

Department of City Development
Analysis of Stowell & Webster Condominium Project

Department of City Development (DCD) staff reviewed the development proforma for the residential project proposed by New Land Enterprises at the corner of Webster and Stowell. The purpose of the review was to analyze the reasonableness of the assumptions and budget figures provided by the developer for the project in relation to other projects and standards in the marketplace. The fact that the condominium development represents only one aspect of a larger redevelopment plan for an entire block of Downer Avenue presents this individual review with some challenges, but the project was reviewed independently nonetheless.

Staff compared the project proforma to other downtown or near-downtown market rate condominium projects under construction or recently proposed. Conclusions from this comparison include the following:

- Square foot construction costs are comparable to other projects in the marketplace.
- Soft costs are about 50% lower than other comparable projects. New Land Enterprises does not include or has fairly modest line items for certain soft costs typically seen in a proforma, e.g., marketing, sales expenses, legal and professional fees. This is consistent with other New Land Enterprises projects the Department has reviewed and partly attributable to the fact they self-perform some of the work involved in their projects, especially on the sales and marketing aspects.
- The parking ratio for the office space is 3.4 spaces to every 1,000 square feet of office space (3.4 to 1). Our experience with other office projects would indicate that users typically require a ratio of 4 to 1, so the project provides something less than norm. According to the office developer, the users targeted for this particular office space can accept slightly less than “typical” users due to the nature of the medical offices in general and the specific clinics identified for the redevelopment of Downer Avenue.
- Parking for the residential portion of the project is one space for every one bedroom or one bedroom + den unit, and two spaces for every two bedroom, two bedroom + den, or three bedroom unit. This is consistent with the marketplace. Virtually every successful residential project in the downtown and near-downtown area has provided a similar parking ratio in response to market demand.
- Sales price per square foot – at an average of \$294/sq. ft. – is also consistent with comparable projects at the higher end of the marketplace. As would be expected, higher floors in the development command higher values and sales prices.

DCD staff analyzed net profit to the developer in two different ways. First, the estimated cost of the parking provided for the office spaces was subtracted from the development costs. Since this reduces costs, it has the effect of increasing the return to the developer. Using this approach, the net profit to the developer (measured as a percentage of total costs) falls well within the range of what is typical in the marketplace. Specifically, the net profit would be just above the middle of that range. As cited above, soft costs and fees are lower in this project than are often experienced in similar projects, which may, to some extent, artificially inflate the projected net profit.

If the cost of the parking for the office space remains in total project costs (using the rationale that the residential development is helping pay for providing a parking need for redevelopment of the adjacent office space), the net profit to the developer is below what would normally be considered acceptable to undertake this type of development. The developer has asserted that the totality of the redevelopment of Downer Avenue provides the basis for undertaking the condominium project at a lower than normal market return.

Finally, staff performed calculations to measure return based on a scenario in which the top two floors of the building were eliminated. The exercise did not take into account design and economic issues that would likely result. For example, 24 parking spaces would be eliminated as a result of a reduction of 12 residential units. However, from a building efficiency and layout standpoint, this number represents only roughly ½ of one floor of parking. It is unknown how effectively the extra space created could be used. In regard to construction costs, certain costs are fixed no matter how many units the building contains, e.g., roof, elevator, etc. For the sake of the analysis, these issues were ignored – and staff assumed the building layout issues could be overcome and that a reduction in total costs based on per square foot costs as currently projected would occur, without adjustments for building components that would have to be provided for either a nine or eleven story building.

Recalculating the costs and projected revenues for the nine story building results in a projected profit below what would be considered an acceptable range. As would be expected, inclusion of the cost of office parking in this analysis drives down net profit even further. Primary contributing factors to this outcome are that the top two floors command the highest sales prices per square foot and that the land cost remains fixed regardless of the number of units constructed.

Summary

The condominium development as proposed at the corner of Webster and Stowell exhibits costs either comparable to or below similar projects and provides the developer with an average to below average return, depending upon the aspects included in any review. The removal of approximately 17% of the project mass that has resulted from community input allows the developer to provide adequate parking for the onsite residents and neighboring office tenants. As the project is currently envisioned, a reduction in two residential stories and associated residential parking would provide net profits significantly below a generally acceptable market range.