



See notes and definitions below.

Dec-11

PROPERTY TYPE	DESCRIPTION	ESTIMATED DEVELOPMENT COST	RETURN ON COST (income-expenses = NOI)	GENERAL FEASIBILITY & SUPPORTABLE LOAN	COMMENT
DOWNTOWN OFFICE	First class high-rise tower	\$550 PSF, assuming market price is paid for each component of development.	Trended average gross income estimated to be \$50 PSF, with expenses and taxes totaling \$24 PSF producing NOI of \$26 PSF or 4.72% on \$550 cost.	A 4.72% return on cost suggests poor feasibility. Conventional financing after lease up supports a loan of approximately \$275 PSF, requiring 50% ongoing equity.	Substantial pre-leasing, strong tenant credit and substantial equity is required.
SUBURBAN OFFICE	Class "A" suburban office development	\$275 PSF assuming market price is paid for each component of development.	Gross average rents estimated to be \$32 PSF with expenses and taxes totaling \$12 PSF producing net rent of \$20 PSF or return on cost of 7.20%	A 7.20% return on cost suggests weak feasibility. Conventional financing after lease up supports a loan of approximately \$200 PSF, requiring 33% ongoing equity.	Some pre-leasing, strong tenant credit and substantial equity is required.
WAREHOUSE / DISTRIBUTION/ FLEX	Good quality, well-located, highly functional warehouse distribution, and flex space	\$75 PSF assuming market price is paid for each component of development.	Rents vary widely depending upon exact location, amount of office space, loading docks, etc. A property of the quality described here would probably rent at \$6.00 PSF producing a 8.00% return on cost.	At a return of 8.00% on costs feasibility is acceptable.	Strong tenant credit and substantial equity is required. Location to highways/other transit modes are necessary.
NEIGHBORHOOD CENTERS	Typical grocery or drug anchored neighborhood center	\$250 PSF assuming market price is paid for each component of development.	Inside 495 rents for grocery anchor will probably be in the low \$20's PSF and other tenants could pay in the upper \$20's PSF for satellite space	Approximately a 9.50% return seems realistically achievable, suggesting good feasibility, but it's hard to generalize because the ratio of satellite space varies widely.	Substantial leasing, including at least one quality anchor tenant is a requirement. Current capital markets limit leverage to 65-70% LTC during construction, but higher if take-out financing is in place.
REGIONAL MALLS	Major regional mall	\$450 PSF is a reasonable estimate for the cost of a typical new regional mall.	Since most anchors build their own stores feasibility depends importantly on the rents from satellites which can range from \$25 to \$80 PSF or more.	In a normal market, most new malls return approximately 9% on costs which justifies new construction where tenant interest and credit warrants.	Regional mall development is not feasible in the current weak economic outlook.
LUXURY APARTMENTS	Mid to high rise Class A apartment property	\$450,000 per unit is a reasonable estimate but cost can vary widely. There is widespread evidence of a moderate decline in construction costs.	Rents of \$3.00 PSF for a 900 SF apartment will produce annual rents of \$32,400. Subtracting expenses, 28% of EGI, produces an NOI of \$23,300, or 5.00% of cost.	At 5.00% return on cost, feasibility is marginal and in normal market would support a loan of approximately 65% of costs requiring equity of 35%.	Current capital markets limit LTC to 60-65% from banks. FHA programs present the opportunity to get increased leverage, as well as completely non-recourse financing followed by a permanent loan with a 40 year amortization.
SUBURBAN APARTMENTS	Good quality wood frame suburban construction	Estimated at \$175,000, but this can range widely. There is widespread evidence of a moderate decline in construction costs.	Rents of \$1.65 PSF for a 1,000 SF unit will produce annual rents of \$19,800. Subtracting expenses, 33% of EGI, produces an NOI of \$13,266, or 7.58% of cost.	At 7.58% of cost, feasibility is marginal and in normal market would support a loan of approximately 75% of costs requiring equity of around 25% for which there is a limited initial equity return.	Same as above.
CONDOMINIUMS	Condominiums of all types	Cost and sale prices will vary widely.	Experienced condominium developers are targeting a profit of 15-20% on net sellout for a new project but are finding it difficult to achieve given anemic absorption. Smaller projects are starting to become feasible in select markets.	Very few condominium projects are feasible today. Lenders continue to insist on a strong guarantor, substantial equity and a high percentage of pre-sales.	Condo lending has resumed but mostly for small projects.
LUXURY HOTELS	Downtown first class hotel	Typical new hotel would cost approximately \$450,000+ per room.	Range widely.	Most new hotel deals would require at least 50% equity.	Continued limited availability of capital greatly limits the prospects of financing a new hotel.

The purpose of this edition of the MMM is to introduce at a necessarily imprecise level the notion of feasibility for different types of real estate development. Simply stated feasibility is measured by comparing net rental income against anticipated development costs for the different product types. Available market information usually provide the data needed for a reasonable accurate estimate of net rental income. Conversely, development costs include land at market, average site costs and building costs. The later, however, are Fantini & Gorga's best estimates and may not always best represent the actual costs of development. All considered, it is believed that this matrix is the best available glimpse of feasibility of different real estate product types. **ALTHOUGH THE INFORMATION INCLUDED IN THIS MATRIX HAS BEEN PREPARED CAREFULLY, IT'S ACCURACY CANNOT BE GUARANTEED. COPYRIGHT FANTINI & GORGA 1999.**