bae urban economics

Memorandum

To: Kyle Perata and Payal Bhagat, City of Menlo Park

From: Stephanie Hagar, Associate Principal

Date: February 24, 2021

Re: Evaluation of Menlo Portal Community Amenities Proposal

Purpose

This memorandum provides BAE's assessment of the value of the applicant's community amenities proposal for the proposed Menlo Portal Project. The City-approved appraisal for the project site identified a required amenity value of $8,550,000, and the project applicant has submitted a community amenities proposal that would commit to providing space for a childcare facility in the project as well as a financial contribution to the childcare provider that would occupy the space. The applicant has provided an assessment of the value of the community amenities proposal that estimates a total value of $8.55 million. This memorandum does not assess whether the proposed amenity falls within the current amenity list adopted by the City Council, or whether the same amenity has already been provided by another applicant. This memorandum evaluates the methodology and key assumptions that the applicant used to determine the value of the proposed community amenity and provides BAE's determination of the value.

Key Findings

Table 1 below provides a summary of the value of the community amenities proposal that the project applicant has proposed as part of a request for bonus level development for a proposed project located at 115 Independence Drive and 104 and 110 Constitution Drive in Menlo Park. As shown, BAE found that the value of the proposed community amenity is approximately $5.29 million, $3.26 million lower than the required $8.55 million value.

The value of providing a childcare facility in the project would depend on the terms under which the property owner provides the space to the childcare operator. BAE's valuation estimates in the table below reflect the following terms:

- The space will be used as a childcare facility at no cost to the childcare facility operator. This means that the property owner will not charge the tenant for any rent or operating expenses at any point throughout the tenancy.

- The childcare facility space will be provided in the project for the life of the project. For the purpose of this analysis, the life of the project is assumed to be 55 years.
- The project applicant will provide a standard one-time tenant improvement allowance for the childcare operator that occupies the space, equal to $75 per rentable square foot. This tenant improvement allowance will be provided in addition to any financial contribution to the childcare operator as part of the community amenity package. The value of the tenant improvement allowance will not be added to the overall value of the community amenity package.
- The property owner will provide the childcare facility with access to six parking spaces at no cost to the tenant.

Each of the above terms are consistent with the methodology that BAE used to assess the value of the proposed community amenity.

Table 1: Summary of Community Amenity Proposal Valuation for Proposed Menlo Portal Project

	Childcare Space	**Financial Contribution to Childcare Operator**	**Total**	**Shortfall (Compared to $8.55 million required)**
Applicant Valuation	$5,924,228	$2,625,772	$8,550,000	**$0**
BAE Evaluation	$2,666,927	$2,625,772	$5,292,699	**($3,257,301)**

Project Description

The proposed Menlo Portal project consists of 335 multifamily rental units and a 34,868-square foot office building. The project site is located at 115 Independence Drive and 104 and 110 Constitution Drive, within the Bayfront Area of Menlo Park. The project applicant is seeking approvals to construct the project at the bonus level density pursuant to the City's community amenities program for the Residential Mixed Use Bonus (R-MU-B) zoning district. The R-MU-B zoning district allows a project to develop at a greater level of intensity with an increase in density, floor area ratio, and/or height in exchange for providing community amenities, which are intended to address identified community needs that result from the effect of the increased development intensity on the surrounding community. Community amenities also enable the surrounding community to benefit from the substantial increase in project value that is attributable to the increase in density, floor area, and/or height. Full project details are available on the City of Menlo Park website (https://www.menlopark.org/1601/Menlo-Portal).

Community Amenities Proposal

Because the proposed project would be built at the bonus level of development, the project applicant is required to provide community amenities in exchange for the additional development potential that is allowable under the bonus level of development. In the case of the proposed project, an appraisal commissioned by the City (available at the link shown above) determined that the value of the community amenity must equal $8,550,000.

The project applicant has provided a community amenities proposal that consists of providing space for use as a childcare facility as well as providing a financial contribution to a childcare provider that would operate out of the space to assist with fit-out and early start-up costs and provide subsidies for students who are Belle Haven residents. The proposed childcare facility would consist of approximately 1,600 square feet for indoor space and 2,190 square feet of outdoor space on the ground floor of the office portion of the project. The applicant's proposal states that the property owner will fully subsidize all rental costs for the space, including the use of six on-site parking spaces. The proposed financial contribution to the childcare facility operator would be equal to the difference between the required $8.55 million community amenity contribution and the value of providing the space for the childcare facility as described above. The community amenities proposal states that the financial contribution could cover tenant improvements, licenses, permits, regulatory fees, fixtures, furniture, equipment, and other setup costs, with any remaining funds to be used to subsidize the childcare provider's early operating costs and contribute towards enrollment subsidies for students from Belle Haven.

Applicant Valuation of Community Amenities Proposal

The project applicant has provided an assessment of the community amenities proposal described above. The applicant determined that the value of providing the space for a childcare facility would include:

1) The present value of the rent subsidy for the commercial space over ten years, which the applicant values at $6.50 per square foot per month, increasing by 3.0 percent per year. According to the community amenities proposal, this amount includes both the rent subsidy and an additional liability insurance cost associated with having a childcare facility at the property.
2) The present value of the rent subsidy for the six commercial parking spaces over ten years, which the applicant values at $75 per space per month, increasing by 3.0 percent per year.
3) The present value of the operating expenses for the space over ten years, which the applicant estimates at $1.00 per square foot per month, increasing by 3.0 percent per year.
4) The present value of the terminal value (or estimated total value) of the space in year 11.

The community amenities proposal also includes a financial contribution to the childcare facility operator equal to the difference between the total $8.55 million community amenity value requirement and the sum of the four items listed above.

The applicant's assessment of the value of the community amenities proposal is shown in Table 2 below. The attachments to this memorandum include the applicant's calculation of the value of providing the ground floor space for use as a childcare facility.

Table 2: Applicant Valuation of Community Amenity Proposal

	Applicant Valuation
1 PV of Space Rent Subsidy (10 years)	$1,833,696
2 PV of Parking Rent Subsidy (10 years)	$43,715
3 PV of Operating Costs (10 years)	$282,107
4 PV of Terminal Value (in year 11)	$3,764,711
Total Value of Providing Childcare Facility Space	**$5,924,228**
Financial Contribution to Childcare Facility Operator (a)	**$2,625,772**
Total Community Amenity Value	**$8,550,000**

Note:
(a) The applicant's community amenity proposal states that the financial contribution to the childcare operator would cover fit out and initial start-up costs.

Source: Greystar, 2021; BAE, 2021.

Analysis of Value of Community Amenities Proposal

This section details BAE's analysis of the applicant's community amenities proposal, including a discussion of the value of providing the childcare facility space and a discussion related to the financial contribution to the childcare provider.

Evaluation of Providing the Childcare Facility Space

BAE's methodology for assessing the value of providing the childcare space differs from the methodology used by the applicant in two respects. First, BAE adjusted the calculations to show the net present value of the property owner's rent subsidy for the childcare facility over a 55-year term, in contrast to the 10-year term shown in the applicant's calculations, and excluded the terminal value of the space from the calculations. Second, BAE adjusted some of the underlying assumptions that affect the value of providing the childcare facility space as appropriate based on market practices and industry standards.

Term of Subsidy & Termination Value. The applicant's assessment of the value of providing the childcare facility space includes the net present value of the ongoing rent subsidy to the tenant over a ten-year period as well as the terminal value of the space in year 11. The terminal value calculation is equal to the total estimated property owner subsidy associated with providing the childcare space in year 11 divided by 4.5 percent, multiplied by the present value factor in year 11. In effect, this calculation approximates the capitalized value of the subsidy in year 11, discounted to current dollars based on the present value factor. The capitalized value of a project is typically equal to the net operating income that a project produces (i.e., rental income less expenses) divided by the capitalization rate ("cap rate," equal to 4.5 percent in the applicant's calculations).[1] While the true capitalized value of the project would omit operating expenses from the cash flow calculation, it is appropriate to include operating expenses in this instance if the property owner would pay all expenses on behalf of the tenant, as this subsidy would contribute to the value associated with the total contribution from the project applicant.

Conceptually, this methodology uses the net present value of the terminal value of the subsidy in year 11 as a proxy to represent the net present value of the subsidy from year 11 on into perpetuity. Due to the discount rate used to convert the future values to a current value, the value of subsidy contributions that occur far in the future have only a minimal impact on the value of the subsidy in net present value terms. Therefore, the net present value of the project in year 11 can be used to provide a reasonable estimate of the value of these ongoing subsidy payments into perpetuity.

While the approach that the applicant used is generally reasonable if the space will be fully subsidized for the life of the project, this analysis simplified the conceptual basis for valuing the amenity by calculating the net present value of the subsidy over 55 years and eliminating the terminal value from the calculation. This approach more directly estimates the net present value of the subsidy over the potential life of the project, rather than calculating the net present value of the subsidy over 10 years and using the year 11 terminal value as a proxy for the net present value of the subsidy in years 11 through 55.

Rental Rate. The applicant's assessment of the value of providing the childcare facility space assumes that the market rate rent for the space would be equal to $6.50 per square foot per month, triple net (NNN), with a 3.0 percent annual increase. The community amenities proposal states that this rental rate includes an additional liability insurance cost that would be borne by the applicant due to the property including a childcare facility on site. Commercial building liability insurance is borne by the building owner and is separate and apart from and in addition to the insurance held by the childcare facility itself. The childcare operator would bear the cost of the insurance that would cover the childcare facility itself, while the building owner would bear the cost of the insurance on the building. The community amenities proposal does not specify the portion of the $6.50 per square foot per month rental rate that is attributable to rent or the portion that is attributable to the property owner's estimated increase in insurance costs due to the childcare use.

BAE reviewed data from CoStar on office rents in Menlo Park and determined that the owner of the project could reasonably expect a monthly rent equal to $6.00 per square foot per month if the community amenity space were rented to an office tenant, given the size,

[1] The cap rate is a common metric used to estimate the value of a property based on the rental income it produces, and varies based on property type, location, and other property-specific characteristics.

location, and type of office space that the ground floor commercial space would offer. This rental rate approximates the rental income that the property owner would forgo by providing the space for use as a childcare facility at no charge to the childcare provider. This also approximates the cost savings to the childcare provider compared to renting a comparable space at market rates. Therefore, BAE's evaluation of the value of the community amenities proposal includes the value of the rent for the space at a rate of $6.00 per square foot per month. However, it should be noted that a childcare provider would not necessarily seek out a comparable space if the childcare space were not provided in the proposed project. Childcare facilities occupy a range of spaces, including but not limited to private homes, excess school site facilities, community centers, and buildings primarily used for religious purposes, and therefore this subsidy is not necessarily reflective of the money that the childcare provider would save due to their occupying space in the proposed project.

Unlike the rental rate shown in the evaluation provided by the applicant, this amount does not include any additional commercial building liability insurance as a result of including a childcare facility in the project. BAE contacted three insurance brokers that work with commercial property owners to assess whether the property owner's insurance would be higher due to the presence of a childcare center on site, compared to a scenario in which the ground floor space is occupied by a different tenant. All three brokers stated that fewer insurers would be willing to cover a building with a childcare use, resulting in a smaller pool of potential insurers. One of the brokers reported that, despite more limited options in potential insurers, the cost of the insurance would not increase due to the childcare use. The two other brokers reported that the cost could potentially be higher but would not necessarily be higher. One of these two brokers also stated that any cost increase would be negligible, as the primary insurance would be on the childcare center operator itself rather than the building, while the other did not comment on the potential magnitude of any cost increase.

Based on these discussions, BAE does not recommend that the City give the applicant credit toward the community amenity value due to any potential additional insurance cost unless the applicant is able to demonstrate that the liability insurance on the building would be higher due to the presence of a childcare facility on site, as well as the magnitude of the increase in insurance costs. For reference, prior BAE research on childcare center operating costs indicates that a childcare center operator typically has an annual insurance cost ranging from approximately $1,000 to $3,500 per year. Because the childcare center operator would carry the primary insurance associated with the childcare facility, it is unlikely that any increase in the building owner's liability insurance would exceed the amount paid by the childcare center operator itself. If the inclusion of a childcare center on site increased the building owner's insurance cost by $1,000 per year, this would be equal to approximately $0.052 per rentable square foot per month for the childcare facility. In net present value terms, an additional $0.052 per rentable square foot per month in insurance expenses, applied to the 1,600-square foot space and increased by 3.0 percent per year for 55 years, has a value equal to $19,811.

Commercial Parking Income. The applicant's assessment of the value of the commercial space includes the value of six commercial parking spaces that would be dedicated to the childcare operator. The applicant assumed that the value of these spaces would be equal $75 per space per month, increasing by 3.0 percent per year. BAE's assessment of the value of providing the childcare facility space does not include the value of any parking rent. BAE reviewed listings for office properties in Menlo Park and neighboring cities and did not find any comparable office properties that charge rent to office tenants for use of onsite parking spaces. As a result, BAE determined that the applicant would not be foregoing any revenue by dedicating six commercial parking spaces to the childcare provider. In addition, the dedication of the parking spaces does not represent a cost savings to the childcare provider relative to a scenario in which the provider rents a similar space at market value. Should the applicant want to include any value for these spaces in the community amenity valuation, BAE recommends that the City require the applicant to demonstrate that the parking space rental assumptions are consistent with standard practice for comparable office properties within the Bayfront Area of Menlo Park.

Expenses/Operating Costs. The applicant's assessment of the value of providing the childcare facility space use includes $1.00 per square foot per month in operating expenses for the commercial space, with increases equal to 3.0 percent per year.[2] This operating cost assumption is consistent with typical operating cost assumptions for similar commercial space, and in a standard NNN lease the tenant would reimburse the property owner for these costs. If the project applicant commits to covering these costs in their entirety on behalf of the childcare provider, this would represent an additional cost to the project applicant. Similarly, this would represent a cost savings to the childcare facility operator compared to their renting a comparable space at market rates. Therefore, BAE determined that including these costs in the determination of the community amenity value at the rate identified by the applicant is appropriate, provided that the applicant commits to covering these costs in their entirety throughout the life of the project.

Rentable Square Footage. The applicant's community amenities proposal states that the childcare facility would consist of approximately 1,600 square feet of indoor space and 2,190 square feet of outdoor space, totaling 3,790 square feet of combined indoor and outdoor space. However, the calculations provided in the applicant's community amenity proposal value the rent subsidy and operating expenses for the space based on a 2,904-square foot space. In other words, the calculations apply the per-square-foot rental rates and operating expenses described above to a 2,904-square foot space to calculate the total rent subsidy and operating expenses for the space. It is not clear why the square footage of the space in these

[2] The applicant's operating expense estimate does not include any increase in liability insurance costs attributable to including the childcare space in the project because the applicant included this cost in the assumed rent subsidy amount.

calculations differs from the square footage of the space as stated in the community amenities proposal.

BAE's assessment of the value of the community amenities proposal values the rent subsidy and operating expenses based on the 1,600-square foot indoor portion of the childcare facility only. The indoor square footage constitutes the rentable square footage that the property owner would be able to lease to another tenant if the space were not provided for use as community amenity. Similarly, if the property owner were to rent the ground floor space to a commercial tenant rather than provide it for use as a childcare facility, the operating expenses that property owner would charge for the space would be based on the indoor (i.e., rentable) square footage of the space. Therefore, using the indoor square footage to estimate the value of the space results in an estimate of the income that the property owner would forego, due to foregone rent and expense reimbursement payments, if the space is provided for use as a childcare facility at no cost to the childcare provider.

Rent and Expense Escalation in Project Completion Year. While the 3.0-percent annual rent and expense growth rate shown in the community amenities proposal is generally reasonable, this assumption is incorrectly applied in the applicant's calculation of the community amenity value in a manner that overestimates the value. The calculations shown in the community amenities proposal use a 3.0 percent annual escalation rate to estimate growth in rent (both for the childcare space and for parking) and expenses over time. The applicant estimates that the project will be completed in 2023, approximately two years from the date of the community amenities proposal, and therefore the calculations should apply two years of rent and expense escalation to the current year (2021) rent and expense estimates to estimate rent and expenses when the project is completed. However, the applicant's calculations apply four years of rent and expense growth to derive the 2023 rent and expense estimates, which overinflates the value of the space in 2023 and in each subsequent year. BAE adjusted the 2023 rent and expense estimates by applying only two years of escalation to the 2021 base year assumptions. This change also reduced the rent and expense estimates in each subsequent year because the annual growth rate was applied to the corrected 2023 estimates to derive the rent and expense estimates in each subsequent year.

Tenant Improvement Allowance. The applicant's community amenity proposal includes a financial contribution to the childcare facility operator to cover tenant improvements as well as other costs but does not specify the portion of the financial contribution that would be used to cover tenant improvements specifically. A standard lease for the commercial space would typically include a tenant improvement allowance in the range of $75 to $100 per square foot, and therefore the project applicant would likely offer a tenant improvement allowance within this range even if the commercial space were not offered as a community amenity. A tenant improvement allowance is typically included as part of the tenant's base rent and is included when determining total project development costs. The total tenant improvement cost usually exceeds the property owner's tenant improvement allowance, with the remainder of the cost borne by the tenant. Therefore, if the financial contribution to the childcare operator is to be included as part of the community amenity package, this contribution should be in addition to the property owner providing a standard tenant improvement allowance to the childcare operator that is not included as part of the community amenity package. In other words, to the extent that the financial contribution is used to cover tenant improvements, it should only be used for the cost that the childcare operator would otherwise need to cover in excess of a standard tenant improvement allowance for the space, with the applicant providing a standard allowance as part of the base rent subsidy amount.

Evaluation of the Financial Contribution

The applicant has proposed a $2.6 million contribution to the childcare facility operator, which would cover initial fit-out and start-up costs for the facility, with any remaining funds to be used to subsidize early operating expenses and contribute toward enrollment subsidies for children from Belle Haven. BAE did not provide an assessment of the value of the financial contribution, as the value is equal to the dollar amount. As noted above, unless the initial fit-out or tenant improvements are in excess of the standard allowance they should not be included as a community amenity. BAE recommends that the City request additional information regarding how the financial contribution will be used, to ensure that the use of these funds is consistent with City goals and policies.

The proposed financial contribution is sizable relative to the costs that the financial contribution is intended to cover. BAE research indicates that childcare facility fit-out and start-up costs are typically $100,000 or less, though these costs could potentially be as high as $500,000 in some cases. This suggests that over $2.0 million of the financial contribution could potentially be available to cover early operating costs and enrollment subsidies. Information provided in the community amenities proposal indicates that approximately 50 percent of children served by the childcare facility will have their tuition fully covered by State of California subsidies. These children would not require an additional enrollment subsidy because they are already covered by a State program. Approximately 25 percent of children served would typically be charged on sliding scale based on ability to pay, with the shortfall funded through philanthropy. The remaining 25 percent would be charged the full cost based on their family income, which presumably determines that these families are able to pay the full amount. This suggests that five or six of the 20 to 24 spots in the proposed daycare facility would be filled by students that would typically require philanthropic sources to cover a portion of their tuition. This amounts to hundreds of thousands of dollars for each childcare slot that could be funded in part using these funds. Given that these students would not receive a full enrollment subsidy, it could take several decades to use these funds for enrollment subsides, potentially extending past the life of the project. To the extent that the financial contribution could be used to cover early operational costs, as indicated in the community amenities proposal, the proposal does not specify which costs this would include, or whether these costs could overlap with operational costs that would be covered by the enrollment subsidies. While there may be factors associated with the proposed childcare facility that affect start-up costs, operating costs, or enrollment subsidy needs, BAE recommends that the City request additional information on the intended uses of these funds to determine if these uses would be consistent with the goals of the community amenities program.

Summary of Determination of Community Amenity Value

Table 3 below provides a summary of BAE's determination of the value of the community amenity proposal. The value shown includes the value of providing the childcare facility space, based on the methodology described above, as well as the financial contribution to the childcare operator that is shown in the applicant's community amenities proposal. As shown, this analysis estimates the value of providing the childcare facility space to be equal to $2,666,927. Combined with the proposed financial contribution to the childcare facility operator, this analysis finds that the value of the community amenity totals $5,292,699.

Table 3: BAE Valuation of Community Amenity Proposal

	Applicant Valuation
1 PV of Space Rent Subsidy (10 years)	$2,285,937
2 PV of Parking Rent Subsidy (10 years)	$0
3 PV of Operating Costs (10 years)	$380,990
4 PV of Terminal Value (in year 11)	N/A
Total Value of Providing Childcare Facility Space	**$2,666,927**
Financial Contribution to Childcare Facility Operator (a)	$2,625,772
Total Community Amenity Value	**$5,292,699**
Required Community Amenity Value	$8,550,000
Excess / (Shortfall) Community Amenity Value	**($3,257,301)**

Note:
(a) The applicant's community amenity proposal states that the financial contribution to the childcare operator would cover fit out and initial start-up costs, with any remaining funds to be used to subsidize the childcare provider's early operating costs and contribute towards enrollment subsidies for students from Belle Haven.

Source: Greystar, 2021; BAE, 2021.

ATTACHMENTS

Attachment 1: Applicant Calculations of the Value of Providing Space for Use as a Childcare Facility

Assumptions

Rent (NNN) / SF / month [1]	$6.50
Neighborhood Benefit Space SF	2,904
Annual Growth Rate	3.0%
Assumed Discount Factor	7.5%
Start of Operations	2023
Assumed Commercial Parking Spaces	6
Assumed monthly parking rent per stall	$75
Net Expenses / SF / month [2]	$1.00

	Completion										Terminal
	1	2	3	4	5	6	7	8	9	10	11
Year	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Less: Commercial Net Operating Income	$254,944	$262,592	$270,470	$278,584	$286,941	$295,549	$304,416	$313,548	$322,955	$332,644	$342,623
Less: Commercial Parking Income	6,078	6,260	6,448	6,641	6,841	7,046	7,257	7,475	7,699	7,930	8,168
Plus: Net Expenses (Taxes, Insurance, CAM)	39,222	40,399	41,611	42,859	44,145	45,469	46,833	48,238	49,685	51,176	52,711
Net Cash Flows (Unlevered)	**$300,243**	**$309,251**	**$318,528**	**$328,084**	**$337,927**	**$348,064**	**$358,506**	**$369,261**	**$380,339**	**$391,750**	**$403,502**
PV factor	0.87	0.80	0.75	0.70	0.65	0.60	0.56	0.52	0.49	0.45	0.42
Present Value Rental Cash Flows	$259,810	$248,935	$238,514	$228,530	$218,963	$209,798	$201,015	$192,601	$184,538	$176,813	
Terminal Value											**$3,764,711**

Total Value of Neighborhood Benefit Space	**$5,924,228**

[1] Based on commercial rents for Menlo Park, adjusted to include an estimate of extra liability insurance costs associated with having an onsite child care facility incurred by Greystar

[2] Estimated expenses; typically includes pro rata share of contract services (fire alarm, fire protection/life safety, intrusion alarm, landscape maintenance, patrol officer, pest control and trash removal), taxes, repairs / maintenance and utilities

Attachment 2: BAE Calculations of the Value of Providing Space for Use as a Childcare Facility

Assumptions

Rent (NNN) / SF / month [1]	$6.00
Neighborhood Benefit Space SF	1,600
Annual Growth Rate	3.0%
Assumed Discount Factor	7.5%
Start of Operations	2023
Assumed Commercial Parking Spaces	6
Assumed monthly parking rent per stall	$0
Net Expenses / SF / month [2]	$1.00

Year	Completion 1 2023	2 2024	3 2025	4 2026	5 2027	6 2028	7 2029	8 2030	9 2031	10 2032	11 2033
Less: Commercial Net Operating Income	$122,216	$125,882	$129,659	$133,548	$137,555	$141,681	$145,932	$150,310	$154,819	$159,464	$164,248
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	20,369	20,980	21,610	22,258	22,926	23,614	24,322	25,052	25,803	26,577	27,375
Net Cash Flows (Unlevered)	**$142,585**	**$146,863**	**$151,268**	**$155,806**	**$160,481**	**$165,295**	**$170,254**	**$175,362**	**$180,622**	**$186,041**	**$191,622**
PV factor	0.87	0.80	0.75	0.70	0.65	0.60	0.56	0.52	0.49	0.45	0.42
Present Value Rental Cash Flows	$123,383	$118,219	$113,270	$108,528	$103,985	$99,632	$95,462	$91,466	$87,637	$83,968	$80,453

Year	12 2034	13 2035	14 2036	15 2037	16 2038	17 2039	18 2040	19 2041	20 2042	21 2043	22 2044
Less: Commercial Net Operating Income	$169,175	$174,250	$179,478	$184,862	$190,408	$196,120	$202,004	$208,064	$214,306	$220,735	$227,357
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	28,196	29,042	29,913	30,810	31,735	32,687	33,667	34,677	35,718	36,789	37,893
Net Cash Flows (Unlevered)	**$197,371**	**$203,292**	**$209,391**	**$215,673**	**$222,143**	**$228,807**	**$235,671**	**$242,741**	**$250,024**	**$257,524**	**$265,250**
PV factor	0.39	0.36	0.34	0.31	0.29	0.27	0.25	0.24	0.22	0.20	0.19
Present Value Rental Cash Flows	$77,086	$73,859	$70,767	$67,805	$64,966	$62,247	$59,641	$57,145	$54,752	$52,460	$50,264

Continued on following page.

Attachment 2: BAE Calculations of the Value of Providing Space for Use as a Childcare Facility (continued)

Year	23 **2045**	24 **2046**	25 **2047**	26 **2048**	27 **2049**	28 **2050**	29 **2051**	30 **2052**	31 **2053**	32 **2054**	33 **2055**
Less: Commercial Net Operating Income	$234,178	$241,203	$248,439	$255,892	$263,569	$271,476	$279,621	$288,009	$296,650	$305,549	$314,715
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	39,030	40,201	41,407	42,649	43,928	45,246	46,603	48,002	49,442	50,925	52,453
Net Cash Flows (Unlevered)	**$273,208**	**$281,404**	**$289,846**	**$298,541**	**$307,497**	**$316,722**	**$326,224**	**$336,011**	**$346,091**	**$356,474**	**$367,168**
PV factor	0.18	0.16	0.15	0.14	0.13	0.12	0.11	0.11	0.10	0.09	0.09
Present Value Rental Cash Flows	$48,160	$46,144	$44,213	$42,362	$40,589	$38,890	$37,262	$35,702	$34,207	$32,775	$31,403

Year	34 **2056**	35 **2057**	36 **2058**	37 **2059**	38 **2060**	39 **2061**	40 **2062**	41 **2063**	42 **2064**	43 **2065**	44 **2066**
Less: Commercial Net Operating Income	$324,157	$333,882	$343,898	$354,215	$364,842	$375,787	$387,060	$398,672	$410,632	$422,951	$435,640
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	54,026	55,647	57,316	59,036	60,807	62,631	64,510	66,445	68,439	70,492	72,607
Net Cash Flows (Unlevered)	**$378,183**	**$389,529**	**$401,214**	**$413,251**	**$425,648**	**$438,418**	**$451,570**	**$465,118**	**$479,071**	**$493,443**	**$508,246**
PV factor	0.08	0.07	0.07	0.06	0.06	0.06	0.05	0.05	0.04	0.04	0.04
Present Value Rental Cash Flows	$30,089	$28,829	$27,623	$26,466	$25,358	$24,297	$23,280	$22,305	$21,372	$20,477	$19,620

Year	45 **2067**	46 **2068**	47 **2069**	48 **2070**	49 **2071**	50 **2072**	51 **2073**	52 **2074**	53 **2075**	54 **2076**	55 **2077**
Less: Commercial Net Operating Income	$448,709	$462,170	$476,035	$490,316	$505,026	$520,177	$535,782	$551,856	$568,411	$585,464	$603,027
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	74,785	77,028	79,339	81,719	84,171	86,696	89,297	91,976	94,735	97,577	100,505
Net Cash Flows (Unlevered)	**$523,494**	**$539,199**	**$555,375**	**$572,036**	**$589,197**	**$606,873**	**$625,079**	**$643,831**	**$663,146**	**$683,041**	**$703,532**
PV factor	0.04	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02
Present Value Rental Cash Flows	$18,798	$18,012	$17,258	$16,535	$15,843	$15,180	$14,544	$13,936	$13,352	$12,793	$12,258
Total Value of Neighborhood Benefit Space	**$2,666,927**										

[1] Based on commercial rents for Menlo Park

[2] Estimated expenses; typically includes pro rata share of contract services (fire alarm, fire protection/life safety, intrusion alarm, landscape maintenance, patrol officer, pest control and trash removal), taxes, repairs / maintenance and utilities.