

Economic & Planning Systems, University Hill Reports

- 1) University Hill Preliminary Market Assessment - 11/18/2014
- 2) University Hill Development Scenarios Feasibility - 1/19/2015

MEMORANDUM

To: Ruth McHeyser; City of Boulder Planning Department

From: Dan Guimond and Matt Prosser; Economic & Planning Systems

Subject: University Hill Preliminary Market Assessment

Date: November 18th, 2014

The Economics of Land Use



The purpose of this memorandum is to summarize Economic and Planning Systems' preliminary findings regarding the market potentials for future development in the University Hill area of Boulder, CO. The intent of the summary is to highlight the market opportunities and barriers for potential development including multifamily housing, student housing, retail, and office uses.

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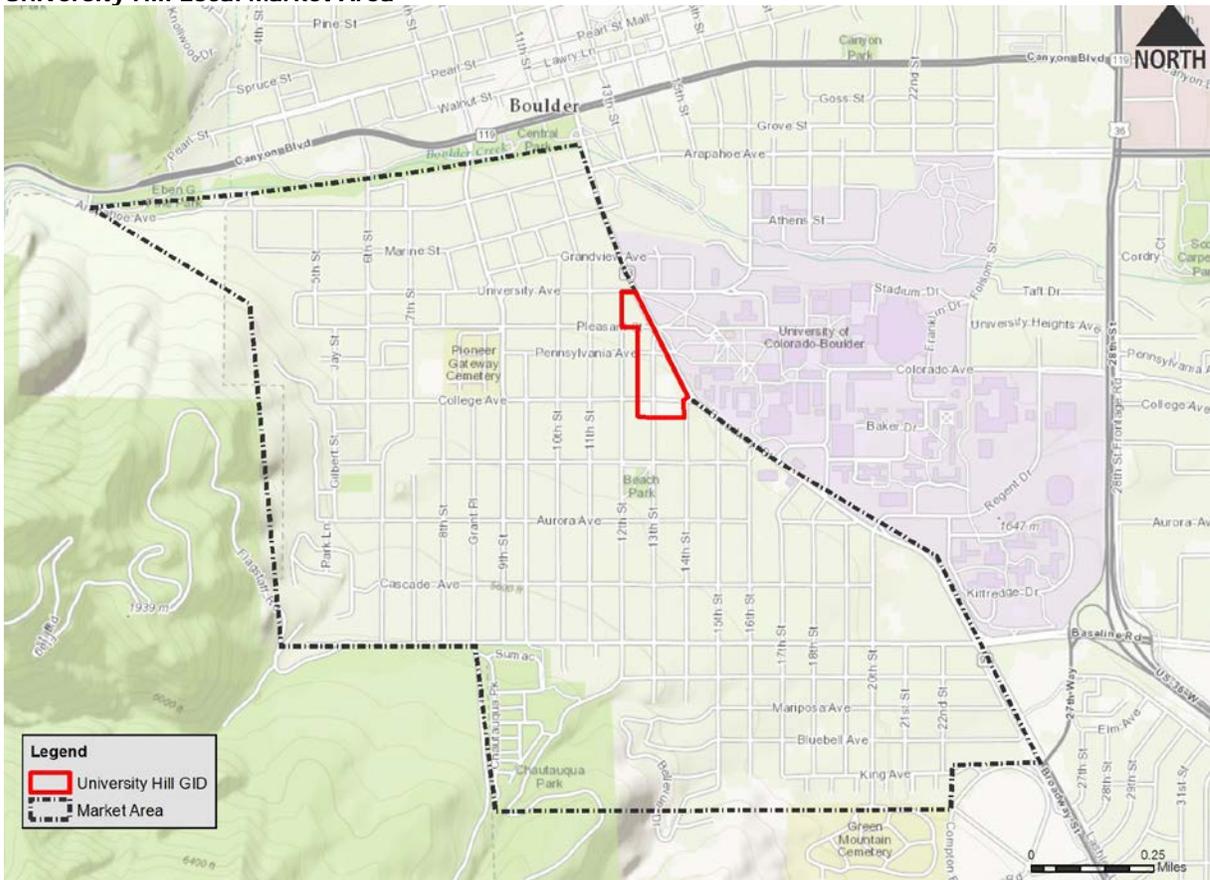
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Demographic Framework

The socioeconomic characteristics make-up of the University Hill area was evaluated to qualify the split of student and non-student residents. The make-up of the Hill area residents was also analyzed to assess the retail market potentials in the University Hill commercial district. A University Hill Market Area (Market Area) was established and is shown in **Figure 1**.

Figure 1
University Hill Local Market Area



The population of the Market Area is 11,343 residents in 4,305 households, as shown in **Table 1**. The majority of households (66 percent) in the Market Area are renter occupied, which is expected due to the proximity to the University of Colorado. The average household size in the Market Area is 2.44 for owner occupied units and 2.38 per renter occupied units.

Table 1
Market Area Population and Households

| | # | % | HH Size |
|------------------------|--------|-----|---------|
| Population | 11,343 | | |
| Households | 4,305 | | |
| Housing Units | 4,619 | | |
| Occupied Housing Units | 4,305 | | |
| Owner Occupied | 1,449 | 34% | 2.44 |
| Renter Occupied | 2,856 | 66% | 2.38 |
| Vacant | 314 | 7% | |

Source: ESRI; Economic & Planning Systems

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The majority of residents (57 percent) of the Market Area are enrolled in undergraduate or graduate school, as shown in **Table 2**. The number of residents enrolled in undergraduate school is nearly 6,000, which is over half of the market area population and makes up the majority of enrolled students.

Table 2
Market Area Population Enrolled in School

| Enrolled in School | # |
|----------------------------------|--------------|
| Grade School/Preschool | 729 |
| Undergraduate College | 5,969 |
| Graduate or Professional College | <u>365</u> |
| Total in School | 7,063 |
| % of Total Population | 63% |
| % of Population in College | 57% |

Source: ESRI; Economic & Planning Systems

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The average age of residents of the Market Area is 23.5 years old. Fifty percent of the residents are between the age of 20 and 24 years old, as shown in **Table 3**. Twenty-six percent of residents are over the age of 35 years old.

Table 3
Market Area Residents by Age

| Residents by Age | # | % |
|-------------------------|----------|----------|
| Under 15 | 724 | 7% |
| 15 to 19 | 1,038 | 9% |
| 20 to 24 | 5,501 | 50% |
| 25 to 34 | 866 | 8% |
| 35 and older | 2,869 | 26% |

Source: ESRI; Economic & Planning Systems

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The households in the Market Area have a varied economic status. The average household income of Market Area residents is \$89,489, while the median household income is \$37,461. The average household income by age of householder is shown in **Table 4**, and indicates the widely divergent income levels of residents. Households with head of householders who are between 45 and 64 years old earn on average \$131,017 annually. The college age householders, under the age of 25, have an average annual income of \$17,730.

Table 4
Market Area Household Income

| | # | |
|--------------------------|-----------|-----|
| Less than \$15,000 | 1,114 | 26% |
| \$15,000 to \$24,999 | 521 | 12% |
| \$25,000 to \$34,999 | 378 | 9% |
| \$35,000 to \$49,999 | 579 | 13% |
| \$50,000 to \$74,999 | 517 | 12% |
| \$75,000 and greater | 1,197 | 28% |
| Median HH Income | \$37,461 | |
| Average HH Income | \$89,489 | |
| Per Capital Income | \$34,893 | |
| Householder Age under 25 | \$17,730 | |
| Householder Age 25 to 44 | \$57,560 | |
| Householder Age 45 to 64 | \$131,017 | |
| Householder Age over 64 | \$58,219 | |

Source: ESRI; Economic & Planning Systems

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The Market Area, demographically, is therefore split between college students and relatively wealthy residents generally older than 35. These two resident types have significantly different market preferences and demands. The wealth of non-student residents illustrates the high-end demand for housing in the Market Area, specifically single-family households. The current retail mix in the University Hill commercial district illustrates that the commercial uses are oriented to the student residents of the hill. The high incomes and related high spending power of non-student residents should generate demand for higher end retail uses, which are all but non-existent on the Hill.

Housing Development

The Market Area is evenly split between single-family housing and attached/multifamily housing. Single-family detached housing is the most prevalent with 43 percent of all units. Multifamily units (buildings with 5 plus units) are the second most prevalent with 34 percent of units, as shown in **Table 5**. As shown previously, two-thirds of the households are renter occupied in the market area, which would indicate that there are likely nearly as many single-family rental units as multifamily rental units.

Table 5
Market Area Housing Units by Type

| Units by Type | # | % |
|------------------------|-------|-----|
| Single Family Detached | 1,998 | 43% |
| Single Family Attached | 195 | 4% |
| 2 to 4 Units | 859 | 19% |
| 5+ Units | 1,567 | 34% |

Source: ESRI; Economic & Planning Systems

H:\143073-Boulder University Hill Economic Analysis\Data\143073-Demo.xlsx\Units by Type

The BBC Housing Market Analysis completed in 2013 found that students occupy 30 percent of the rental units in Boulder. Within the Market Area, students are estimated to occupy about 90 percent of rental units. The BBC study estimated that 21,000 students live in Boulder and approximately 15,000 live in rental housing throughout Boulder in approximately 7,500 units. EPS' estimate of 2,800 to 2,900 student units in the Market Area would therefore account for about 35 to 40 percent of all student rental housing in the City.

The rental market in Boulder is historically one of the tightest markets in Colorado due to the student demand and lack of supply of units in Boulder. The current vacancy rate in Boulder is 3.1 percent according to the Denver Metro Apartment Association Survey of Vacancy and Rents. The Boulder University submarket vacancy rate is 2.3 percent. Boulder rental units also have among the highest average rental rates among submarkets in the Denver metro area. The average rental rate for apartment units is in Boulder (excluding the university areas) is \$1,388 and \$1,339 in the Boulder University submarket, as shown in **Table 6**.

Table 6
City of Boulder Average Apartment Rent by Unit Size

| Submarket | Studio | 2 Bed | | 3 Bed | Other | All | |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | | 1 Bed | 2 Bath | | | | |
| City of Boulder - Except University | \$1,183 | \$1,132 | \$1,198 | \$1,801 | \$2,137 | \$1,850 | \$1,388 |
| City of Boulder - University | \$822 | \$1,355 | \$1,555 | \$2,473 | \$2,417 | | \$1,339 |
| Boulder/Broomfield Counties | \$914 | \$1,147 | \$1,200 | \$1,517 | \$1,618 | | \$1,287 |
| Metro Denver | \$893 | \$1,006 | \$1,078 | \$1,370 | \$1,592 | | \$1,145 |

Source: Metro Denver Assoc. Apartment Survey; Economic & Planning Systems

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The newly constructed rental units built in the University Hill district are student-oriented units. These units are rented by bedroom with separate leases for each renter. The average rental rate for the new units is \$1,000 to \$1,100 per bedroom. These units are typically three or four bedroom units, which equates to \$3,000 per month for a three bedroom unit and \$4,000 per month for a four bedroom unit. These rates are significantly higher than the average for 3 bedroom and larger units in the Boulder-University submarket. A cursory analysis of rental units listed on Craigslist within the Hill area indicated that bedrooms rent for an average of \$1,000 to \$1,300 monthly. The units found vary greatly by size, quality and building configuration.

Housing Considerations

The assessment of housing conditions in the Market Area indicates the demand for multifamily housing is almost completely for student oriented housing. Units in the Market Area and near the University Hill area rent for higher rates on average than the City as a whole meaning renters pay a premium to be located on the Hill. Multifamily housing is most typically and economically provided within larger 50 units or more buildings. Recent developments in the Hill district have been smaller but have been able to achieve top of the market rental rates. There is likely a limit to the demand of high end, student units. The majority of student housing demand is for lower cost units, which would likely need to part of larger redevelopment projects.

There is a demand for affordable housing throughout Boulder. Rental units that have rental rates below market rate are in high demand despite the location, but are even more attractive in areas near downtown or the campus. Housing restricted to non-students is possible on the Hill but would need to be rented at or below market rate. Market rate or above rental or for-sale products are not likely viable because renters/buyers would prefer options that are located elsewhere in Boulder and can likely find cheaper, higher quality options elsewhere in the City.

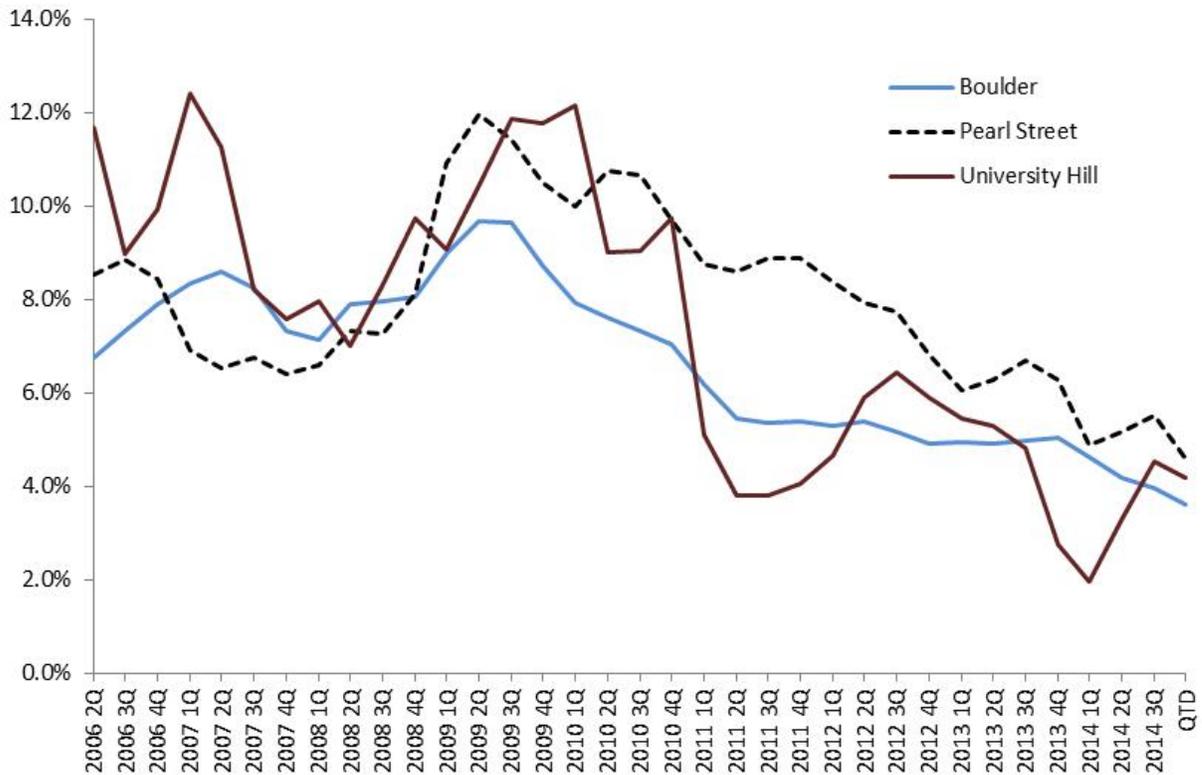
Retail Development

The University Hill District retail development conditions and potentials are analyzed below with a focus on the demand for retail uses serving the Market Area.

Boulder Retail Conditions

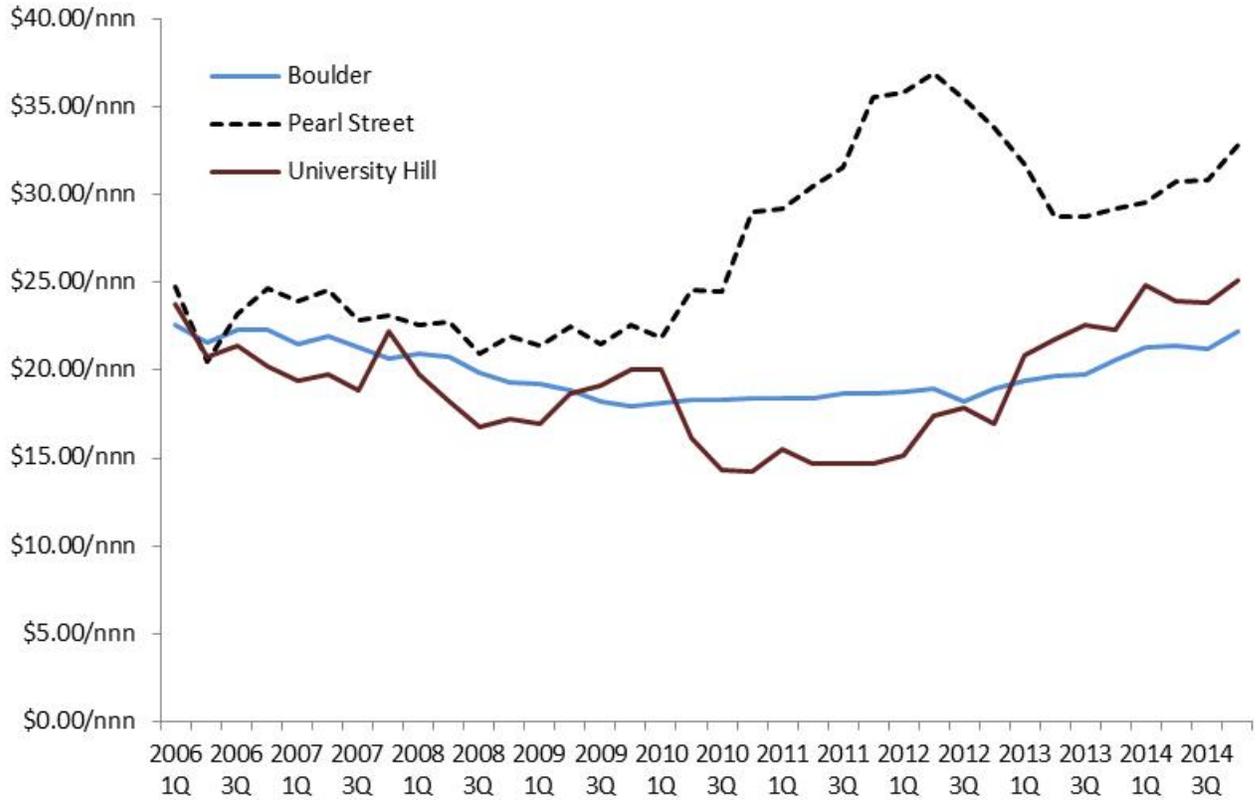
Retail conditions have been improving since the ending of the recession in 2010. Vacancy rates for retail space in Boulder have dropped from 9 percent to under 4 percent from 2009 to 2014, as shown in **Figure 2**. Vacancy rates for retail spaces along Pearl Street (7th Street to 19th Street, Canyon to Walnut) and the University Hill district were 12 percent in 2009 and higher than the City average. Vacancy rates have decreased in University Hill District to close to the City average currently.

Figure 2
 City of Boulder and University Hill Retail Vacancy Rates



Despite a slightly higher vacancy rate, rental rates for retail spaces along Pearl Street are significantly higher than retail spaces elsewhere in the City of Boulder and on University Hill. Average rental rates for spaces along Pearl Street are over \$30 per square foot (triple net) and approached \$40 per square foot in 2012. The average rental rates for space on University Hill was slightly higher than the City average from 2012 to 2014, and currently stands at about \$25 per square foot, as shown in **Figure 3**.

Figure 3
City of Boulder and University Hill Retail Rental Rates per Square Foot



According to CoStar, the inventory of retail space on University Hill is 211,396 square feet as shown in **Table 7**. The retail vacancy rate on the Hill currently is 3.2 percent which is lower than the City average of 3.5 percent. The average rental rates is \$25.10 per square foot, which is higher than the City average but over \$7.00 per square foot lower than the Pearl Street average (\$32.80 per sf) and the average for newly constructed (retail built after 2005) retail space in the City (\$26.96 per sf).

Table 7
City of Boulder and University Hill Retail Inventory

| Retail Space | Univ. Hill | Pearl Street | Boulder |
|---|------------|--------------|-----------|
| Inventory | 211,396 | 2,762,264 | 6,209,974 |
| Vacancy | 3.2% | 4.5% | 3.5% |
| Average Rental Rate (NNN ¹) | | | |
| All Buildings | \$25.10 | \$32.80 | \$22.26 |
| Built after 2005 | --- | --- | \$26.96 |

¹ Net of taxes, insurance, and maintenance feeds

Source: CoStar; Economic & Planning Systems

H:\143073-Boulder University Hill Economic Analysis\Data\143073-Office-Retail.xlsx]Summary

Interviews with University Hill property owners and developers were completed to augment the data analysis. The property owners quoted retail rental rates between the low \$20's to low \$30's for their retail spaces. The newer or renovated retail spaces were able to achieve higher rental rates. The presence of newer retail has allowed for owners to achieve higher rates and pulled the average rates for the area higher than the City average. The turnover of retail on the Hill is higher than elsewhere in the City. The frequency of turnover does not appear to be result of building age or condition but rather the retailers/restaurants ability to achieve adequate sales volumes to cover the rental rates.

The lack of non-student oriented retail was acknowledged as a concern by some property owners. Possible reasons given for the lack of non-student oriented retail uses and restaurants included existing perception of the Hill, streetscape and aesthetic of the Hill, and lack of parking.

University Hill Market Area Retail Demand

Retail expenditure potential was estimated for the four market segments that could be attracted to the Hill: Market Area Student and Non-Student residents, CU students and faculty, and Boulder residents.

University of Colorado Generated Demand

The demand for retail generated by weekday CU students, faculty and staff was estimated based on the existing campus population and average spending patterns. The current student enrollment at CU is 30,265, as shown in **Table 8**. There are also 4,146 faculty and 3,609 staff persons employed by CU and therefore are part of the daytime campus population.

Table 8
University of Colorado Boulder Campus Population

CU Boulder Population

| | |
|-------------------------|---------------|
| Student Enrollment | 30,265 |
| Freshman Enrollment | 5,869 |
| Faculty | 4,146 |
| Staff | <u>3,609</u> |
| Total Population | 38,020 |

Source: University of Colorado Office of Planning, Budget and Analysis

H:\143073-Boulder University Hill Economic Analysis\Data\143073-Demo.xlsx\CU Pop

EPS used average weekly spending data for national office workers from 2013 provided by the International Council of Shopping Centers to estimate demand for retail from the campus. Estimates for weekly office worker spending were used to approximate faculty/staff and student spending. The population of faculty/staff and students was discounted by 25 percent to account for students and employees who are part time and may work/study not on the main campus. The faculty/staff are estimated to generate an annual retail expenditure potential of \$13 million and the students generate an estimated retail expenditure potential of \$55 million, as shown in **Table 9**.

Table 9
University of Colorado Boulder Campus Retail Expenditure Potential

| | Weekly Spending | Annual Spending ¹ | Faculty/Staff ² | Students ³ |
|---------------------------------|----------------------------|---|-----------------------------------|------------------------------|
| Population | | | 5,816 | 24,396 |
| Restaurants | \$26.29 | \$973 | \$5,657,641 | \$23,730,721 |
| Goods and Services | | | | |
| Drug Stores | \$6.13 | \$227 | \$1,319,184 | \$5,533,257 |
| Grocery | \$15.98 | \$591 | \$3,438,916 | \$14,424,379 |
| Clothing | \$3.25 | \$120 | \$699,404 | \$2,933,619 |
| Shoe | \$2.43 | \$90 | \$522,939 | \$2,193,444 |
| Sporting Goods | \$2.16 | \$80 | \$464,835 | \$1,949,728 |
| Electronics/Phone/Computers | \$4.86 | \$180 | \$1,045,878 | \$4,386,889 |
| Jewelry | \$3.92 | \$145 | \$843,589 | \$3,538,396 |
| Office Supplies | \$7.37 | \$273 | \$1,586,033 | \$6,652,545 |
| Other Goods | \$3.95 | \$146 | \$850,045 | \$3,565,475 |
| Personal Care | \$7.83 | \$290 | \$1,685,026 | \$7,067,765 |
| Personal Services | \$3.16 | \$117 | \$680,036 | \$2,852,380 |
| Goods and Services Total | \$83.55 | \$3,091 | \$17,980,064 | \$75,416,575 |
| Total | \$61.04 | \$2,258 | \$13,135,884 | \$55,097,878 |

1 - Annual is estimated as 29 weeks to reflect school schedule

2 - Discounted 25 percent to reflect part time workers and persons employed off main campus

3 - Does not include Freshman who have a prepaid meal plan. Discounted 25 percent to reflect students studying part-time or abroad

Source: ICSC; Economic & Planning Systems

H:\143073-Boulder University Hill Economic Analysis\Models\143073-TPI Model 11-18.xlsx\Campus Population Spending

University Hill Retail Expenditure Potential

The expenditure potential for retail and restaurants on the Hill is comprised of four consumer groups the Market Area residents (students and non-students), CU Campus students or employees, and the City of Boulder. The estimated student population in the Market Area is 6,334 people, who reside in 2,866 households. Using the median household income for the market area of \$37,000 the total personal income for this group is estimated by multiplying households by average household income. The average Colorado household spends 20 percent of their income on retail goods at neighborhood and community oriented retail centers and shops within three store categories; convenience goods, other shopper's goods and eating and drinking. The total personal income is multiplied by 20 percent to estimate retail expenditure potential for this group, which is \$22 million.

The permanent population in the Market area is estimated to be 5,009 people in 1,439 households. The average household income for householders over 25 years old is estimated to be \$107,000. The estimated retail expenditure potential is \$31 million, as shown in **Table 10**.

As shown previously, the estimated retail expenditure potential from the CU Campus is \$68 million including spending potential from staff, faculty and students. Lastly, EPS estimates the Hill area captures approximately \$10 million in sales from Boulder residents who are not students and do not live in the Market Area.

Table 10
University Hill Retail Expenditure Potential

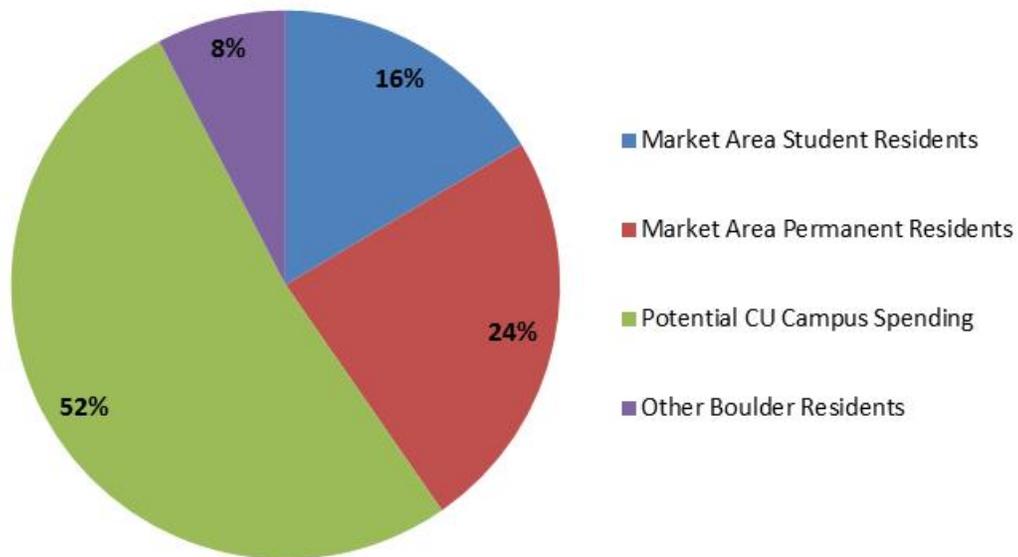
| Group | TPI / Exp. Potential |
|---|---------------------------------|
| Market Area Student Residents | |
| Estimated Population | 6,334 |
| Estimated Households | 2,866 |
| Estimated HH Income | <u>\$37,000</u> |
| Student Total Personal Income | \$106,044,344 |
| Retail Expenditures (20%) | \$21,587,250 |
| Market Area Permanent Residents | |
| Estimated Population | 5,009 |
| Estimated Households | 1,439 |
| Estimated HH Income | <u>\$107,000</u> |
| Non-Student Total Personal Income | \$153,966,222 |
| Retail Expenditures (20%) | \$31,342,618 |
| Potential CU Campus Spending | |
| Faculty | \$13,135,884 |
| Students | <u>\$55,097,878</u> |
| Total | \$68,233,762 |
| Estimated Capture from Boulder Residents | \$10,000,000 |

Source: ESRI; Economic & Planning Systems

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The percent of retail expenditure by each consumer group is shown in **Figure 4**. The retail expenditure potential from daily visitors to the campus, both students and staff, constitutes half the retail demand. The Market Area student residents are an estimated 18 percent. Combined nearly 70 percent of the potential retail demand on the Hill is from students or campus workers.

Figure 4
University Hill Retail Expenditure Potential by Consumer Group



The estimated retail expenditure potential was translated into demand for retail space within the three major retail categories present on the Hill, convenience goods, other shopper's goods (retail goods non including general merchandise), and eating and drinking. Based on average household and office workers expenditure patterns in each retail category, the estimated demand for retail space generated by each group was estimated to further illustrate the demand from each group.

The demand from Campus weekday users accounts for 65 percent of the retail space demand, with demand for 280,000 square feet. The demand from Market Area permanent residents is 83,000 square feet, as shown in **Table 11**. This estimated demand is the total retail demand generated within store categories that could potentially located on the Hill and also does not account for existing retail on the Hill or elsewhere in Boulder and Colorado. The Hill competes with Pearl Street Mall, 29th Street and Flatirons Mall for retail sales in many of these categories. These three areas are major retail destinations with major retail anchors and attractions.

Table 11
University Hill Retail Supportable Space

| Store Type | Per Sq. Ft. | MA Students | MA Non-Students | Campus Demand | Boulder Demand | Total Demand |
|---------------------------------------|--------------|---------------|-----------------|----------------|----------------|----------------|
| Convenience Goods | | | | | | |
| Supermarkets and Other Food Stores | \$400 | 16,577 | 24,068 | 44,658 | 0 | 85,302 |
| Convenience Stores | \$400 | 2,386 | 3,464 | 11,039 | 0 | 16,889 |
| Beer, Wine, & Liquor Stores | \$300 | 3,216 | 4,669 | 0 | 0 | 7,884 |
| Health and Personal Care | \$400 | <u>4,454</u> | <u>6,467</u> | <u>21,882</u> | <u>0</u> | <u>32,804</u> |
| Total Convenience Goods | | 26,632 | 38,668 | 77,579 | 0 | 142,879 |
| Other Shopper's Goods | | | | | | |
| Clothing & Accessories | \$350 | 3,460 | 5,023 | 18,141 | 0 | 26,624 |
| Furniture & Home Furnishings | \$250 | 3,266 | 4,742 | 0 | 0 | 8,009 |
| Electronics & Appliances | \$500 | 1,419 | 2,060 | 10,866 | 0 | 14,344 |
| Sporting Goods, Hobby, & Music Stores | \$350 | 2,078 | 3,016 | 6,899 | 0 | 11,993 |
| Miscellaneous Retail | \$250 | <u>2,961</u> | <u>4,299</u> | <u>82,274</u> | <u>1,372</u> | <u>90,905</u> |
| Total Other Shopper's Goods | | 13,183 | 19,141 | 118,179 | 1,372 | 151,875 |
| Eating and Drinking | \$350 | 17,090 | 24,814 | 83,967 | 7,917 | 133,788 |
| Total Retail Goods | | 56,906 | 82,622 | 279,725 | 9,288 | 428,542 |

Source: Economic & Planning Systems

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Retail Development Considerations

The demand analysis for retail on the Hill illustrates that students constitute the majority of demand for retail. The student orientation also complicated by the seasonal nature of demand for students, with the Hill business struggling through periods when students are not on campus, especially the summer. The potential demand from Market Area residents that are non-students is a major component but not sizeable enough to drive the retail demand on the Hill. This group could generate demand for a modest commercial district embedded in the neighborhood but the sheer size and market power of the student population has driven the Hill to be predominately student oriented.

There a limited demand for non-student oriented retail or restaurants, but these retailers may not be able to overcome the stigma of the Hill as a student area and the rental rates that other retailers are able to pay. Parking is another barrier to non-student oriented retail. The majority of shoppers access the district on foot from surrounding housing and the campus. The district is not well suited for a larger number of customers to come in cars from outside the Market Area. While the UHGID does provide two lots with rates and hours that accommodate retail, the parking that supports the Hill is limited to a small number of on-street spaces, a small number of private spaces, the CU owned lot at 13th and Pennsylvania, and the two UHGID lots. The UHGID lots are both difficult to access and are not visible from Broadway, 13th Street, or College Avenue.

The Hill also lacks in attractions or "go to"/destination retailers or restaurants that are attractive to outsiders. In its past, the Hill had a collection of theatres and entertainment venues, including Tulagi's, the Flatirons Theatre, and the Fox Theatre, which drove visitation from throughout Boulder and even the region. The Fox Theatre is the only remaining entertainment venue.

Visitors to Boulder, game day CU fans, and campus visitors are not attracted to the Hill businesses with the exception of perhaps The Sink. These visitors are more often attracted to Pearl Street or elsewhere in Boulder.

To increase demand for non-student oriented retail the City can explore ways to grow the market potential from groups that are not students and address ways to make the area more easy to access and attractive. The two potential approaches are to increase the number of non-student households or increase the number of non-student visitors to the Hill. There does not appear to be ample buildable land in the Market Area to generate enough non-student households to significantly impact demand. The other approach is to generate demand from visitors. This approach could include attracting an employment base, increase the quality of retail offerings, increasing access and parking, increasing visitation to the campus, and/or increasing visitation to the Hill to the existing destinations (i.e. Fox Theatre) or a potential new attraction or anchor use.

Office Development

Office Trends and Conditions

Figures 5 and 6 below summarize office inventory, vacancy and rent trends in the City from 2004/2006 to 2014. The office space inventory in Boulder decreased from 2009 to 2014. There has been approximately 31,000 square feet per year of new Class A and Class B office space built in Boulder over the last decade. No true Class A office space has been completed in Boulder since 2008, and only 60,200 was built in the last decade. Similarly, only 36,000 square feet of Class B office space has been built since 2008.

One broker interviewed stressed the need not only for additional Class A office space in Boulder, but more specifically for large floor plate options. Such options might help retain some of the Boulder start-up companies that are being pushed out of the City to Interlocken or other metro Denver locations that can offer larger contiguous spaces.

The average vacancy rate for office space has fallen from above 10 percent in 2009 to 4 percent in 2014, as shown **Figure 5**. Class A office space is essentially 100 percent occupied as of 2013 and occupancy rates have increased approximately 10 percent over the last 5 years. The current market benchmark of 100 percent occupancy is unusual for any market and is well above the equilibrium threshold. Class B occupancy rates have increased 16 percent over the last 10 years.

The average lease rate for office space in Boulder is \$23.59 per square foot (full service rent). Class A lease rates have increased \$15.32 from the bottom of the cycle in 2007, an increase of 77 percent. The average for Class A office was \$36.10 at the end of 2013, as shown in **Figure 6**. One broker interviewed even noted a \$5 per square foot increase in Class A office space in Downtown Boulder between mid-December, 2013 and late January, 2014. This recent spike in Class A lease rates shows the effects of "100%" occupancy.

Figure 5
Boulder Office Space Inventory and Vacancy Rate, 2006 to 2014

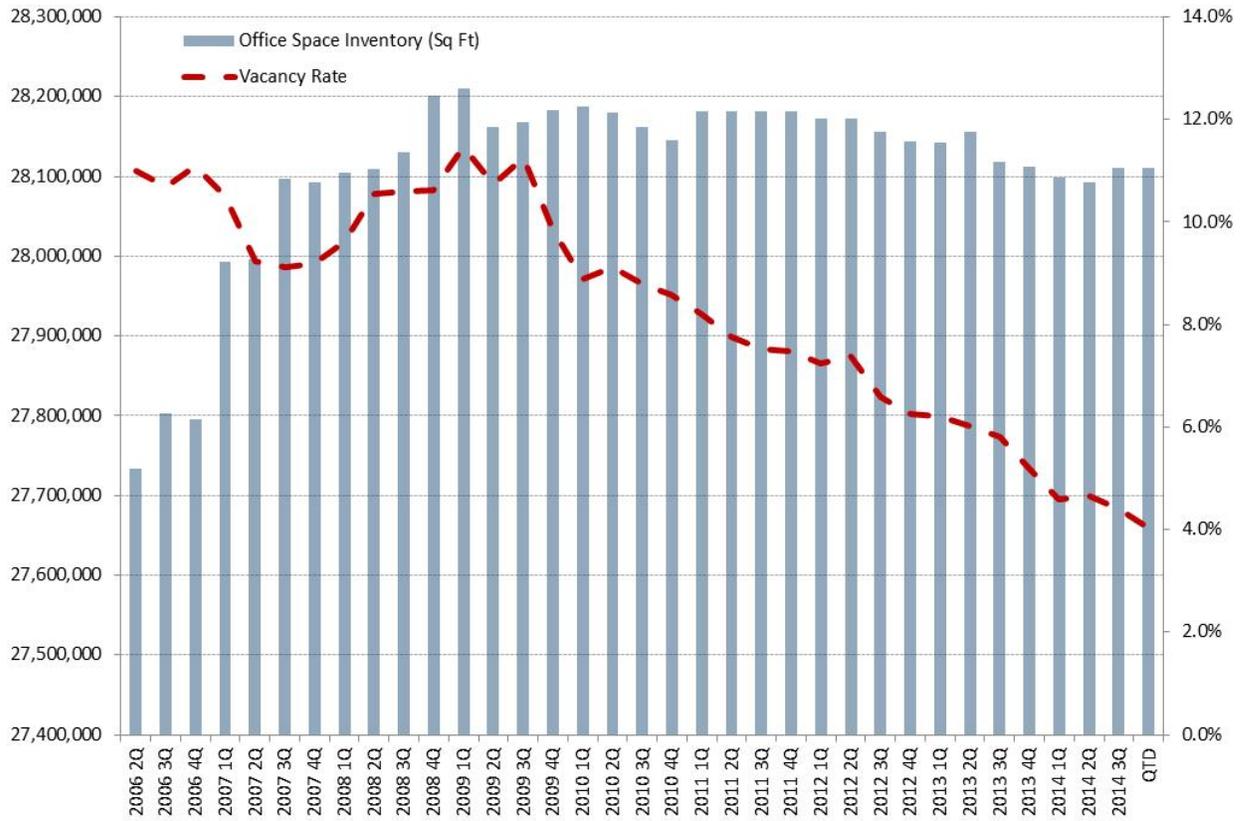


Figure 6
Average Gross Office Lease Rates, City of Boulder, 2004-2013

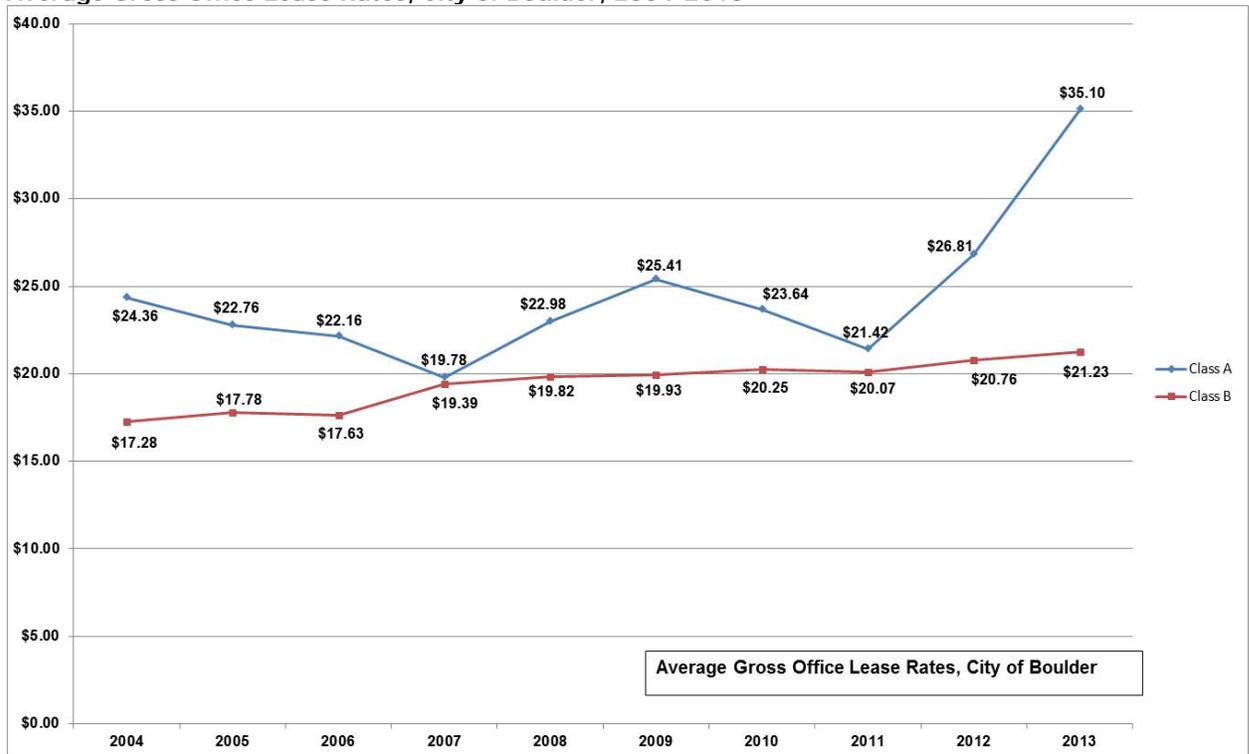
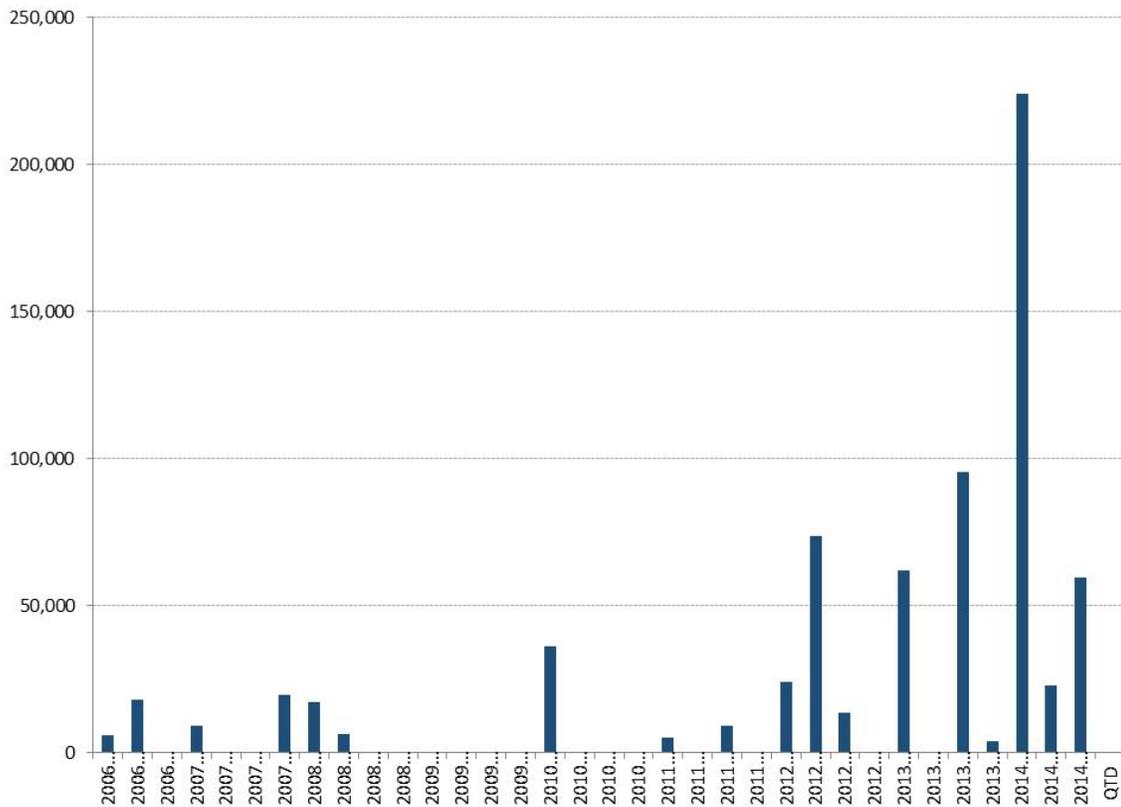


Figure 7 shows the square feet of office space built by quarter from 2006 to 2014. There was a limited amount of new office space built from 2006 to 2010. However, in the past two years the office space development in Boulder has increased significantly, with new office space brought to market in 10 of the past 12 quarters including over 200,000 square feet in first quarter 2014.

Figure 7
New Office Space Built in Boulder by Quarter, 2006-2014



EPS analyzed office square footage along Pearl Street and the Hill to compare to the City of Boulder averages, which is shown in **Table 12**. There is 28 million square feet of office space in Boulder, with 2.1 million along Pearl Street. Both areas have a vacancy rate of 4 percent. The downtown/Pearl Street area is the most attractive office location in Boulder and office space in this area achieves the highest rental rates. The average rent for office space in Boulder is \$23.59 per square foot (full service or gross) while the average for Pearl Street is \$33.51 per square foot. New office space (space built after 2005) rents for an average \$27.54 per square foot. There were two spaces listed for lease on the Hill within the CoStar inventory, a small, 1,500 square foot space in the Buchanan’s Coffee Pub building and third floor office space in the Hilltop Building at 13th Street and College Ave. The average listed lease rate for the two spaces was \$21.00 per square foot.

Table 12
Boulder Office Space by Subarea, 2014

| Office Space | Univ. Hill | Pearl Street | Boulder |
|------------------------------------|------------|--------------|------------|
| Inventory | --- | 2,055,922 | 28,110,661 |
| Vacancy | --- | 4.1% | 4.0% |
| Average Rental Rate (Full Service) | | | |
| All Buildings | \$21.00 | \$33.51 | \$23.59 |
| Built after 2005 | --- | --- | \$27.54 |

Source: CoStar; Economic & Planning Systems

H:\143073-Boulder University Hill Economic Analysis\Data\143073-Office-Retail.xlsx\Summary

A review of significant office projects proposed in the Boulder development “pipeline” indicates a potential for approximately 560,000 square feet if all projects were completed (**Table 12**).

The proposed Baseline Zero and the Eleventh and Pearl redevelopment under construction at the former Daily Camera building will, together, add significant supply (320,000 square feet) to the market. The list of projects in **Table 13** illustrates an interesting divergence in office development in Boulder and nationally – large floor plate office needs in contrast with the emerging trend for “micro” office spaces and more innovative and collaborative office environments. The Daily Camera project may succeed at both ends of that spectrum with the ability to offer larger spaces, as well as housing the second Colorado outpost of Galvanize, a collaborative workspace and community. The office space at Spark is proposed to be accommodated among several smaller buildings, and the proposed The James development is included in this list not because it would add significant inventory to the Boulder market, but because it responds to the increasing demand for smaller/“micro” office spaces and collaborative work environments.

Table 13
Proposed Office Development Projects, City of Boulder

| Project Name | Location | Approximate # Sq. Ft. |
|------------------------------|-------------------------------------|---------------------------------------|
| 1738 Pearl Street - addition | | 16,655 |
| The James | 1750 14th Street | 8,517 Office & 1,570 Micro-Offices |
| 909 Walnut | 909 Walnut | 8,900 |
| Spark | Old Sutherland's Site | 207,168 |
| Baseline Zero | 2700 Baseline Road | 180,000 |
| <u>Eleventh & Pearl</u> | <u>Former Daily Camera Building</u> | <u>140,000</u> |
| Total | | 562,810 |

Source: Economic & Planning Systems

Note: Eleventh & Pearl Office space is an estimate out of the total 180,000 square feet

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Office Broker Interviews

EPS interviewed office real estate brokers active in Boulder to assess the trends in office space in Boulder and to try and get an understanding of the office potentials on the Hill. The information and the data points shared in these interviews is summarized below.

Generally, the office market in Boulder is concentrated in three locations: Downtown/Pearl Street, Central Boulder, and East Boulder. The average rental rates decrease and vacancy rates increase farther east. The market for office space is fairly diversified among different businesses types including; technology companies, start up businesses in all industries, bio-technology and "clean" technology firms, the outdoor recreation industry and natural foods companies. The majority of office development is resultant of either growth of small, start up companies, or acquisition of existing Boulder companies by larger outside firms, both of which also lead to natural growth of professional services firms (i.e., lawyers, accountants). The minimum office rents need to support new office construction was estimated to be in the mid-twenty dollars per square foot range and higher.

Downtown/Pearl Street has the desired amenities for many companies including the place making and worker amenities along with a high concentration of employment, professional environment, and adequate parking within a mixture of private and public structured parking lots. However, there is limited amount of office space in the area and it is largely smaller spaces. As companies grow and expand in employment, the area and Boulder is often unable to retain employers who seek large buildings and floor plates in offices spaces in eastern Boulder or outside of the City.

The brokers interviewed all expressed that the Hill was not a good multitenant office location and generally did not think trying to attract office uses was viable. There is currently only a handful of office uses on the Hill, which are primarily campus/student oriented with few exceptions. Several factors were cited as barriers to office users being attracted to the Hill including; lack of a professional environment, lack of parking, lack of access, difficulty and traffic accessing the Hill, the perception of the area as only a student area and a lack of interest from employers in the area.

Despite current perceptions, some brokers identified the potential for Niche Office Space for smaller businesses needing small or flexible spaces of less than 3,000 square feet. Creative, start-up, computer oriented, and technology firms may seek out the Hill if space is less expensive than the Pearl Street area and if their business had a nexus or benefited from locating next to campus. Incubation space was cited as potential uses, but lower rents are needed to make it attractive to new firms. In general, to attract office users to the Hill both an attractive rental price and some sort of incentive/motivating factor is needed. Co-working or shared office space type configurations may work well to support the incubation nature of potential office users. This type of development would need to be of high quality, highly attractive, and have associated professional amenities.

A market anchor or destination was cited as a way to potential change the culture and dynamic of the Hill enough to attract some office spaces. A hotel was cited as a potential use that could be developed in concert with office space to help catalyze the market. The brokers interviewed did not think that a stand-alone office building could be developed and that any development with office space needed to be done in connection to another driving use such as a hotel or destination retail/restaurant.

Future Market and Development Considerations

The future market potentials on the Hill can be accommodated by two types of development; redevelopment of existing buildings or rehabilitation or expansion of existing buildings. There are major barriers to both types of development.

Redevelopment of existing uses and businesses requires in most cases the purchase of an existing income producing asset whether it be a retail space, rental housing, or parking. The price for land or development sites on the Hill is generally higher than \$200 per square foot due to the relatively high rental rates even the lowest quality retail space can capture on the Hill. To support new development on these sites, the use or at least one of the uses needs to be able to achieve rental or sale prices that are higher than market averages and demand a premium. The only two uses that have shown to achieve higher than average market rates are student housing and student housing with first level retail. Retail space is limited to only street fronting, ground floor space and is not viable on basement or second story locations. Office spaces on the Hill currently are rented for less than City averages and new space would need to be priced low enough to generate demand. Market rate rental or for-sale housing that is not student housing lacks demand from the market and rates are likely more attractive in other areas of Boulder.

The rehabilitation or expansion of existing buildings also has barriers that are driven by the market for uses on the Hill. An increase in the quality of retail spaces on the Hill could generate demand for non-student oriented retailers, which could be achieved within existing buildings. However, existing rental rates for retail provide little incentive for owners to invest significantly into buildings, especially since the price premium gained from new space is not substantial. Many of the existing buildings have second floor residential units. The conversion of these spaces to office uses would be difficult because office uses likely cannot support rental rates high enough to pay for renovation costs or increase revenue for the owner. The building owners interviewed cited many functional and structural issues that become a problem once expansion is considered. The requirement to bring buildings to current building codes, and provide access needs and ADA amenities are needed and costly. Many of the buildings lack adequate parking currently, which would be exacerbated if they expanded without parking. Like redevelopment, the expansion of buildings needs new uses that can demand a price premium to support costs.

Further examination is needed to understand the feasibility of redevelopment and rehabilitation/expansion. This analysis will help identify the financing gaps present and help show potential approaches the City could take to incent or require change. This analysis needs definition and alignment with the City's planning process, but potential development forms to be tested should include:

- Expansion of existing buildings with office and housing, both student and workforce oriented, uses.
- Redevelopment projects with a mixture of either retail and office uses or retail and housing uses.
- Rehabilitation existing buildings to create better quality and functioning retail spaces.

Other issues need to be examined to determine the costs and feasibility addressing barriers. These issues include the role of parking and identification and feasibility of anchor/destination uses.

Lastly, the impact of potential land use and development policies need to be analyzed in context of the development scenarios tested to understand the pros and cons of each approach. These

policies should include incentives provided by the City, requirements or restrictions on uses, and alternative financing approaches and sources. The ultimate goal is identify potential actions the City should take to get the current condition of the Hill to better reflect the City's vision for the Hill.

MEMORANDUM

To: Ruth McHeyser; City of Boulder Planning Department

From: Dan Guimond and Matt Prosser; Economic & Planning Systems

Subject: University Hill Development Scenarios Feasibility

Date: January 19, 2015

The Economics of Land Use



The purpose of this memorandum is to summarize Economic and Planning Systems' (EPS) preliminary findings regarding the financial feasibility of potential redevelopment and rehabilitation options in the University Hill commercial district in Boulder, Colorado. The intent of the summary is to highlight the economic barriers to development for various land uses including multifamily rental housing, retail and office. The impact of regulations or incentive options to close the feasibility gap or encourage desired uses was also examined.

Development Scenarios and Assumptions

To understand the economic and financial constraints to redevelopment and rehabilitation of existing properties in the University Hill commercial district (The Hill), EPS modeled the financial feasibility of development of multifamily housing, retail, and office uses within redevelopment projects and additions to existing buildings. Two scenarios were used to illustrate the financial feasibility of different use mixes: Scenario 1 – Redevelopment, and Scenario 2 – Building and Parcel Additions, as detailed below.

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Scenario 1 – Redevelopment

The first scenario is based on the redevelopment of a “typical” parcel(s) on The Hill and assumes the existing buildings and uses on a parcel are demolished and cleared for new construction. A set of common assumptions were used to test a variety of building programs under this scenario, as outlined below.

Land Price

For the purposes of this study, the estimated land price for a redevelopment site is \$200 per square foot. The parcel used for the redevelopment is assumed to contain no income generating uses or income generating uses that are providing a below average return. Properties with stable, income producing uses are less likely to sell and more likely to cost more than the estimated price used. The price for property on The Hill varies greatly depending on the value of the existing use and buildings on each parcel. The price per square foot of land for properties that were recently renovated and/or redevelopment (Flatiron Theatre, 1143 13th Street) was an average of \$220. The most recent prices per square foot achieved for properties sold since 1999 are shown in **Figure 1** and **Table 1**. The surface parking lot owned by UHGID on 14th Street recently appraised for \$180 per square foot.

Figure 1
University Hill Recent Property Sale Price per Square Foot



Table 1
University Hill Property Sales, 1999 to 2014

| Property Address | Sales Price | Improved Sq Ft | Land Sq Ft | Price per Imp Sq Ft | Price per Sq Ft (Land) | Sales Date | Property Notes |
|---|--------------------|-------------------|--------------|------------------------|------------------------------|----------------|--|
| 1310 College Ave - Hilltop Plaza | \$6,046,000 | 27,595 | 9,931 | \$219 | \$609 | April-2014 | 3 story retail/office building |
| 1080 13th Street | \$1,553,500 | 3,785 | 6,250 | \$410 | \$249 | April-2014 | Residential home - multiple rental units |
| 1350 College Street | \$12,000,000 | 21,433 | 12,850 | \$560 | \$934 | April-2014 | New build retail/residential building |
| 1264 College Ave - Flatiron Theatre | \$2,030,000 | 9,375 | 9,365 | \$217 | \$217 | May-2010 | Retail building/former theatre |
| 1143 13th Street (2 Properties) | \$2,598,600 | 9,000 | 11,325 | \$289 | \$229 | March-2010 | 2 story retail/office building |
| 1129 13th Street - Tulagi Building | \$3,000,000 | 8,377 | 5,998 | \$358 | \$500 | September-2009 | 2 story retail building |
| 1135 Broadway - Art Hardware Building | \$3,000,000 | 31,277 | 13,068 | \$96 | \$230 | June-2009 | 2 story retail building |
| 1111 Broadway - CU Bookstore | \$3,200,000 | 16,221 | 12,802 | \$197 | \$250 | July-2007 | 2 story retail building |
| 1155 13th Street | \$1,050,000 | 3,000 | 5,527 | \$350 | \$190 | July-2006 | 1 story retail building |
| 1119 13th Street | \$1,150,000 | 3,026 | 3,123 | \$380 | \$368 | April-2006 | 1 story retail building |
| 1320-1326 College Ave | \$1,235,000 | 4,339 | 2,570 | \$285 | \$481 | January-2006 | 2 story retail building |
| 1121 13th Street | \$1,675,000 | 8,000 | 6,229 | \$209 | \$269 | November-2005 | 1 story retail building |
| 1335 Broadway | \$1,000,000 | 6,235 | 7,405 | \$160 | \$135 | October-2005 | 2 story retail building |
| 1275 13th Street | \$1,005,000 | 3,108 | 14,278 | \$323 | \$70 | July-2004 | Gas Station |
| 1121 Broadway | \$1,475,000 | 10,131 | 6,499 | \$146 | \$227 | October-2001 | 2 story retail/office building |
| 1313-1335 Broadway - University Hill Plaza | \$2,260,000 | 15,636 | 18,974 | \$145 | \$119 | October-2000 | 2 story retail strip building |
| 1219-1221 Pennsylvania Ave | \$1,056,000 | 5,782 | 4,800 | \$183 | \$220 | June-2000 | 2 story retail/residential |
| 1159-1165 13th Street - "The Sink" Building | \$2,100,000 | 11,440 | 9,064 | \$184 | \$232 | June-2000 | 2 story retail/office building |
| 1149 13th Street | \$295,000 | 2,026 | 1,916 | \$146 | \$154 | August-1999 | 2 story retail building |
| Average | \$2,512,058 | 10,515 | 8,525 | \$256 | \$299 | | |

Source: CoStar, Economic & Planning Systems

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Building Size

The building program tested assumes the maximum build-out allowed for parcels in the University Hill General Improvement District (UHGID), which is a 1.85 floor area ratio (FAR). The lot sizes within the UHGID vary but are generally small and under half an acre. The most common lot size found within the District that could be redeveloped is between 0.15 and 0.31 acres (6,500 to 13,500 square feet), with average parcel size being approximately 0.20 acres (8,700 square feet). The larger lot size of 0.31 acres (13,500 square feet) was used to test feasibility. With a maximum 1.85 FAR, the maximum building program is approximately 25,000 square feet within a three story building.

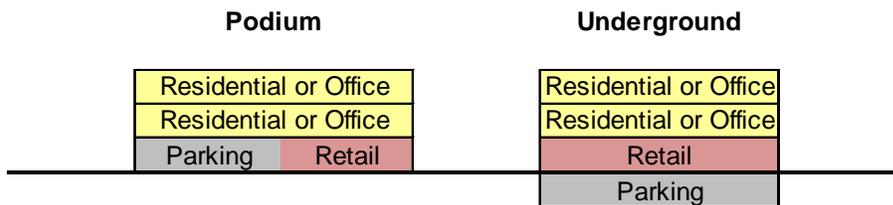
Parking

The amount of parking provided has a major impact on the feasibility of development. The amount of parking allocated by each use is based on both zoning and market factors and estimated as follows:

- For residential uses, zoning requires a minimum of 1.0 space per unit. The number of bedrooms per unit has a major impact on required parking and therefore development cost. EPS estimates that parking spaces will be able to demand an additional \$100 per month from residents for a space.
- For commercial uses, two main assumptions were made. For retail space, no spaces are required due to the inclusion of the properties within UHGID. For office space, a minimum of one space per 1,000 square feet was used based on market inputs. However, EPS also tested the impact of no required parking for office space with the assumption that parking for office spaces could be provided within UHGID lots. Parking was cited (refer to University Hill Market Assessment memorandum) as major barrier to both retail and office development on the Hill.
- Considering the small size of most parcels on the Hill, providing surface parking or parking in a stand-alone garage is likely not possible for residential uses or for office uses requiring on-site parking. A structured parking approach is needed within the newly built building to

accommodate parking. Therefore, two main approaches can be taken which is either to structure parking underground or build parking at grade (level one) under portions of the structure, which is referred to as podium building. The two approaches are illustrated in **Figure 2**. The parking configuration assumed for this analysis is the tuck under podium approach. The costs of these approaches are different but both are expensive. EPS estimates a podium space at \$20,000 per space and an underground space at \$25,000 per space for this modeling based on average figures from comparable projects by type. Prices for underground parking have been higher for some Boulder projects due to site specific considerations including project size, location, and construction type.

Figure 2
Building and Parking Configurations



Other Assumptions

Several assumptions or factors were used to test development feasibility. The majority of factors used are shown below in **Table 1** with cited sources. The factor can also be found within the feasibility models provided in the **Appendix**.

Table 1
Scenario 1 – Redevelopment Assumptions

| | Residential | | Office | | |
|---|-------------|----------|----------|------------|-------------|
| | Student | Market | Parking | No Parking | Office/Res. |
| Program | | | | | |
| Square Feet | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 |
| Acres | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 |
| Residential | | | | | |
| Units | 10 | 24 | 0 | 0 | 5 |
| Number of Bedrooms | 40 | 30 | 0 | 0 | 20 |
| Average Unit Size | 1,580 | 660 | --- | --- | 1,580 |
| Leasable Area (Sq. Ft.) | 15,800 | 15,840 | --- | --- | 7,900 |
| Gross Sq. Ft. | 18,588 | 18,600 | --- | --- | 9,300 |
| Commercial | | | | | |
| Total Square Feet | 6,750 | 6,750 | 24,975 | 24,975 | 15,700 |
| Leasable Area (Sq. Ft.) | 6,413 | 6,413 | 22,815 | 22,815 | 15,700 |
| Retail | 6,413 | 6,413 | 6,406 | 6,406 | 6,413 |
| Office | 0 | 0 | 16,409 | 16,409 | 8,054 |
| Total Building (Sq Ft) | 25,338 | 25,350 | 24,975 | 24,975 | 25,000 |
| Gross FAR | 1.85 | 1.85 | 1.85 | 1.85 | 1.85 |
| Leasable Building (Sq. Ft) | 22,213 | 22,253 | 22,815 | 22,815 | 22,344 |
| Net FAR | 1.65 | 1.65 | 1.69 | 1.69 | 1.76 |
| Parking Spaces | 20 | 24 | 21 | 0 | 24 |
| Revenue Factors | | | | | |
| Residential | | | | | |
| Rent per Square Foot (Monthly) | \$2.50 | \$2.15 | \$2.50 | \$2.15 | \$2.50 |
| Rent per Unit (Monthly) | \$3,950 | \$1,419 | --- | --- | \$3,950 |
| Vacancy | 5% | 5% | 5% | 5% | 5% |
| Rental Parking Space (Monthly per Space) | \$100 | \$100 | \$100 | \$100 | \$100 |
| Cap Rate | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Commercial | | | | | |
| Office Rent Rate (Gross Annual per Sq. Ft.) | \$30.00 | \$30.00 | \$30.00 | \$30.00 | \$30.00 |
| Office Vacancy | 10% | 10% | 10% | 10% | 10% |
| Retail Rent Rate (Gross Annual per Sq. Ft.) | \$40.00 | \$40.00 | \$40.00 | \$40.00 | \$40.00 |
| Retail Vacancy | 10% | 10% | 10% | 10% | 10% |
| Cap Rate | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% |
| Cost Factors | | | | | |
| Hard Cost | | | | | |
| Residential (per Sq. Ft.) | \$150 | \$150 | \$150 | \$150 | \$150 |
| Retail (per Sq. Ft.) | \$140 | \$140 | \$140 | \$140 | \$140 |
| Office (per Sq. Ft.) | \$130 | \$130 | \$130 | \$130 | \$130 |
| Parking Cost per Space | | | | | |
| Underground | \$25,000 | \$25,000 | \$25,000 | \$25,000 | \$25,000 |
| Podium | \$20,000 | \$20,000 | \$20,000 | \$20,000 | \$20,000 |
| Soft Costs (% of Hard Cost) | 22% | 22% | 22% | 22% | 22% |
| Land Value | \$200 | \$200 | \$200 | \$200 | \$200 |

Sources: Economic & Planning Systems

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Building Programs

Scenario 1 includes five building programs tested to illustrate the differences in feasibility between uses. All programs have a retail program of approximately 6,750 square feet on the ground floor along the street frontage (the tuck under/podium parking is accessed on the rear of the building via the alley). Retail spaces are assumed to lease for \$33 per square foot (NNN).

Residential Programs

- **Student Oriented** - The student oriented development program includes 10 student oriented rental units on floors two and three. The 10 units are all four bedroom units with a shared common space and two bathrooms. The units are assumed to be rented “by the bedroom” under separate leases, which is a common practice for student oriented units on the Hill and in other college areas. The four bedroom units total 1,580 square feet in size and are assumed to be rented at average area rates which are \$988 per bedroom per month or \$3,950 per month for the whole unit. Some newer area projects are renting at up to \$1,100 per bedroom per month.
- **Market** – The market rate housing program includes 23 apartment units on floors two and three including 18 one-bedroom units and 5 two-bedroom units. This program was chosen because it most mimics types of units non-student renters might be attracted to on the Hill. The average unit size is 660 square feet, with one-bedroom units at an average of 570 square feet and two-bedroom at an average 930 square feet. The units are assumed to rent at an average of \$2.15 per square foot per month, which equates to \$1,225 for one bedroom units and \$2,000 for two bedroom units.

Office Programs

- **Office with Parking** - The first office alternative is a three-story office building with ground floor retail space and office uses on the second and third floors. The office space totals 16,900 square feet on two floors. With a parking ratio of 1.0 per 1,000 square feet of office space, the program includes 17 spaces. Parking is not required on site for office uses but dedicated spaces for office tenants is deemed to be necessary to attract tenants. In this program, the parking is provided within the development. The office space is assumed to rent for \$27.50 per square feet (full-service), which is the City-wide average for space built after 2006.
- **Office without Parking** – This program assumes that the parking for the office space is accommodated within a UHGID managed lot. There a rental cost for the parking associated with using the UHGID lot, but the cost of this is not factored in this model and assumes the cost is the responsibility of the lessee of the office space. The intent is to illustrate the impact of decoupling the parking for the developer to reduce cost, which is possible due to UHGID.
- **Office and Residential Mix** – The last program assumes that the second floor is 8,500 square feet of office space and the third floor is five four-bedroom student-oriented rental housing units. The same assumptions for rents for both uses are used from the previous programs, including parking for the office space being provided within dedicated spaces within UHGID lot. This program requires 5 parking spaces provided within the building.

Scenario 2 – Building and Parcel Additions

The second scenario is the addition of building space to a typical existing building. Under this Scenario, the existing building and uses remain but are renovated to achieve higher rent levels and the parcel is maxed out with additional building space to the allowed 1.85 floor area ratio. There are two alternative programs tested: the addition of rental housing and the addition of office space. A set of common assumptions were used to test the building programs under this scenario. These assumptions are described below.

Land Price

The estimated value for a building and parcel for this scenario is \$250 per square foot of land. The assumption is the value of the existing structures can be expected to exceed the value of vacant land, which was estimated at \$200 per square foot. The parcel used for this scenario is assumed to contain income-generating uses that are providing an average return and are in need of repair/upgrade. Properties with stable, income producing uses are less likely to sell for redevelopment and the buyer is paying for not only the expansion potential but the revenue stream that property already produces.

Building Size

The building assumed for this scenario is an existing one-story retail building totaling 6,000 square feet. Under this scenario the building is renovated and expanded to the maximum 1.85 FAR by adding 10,200 square feet of upper story uses. The existing building and space are renovated and updated to capture higher rental rates. The lot size used for this scenario is the University Hill average of 8,700 square feet.

Parking

Under this scenario, it is assumed that underground parking, built under the existing parcel will be needed for the residential and office uses. For residential uses, a minimum of one space per unit was used. EPS estimates that parking spaces will be able to demand an additional \$100 per month from residents for a space.

For commercial uses, two main assumptions were made. For retail space, no spaces are required due to the inclusion of the properties within UHGID. For office space, EPS assumed no parking is required for office space with the assumption that parking for office spaces would be provided within UHGID lots.

Other Assumptions

Several assumptions or factors were used to test development feasibility. The majority of factors used are shown below in **Table 2** with cited sources. The factor can also be found within the feasibility models provided in the **Appendix**.

Table 2
Scenario 2 – Building Addition Assumptions

| | Residential | Office |
|---|-------------|----------|
| Program | | |
| Square Feet | 8,700 | 8,700 |
| Acres | 0.2 | 0.2 |
| Residential | | |
| Units | 6 | 0 |
| Number of Bedrooms | 22 | 0 |
| Average Unit Size | 1,430 | --- |
| Leasable Area (Sq. Ft.) | 8,580 | --- |
| Gross Sq. Ft. | 10,094 | --- |
| Commercial | | |
| Total Square Feet | 6,000 | 16,095 |
| Leasable Area (Sq. Ft.) | 5,700 | 14,786 |
| Retail | 5,700 | 2,703 |
| Office | 0 | 9,082 |
| Total Building (Sq Ft) | 16,094 | 16,095 |
| Gross FAR | 1.85 | 1.85 |
| Leasable Building (Sq. Ft) | 14,280 | 14,786 |
| Net FAR | 1.64 | 1.70 |
| Parking Spaces | 11 | 0 |
| Revenue Factors | | |
| Residential | | |
| Rent per Square Foot (Monthly) | \$2.50 | --- |
| Rent per Unit (Monthly) | \$3,575 | --- |
| Vacancy | 5% | --- |
| Rental Parking Space (Monthly per Space) | \$100 | --- |
| Cap Rate | 5.0% | --- |
| Commercial | | |
| Office Rent Rate (Gross Annual per Sq. Ft.) | --- | \$30.00 |
| Office Vacancy | --- | 10% |
| Retail Rent Rate (Gross Annual per Sq. Ft.) | \$40.00 | \$40.00 |
| Retail Vacancy | 10% | 10% |
| Cap Rate | 7.0% | 7.0% |
| Cost Factors | | |
| Hard Cost | | |
| Residential (per Sq. Ft.) | \$150 | \$150 |
| Retail (per Sq. Ft.) | \$80 | \$80 |
| Office (per Sq. Ft.) | \$130 | \$130 |
| Parking Cost per Space | | |
| Underground | \$25,000 | \$25,000 |
| Podium | \$20,000 | \$20,000 |
| Soft Costs (% of Hard Cost) | 22% | 22% |
| Land Cost | \$250 | \$250 |

Sources: Economic & Planning Systems

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Scenario 2 – Building Programs

This scenario includes two main building programs tested to illustrate feasibility differences between uses. All programs have a retail program of approximately 6,000 square feet on the ground floor front the street that was renovated to capture higher rental rates. The improved retail space is assumed to increase rents from \$25 per square foot (NNN) to \$33 per square foot (NNN).

Residential Program

- **Student-Oriented-** The residential program includes 6 student oriented rental units on floors two and three. Five units are four-bedroom units with a shared common space and two bathrooms. One of the units is a two-bedroom unit, which was used to max out the remaining buildable area. The units are assumed to be rented by the bedroom under separate leases, which is a common practice for student-oriented units on the Hill and in other college areas. The four bedrooms units total 1,560 square feet in size and are assumed to be rented for \$975 per bedroom per month or \$3,900 per month for the whole unit. The two bedroom unit is 780 square feet and rents for \$1,950 per month or \$975 per bedroom.

Office Programs

- **Office without Parking** – The office program is the addition of two floors of office space. The office space totals 9,000 leasable square feet on two floors. The office spaces are assumed to rent for \$27.50 per square feet (full-service), which is the city-wide average for space built after 2006. This program assumes that the parking for the office space is accommodated within a UHGID managed lot. There is likely a rental cost for the parking associated with using the UHGID lot if dedicated spaces are provided, but the cost of this is not factored in this model.

Development Feasibility

The financial feasibility of development for the two scenarios was tested under the alternative building programs. A static pro forma analysis of the development programs for the two scenarios is used to illustrate the economic viability of the different uses in the programs. The analysis compares development value to development cost. Development value is used by estimating the total value of the property based on the revenue the rental spaces generate. The annual net operating income (NOI) that a building produces is divided by a capitalization rate to estimate the total value of the revenue stream. The development cost is estimated based on construction cost per square foot estimates derived from industry standards and other projects reviewed by EPS in Boulder (hard costs), the estimated construction soft costs, which are estimated based on industry standard percentages that estimate soft costs as a percent of hard costs, and an estimated land cost based on the research of land sales on the Hill. If the development value is within 5 percent of the estimated project cost the project is considered to be feasible. The findings from the feasibility analysis are summarized below.

Redevelopment Scenario

Residential Program

The student housing program generates a total development value of \$9.05 million with the residential units valued at \$6.33 million and the commercial space valued at \$2.72 million, as shown in **Table 3**. The estimated construction cost of the student oriented program is \$5.44 million and land cost is \$2.70 million, resulting in a total development cost of \$8.14 million. Net revenues are a positive \$915,000, which is 11 percent higher than the development costs.

The market rate program has an estimated value of \$8.19 million based on projected revenue. The estimated construction cost is \$5.55 million and land cost is \$2.70 million. The estimated total development cost is \$8.25 million. The difference between the development value and the development costs is a negative \$60,000. Assuming positive values of 5 to 10 percent above costs are needed, this alternative is considered to be infeasible.

Table 3
Scenario 1 – Redevelopment
Residential Programs Feasibility

| Description | Res. Redevelopment | |
|---|--------------------|--------------------|
| | Student | Market |
| Project Revenue | | |
| Residential Net Sales Revenue | \$0 | \$0 |
| Residential Rental Development Value | \$6,331,000 | \$5,467,000 |
| Commercial Rental Development Value | <u>\$2,721,000</u> | <u>\$2,721,000</u> |
| Total Development Value | \$9,052,000 | \$8,188,000 |
| Total Development Value per SqFt | \$362 | \$327 |
| Project Costs | | |
| Hard Costs | | |
| Site Costs | | |
| On-Site Costs | \$171,000 | \$175,000 |
| Building costs | | |
| Shell Building Costs | \$2,779,000 | \$2,780,000 |
| Tenant Allowance Costs | \$903,000 | \$905,000 |
| Parking | \$400,000 | \$480,000 |
| Contingency | \$204,000 | \$208,000 |
| Subtotal | \$4,286,000 | \$4,373,000 |
| Total Hard Costs | \$4,457,000 | \$4,548,000 |
| Soft Costs | \$980,000 | \$1,000,000 |
| For Sale Profit | \$0 | \$0 |
| Land Cost | | |
| Square feet of Land | 13,500 | 13,500 |
| Price per Square Foot | \$200 | \$200 |
| Total Land Cost | \$2,700,000 | \$2,700,000 |
| Total Adjusted Development Costs | \$8,137,000 | \$8,248,000 |
| Total Development Value per SqFt | \$325 | \$330 |
| Difference | | |
| Total (Development Value minus Cost) | \$915,000 | (\$60,000) |
| % of Cost | 11% | -1% |

¹ Calculated by subtracting all costs (excluding land, but including profit) from total development value.

Source: Economic & Planning Systems

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Office Programs

The office program with parking has an estimated development value of \$6.41 million, as shown in **Table 4**. The development costs of the office program with parking are estimated at \$7.35 million. The difference is a negative \$818,405 (11 percent of development costs) and an indication that this alternative would not be feasible without significant subsidies.

As stated previously, parking costs have a major impact on development feasibility. Office users must have dedicated parking within or near the building to attract users. The office program without parking assumes that parking for the office space can be provided within a UHGID lot and leased by the office space users. By not building parking for the development on site and using the UHGID lot, development costs are reduced by \$426,000. The difference between development value and development costs for this program is negative \$392,000, which is 6 percent of development cost. Removing the cost of parking therefore addresses approximately one-half of the existing deficit.

The hybrid residential and office program with both office and student oriented housing generates a development value of \$7.69 million. With the development costs estimated at \$7.34 million, there is a net positive value of \$357,000. This program, based on the assumptions used in this model, would therefore appear to be marginally feasible. However, it is unlikely that a developer would build a program like this considering the high maintenance costs related with three different uses, the risk associated with having to lease three different uses within one small building, and the difficulty with attracting office users to a building with student housing within it.

Table 4
Scenario 1 – Redevelopment
Office Programs Feasibility

| Description | Office Redevelopment | | |
|---|----------------------|--------------------|--------------------|
| | Parking | No Parking | Res/Office |
| Project Revenue | | | |
| Residential Net Sales Revenue | \$0 | \$0 | \$0 |
| Residential Rental Development Value | \$0 | \$0 | \$3,159,000 |
| Commercial Rental Development Value | <u>\$6,410,000</u> | <u>\$6,410,000</u> | <u>\$4,533,000</u> |
| Total Development Value | \$6,410,000 | \$6,410,000 | \$7,692,000 |
| Total Development Value per SqFt | \$281 | \$281 | \$324 |
| Project Costs | | | |
| Hard Costs | | | |
| Site Costs | | | |
| On-Site Costs | \$143,000 | \$129,000 | \$146,000 |
| Subtotal | \$143,000 | \$129,000 | \$146,000 |
| Building costs | | | |
| Shell Building Costs | \$2,281,000 | \$2,281,000 | \$2,517,000 |
| Tenant Allowance Costs | \$799,000 | \$799,000 | \$862,000 |
| Parking | \$319,405 | \$0 | \$100,000 |
| Contingency | \$170,000 | \$154,000 | \$174,000 |
| Subtotal | \$3,569,405 | \$3,234,000 | \$3,653,000 |
| Total Hard Costs | \$3,712,405 | \$3,363,000 | \$3,799,000 |
| Soft Costs | \$816,000 | \$739,000 | \$836,000 |
| For Sale Profit | \$0 | \$0 | \$0 |
| Total Development Costs | \$4,528,405 | \$4,102,000 | \$4,635,000 |
| <Less> Tax Credit Equity | \$0 | \$0 | \$0 |
| Land Cost | | | |
| Square feet of Land | 13,500 | 13,500 | 13,500 |
| Price per Square Foot | \$200 | \$200 | \$200 |
| Total Land Cost | \$2,700,000 | \$2,700,000 | \$2,700,000 |
| Total Development Costs | \$7,228,405 | \$6,802,000 | \$7,335,000 |
| Total Development Value per SqFt | \$317 | \$298 | \$309 |
| Difference | | | |
| Total (Development Value minus Cost) | (\$818,405) | (\$392,000) | \$357,000 |
| % of Cost | -11% | -6% | 5% |

¹ Calculated by subtracting all costs (excluding land, but including profit) from total development value.

Source: Economic & Planning Systems

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Scenario 2 – Building Addition

Residential Program

The residential student program generates a development value of \$5.86 million, as shown in **Table 5**. The estimated development cost is \$5.59 million. The difference is \$265,750, which is 5 percent above development cost. This program therefore appears to be marginally feasible based on our assumptions.

Table 5
Residential Building Addition Feasibility

| Description | Res. Addition Scenario |
|---|---------------------------|
| Project Revenue | |
| Residential Net Sales Revenue | \$0 |
| Residential Rental Development Value | \$3,438,000 |
| Commercial Rental Development Value | <u>\$2,418,000</u> |
| Total Development Value | \$5,856,000 |
| Total Development Value per SqFt | \$371 |
| Project Costs | |
| Hard Costs | |
| Site Costs | \$108,000 |
| Building Costs | \$2,691,250 |
| Total Hard Costs | \$2,799,250 |
| Soft Costs | \$616,000 |
| Land Cost | |
| Square feet of Land | 8,700 |
| Price per Square Foot | \$250 |
| Total Land Cost | \$2,175,000 |
| Total Development Costs | \$5,590,250 |
| Total Development Value per SqFt | \$354 |
| Difference | |
| Total (Development Value minus Cost) | \$265,750 |
| % of Cost | 5% |

¹ Calculated by subtracting all costs (excluding land, but including profit) from total development value.

Source: Economic & Planning Systems

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Office Programs

The office addition program does not generate enough development value to pay for development costs. The estimated development value is \$4.46 million while the estimated development costs are \$4.91 million, as shown in **Table 6**. The difference between the development value and cost the addition and renovation is a negative \$448,000, which is 9 percent less than the estimated development cost.

Table 6
Office Building Addition Feasibility

| Description | Office Addition Scenarios |
|---|------------------------------|
| Project Revenue | |
| Residential Rental Development Value | \$0 |
| Commercial Rental Development Value | <u>\$4,464,000</u> |
| Total Development Value | \$4,464,000 |
| Total Development Value per SqFt | \$302 |
| Project Costs | |
| Hard Costs | |
| Site Costs | \$86,000 |
| Building Costs | \$2,157,000 |
| Total Hard Costs | \$2,243,000 |
| Soft Costs | |
| Land Cost | |
| Square feet of Land | 8,700 |
| Price per Square Foot | \$250 |
| Total Land Cost | \$2,175,000 |
| Total Development Costs | \$4,912,000 |
| Total Development Value per SqFt | \$332 |
| Difference | |
| Total (Development Value minus Cost) | (\$448,000) |
| % of Cost | -9% |

¹ Calculated by subtracting all costs (excluding land, but including profit) from total development value.

Source: Economic & Planning Systems

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Feasibility Analysis Findings

A summary of the major findings from the feasibility analysis is provided below.

1. Student housing development produces a significant return and is highly profitable.

Student oriented rental housing on the Hill and particularly newer student oriented projects have been able to achieve higher rental rates than more conventional rental units. Typical, new student oriented housing projects include 3- to 4-bedroom units sharing a larger living space. Leases are per bedroom, not per unit, and command rents of \$1,000 per bedroom per month or higher. Within this structure, units rent for approximately \$2.50 per square foot per month. The overall average rent for apartments in the University Area is \$1.97 per square foot per month.

2. Building student housing units with multiple bedrooms per unit (i.e., three or four bedrooms per unit) reduces the required amount of parking by zoning (1 space per unit) of a project compared to a conventional apartment project with a mixture of (unit sizes).

This type of building program reduces parking required and therefore the cost of development. However, a developer/project owner may need to provide more spaces than required by zoning to make the units marketable. It may be helpful to modify the parking requirement to be based on a per bedroom factor instead of a per unit factor if there is a fear the projects are being under-parked and causing parking issues elsewhere on the Hill.

3. The residential redevelopment programs (student and market) tested were found to be feasible based on the assumptions made.

EPS modeled two housing programs to test feasibility of redevelopment on the Hill. The student-oriented housing program (ground floor retail with 2 stories of student oriented units) was found to be a feasible development program with estimated value of the program exceeding project costs by more than 10 percent. A non-student orient program (market), which includes ground floor retail with two stories of small, one and two bedroom units, was also found to be marginally feasible with average rental rates found in the area. Estimated project value for this program was approximately equal to project development costs

4. The office development programs tested were found to be infeasible with or without on-site parking.

Two office development programs were tested with ground floor retail and two stories of office space above. One program had parking built on site and one with parking provided within UGHID lots. The office programs generated development values that are approximately 25 to 30 percent less than development value generated by the housing programs.

Parking was cited in the market study as a major requirement for attracting office space users to the Hill. Parking is also a major development costs that has large impact on development feasibility if it needs to be built on-site. Assuming parking spaces can be dedicated to office users within UGHID lots the development cost for building office space reduces greatly. The office program without parking was still found to be infeasible. Development value generated by the program was approximately 6 percent less than the cost of development. The gap under the program tested was approximately \$392,000. If parking is provided on site, the gap increased to \$818,000 million and the development value was 11 percent less than development cost.

5. A hybrid residential and office development program was found to be financially feasible based on the assumptions used but is not deemed to be a marketable development project due to an incompatible mixture of uses.

A mixed office and residential program was tested which included ground floor retail, one story of office space and one story of student oriented residential units. This program was deemed to be feasible, as development value 5 percent more than estimated development costs. However, we expect that developers would not build this type of building due to the logistics and costs of maintaining three uses within a small building and the difficulty of renting office space within a building that also includes student housing.

6. The feasibility analysis for programs based on the Scenario 2 renovation of existing building space and the addition of new space generated similar results; the residential programs are feasible while the office programs are not feasible.

EPS found similar findings related to renovation and expansion of existing buildings on the Hill to the redevelopment scenario. Adding additional residential units was found to provide a return to building owners large enough to support costs associated with renovating their existing building and constructing additional space. Office uses were found to not generate enough project value to cover costs of renovation and expansion.

Potential Approaches to Achieve Vision

The above financial analysis is a reflection of the current economic market on the Hill. Student oriented housing provides the greatest financial return for developers due to the lower costs (parking and unit efficiencies) and higher rental rates. Recently built and renovated retail space has also illustrated the ability to capture higher rental rates and attract some national tenants. However, the lack of destination retail uses and parking has hindered the Hill businesses' ability to attract significant customers that are not students or campus generated. Market rate housing oriented towards the non-student market is less attractive to developers because of lower potential rental rates, difficulties attracting non-student tenants, and higher parking costs. The office development programs were not feasible under both scenarios and are unable to demand rates high enough to support new development.

The feasibility testing indicated that if new office or non-student housing uses are desired on the Hill, the City must identify ways to change the economic constraints to developers. Even if costs are reduced for office uses to the point where a project is feasible, the lack of a professional environment and office amenities are major market barriers to attracting tenants.

Below are a series of potential approaches the City could explore to try and attract a greater mixture of uses. These approaches are either focused on increasing the city-wide and regional draw of the Hill or addressing feasibility gaps of desired development programs.

Destination Uses

The Hill was once home to three major entertainment destinations that drew visitors from all over the region. These uses served as anchors to the Hill area that drove visitation from a variety of different demographic groups. Today, only one of these uses remains (The Fox Theatre) and its destination appeal, at least anecdotally, has diminished. The Hill lacks uses that are attractive enough to non-students or campus visitors to generate additional visitation to the Hill that may increase the demand for a greater variety of mixes.

Potential uses that may generate increased visitation are a regional entertainment venue or a hotel with conference space. It is unclear what specifically the regional entertainment venue would be. A campus oriented hotel could drive increased visitation to the Hill if located there. Associated conference and meeting space would further increase visitation and increase non-student foot traffic on the Hill, which would make it more appealing to retailers and other businesses.

Parking

The lack of easily accessible and convenient parking was cited as a barrier to additional retail on the Hill and attracting non-student oriented retailers. Any potential office uses on the Hill will need dedicated parking for the workers in the office spaces. UHGID does provide off street parking within two lots and these lots are currently well utilized, but they are somewhat difficult to access and not visible from Broadway, College Avenue or 13th Street. The City should identify ways to increase access and visibility to existing parking lots. As well, the City should explore opportunities to increase the parking supply within UHGID including spaces that can be dedicated/leased to specific uses/users.

Land Costs

The analysis shows that land values have a major impact on development feasibility. The revenue generated by even the lowest performing retail spaces on the Hill is still enough to warrant high prices in property sales. Reducing land costs for desired uses would address gaps in development feasibility. UHGID also has the ability to leverage its land holdings to develop desired uses in conjunction with providing additional parking. UHGID should explore potential joint development projects that would generate desired uses and additional parking. Development costs can be reduced by UHGID providing the land, in form of existing parking lots, at a reduced price or zero cost.

New Revenue Sources

The City and/or UHGID could identify additional revenue sources that could pay for district amenities, such as parking, that could increase the attractiveness of the Hill to new uses. One potential revenue stream is a retail sales fee (RSF) or public improvement fee (PIF). These two tools are basically the same but with minor differences in the way they are assessed. The Hill businesses with City support could institute a PIF or RSF that would create an additional fee on retail sales that could be used for improvements on the Hill. Cities in Colorado that allow for the use of PIFs often credit back the sales tax used within the PIF so that the effective sales tax rate stays the same.

Tax Rebates

To offset the cost of development and reduce project feasibility gaps, the City can explore rebating or using tax increment generated by the project for property tax, construction use tax, or sales tax.

The City of Boulder assesses an 11.981 mill levy on real property. The office redevelopment program generated a development value of \$6.4 million. The development value is assumed to be the market value. Based on this market value, the assessed value is \$1.86 million. The project generates annual property tax to the City of \$22,000. The net property tax to the City would be approximately \$13,000. Rebating the City's portion of property tax for 18 years would be needed to cover the gap of \$392,000. It therefore does not appear the City property tax alone generates enough to cover project gaps.

The City could also explore using tax increment financing to cover gaps in project costs, through the creation of either an urban renewal area or downtown development authority. These districts allow the City to use the total new increment of property tax from all taxing districts generated by the project. The office program is estimated to generate total property tax of \$165,000 annually. The net property tax generated is estimated to be \$95,000. The use of TIF to incent development could generate enough increment to address project feasibility gaps. However, the City must consider if there is value in using tax dollars to incent uses that are not feasible in the market due to the high property values of the district.

The City's construction use tax is 3.86 percent as of January 2015. Construction use tax is charged to materials purchased for construction projects. EPS estimates the materials cost for the office development program to be half of hard costs, which is \$1.9 million. The use tax generated is estimated to be \$73,000, which is approximately 20 percent of the project gap.

The City could also rebate of a portion of sales tax to address project gaps. The City's sales tax rate is 3.86 percent as of January 2015. The retail portion of the office program is 6,400 square feet. This amount of retail space is estimated to generate \$1.9 million in retail sales using an average sales per square foot factor of \$300. This amount of sales would generate \$734,000 in sales tax to the City. The total City retail tax would need to be rebated for 5 years to cover the project gap.

Historic Preservation Tax Incentives

The National Parks Service has an income tax credit program that incents the rehabilitation of historic, income-producing buildings that are "certified historic structures". The NPS has two programs a 20 percent program and 10 percent program.

The 10 percent program provides an income tax credit of 10 percent of eligible costs to the owner of a non-historically designated building built before 1936. The building must be rehabilitated for a non-residential use and meet three minimal criteria to be eligible.

The 20 percent program is for historically designated buildings and/or contributing buildings in a historic district. In order to qualify for the 20 percent tax credit, a structure must be depreciable. That is, it must be used in trade, business or held for the production of income. As well, the rehabilitation must also be substantial. A substantial rehabilitation is defined as the greater of \$5,000 or the adjusted basis of the building and its structural components which is the purchase price plus previous improvements minus land costs and depreciation. Qualified expenditures include the cost of the work as well as architecture and engineering fees, site survey costs, legal expenses, development fees and other construction costs.

There is a three part application process required to qualify for the 20 percent tax credit for rehabilitated commercial, industrial, agricultural or residential rental structures. Part one deals with the significance and appearance of the building. It must either be deemed a certified historic structure and listed on the National Register of Historic Places or be located within a registered historic district and certified as contributing to the historic significance of that district. Part two describes the condition of the structure and the planned work to be done to rehabilitate it. Each of these two part should be supported by photos, drawings, maps and site plans. Proposed rehabilitation work is evaluated according to the *Secretary of the Interior's Standards for Rehabilitation* and must meet these standards to qualify.

If approved, the owner of the property must return it to service in order to receive a reduction in the amount of tax owed equal to 20 percent of qualified expenditures. Excess credit can be carried forward 20 years or back one year. The owner must keep the building for five years after project completion otherwise the credit must be paid back on a prorated basis, i.e., 20 percent per year. Historic tax credits can be allocated differently to members an ownership entity like an LLC so long as the percentage allocation of the tax credits matches the members' interests in profits for tax purposes.

The State of Colorado offers an income tax credit program that mimics the Federal program. The Colorado program offers a 25 percent income tax credit for rehabilitation. The credit only applies to renovation of historically designated buildings under the criteria for the Federal 20 percent program. As well, the credit increased to 30 percent for communities located in disaster relief areas, for which Boulder qualifies. The user must be paying State of Colorado income tax.

The use of the income tax credit for rehabbing properties could be a tool used to reduce development feasibility gaps. The tax credits are difficult to include within a feasibility model because of the link to an individual state income tax return. However, EPS estimates that the use of the Federal tax credits for costs associated with the renovation of the existing building within the Building and Parcel Addition office scenario would reduce total project costs by 7.5 to 8.0 percent. The use of the tax credit program does have drawbacks. The program does require designation of the building in some form as historic, which can reduce the rehabilitation options a building owner may have. As well, the process does not provide upfront capital or directly reduce costs. The tax credit users must go through the NPS process, which likely slows down development timing, and requires the user to recoup cost through tax credits which may need to be used over several years.

Leveraging Student Housing Development

The feasibility testing showed that developers are able to generate a profit by building student oriented housing on the Hill. While the City is reluctant to allow additional student housing on the Hill, allowing student housing in return for public investments could be approach to generating development activity and producing needed investments. The City could allow for student housing developments on the Hill in return for the public improvements or amenities, such as publically accessible parking spaces.