



Conversion Rate Analysis for Transferable Development Rights (TDR)

Prepared for the City of Snohomish, Washington

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Ravenhurst Development, Inc.
6627 73rd Avenue NE
Seattle, Washington 98115



I. Executive Summary

A. The Assignment

Ravenhurst Development was hired to recommend an exchange rate for the City's TDR program, expressed as additional floor area allowed per TDR purchased.

B. The Recommendation

We recommend a conversion rate of 14,000 square feet (gross) of additional building area for each TDR purchased for use in the Pilchuck District. The practical range is between 7,000sf and 18,000sf, and the "sweet spot" is between 12,000sf and 15,000sf.

C. Community Support

There was support in the workshop for a number higher than 10,000sf, with a general view of "higher is better".

D. Public Priorities Addressed.

The recommended figure balances the city's diverse priorities, including support for development in the Pilchuck District and support for critical lands protection under the county's TDR program.

E. Private Constituencies Addressed.

The TDR value recommended does not materially increase development costs, and it allows the bulk of the increased land value from the upzone to stay with the property seller, while still providing an economic incentive for purchasing TDRs.

F. Design Considerations.

The specific 14,000sf figure was recommended as it provides flexibility for both large and medium scale development that responds to the intent of the new design guidelines for the Pilchuck District.

G. Future Adjustments.

As the figure is extremely sensitive to land values, the conversion rate should be reviewed every five years and in times of significant land value escalation. As land values go up, the conversion rate should shrink.



II. The Assignment

Ravenhurst Development was retained by the City of Snohomish to engage the city and the local development community in discussion surrounding the proposed TDR (Transferable Development Rights) program for the Pilchuck District in the city of Snohomish.

Working with Forterra, formerly the Cascade Land Conservancy, Snohomish accepted funding to plan the Pilchuck District, including design standards and development regulations, in exchange for agreeing to designate the District as a “receiving area” for the use of Snohomish County TDR’s. The city further agreed to require that the first seventeen (17) TDR’s used in the District must be purchased from Forterra.

For an excellent summary of the Snohomish TDR process, please refer to the “Snohomish County Transfer of Development Rights Economic Analysis”, prepared by Community Attributes International for the Cascade Land Conservancy in May of 2011.

For a summary of the Pilchuck District planning and resulting documentation, please visit the city’s website at http://ci.snohomish.wa.us/pilchuckdistrict/pilchuck_index.htm.

As described in the RFP prepared by the City for this work:

“The consultant will conduct a review of existing land market factors specific to the 86-acre Pilchuck District subarea in the City of Snohomish, and based on these findings, prepare a pro forma analysis of several likely prototypical developments. The assumptions and initial pro forma analysis will be presented at a development professionals’ forum.”

“The two primary goals of this workshop are: a) to provide the City and potential developers an empirical understanding of real estate market factors specific to the Pilchuck District; and b) to gather feedback from workshop participants and the consultant to inform the City’s transfer of development rights (TDR) program exchange rate.”

After completing the workshop, the consultant is to “estimate a minimum exchange rate for the City’s TDR program, expressed in additional square feet per TDR credit (for example, 5,000 sq ft:1 credit), derived from willingness-to-pay analysis, feedback from workshop participants, and known cost estimates for TDR available for use in the Pilchuck District.”

This report describes the process, the community input and the recommendations for a viable TDR exchange rate in the Pilchuck District



III. Methodology

The methodology appears deceptively simple: using a market-based, hypothetical project, prepare a development pro forma (cost estimates tied to a projected income statement to arrive at a measure of developer “returns”). Use the pro forma analysis to conduct sensitivity analysis to measure the project’s ability to pay the additional costs of a TDR program. Use this data, combined with input from the city, Forterra and the developers and land owners, to recommend a TDR conversion value to balance the needs and objectives of all the parties.

A. Development Modeling

A development pro forma can be simple or very complicated, depending on the need. We used a proprietary model that is not complicated (it consists of four inter-linked excel spreadsheets), but can be quite detailed. The model can be used for mixed-use projects, with sections for residential (apartments), commercial (office and/or retail) and (paid) parking. In this case, we used only the apartment section of the model.

There is no readily-available market data that can project what values a developer would use for a prospective project. Market data tends to use averages over a broad range of properties, and includes older properties as well as new projects. In an environment with at least some inflation, new projects tend to have higher costs, higher land prices and higher rents than an average project, or even similar properties developed recently. We want to know how projects pencil at the margins, so we have to look forward instead of back.

B. Market Factors

The problem of predicting development costs and values is complicated in this case by the utter lack of recent activity. There have been no recent land sales in the Pilchuck District, and no apartment or commercial development in Snohomish in the past few years. (The Snohomish Station project is of a totally different scale than what would take place in the Pilchuck District, and therefore not comparable.) Data from projects in Lake Stevens, Monroe, Mountlake Terrace or other similar communities could be used, but there has been virtually no activity anywhere in the Puget Sound area for at least three years.



We therefore used anecdotal data from a cross-section of realtors, contractors, developers and apartment managers, our professional judgment, and common industry assumptions to arrive at projected costs and rents. We also used values we have recently used to evaluate other market-rate development opportunities in the region.

Nevertheless, this is an inauspicious time to try to project real estate values. The consolation is that a TDR conversion rate should stay relatively constant so long as the relationship between costs and revenues stays constant. The spread between return on cost and exit cap rates¹ has increased over the past few years, and will be initially higher once development ramps up, but we believe the spread will not be significantly higher in the mid to long term.

C. Modeling Factors

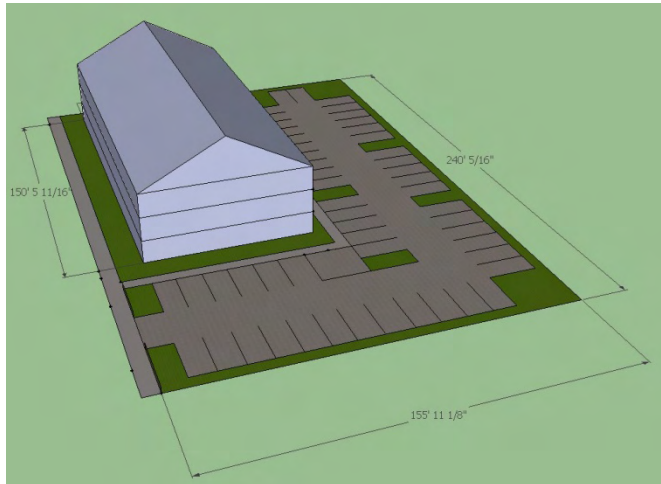
Modeling a hypothetical project will never be identical to an actual case. In the model, we assume the developer uses 100% of the TDR, and builds as many units on the site as the zoning allows. In reality, neither of these assumptions may be true. Unique site conditions may not allow for perfect utilization of the parcel, and factors such as absorption may limit the developer's project size. Both these factors act to reduce somewhat the real value of the TDR, and argue for a slightly higher conversion rate than will be indicated by the modeling.

There is no evidence of any demand for large-scale office development in Snohomish, or anywhere in the county outside Everett. Even in Bothell, office buildings are rarely over three stories. Initial rents, construction costs and parking requirements are all higher for office, which would make office development less desirable in this market. So we chose to model apartments instead of office. It was a judgment call, made after discussion with city staff, and consistent with the findings of Snohomish County's TDR economic analysis.

¹ The "cap rate" is an index of the value of a property. It is expressed as a percentage, and that percentage is the unlevered return an owner would get if they bought the property at that cap rate. The cap rate is arrived at by dividing the annual net operating income by the value (or sale price) and expressing the fraction as a percentage. The property value is arrived at by dividing the NOI (net operating income) by the cap rate. The "exit cap rate" is the cap rate used at the time a property is first sold after development. A property generating \$100,000 per year in NOI would be worth \$1,000,000 if sold at a "10 cap", and \$1,250,000 if sold at an "8 cap". What makes cap rates confusing is that a lower cap rate produces a higher value.

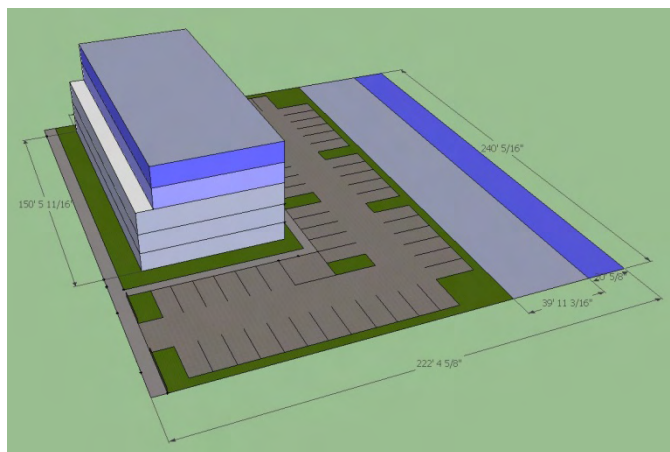


IV. The Building Models



We used a multi-family apartment building of 3 stories and 30 units as the basic building block in the model. Since the TDR's can only be used for adding a 4th or 5th floor to a new building in the Pilchuck District, the question is what is deemed to be more likely in the next 20 years – a 50 unit, 5-story apartment building, or a 50,000sf 5-story office building. The basic model starts with a double-loaded apartment floorplate, at the

maximum length allowed by the district regulations (150 lf). This produces a 3 story building with 10 units and 10,000 gross sf per floor. The land area is determined by calculating the parking required, and designing the simplest parking and site plan possible, which consumes slightly less than an acre. The Pilchuck District development standards were used for landscape and setback requirements, and basic standards were rounded up to add a small cushion for the numbers (for example, parking stalls are all 10'x20').



When adding the 4th and 5th floors, the regulations mandate an 8' setback from the primary street, which was included in the models. This reduced the upper floor area to 9000sf and nine units per floor. Although one could argue that the upper floors should cost less than the lower floors due to sharing of infrastructure (foundations and roofing), no discount was taken. Other factors, particularly life safety

and fire codes, can increase the cost of the upper floors.



The models are simplistic massing models, with no articulation, modulation, porches, gables, stoops or other architectural features, although the pricing does assume that these buildings will conform to the design standards

A. Market Values and Assumptions

There are over 100 discrete assumptions in each model. Some of the fundamental assumptions are described below:

Land Cost:	\$12.00/sf	No recent sales. Asking prices are between \$9 and \$12.00.
Unit Size:	850sf/unit net. 1000sf/unit gross.	Slightly smaller than current market average, but following market trends.
Unit Mix:	50% one bedroom, 50% two bedroom.	Likely new project mix.
Parking:	1.75 stalls per unit.	Per dev standards. Avg of 1 and 2 bdrm units.
Construction cost:	\$80/sf, gross, before mark-ups and WSST.	Reflects medium quality product.
Rent:	\$1.30/sf/mo.	Current market is \$0.90 to \$1.10/sf, but there is no new product.
Expenses:	\$4000/unit/year.	20%+ lower than larger markets, but still potentially high.
Interest Rates:	6%, 25 year amortization.	Slightly higher than best rates today.
Return on Cost:	7.5% to 8% required.	Based on 200 basis point spread.
Exit Cap:	6.5% minimum.	Potentially aggressive for secondary market.



All in all, these values reflect the numbers² a developer would use in their first or second evaluation of a project, before sharpening their pencil to account for particular benefits or cost penalties afforded by a particular site. The figures should be slightly conservative.

All parking is assumed to be surface parking, as the market rents and land prices are nowhere close to justifying structured parking, which in this market would likely be free of charge.

B. Pilchuck District Standards

The design guidelines and development standards have the advantage of being form-based, which allows for more design innovation, but they are also prescriptive in a way that produces a more homogenous neighborhood character at the expense of aesthetic creativity. This should be tempered by a flexible and responsive design review process.

City Council and staff have determined that four and five-story buildings are appropriately scaled for Snohomish. The locations where these taller buildings are allowed is quite limited, but having a few higher density opportunities in the district is prudent. Nevertheless, we believe it is unlikely that any such buildings will be warranted by the market in the next 15 years. Based on modeling some large blocks in the district, the bigger buildings also create significant surface parking fields that are both unattractive and un-marketable as the parking is too far away from the dwelling units. This can be solved by structured (underground) parking, but the economics make this impractical.

Overall, the new standards appear quite prescriptive, but except for the infrastructure costs placed on the developer (discussed later), the standards themselves do not add significantly to development costs.

² Development rules of thumb suggest that the return on cost must be higher than the interest rate on financing, ideally 100 to 200 basis points (100 basis point = 1 percent). Similarly, to make a profit on the sale, the exit cap rate must be lower than the original return on cost, also by 100 to 200 basis points.



V. Results of the Modeling

We prepared three development models. The first was the three-story base case. The second added a fourth floor to the base and increased parking. The third model added the fifth floor with more parking. None of the models placed any value on the TDR's that might be needed for development.

The four story model did not end up halfway between the three and five story numbers because of site plan and parking field anomalies, but other than the curiosity this inspired and the extra hours to chase down the reasons, the four story model does not contribute to the analysis. We will therefore focus on the three and five story versions.

For those who wish to review the pro forma analysis in detail, the models are reproduced in Exhibit 1-3. Each model has four "sheets": an assumption page, a project summary page, a development budget and an income and expense projection. The model covers 11 years of operations, but only the first five years are reproduced. Input fields are indicated in yellow. Everything else self-calculates.

A. The Basic Numbers

The summary sheet for the thirty unit model is reproduced below. It shows total costs of \$4,717,000 (rounded) and net operating income (NOI) of \$303,000, producing a return on cost of 6.4%. This is not a sufficient return to excite any developers today³, which is why nothing is being built. By our projections, rents need to be at least \$1.40/sf with the same land and construction costs to generate new development. This means that demand for apartments in Snohomish will have to increase significantly, pushed by low vacancy, an influx of new renters, trendy desirability or some other combination of factors before the city will see significant new apartment development.

³ A profitable multi-family project needs a return on cost of 7.5 to 8.0%, based on a sale cap of 6.5%. A commercial or mixed-use project typically needs returns in the 8 to 10% range, as they sell at higher cap rates. In layman's terms, this means that investors typically accept lower returns for apartments because they are perceived as better investments than commercial properties.



	3 Story		5 Story	
Land Area:	37,200	sf	53,280	sf
Units:	30		48	
Parking Stalls:	53		84	
Total Costs:	\$4,717,000		\$7,373,000	
Return on Cost:	6.410%		6.568%	
Cost per Unit:	\$157,238		\$153,603	
Cost per SF:	\$157.24		\$153.60	
Land Cost per Unit:	\$14,880		\$13,320	
Land Cost per building SF:	\$14.88		\$13.32	
Profit:	(\$61,107)		\$76,734	

The 5 story version clearly performs better than the 3 story version, although neither is feasible in today's market. The cost per unit goes down by \$3,635 when the upper floors are added. This is due to savings on project costs that are fixed rather than variable, such as foundations, roof, offsites and development expense, and the fact that proportionally less land was required. The "profit" goes up by \$138,000, which simply reflects the reduction in unit costs. The land cost increases on an absolute basis, as more land is purchased, but goes down on a per unit and per sf basis. The land cost "savings" can be calculated as the per sf land cost times the added 18,000sf or \$267,000, less the cost of the additional land that must be purchased, which comes out to \$75,000.⁴

So \$75,000 is a figure to put in our heads and save for a page or two. The change from loss to profit is something of a red herring, as we are modeling close to breakeven. The change comes from the non-land cost savings, while the TDR impacts relate only to the land component.

⁴ $\$14.88 \times 18,000\text{sf} = \$267,840$. $53,280\text{sf} - 37,200\text{sf} = 16,080\text{sf} \times \$12.00/\text{sf} = \$192,960$.
 $\$267,840 - \$192,960 = \$74,880$.



B. Inserting TDR Values

The “value” of TDR’s in a project should be the price at which a developer is indifferent between developing a 3 story building without TDR’s and a five story building using TDR’s.

The ability to develop an additional two floors on a property is essentially an air right, or a permit for higher densities, granted by the City to property owners in the Pilchuck District. Property owners in turn sell these rights to the developers, but must share the value with the designated TDR sellers. We will discuss in a later section how this value might be apportioned between the property owner, the TDR seller and the developer.

In the two models described above, the lower unit costs come from two areas: infrastructure costs that are fixed, and proportionately lower land costs (as nothing was paid for the additional development density). We would argue that the TDR value resides only in the land component of the savings, and that a developer should be indifferent about adding extra floors if the per unit cost and the per unit land costs stay the same. (This is not exactly true, as absorption rates will influence the ideal size of a project, but as we cannot predict future absorption rates, we will choose to ignore this issue.)

Excel models allow us to solve for a variable (the “goal seek” function). If we ask the 5 story model to add land costs to the equation until such time as the per unit and per sf land costs are the same in the 5 story model as for the 3 story model, the magic number is \$74,880.

So \$75,000 is the value a developer should be willing to pay for 18,000sf of TDRs, if the upzone/TDR program is not intended to incentivize development and if the value of the air rights is not shared with the land seller. This equates to a TDR conversion rate of 7,000sf of additional development rights for a \$29,400 TDR unit.⁵

C. Sensitivity Analysis

It should not be a surprise that the models are extremely sensitive to land cost. In fact, the relationship is inverse and nearly linear. If land values in the Pilchuck District were \$6.00/sf rather than the \$12.00 we use, the minimum conversion

⁵ \$29,400 is the price Snohomish has agreed to pay for the Forterra TDR units. $\$75,000/\$29,400=2.55$. $18,000\text{sf}/2.55=7,056\text{sf}$. We rounded to 7,000sf.



rate would need to double to 14,700sf per TDR unit. If land values were \$24.00, the conversion rate would halve, to around 3,400sf per TDR unit. Given that the TDR program will be in place for at least two decades, and land prices will increase over that time period, it would be reasonable to adjust the conversion values periodically.

The model is not sensitive to rental rates, as the land cost adjustments occur purely on the cost side. Higher rents will change the return on cost, but will not affect the TDR conversion rates.

VI. The TDR Conversion Value

The development models have indicated that the conversion rate for TDR's should be 7,000sf per TDR unit, if the upzone/TDR program is not intended to incentivize development, and if the increase in land value from the upzone is not shared with the land owner. But we know from speaking with the stakeholders that this is not the case. In the Pilchuck District, the city wants to encourage development, and there is no desire or intent to freeze the land sellers out of the equation.

A. The Stakeholders

There are four basic stakeholders in the Pilchuck District upzone and TDR discussion. Forterra is the champion of the TDR program; their presumed goal is for the program to be successful, so many TDR's are sold, and forests and farmlands are preserved. They represent the TDR sellers in the equation, in this case quite literally. They are not necessarily motivated to keep the conversion value low, but they do want to preserve some value equality over the many regional TDR programs. Their definition of success should be to see a healthy number of TDR transactions take place in Snohomish over time.

The City of Snohomish is the regulator. The City's explicit policy goals include encouraging economic development and "smart growth" in the Pilchuck District. To achieve these ends, the City is motivated to ensure, to the extent possible, that the TDR's do not function as a disincentive to development. They also maintain community harmony by balancing the relationship between the land sellers (their constituents) and the developers. Their goal is to shepherd the transformation of the district in keeping with the community vision. While the City clearly supports Forterra's programs, it is not their direct responsibility to make sure TDR's are sold.



Developers build places people need, at market rate prices. Virtually everyone lives in a home, and works in a building, built by a developer. If development costs are too high, and a developer cannot deliver a product at a price the public is willing to pay, then the project does not get built. So the developer's motivation is to keep costs low and keep the transactions as simple as possible. TDR's are an unwelcome complication. They require additional negotiations (with a TDR seller) and complicate the land purchase as the TDR cost has to be subtracted from the price the seller gets. Developers would prefer no TDR's at all, and if the process is too messy, they will simply go develop somewhere else. Having said that, developing in an urban environment is already complicated, and developers have learned how to navigate complex (and sometimes contradictory) regulations. If the location is compelling, and it is not clear that the Pilchuck District is compelling in this market, they will figure out how to get something done.

The land seller is the fourth direct stakeholder. They currently own property zoned for three stories, but a fourth or fifth story can now be added with a payment to someone else. Effectively, they don't own the air rights to the two top floors. Their preference would be for the full value of the upzone to flow directly to them. In a zero sum game, they lose and the TDR seller wins. This is mitigated by the fact that in a surface parking environment, developers have to purchase more land for the parking, even if they don't pay the land seller for the air rights. But if there is to be a TDR program, land sellers will want the conversion rate to be as high as possible, to minimize their loss.

In the TDR equation, the developer (and his future tenants) pays more, and the land seller gets less so that valued rural or resource land can be preserved.⁶ Yet, there are countless programs in this country where the beneficiaries of a policy are not the people paying for it. The CAFÉ (mileage) standards for automobiles increase the cost of the car, increase the price of the car, but benefit the public at large. Under the Pilchuck design guidelines, street frontage improvements are required with new development, which increases the cost of development and increases the rents, but mostly benefits the general public.

⁶ In a perfectly efficient market, the developer would not pay more. The full value of the additional units resulting from the upzone would be taken by the land seller, less the payment for the TDRs. But Pilchuck is too small a market to be efficient, and the complications of the TDR process will inevitably result in unrecoverable administration costs and some portion of the TDR coming from the developer's pockets.



We accept these because the overall benefits outweigh the costs, and because the burden to those paying the bills is moderate. The key to establishing a TDR conversion rate is to ensure that the burden on any particular stakeholder is not too high, certainly not high enough to discourage the desired development.

B. Input from the Public Forum

The attendance list from the “developer forum” held on November 15, 2011 is attached as Exhibit 4. The group included a number of Forterra employees, city staff and officials, and about ten brokers, property managers and developers. The Pilchuck District vision was presented, the TDR program was explained, and an open discussion was held regarding development challenges in Snohomish. There is a great deal of concern about development of any kind at present, with a recognition that the future is difficult to predict. While the purpose of the meeting was to discuss and not necessarily agree, a reasonable consensus was reached, albeit without clear representation from property owners in the District.

The following statements were generally supported by the discussion in the meeting:

- The City has an obligation to Forterra to create a TDR receiving program in the Pilchuck District.
- There are no structural or regulatory reasons this cannot proceed, and the Pilchuck District is the appropriate venue for the program.
- The current design guidelines and development standards do not create incentives to encourage development in the District. In fact the infrastructure costs and impact fees act as a disincentive.
- The EIS and SEPA work is helpful to development, but is not of sufficient value in itself to act as an incentive.
- There is no recognized demand for four and five story buildings in Snohomish, and allowing additional floors will not make them happen.
- It could be a very long time before TDR’s are purchased for this purpose.



- Incentivizing development in the Pilchuck District will not be accomplished by the TDR program, and a broader discussion about fees, parking requirements, infrastructure, permits, timing, building models and other factors should take place.
- The TDR conversion rate should be relatively generous to mitigate the TDR portion of the cost of development and the burden on the land sellers.
- To the extent possible, the upzone and TDR conversion rate should create an incentive for denser development in the Pilchuck District. This means a conversion rate higher than the 7,000sf indifference point.

C. Balancing Conflicting Goals

All in all, the only limiting factor to a high conversion rate is the desire for equality between the numerous receiving sites. The city, the developers and the land sellers all benefit from a high conversion rate. One could argue that Forterra benefits from a high rate, as it may cause more TDR's to be purchased.

There are few locations in Snohomish County where demand is or may be so strong that the TDR represents the value of extra product in a scarce market. This may have been true in the superheated Seattle high-rise market a few years ago, but there is no pent-up demand in the Pilchuck District. Snohomish could likely triple its building density under the current zoning without ever using a TDR, because of all the under-developed properties.

As a result, developers are not going to “shop” different communities for the best TDR opportunity. They will look at a project they want to do in a specific market, and potentially a specific site, and determine whether the TDR program makes sense for them. So TDR programs should be tailored to the individual community, with a conversion value that makes sense for that environment.

D. The Value Range

The financial models have shown a minimum conversion value of 7,000sf per TDR unit. This is the indifference point for a developer in deciding how many floors to build. The zoning regulations and the TDR mechanics imply the maximum value.



The development standards set a maximum building length on the primary frontage at 150 feet. (Table V-3, p.27) While a larger building could turn the corner and go another 150 feet down the side street, the building becomes out of scale for the neighborhood, and larger than the market can absorb in one phase. It is more likely that a large project in the district be developed in multiple buildings of no more than 50 units each. In this sense, they match our prototype building.

The TDR process does not allow for purchasing a partial TDR, or for using one TDR for multiple locations. So if the maximum practical building footprint is 10,000sf (approximately 150ft by 70ft), and only two additional floors are allowed, then a TDR conversion rate of more than 20,000sf would be wasted. Taking in the setback requirement for the upper floors, the real maximum is 18,000sf.

In Snohomish, under the assumptions and program elements we have used, the usable conversion range for a single TDR is 7,000sf to 18,000sf.

VII. TDR Conversion Recommendation

We recommend a TDR conversion rate of 14,000sf of gross building area per unit of TDR, with an acceptable range of 12,000sf to 15,000sf at the City's discretion.

This value is clearly within the range of values produced by the financial analysis.

It is near the top of the range, to give land owners most of the value produced by the upzone. Under this program, the land owners (sellers) would reap about two-thirds of the value created by the upzone. The TDR sellers would get the other third.

It minimizes the financial impact of the TDR purchase to the developer.

In keeping with the likely scale of development within the Pilchuck District, it allows smaller projects to add two floors using only one TDR unit. A project with a 6000 or 8000sf footprint could build out two full floors using the 14,000sf TDR. This makes it more likely that smaller projects would participate in the program, and increase the sales of TDR's.



Similarly, a project with a full 10,000sf footprint could build the additional two stories over 70% of the footprint with the purchase of a single TDR. The maximum size of the fourth and fifth floors would be 14,000sf combined or 7,000sf each. Smaller fourth and fifth floors would help keep the scale of the buildings within the current comfort zone while still allowing additional density. As more setback would be required, it would encourage more interesting upper-floor treatments and could produce inventive designs within the intent of the design standards.

City Council may also want to consider a mechanism to reward the first few developers that commit to this program, either with a higher conversion rate (which would help a little but not a lot), or by negotiating infrastructure improvements. It is outside the scope of this analysis, but there are number of tools the city might employ to encourage development in the district.

VIII. Summary

This analysis combines and hopefully balances financial modeling for real estate projects and the more subjective consideration of both public and private goals and priorities. The TDR conversion decision will neither jump-start the economy nor cause anguish to the development community.

Of greater current impact is the job situation and the lending community as the economy refuses to come out of practical if not technical recession. When the economy does improve, there are other city policies and regulations that can have greater potential impact on development than the TDR discussion. For now, the analysis presented in this report fulfills the scope of the original assignment.



Exhibits:

Exhibit 1: Pro forma: 3 story model.

Exhibit 2: Pro forma: 4 story model.

Exhibit 3: Pro forma: 5 story model.

Exhibit 4: Attendee list, developer workshop, November 15, 2011.



Exhibit 1: Pro forma: 3 story model.

**RAVENHURST DEVELOPMENT, INC.
Snohomish Residential Model 1 - 3 story**

DRAFT

12/12/2011

CONSOLIDATED PROFORMA

PROGRAM SUMMARY

Total Retail GLA		0	sf
Apartment Units	\$1.30	30	units
Parking		53	stalls

COST SUMMARY:

			per unit
Land	\$12.00	\$446,400	\$14,880
Offsites		\$50,400	\$1,680
Construction:	\$80.00	\$2,928,287	\$97,610
Design Fees	8.0%	\$228,741	\$7,625
Development Costs	5.0%	\$196,414	\$6,547
Leasing and Marketing	\$1,000	\$40,000	\$1,333
Tenant Allowances		\$0	\$0
Interest and Financing		\$366,106	\$12,204
Contingencies		\$460,804	\$15,360

TOTAL COSTS:

\$4,717,152

\$157,238

OPERATIONS:

Net Operating Income, Commercial:		\$0	
Net Operating Income, Apartments:		\$302,643	\$10,088
Net Operating Income, Parking:		\$0	
Total Net Operating Income:		\$302,643	
Debt Service	6.00%	25 yr. Amort	(\$218,536)

NET CASH FLOW:

\$84,107

RETURN ON COST:

6.416%

PROJECTED PROJECT VALUE (year 3)

\$4,656,045

POTENTIAL PROFIT (year 3)

(\$61,107)

SALE CAP RATE	6.50%
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CONSTRUCTION EQUITY:

\$1,651,003

CONSTRUCTION LOAN AMOUNT	\$3,066,149
CONSTRUCTION LOAN TO COST	65.0%
CONSTRUCTION LOAN TO VALUE	65.9%

PERMANENT EQUITY:

\$1,923,525

PERMANENT LOAN AMOUNT	\$2,793,627
PERMANENT LOAN TO COST	59.2%
PERMANENT LOAN TO VALUE	60.0%
PERMANENT DEBT COVERAGE RATIO	1.38



RAVENHURST DEVELOPMENT, INC.

DRAFT

12/12/2011

Snohomish Residential Model 1 - 3 story

Retail GBA:

0 Res. Units:

30

DEVELOPMENT BUDGET

Code Line Item:	Quantity:	Unit Cost/ Allocation	Subtotal:	Total:	Cost/sf:	CostUnit:
1000 LAND:						
Land Purchase	37,200	\$12.00	\$446,400			
Other	0					
				\$446,400	\$14.88	\$14,880
1500 OFFSITES:						
Water system	240	\$130.00	\$31,200			
Sidewalk/Street Improvements	240	\$80.00	\$19,200			
				\$50,400	\$1.68	\$1,680
2000 CONSTRUCTION:						
Sitework/Demo/Landscape	37,200	\$3.00	\$111,600			
Surface Parking	53	\$2,000.00	\$106,000			
Struct. Parking	0	\$25,000.00	\$0			
Retail	0	\$130.00	\$0			
Residential	30,000	\$80.00	\$2,400,000			
WSST	2,668,000	9.5%	\$253,460			
Utility Connections	30	\$1,750.00	\$52,500			
Permits & Fees	\$2,668,000	1.2%	\$32,016			
Impact Fees	30	\$6,344	\$190,311			
				\$2,928,287	\$97.61	\$97,610
4000 DESIGN:						
Design	\$2,784,260	8.0%	\$222,741			
City Review	2	\$3,000	\$6,000			
				\$228,741	\$7.62	\$7,625
5000 DEVELOPMENT COSTS:						
Development Fees	2,928,287	5.0%	\$146,414			
Development Expense			\$50,000			
				\$196,414	\$6.55	\$6,547
6000 LEASING AND MARKETING:						
Leasing Costs			\$10,000			
Apartment Marketing	30	\$1,000.00	\$30,000			
Retail Leasing Fees						
Tenant 1	-	\$0.00	\$0			
Tenant 2	-	\$0.00	\$0			
				\$40,000	\$1.33	\$1,333
7000 TENANT ALLOWANCES:						
Tenant Allowance						
Tenant 1	-	\$0.00	\$0			
Tenant 2	-	\$0.00	\$0			
				\$0	\$0.00	\$0



9000 INTEREST AND FINANCING:						
Construction Financing Fees	2,582,882	1.0%	\$25,829			
Construction Financing Costs			\$10,000			
Permanent Financing Fees	2,582,882	1.0%	\$25,829			
Permanent Financing Costs			\$10,000			
Subtotal, Financing:			\$71,658			
Construction Loan Interest	2,582,882	6.0%	\$139,476			
Interest on Equity	1,291,441	12.0%	\$154,973			
				366,106	\$12.20	\$12,204
8000 CONTINGENCIES:						
Soft Cost Contingency	465,155	5.0%	\$23,258			
Hard Cost Contingency	2,784,260	10.0%	\$278,426			
1st year Operating Shortfall	425,160	40.0%	\$159,120			
				\$460,804	\$15.36	\$15,360
TOTAL PROJECT COSTS:				\$4,717,152	\$157.24	\$157,238

RAVENHURST DEVELOPMENT, INC.



Snohomish Residential Model 1 - 3 story

APARTMENT REVENUES

Unit	Qty	Type	Rent/sf	Net Area	Year 1	Year 2	Year 3	Year 4		
Monthly Rent:										
	0	1 Bedroom	\$0.00	0	0	0	0	0		
	0	2 Bedroom	\$0.00	0	0	0	0	0		
	30	Model	\$1.30	850	1,105	1,138	1,172	1,207		
	30									
Annual Rental Income:										
	0	1 Bedroom			0	0	0	0		
	0	2 Bedroom			0	0	0	0		
	30	Model			397,800	409,734	422,026	434,687		
Total Gross Rental Income:					397,800	409,734	422,026	434,687		
Other Income:										
			Units	Per Unit /month	Monthly					
		Utility Recapture	30	\$60.00	1,800	21,600	22,248	22,915	23,603	
		Forfeited Deposits	30	\$10.00	300	3,600	3,708	3,819	3,934	
		Pet Fees	30	\$6.00	180	2,160	2,225	2,292	2,360	
		Parking	53	\$0.00	0	0	0	0	0	
		Storage	0	\$25.00	0	0	0	0	0	
					0	0	0	0	0	
		Annual Escalation:	3.0%							
Total Gross Annual Income:					425,160	437,915	451,052	464,584		
Less Vacancy @ 5.0%					(159,120)	(20,487)	(21,101)	(21,734)		
First Year Avg Vacancy 40%										
Less Unit Expenses and Management										
			/SF	/Unit	/Month					
		Salaries	0.157	\$0.74	\$628	-1,570	-18,840	-19,405	-19,987	-20,587
		Advertising	0.043	\$0.20	\$172	-430	-5,160	-5,315	-5,474	-5,638
		Maintenance	0.138	\$0.65	\$552	-1,380	-16,560	-17,057	-17,569	-18,096
		Administration	0.03	\$0.14	\$120	-300	-3,600	-3,708	-3,819	-3,934
		Utilities	0.158	\$0.74	\$632	-1,580	-18,960	-19,529	-20,115	-20,718
		Management Fees	0.079	\$0.37	\$316	-790	-9,480	-9,764	-10,057	-10,359
		Insurance	0.045	\$0.21	\$180	-450	-5,400	-5,562	-5,729	-5,901
		Real Estate	0.274	\$1.29	\$1,096	-2,740	-32,880	-33,866	-34,882	-35,929
		Taxes								
		Other	0.045	\$0.21	\$180	-450	-5,400	-5,562	-5,729	-5,901
		Reserves	0.0307	\$0.14	\$123	-307	-3,684	-3,795	-3,908	-4,026
Total Expenses			\$4.70	\$4,000		(120,000)	(123,600)	(127,308)	(131,127)	
Less Tax Abatement				\$0		0	0	0	0	
Net Operating Income:					146,040	293,828	302,643	311,722		



RAVENHURST DEVELOPMENT, INC.
Snohomish Residential Model 1 - 3 story

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PROGRAM ASSUMPTIONS

Retail

Element	GBA	Effic%	GLA	Pkg/1000	Pkg #	Bldg Cost	TI	Commish
Tenant 1	0	100%	0	2.5	0		\$0.00	\$0.00
Tenant 2	0	100%	0	2.5	0		\$0.00	\$0.00
Total	0		0			Parking Required	0	

Retail Rents:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Tenant 1	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tenant 2	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Residential

	Units	Unit Mix	SF/Unit	Net SF	Effic%	Gross SF	Rent/mo	Rent/sf	Parking
1 Bedroom	0	0%	0	0	85%	0			0.0%
2 Bedroom	0	0%	0	0	85%	0			0.0%
Model	30	100%	850	25,500	85%	30,000	\$1,105	\$1.30	100.0%
Total:	30		850	25,500	1000	30,000			53

Apartment Rents:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Escalation		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
1 Bedroom	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2 Bedroom	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Model	\$1,105	\$1,138	\$1,172	\$1,207	\$1,244	\$1,281	\$1,319	\$1,359	\$1,400	\$1,442	\$1,485

Cost/GSF	\$80.00	Total Parking	53
Cost/Unit	\$68,000		

Impact Fees:

Check measures:		Parks:	30 units	\$3,600	\$108,000
ROC	6.4%	School:	15 2brm	\$463	\$6,945
ROE	4.4%	Traffic:	53 trips	\$1,422	\$75,366
					\$190,311
					\$6,344

Escalations

Retail Rent	3.0%	Frontage:	240 lf	per unit
Operating Expense	3.0%			
Apartment Rent	3.0%			



Exhibit 2: Pro forma – 4 story model (summary only)

RAVENHURST DEVELOPMENT, INC.

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Snohomish Residential Model 1 - 4 story

CONSOLIDATED PROFORMA

PROGRAM SUMMARY

Total Retail GLA		0	sf
Apartment Units	\$1.30	39	units
Parking		68	stalls

COST SUMMARY:

			per unit
Land	\$12.00	\$581,760	\$14,917
Offsites		\$58,800	\$1,508
Construction:	\$80.00	\$3,804,620	\$97,554
Design Fees	8.0%	\$299,325	\$7,675
Development Costs	5.0%	\$240,231	\$6,160
Leasing and Marketing	\$1,000	\$49,000	\$1,256
Tenant Allowances		\$0	\$0
Interest and Financing		\$467,424	\$11,985
Contingencies		\$597,940	\$15,332

TOTAL COSTS: **\$6,099,100** **\$156,387**

OPERATIONS:

Net Operating Income, Commercial:		\$0	
Net Operating Income, Apartments:		\$393,436	\$10,088.10
Net Operating Income, Parking:		\$0	
Total Net Operating Income:		\$393,436	
Debt Service	6.00% 25 yr. Amort	(\$284,097)	

NET CASH FLOW: **\$109,339**

RETURN ON COST: **6.5%**

PROJECTED PROJECT VALUE (year 3) **\$6,052,859**

POTENTIAL PROFIT (year 3) **(\$46,241)**

SALE CAP RATE **6.50%**

CONSTRUCTION EQUITY: **\$2,134,685**

CONSTRUCTION LOAN AMOUNT \$3,964,415

CONSTRUCTION LOAN TO COST **65.0%**

CONSTRUCTION LOAN TO VALUE 65.5%

PERMANENT EQUITY: **\$2,467,385**

PERMANENT LOAN AMOUNT \$3,631,715

PERMANENT LOAN TO COST 59.5%

PERMANENT LOAN TO VALUE **60.0%**

PERMANENT DEBT COVERAGE RATIO 1.38



Exhibit 3: Pro Forma – 5 story

**RAVENHURST DEVELOPMENT, INC.
Snohomish Residential Model 1 - 5 story**

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CONSOLIDATED PROFORMA

PROGRAM SUMMARY

Total Retail GLA		0	sf
Apartment Units	\$1.30	48	units
Parking		84	stalls

COST SUMMARY:

			per unit
Land	\$12.00	\$639,360	\$13,320
Offsites		\$54,600	\$1,138
Construction:	\$80.00	\$4,679,161	\$97,483
Design Fees	8.0%	\$359,742	\$7,495
Development Costs	5.0%	\$283,958	\$5,916
Leasing and Marketing	\$1,000	\$58,000	\$1,208
Tenant Allowances		\$0	\$0
Interest and Financing		\$566,264	\$11,797
Contingencies		\$731,854	\$15,247

TOTAL COSTS:

\$7,372,939

\$153,603

OPERATIONS:

Net Operating Income, Commercial:		\$0	
Net Operating Income, Apartments:		\$484,229	\$10,088
Net Operating Income, Parking:		\$0	
Total Net Operating Income:		\$484,229	
Debt Service	6.00% 25 yr. Amort	(\$349,658)	

NET CASH FLOW:

\$134,571

RETURN ON COST:

6.568%

PROJECTED PROJECT VALUE (year 3)

\$7,449,672

POTENTIAL PROFIT (year 3)

\$76,734

SALE CAP RATE	6.50%
---------------	-------

CONSTRUCTION EQUITY:

\$2,580,529

CONSTRUCTION LOAN AMOUNT	\$4,792,410
CONSTRUCTION LOAN TO COST	65.0%
CONSTRUCTION LOAN TO VALUE	64.3%

PERMANENT EQUITY:

\$2,903,135

PERMANENT LOAN AMOUNT	\$4,469,803
PERMANENT LOAN TO COST	60.6%
PERMANENT LOAN TO VALUE	60.0%
PERMANENT DEBT COVERAGE RATIO	1.38



RAVENHURST DEVELOPMENT, INC.

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Snohomish Residential Model 1 - 5 story

Retail GBA:

0 Res. Units:

48

DEVELOPMENT BUDGET

Code Line Item:	Quantity:	Unit Cost/ Allocation	Subtotal:	Total:	Cost/sf:	CostUnit:
1000 LAND:						
Land Purchase	53,280	\$12.00	\$639,360			
Other	0	\$27,500.00	\$0			
				\$639,360	13.32	13,320
1500 OFFSITES:						
Water system	260	\$130.00	\$33,800			
Sidewalk/Street Improvements	260	\$80.00	\$20,800			
				\$54,600	1.14	1,138
2000 CONSTRUCTION:						
Sitework/Demo/Landscape	53,280	\$3.00	\$159,840			
Surface Parking	84	\$2,000.00	\$168,000			
Struct. Parking	0	\$25,000.00	\$0			
Retail	0	\$130.00	\$0			
Residential	48,000	\$80.00	\$3,840,000			
WSST	4,222,440	9.5%	\$401,132			
Utility Connections	48	\$1,750.00	\$84,000			
Permits & Fees	\$4,222,440	1.2%	\$50,669			
Impact Fees	48	\$6,320	\$303,360			
				\$4,679,161	97.48	97,483
4000 DESIGN:						
Design	\$4,421,772	8.0%	\$353,742			
City Review	2	\$3,000	\$6,000			
				\$359,742	7.49	7,495
5000 DEVELOPMENT COSTS:						
Development Fees	4,679,161	5.0%	\$233,958			
Development Expense			\$50,000			
				\$283,958	5.92	5,916
6000 LEASING AND MARKETING:						
Leasing Costs			\$10,000			
Apartment Marketing	48	\$1,000.00	\$48,000			
Retail Leasing Fees						
Tenant 1	-	\$0.00	\$0			
Tenant 2	-	\$0.00	\$0			
				\$58,000	1.21	1,208
7000 TENANT ALLOWANCES:						
Tenant Allowance						
Tenant 1	-	\$0.00	\$0			
Tenant 2	-	\$0.00	\$0			
				\$0	0.00	\$0



9000 INTEREST AND FINANCING:						
Construction Financing Fees	4,076,596	1.0%	\$40,766			
Construction Financing Costs			\$10,000			
Permanent Financing Fees	4,076,596	1.0%	\$40,766			
Permanent Financing Costs			\$10,000			
Subtotal, Financing:			\$101,532			
Construction Loan Interest	4,076,596	6.0%	\$220,136			
Interest on Equity	2,038,298	12.0%	\$244,596			
				566,264	\$11.80	\$11,797
8000 CONTINGENCIES:						
Soft Cost Contingency	701,700	5.0%	\$35,085			
Hard Cost Contingency	4,421,772	10.0%	\$442,177			
1st year Operating Shortfall	680,256	40.0%	\$254,592			
				\$731,854	\$15.25	\$15,247
TOTAL PROJECT COSTS:				\$7,372,939	\$153.60	\$153,603



RAVENHURST DEVELOPMENT, INC.
Snohomish Residential Model 1 - 5 story

APARTMENT REVENUES

Unit Qty	Type	Rent/sf	Net Area		Year 1	Year 2	Year 3	Year 4	
Monthly Rent:									
0	1 Bedroom	\$0.00	0		0	0	0	0	
0	2 Bedroom	\$0.00	0		0	0	0	0	
48	Model	\$1.30	850		1,105	1,138	1,172	1,207	
<u>48</u>									
Annual Rental Income:									
0	1 Bedroom				0	0	0	0	
0	2 Bedroom				0	0	0	0	
48	Model				636,480	655,574	675,242	695,499	
Total Gross Rental Income:					636,480	655,574	675,242	695,499	
Other Income:									
		Units	Per Unit /month	Monthly					
	Utility Recapture	48	\$60.00	2,880	34,560	35,597	36,665	37,765	
	Forfeited Deposits	48	\$10.00	480	5,760	5,933	6,111	6,294	
	Pet Fees	48	\$6.00	288	3,456	3,560	3,666	3,776	
	Parking	84	\$0.00	0	0	0	0	0	
	Storage	0	\$25.00	0	0	0	0	0	
				0	0	0	0	0	
	Annual Escalation:	3.0%							
Total Gross Annual Income:					680,256	700,664	721,684	743,334	
Less Vacancy @ 5.0%					(254,592)	(32,779)	(33,762)	(34,775)	
First Year Vacancy 40%									
Less Unit Expenses and Management									
		/SF	/Unit	/Month					
	Salaries	0.157	\$0.74	\$628	-2,512	-30,144	-31,048	-31,980	-32,939
	Advertising	0.043	\$0.20	\$172	-688	-8,256	-8,504	-8,759	-9,022
	Maintenance	0.138	\$0.65	\$552	-2,208	-26,496	-27,291	-28,110	-28,953
	Administration	0.03	\$0.14	\$120	-480	-5,760	-5,933	-6,111	-6,294
	Utilities	0.158	\$0.74	\$632	-2,528	-30,336	-31,246	-32,183	-33,149
	Management F	0.079	\$0.37	\$316	-1,264	-15,168	-15,623	-16,092	-16,574
	Insurance	0.045	\$0.21	\$180	-720	-8,640	-8,899	-9,166	-9,441
	Real Estate Ta	0.274	\$1.29	\$1,096	-4,384	-52,608	-54,186	-55,812	-57,486
	Other	0.045	\$0.21	\$180	-720	-8,640	-8,899	-9,166	-9,441
	Reserves	0.0307	\$0.14	\$123	-491	-5,894	-6,071	-6,253	-6,441
Total Expenses					(192,000)	(197,760)	(203,693)	(209,804)	
Less Tax Abatement					0	0	0	0	
Net Operating Income:					233,664	470,125	484,229	498,756	



RAVENHURST DEVELOPMENT, INC.
Snohomish Residential Model 1 - 5 story

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PROGRAM ASSUMPTIONS

Retail

Element	GBA	Effic%	GLA	Pkg/1000	Pkg #	Bldg Cost	TI	Commish
Tenant 1	0	100%	0	2.5	0		\$0.00	\$0.00
Tenant 2	0	100%	0	2.5	0		\$0.00	\$0.00
Total	0		0			Parking Required	0	

Retail Rents:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Tenant 1	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tenant 2		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Residential

	Units	Unit Mix	SF/Unit	Net SF	Effic%	Gross SF	Rent/mo	Rent/sf	Parking		
1 Bedroom	0	0%	0	0	85%	0			0.0%	2.00	0
2 Bedroom	0	0%	0	0	85%	0			0.0%	1.50	0
Model	48	100%	850	40,800	85%	48,000	\$1,105	\$1.30	100.0%	1.75	84
Total:	48		850	40,800	1000	48,000					84

Apartment Rents:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Escalation		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
1 Bedroom	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2 Bedroom	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Model	\$1,105	\$1,138	\$1,172	\$1,207	\$1,244	\$1,281	\$1,319	\$1,359	\$1,400	\$1,442	\$1,485
Cost/GSF	\$80.00										
Cost/Unit	\$68,000										

Check measures:	ROC	ROE	Impact Fees:	Parks:	School:	Traffic:
	6.6%	4.6%		48 units	24 2brm	84 trips
				\$3,600	\$463	\$1,422
				\$172,800	\$11,112	\$119,448
						\$303,360
						\$6,320

Escalations	Retail Rent	Operating Expense	Apartment Rent	Frontage:
		3.0%		260 lf
		3.0%		
		3.0%		



Exhibit 4: Workshop attendees.

Pilchuck District Development Forum Attendance

Name	Representing
Larry Bauman	City of Snohomish
Mark Beardslee	Snohomish County
Wendy Becker	Snohomish County
Nick Bratton	Forterra
Gordy Cole	Corstone
Mary Pat Connors	Kuslers
Owen Dennison	City of Snohomish
Debbie Emge	City of Snohomish
Greg Guedel	City of Snohomish
Karen Guzak	City of Snohomish
Nick Harper	Forterra
Laura Huntington	CE3 Real Es
Jennifer Jerabek	Master Builders Assoc.
Paul Kaftanski	City of Snohomish
Bill Kreager	AE Com
Paul Leavitt	Forterra
Jack Molver	Daniel Evans
Zak Parpia	Himalaya Homes
Bob Penny	Windermere
Jim Potter	Kauri Investments
Alison Raduziner	JE Dunn
Lynn Schilaty	City of Snohomish
Andy Sics	City of Snohomish
Matt Smith	Economic Alliance of Snohomish County
Sally Tritt-Collins	Windermere
Darrell Vange	Ravenhurst Development
Danny Weinberg	City of Snohomish