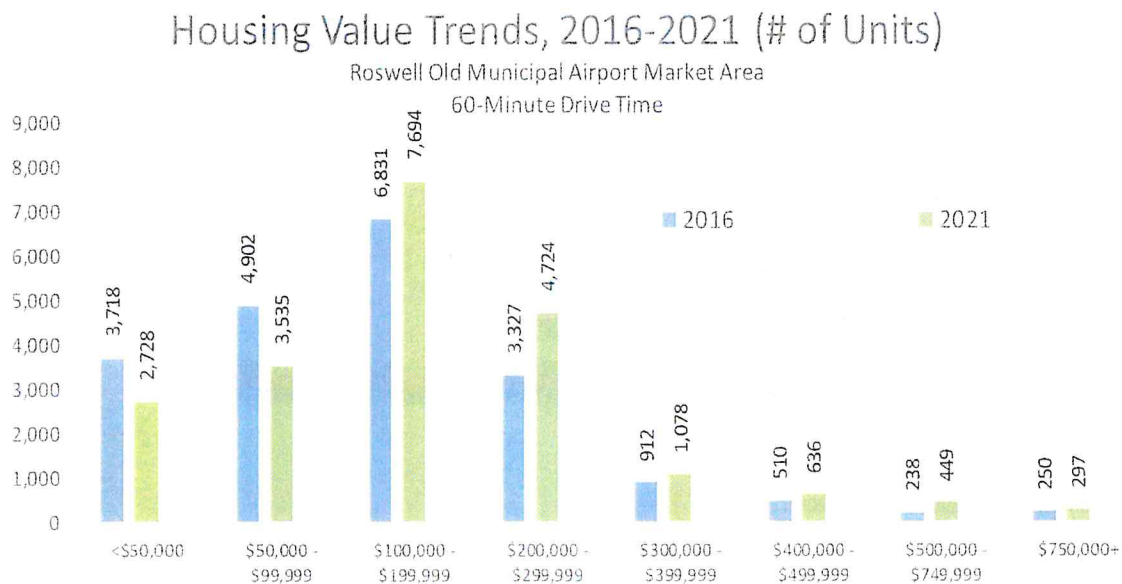


Federal poverty guidelines defined by HHS for 2016 = \$24,300 / family of four.

Source: ESRI Business Analyst; Willdan, 2017.

Appendix Figure 4: Roswell OMA Site 60-Minute Drive Time Housing Tenure & Home Values, 2010-2021

2016 Comparative Housing Value Statistics



1/ In addition to regular vacant units includes housing units rented but not occupied, units for sale, units sold, units for seasonal use, units for migrant workers, and unaccounted units.

2/ Excludes housing units rented but not occupied, units for sale, units sold, units for seasonal use, units for migrant workers, and unaccounted units.

Source: ESRI Business Analyst; Willdan, 2017.

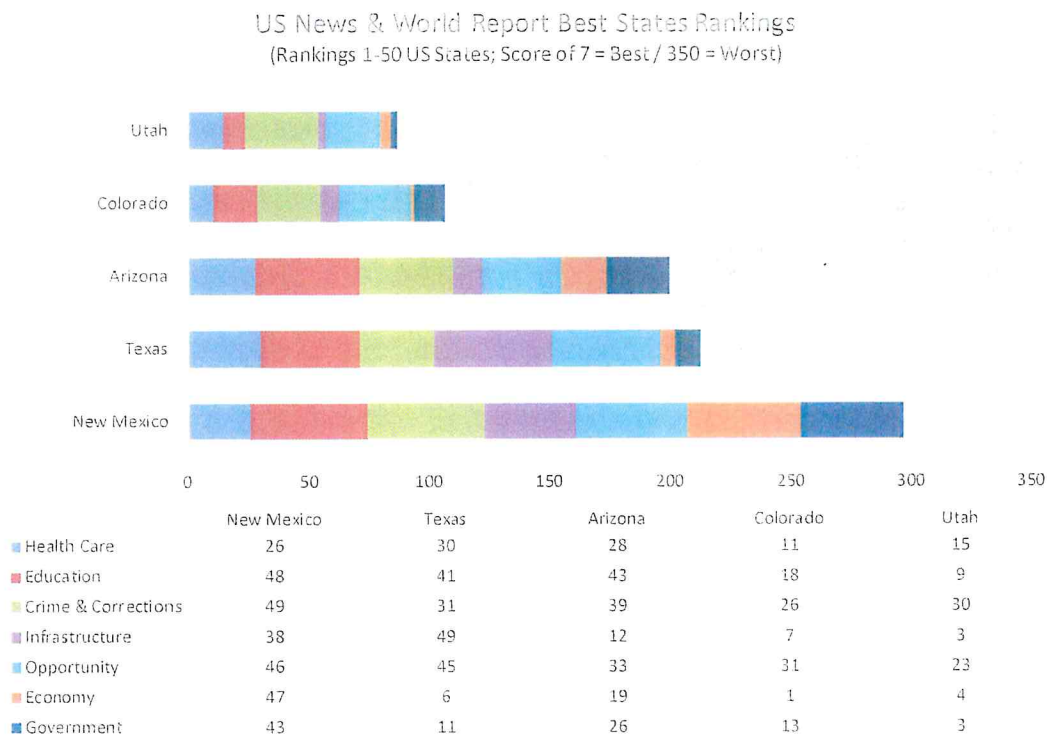
Appendix Figure 7: Chavez County Area Median Income & Maximum Housing Rent Payment per Month (2016)

% of Median Income	Annual Median Household Income	Max Rental Payment per Month
50%	\$21,291	\$532
80%	46,087	\$1,152

1/ Assumes maximum rental payment <= 30% of Area Median Income (\$42,580) including utilities.

Source: ULI-the Urban Land Institute; Willdan, 2017

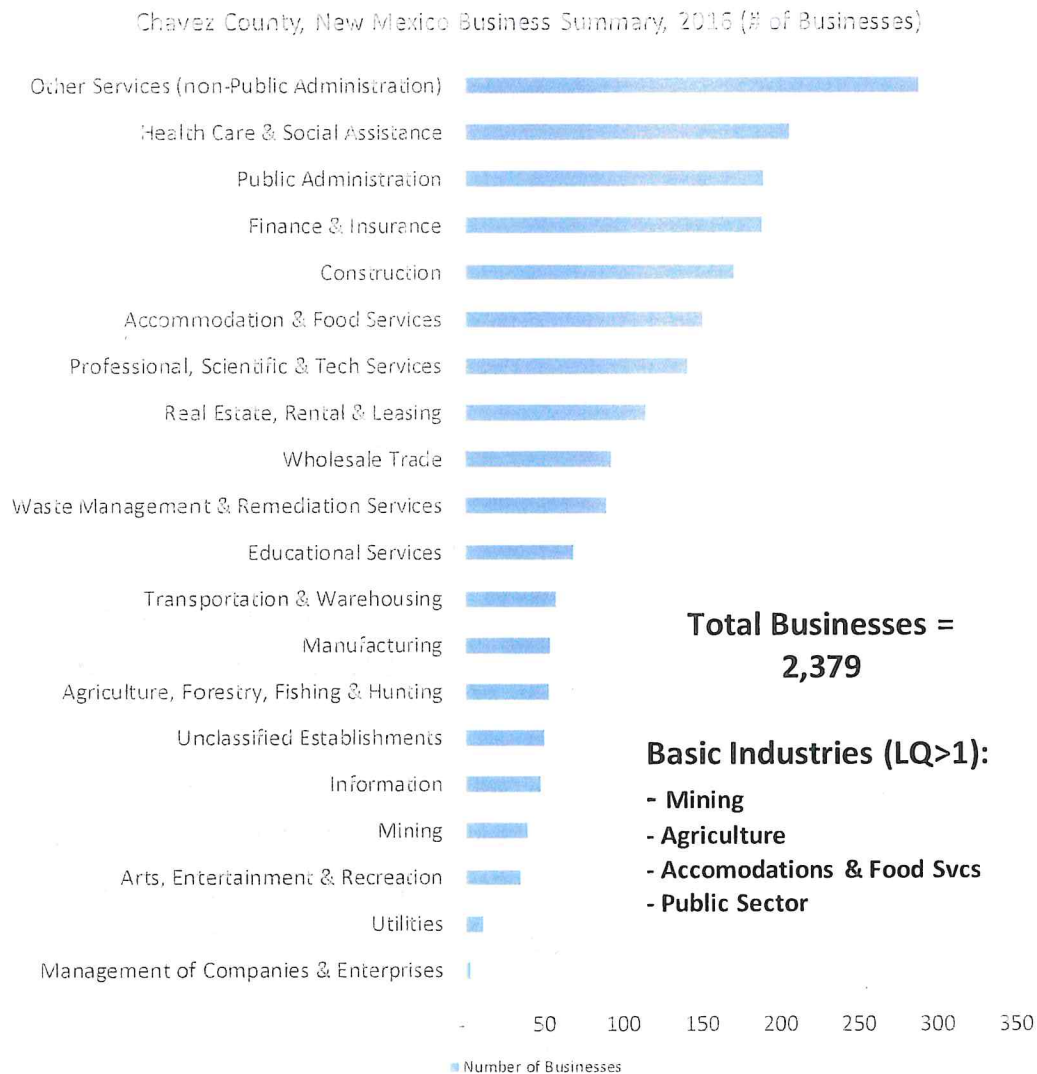
Figure 4: New Mexico Best States Rankings, Total Score (2016)



Forty percent of the weighting given to measurements of opportunity address the question of economic opportunity. This involves the percentage of households living below the federal poverty line – with Mississippi ranking lowest in this area. The metrics include food insecurity, a count of children and adults alike who don't get adequate nutrition – Mississippi ranking lowest, North Dakota best in this measure. It considers the median household income in any state – with Maryland's household income ranking the highest. And it gauges the disparity of income between the lowest-income households and the highest – with Utah showing the smallest disparity between rich and poor. These four comprehensive metrics are indicators of more than just economic opportunity in a given state – they intersect with employment, stability and health to reveal the quality of life of a state's population.

At-Place Employment Characteristics

Appendix Figure 9: Chavez County Employment by Industry, 2016



1/ Civilian employed population age 16+; based on 2015 American Community Survey.

2/ LQ = Location Quotient is a factor that measures the relative importance of the local employment of that sector with respect to the benchmark economy at the national level. A LQ greater than 1.0 indicates that a particular industry employs proportionately more workers locally than it does at the national level.

Source: ESRI Business Analyst; Willdan, 2017.

APPENDIX 2: Business Expansion & Recruitment Program Guidelines

Introduction & Goals of the Program

According to the International Economic Development Council, the purpose of BRE is to retain and expand existing businesses; create new businesses; leverage industry clusters to exploit business linkages; and stabilize and diversify the tax base and improve the community's quality of life and economic vitality. A BRE program can identify problems that need correction thereby preventing business failures. A BRE program also provides important financing and technical assistance tools in demand by all types of businesses.

A BRE program can help the City to market economic development tools such as:

- Financial assistance
- Technical assistance
- Access to technical resources
- Workforce training and retraining
- Marketing
- Permitting/licensing
- Energy compliance
- Assistance with land and buildings
- Export assistance
- infrastructure
- financing and non-financial incentive

Process to Establish the Organization

First, it is recommended that the City establish a BRE steering committee comprised of key members of the business community including:

- Government reps
- COC
- University/Research
- Philanthropic
- PPPs
- Utilities
- Neighborhood organizations
- Special authorities
- Community Colleges
- Workforce Development Boards

APPENDIX 3: Financial Feasibility Analysis – Detailed Assumptions and Calculations

Appendix Figure 11: Proposed OMA Site Development Costs & Revenues - Phase 1

PROPOSED DEVELOPMENT PROGRAM

Site Area (Acres)	5.807752853		
		Construction	
		Costs/SF (Gross)	Total Hard Costs
Office Sq. Ft.	20,000	\$ 127	\$ 2,539,200
Residential Units	125		
Residential Sq. Ft.	125,000	\$ 110	\$ 13,800,000
Retail Sq. Ft.	20,000	\$ 127	\$ 2,539,200
Town Square Anchor (Sq. Ft.)	10,500		\$ 14,700,000
Parking Sq. Ft.	20,000	*Included in Public Costs	
Gross Project Sq. Ft. (Constructed)	175,500		\$ 33,578,400

Parking

Surface Spaces	-
Structured (Decked) Spaces	-
Total Parking	-

Office

Sq Ft	20,000
Rent/Sq. Ft. (Net of Vacancies & Expenses)	\$ 15.00
Total Annual Income	\$ 300,000
Cap Rate	6%
Total Value	\$ 5,000,000

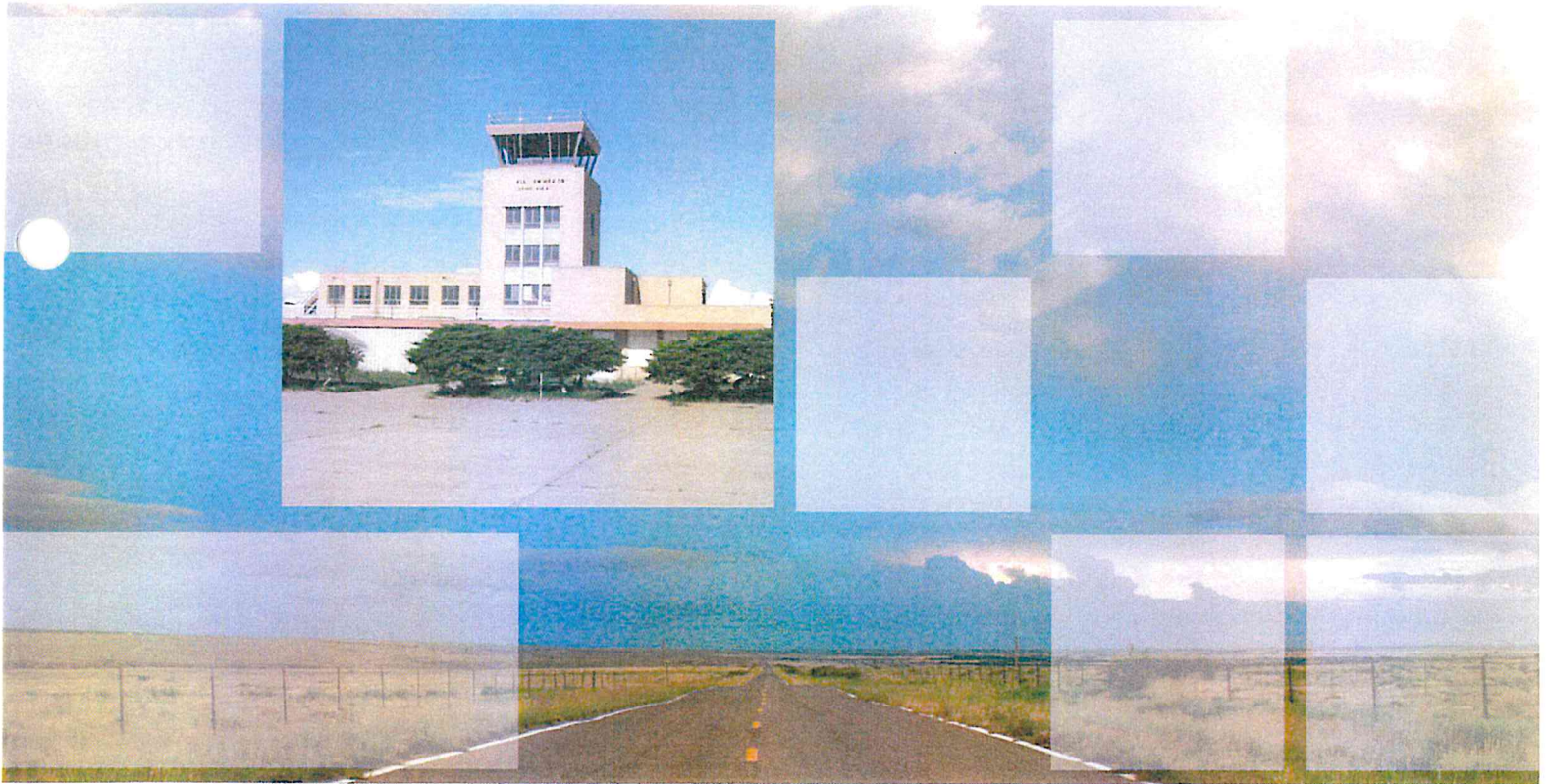
Residential

Units	125
Rent/Sq. Ft. (Net of Vacancies & Expenses)	\$ 0.84
Value/Unit	\$ 9,814
Total Annual Income	\$ 1,226,745
Cap Rate	6%
Total Value	\$ 21,334,696

Retail

Sq. Ft.	20,000
Net Rental Rate (\$/Sq. Ft./Year) (NNN)	\$ 20
Net Operating Income (NOI)	\$ 400,000
Cap Rate	5%
Total Value	\$ 8,000,000

	Min	Max
Total Project Income	\$ 34,334,696	\$ 34,334,696
Hurdle Rate	7.5%	15.0%
Required Return on Investment -ROI (\$)	\$ 2,575,102	\$ 5,150,204
Maximum Supportable Investment (Revenue less ROI)	\$ 31,759,593	\$ 29,184,491



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