FANTINI & GORGA

Skillfully Linking Borrowers and Lenders.

Master Money Matrix© *Feasibility Edition*

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PROPERTY TYPE	DESCRIPTION	ESTIMATED DEVELOPMENT COST	RETURN ON COST (income-expenses = NOI)	GENERAL FEASIBILITY & SUPPORTABLE LOAN	COMMENT
DOWNTOWN OFFICE	First class high-rise tower	$700 PSF, assuming market price is paid for each component of development.	Trended average gross income estimated to be $65 PSF, with expenses and taxes totaling $25 PSF producing NOI of $40 PSF or 5.70% on $700 cost.	A 5.70% return on cost suggests marginal feasibility. Conventional financing after lease up supports a loan of approximately $500 +/- PSF, requiring 28% ongoing equity.	Significant pre-leasing and/or substantial equity (40% + LTC) are required.
SUBURBAN OFFICE	Class "A" suburban office development	$400 PSF assuming market price is paid for each component of development.	Gross average rents estimated to be $45 PSF with expenses and taxes totaling $15 PSF producing net rent of $30 PSF or return on cost of 7.50%.	A 7.50% return on cost suggests feasibility for this asset type. Conventional financing after lease up supports a loan of approximately $300 PSF, requiring 25% ongoing equity.	Some pre-leasing, strong tenant credit and substantial (40% + LTC) equity are required.
WAREHOUSE / DISTRIBUTION/ FLEX	Good quality, well-located, highly functional warehouse distribution, and flex space	$150 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 $9.00 PSF producing a 6.00% return on cost.	A return of 6.00% on costs makes development of this asset class unlikely unless a built-to-suit with strong credit and longer term.	Selective build-to-suit developments are feasible based on tenant lease term and credit.
NEIGHBORHOOD CENTERS	Typical grocery or drug anchored neighborhood center	$300 PSF assuming market price is paid for each component of development.	Core suburban rents for grocery anchor will probably be in the mid $20's PSF and other tenants could pay in the upper $20's PSF for satellite space.	Typical mix of anchors and satellite space would generate a mid 8%'s return suggesting solid feasibility, if tenants in hand.	Substantial leasing, including at least one quality anchor tenant is a requirement. Current capital markets limit leverage to 70-75% LTC during construction. Upon stabilization a significant portion of development equity can be returned through permanent financing.
SELF STORAGE	Facilities containing units of various sizes for storage	Costs vary depending on land value and facility design but $85-$150 PSF is a reasonable range.	Rents of $14.00 PSF for a standard 10' x 10' unit will produce an annual revenue of $1,400. Subtracting expenses of 35%, or $490, produces an NOI of $910, or 9.10% of cost, assuming a PSF cost of $100.	In a normal market, with a "lease up to stabilization" period of 36 months, a return on cost of between 9%-12% should be expected.	Self storage development is feasible in well located, under-served markets. Current capital markets limit leverage to 75% LTC. Earnouts are available.
LUXURY APARTMENTS	Mid to high rise Class A apartment property	$500,000 per unit is a reasonable estimate but can consistently see a cost variation of 20% +/-.	Rents of $5.00 PSF for a 800 SF apartment will produce annual rents of $48,000. Subtracting expenses, 30% of EGI, produces an NOI of $33,600, or 6.72% of cost.	At 6.72% return on cost, feasibility is acceptable for this asset type and would support a loan of approximately 90% +/- of costs requiring ongoing equity of 10% +/-.	Most projects use institutional equity sources which prefer debt not to exceed 55%-65% of cost.
SUBURBAN APARTMENTS	Good quality wood frame suburban construction	Estimated at $300,000 per unit, but this can easily vary by 20% +/-. Current upward pressure on costs.	Monthly rents of $3.00 PSF for a 925 SF unit will produce annual rents of $33,300. Subtracting expenses at 30% of EGI, produces an NOI of $23,300, or 7.77% of cost.	At 7.77% of cost, feasibility is strong and would support a loan of approximately 90% + of costs requiring equity of around 10% ongoing equity.	Current capital markets limit LTC to 60%-70% during development. Upon stabilization a portion of development equity can be returned through permanent financing.
CONDOMINIUMS	Residential developments offering condominiums for sale	Cost and sale prices will vary widely based on design and target market.	Experienced condominium developers are targeting a profit of 15-20% on net sellout for a new project. Smaller projects are feasible in select markets.	Feasibility is improving within many locations. However, lenders remain cautious and continue to insist on a strong guarantor and substantial equity.	Condo lending is available, especially for small &/or phased projects (limited absorption risk). The outlook continues to improve for new developments.
LUXURY HOTELS	Downtown first class hotel	Typical new hotel would cost $500,000+ per room.	Range widely.	Most new hotel deals would require at least 40% + equity during development.	Softening sector fundamentals have both debt and equity capital being more selective.

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.**