bae urban economics

Memorandum

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

From: Stephanie Hagar, Associate Principal

Date: December 23, 2020

Re: Evaluation of Menlo Uptown Community Amenities Proposal

Purpose

This memorandum provides BAE's assessment of the value of the applicant's community amenities proposal for the proposed Menlo Uptown Project. The City-approved appraisal for the project site identified a required amenity value of $8,900,000, and the project applicant has submitted a community amenities proposal that provides two alternative amenity packages. In Alternative 1, the applicant would commit to providing office space in the project to the Valley Community Land Trust (VCLT) as well as a lump sum financial contribution to VCLT. In Alternative 2, the applicant would commit to providing office space in the project to one or more other nonprofit entities as well as a lump sum financial contribution to the Menlo Park Community Campus. The applicant has provided an assessment of the value of the community amenities alternatives that estimates that either alternative would have a value of $8.9 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 two community amenities proposal alternatives that the project applicant has proposed as part of a request for bonus level development for a proposed project located at 141 Jefferson Drive and 180-186 Constitution Drive in Menlo Park. As shown, BAE found that the value of Alternative 1 is approximately $1.55 million lower than the required $8.9 million value, while the value of Alternative 2 is approximately $630,000 lower than the required value. The difference between BAE's valuation of the community amenity alternatives and the valuation provided by the applicant is due to differences in the methodology used to determine the value of providing office space in the project to VCLT or another non-profit organization, as discussed in further detail below.

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The value of providing the proposed office space to the community land trust or other non-profit organization will depend on the terms under which the property owner utilizes the space. BAE's valuation estimates in the table below reflect the following terms:

- The space will be used by a nonprofit tenant (the Valley Community Land Trust and/or another nonprofit entity approved by the City) at no cost to the tenant. This means that the property owner will not charge the tenant for any rent or operating expenses at any point throughout the tenancy.
- The office space will be reserved for nonprofit use (the Valley Community Land Trust and/or another nonprofit entity) 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 one-time $300,000 tenant improvement allowance to the nonprofit entity that occupies the space, which would be used to construct the tenant improvements necessary to outfit the space for the nonprofit tenant's use.
- The property owner will provide the nonprofit tenant with access to six parking spaces at no cost to the tenant.

Each of the above terms are consistent with the methodology that the applicant used to assign a value to the non-profit office space as well as the methodology that BAE used to assess the value of the proposed community amenity. If the property owner does not provide the space according to these terms, the value of the amenity would differ from that shown below.

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

		Office Space Provided for Nonprofit Use	**Lump Sum Financial Contribution**	**Total**	**Shortfall (Compared to $8.9 million required)**
Alternative 1: VCLT Office Space & Lump Sum Financial Contribution to VCLT	Applicant Valuation	$6,082,311	$2,817,689	$8,900,000	**$0**
	BAE Evaluation	$4,534,624	$2,817,689	$7,352,313	**($1,547,687)**
Alternative 2: Other Nonprofit Office Space & Lump Sum Financial Contribution to Menlo Park Community Campus	Applicant Valuation	$5,168,839	$3,731,161	$8,900,000	**$0**
	BAE Evaluation	$4,534,624	$3,731,161	$8,265,785	**($634,215)**

Project Description

The proposed Menlo Uptown project consists of 441 multifamily rental units and 42 townhomes along with a 2,940 square foot commercial space on the ground floor of one of the multifamily rental buildings. The project site is located at 141 Jefferson Drive and 180-186 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/1576/Menlo-Uptown).

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 density. In the case of the subject project, an appraisal commissioned by the City (available at the link shown above) determined that the value of the community amenity must equal $8,900,000. The project applicant has proposed two alternatives for meeting the community amenities requirement, as described below.

Alternative 1: Building Space and Financial Contribution for Valley Community Land Trust.

Alternative 1 would reserve the approximately 2,940 square foot ground floor commercial space in the project for use by the Valley Community Land Trust (VCLT) and provide a lump sum financial contribution to the VCLT. 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 community amenity proposal indicates that the VCLT would have the ability to sublease up to 2,000 square feet of the commercial space to one or more of its program participants or to other nonprofit organizations, with income from any sublease accruing to the VCLT. In addition, the applicant has proposed a lump sum financial contribution to the VCLT equal to difference between the required $8.9 million community amenity contribution and the value of providing the commercial space for nonprofit use as described above.

Alternative 2: Building Space for Local Nonprofit and Community Center Contribution.

Alternative 2 is similar to Alternative 1, though in Alternative 2 the approximately 2,940 square foot commercial space would be provided to a community-serving nonprofit use other than the VCLT and the applicant would make a lump sum financial contribution toward the Menlo Park Community Campus project instead of the VCLT. As in Alternative 1, in Alternative 2 the property owner will fully subsidize all rental costs including the use of six parking spaces. Unlike Alternative 1, Alternative 2 does not include the nonprofit tenant receiving any income for subleasing a portion of the space. Similar to Alternative 1, the proposed lump sum financial contribution would be equal to the difference between the required $8.9 million community amenity contribution and the value of the non-profit commercial space.

Applicant Valuation of Community Amenities Proposal

The project applicant has provided an assessment of the two alternative community amenities contributions described above. In both cases, the applicant determined that the value of the commercial space for use by VCLT or another nonprofit would include:

1) A one-time $300,000 (~$102 per square foot) allowance for tenant improvements;
2) A one-time $60,000 (~$20 per square foot) allowance for leasing commissions to handle the initial leasing of the space (to VCLT or another nonprofit) upon completion;
3) The present value of the rent subsidy for the commercial space over ten years, which the applicant values at $6.00 per square foot per month, increasing by 3.0 percent per year;
4) 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;
5) 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; and
6) The present value of the terminal value (or estimated total value) of the space in year 11.

In addition to the items above, in Alternative 1 the applicant determined that the value of providing the commercial space for nonprofit use would also include:

7) The present value of rental income to the VCLT from a sublease of 2,000 square feet of the commercial space to another nonprofit tenant over a ten-year period, which the applicant valued at $2.00 per square foot per month, increasing by 3.0 per year.

In Alternative 1, the calculation of the terminal value (item 6 above) includes the net present value of the sublease income (item 7 above), leading to a higher assessment of the terminal value of the space (i.e., the total value of providing the office space in year 11) in Alternative 1 compared to Alternative 2, according to the applicant's methodology. Each of line items listed above are described in additional detail in the following section of this memorandum.

For both alternatives, the community amenities proposal also includes a lump sum financial contribution equal to the difference between the total $8.9 million community amenity value requirement and the sum of six (in the case of Alternative 2) or seven (in the case of Alternative 1) items listed above.

The applicant's assessment of the value of both alternatives is shown in Table 2 below. The attachments to this memorandum include the applicant's calculation of the value of providing the commercial space for use by a non-profit in each alternative.

Table 2: Applicant Valuation of Community Amenity Proposal Alternatives

	Alternative 1: VCLT Tenant & VCLT Contribution	Alternative 2: Other Nonprofit Tenant & Comm. Center Contribution
1 Tenant Improvement Allowance	$300,000	$300,000
2 Leasing Commissions	$60,000	$60,000
3 PV of Space Rent Subsidy (10 years)	$1,468,449	$1,468,449
4 PV of Parking Rent Subsidy (10 years)	$39,742	$39,742
5 PV of Operating Costs (10 years)	$244,742	$244,742
6 PV of Terminal Value (in year 11)	$3,636,397	$3,055,906
7 PV of Sublease Income (10 years)	$332,982	N/A
Total Value of Commercial Space Dedication	**$6,082,311**	**$5,168,839**
Lump Sum Financial Contribution (a)	**$2,817,689**	**$3,731,161**
Total Community Amenity Value	**$8,900,000**	**$8,900,000**

Note:
(a) In Alternative 1, the applicant would make a lump sum financial contribution to VCLT. In Alternative 2, the applicant would make a lump sum financial contribution toward the Menlo Park Community Campus project.

Source: Greystar, 2020; BAE, 2020.

Analysis of Value of Community Amenities Proposal

This section details BAE's analysis of the value of the two alternatives described in the applicant's community amenities proposal. BAE's methodology differs from the methodology used by the applicant in three respects. First, BAE adjusted the calculations to show the net present value of the property owner's rent subsidy for the office space 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 narrowed the community amenity value to include only those items that represent a net cost savings to the nonprofit tenant or tenants that would occupy the space, which in all cases are also items that represent an additional cost to the project applicant. Third, BAE adjusted some of the underlying assumptions that affect the value of the commercial space for a non-profit tenant as appropriate based on market practices and industry standards.

Term of Subsidy & Termination Value

The applicant's assessment of the value of providing the office space for nonprofit use includes the net present value of the ongoing rent subsidy to the tenant over a ten-year period as well as the termination value of the space in year 11. 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 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 the 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.

Tenant Improvement Allowance

The applicant's assessment of the value of providing the office space for nonprofit use includes a $300,000 tenant improvement allowance, which is equal to approximately $102 per square foot. However, a tenant improvement allowance in the range of $75 to $100 per square foot is typical for new office leases, 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. Similarly, the tenant that occupies the commercial space (VCLT and/or another nonprofit) would likely receive a similar tenant improvement allowance if they were to rent a space on the open market. Typically, a tenant improvement allowance is included as part of the tenant's base rent and is included when determining total project development costs. Therefore, it is not appropriate to count both a standard tenant improvement allowance and foregone rent as comprising the required community amenity.

To estimate the portion of the tenant improvement allowance that would represent a community amenity, BAE assumed that a typical tenant improvement allowance would total $75 per square foot, or $220,500 in total, and subtracted this amount from the applicant's proposed $300,000 allowance. The resulting value of the community amenity attributable to the tenant improvement allowance totals an estimated $79,500. This captures the portion of the proposed $300,000 tenant improvement allowance that could result in an additional cost to the applicant as a result of their offering a tenant improvement allowance toward the high end of the typical range. Similarly, the adjustment captures the potential cost savings to the nonprofit tenant due to the use of the space as a community amenity with a tenant improvement allowance toward the high end of the typical range.

Leasing Commission Allowance

The applicant's assessment of the value of providing the commercial space for nonprofit use includes $60,000 in leasing commissions. Typically, leasing commission are included in total project development costs that are paid for over time through base rent revenue. These costs are typically paid by the property owner, and therefore do not represent an additional cost to the applicant nor a cost savings to the nonprofit tenant as a result of providing the space as a community amenity. Similar to the tenant improvement allowance, it would be double counting to include both standard leasing commissions and foregone base rent as a community amenity. Furthermore, it is not clear that leasing the space would require brokerage services, particularly in Alternative 1 given that the applicant has already identified a tenant for the space, and therefore it is possible that the property owner would not have to market the space or pay any associated leasing commission costs in this instance. As a result, BAE's assessment of the value of providing the commercial space for nonprofit use omits the cost of the leasing commissions.

Rental Rate

The applicant's assessment of the value of providing the commercial space for use by a nonprofit assumes that the market rate rent for the space would be equal to $6.00 per square foot per month, triple net (NNN), with a 3.0 percent annual increase. BAE reviewed data from CoStar on office rents in Menlo Park and determined that this is a reasonable rent assumption given the size, location, and type of office space that the project would provide. This rental rate approximates the rental income that the property owner would forgo by dedicating the space for nonprofit use at no charge to the nonprofit tenant. This also approximates the cost savings to the nonprofit tenant compared to renting a comparable office space at market rates. Therefore, it is appropriate to include this market-rate rent for the space in the determination of the community amenity value, provided that the applicant commits to providing the space at no cost to the tenant.

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 nonprofit tenant. The applicant assumed that the value of these spaces would be equal $75 per space per month, increasing by 3.0% per year.

BAE's assessment of the value of the commercial 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's dedication of six commercial parking spaces to the office tenant does not represent lost revenue to the applicant or cost savings to the nonprofit tenant. 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 commercial space for nonprofit 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. This operating cost assumption is consistent with typical office operating cost assumptions, 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 tenant, this would represent both an additional cost to the project applicant and a cost savings to the nonprofit tenant. 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 project life.

Terminal Value

The applicant's assessment of the value of providing the commercial space for nonprofit use includes the present value of the "terminal value" of the space, calculated as the total property owner subsidy to the tenant in the commercial space in year 11 divided by 4.5 percent, multiplied by the present value factor in year 11. In Alternative 1, the applicant's total subsidy calculation includes the rent subsidy, commercial parking rent subsidy, expenses/operating costs, and sublease income. The cash flow calculation for Alternative 2 includes the same components except for the sublease income.

In effect, the terminal value calculation provided by the applicant 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 of the property from the perspective of the tenant.

As noted above, BAE's analysis of the community amenity value does not include the net present value of the terminal value, and instead shows the net present value of the property owner's subsidy in each year from year 1 through 55, assuming that the office space would be provided to one or more nonprofit tenants for the life of the project.

Sublease Rental Income (Alternative 1 Only)

In Alternative 1, the applicant's assessment of the value of providing the commercial space for nonprofit use includes sublease income that would accrue to VCLT if VCLT subleases a portion

[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.

of the space. In the applicant's calculations, the present value of this sublease income over ten years is included in the total value of providing the commercial space (item 7 above). In addition, the value of this sublease income in year 11 is factored into the applicant's calculation of the terminal value of the space in year 11 (item 6 above).

BAE's assessment of the value of the community amenity does not include this potential sublease income in the value of providing the commercial space. BAE's assessment omits this revenue in part because any sublease revenue to the VCLT would be dependent on whether the VCLT is able to sublease a portion of the space, the square footage of any sublease, and the rental rate for any sublease. Overall, it is highly speculative to assume that any sublease income would be generated. It is possible that VCLT would receive little or no sublease income, at least during some periods. Moreover, if the VCLT were to sublease space to one or more other nonprofits as proposed, the nonprofit entities that sublease the space would bear the cost of the sublease. In effect, including the sublease income in the value of the space shifts a portion of the cost of the community amenity contribution from the project applicant to any nonprofit entity that would sublease the space and pay rent to the VCLT, or to the VCLT (in the form of a reduced lump sum financial contribution) if the VCLT does not sublease the space for the full amount shown in the applicant's calculations.

In the applicant's model, the sublease income comprises the only quantitative difference between Alternative 1 and Alternative 2. Therefore, removing the sublease income from BAE's analysis makes the value of both alternatives equivalent from a quantitative perspective.

Summary of Determination of Community Amenity Value

Table 3 below provides a summary of BAE's determination of the value of the two community amenity proposals. The value shown includes the value of the providing the commercial space for nonprofit use, based on the methodology described above, as well as the lump sum financial contribution that the applicant's community amenities proposal shows for each scenario. Since the valuation calculated below does not include the sublease income in Alternative 1, the table shows the same value for providing the commercial space for nonprofit use in both alternatives. As shown, this analysis estimates the value of providing the commercial space for nonprofit use to be equal to $4,534,624 for both alternatives. Combined with the proposed lump sum contribution for each alternative, this analysis finds that the value of the community amenity totals $7,352,313 in Alternative 1 and $8,265,785 in Alternative 2. These totals are lower than the required amenity value by $1,547,687 in Alternative 1 and $634,215 in Alternative 2.

Table 3: BAE Valuation of Community Amenity Proposal Alternatives

	Alternative 1: VCLT Tenant & VCLT Contribution	Alternative 2: Other Nonprofit Tenant & Comm. Center Contribution
1 Tenant Improvement Allowance	$79,500	$79,500
2 Leasing Commissions	$0	$0
3 PV of Space Rent Subsidy (10 years)	$3,818,678	$3,818,678
4 PV of Parking Rent Subsidy (10 years)	$0	$0
5 PV of Operating Costs (10 years)	$636,446	$636,446
6 PV of Terminal Value (in year 11)	N/A	N/A
7 PV of Sublease Income (10 years)	N/A	N/A
Total Value of Commercial Space Dedication	**$4,534,624**	**$4,534,624**
Lump Sum Financial Contribution (a)	$2,817,689	$3,731,161
Total Community Amenity Value	**$7,352,313**	**$8,265,785**
Required Community Amenity Value	$8,900,000	$8,900,000
Excess / (Shortfall) Community Amenity Value	**($1,547,687)**	**($634,215)**

Note:
(a) In Alternative 1, the applicant would make a lump sum financial contribution to VCLT. In Alternative 2, the applicant would make a lump sum financial contribution toward the Menlo Park Community Campus project. Lump sum amounts in table are as shown in the applicant's community amenities proposal.

Source: Greystar, 2020; BAE, 2020.

ATTACHMENTS

Attachment 1: Applicant Calculations of the Value of Providing the Office Space for Nonprofit Use, Alternative 1

Assumptions

Rent (NNN) / SF / month [1]	$6.00
Neighborhood Benefit Space SF	2,940
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
CLT Rental Income / SF / month	$2.00

	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	$211,680	$218,030	$224,571	$231,308	$238,248	$245,395	$252,757	$260,340	$268,150	$276,194	$284,480
Less: Commercial Parking Income	5,729	5,901	6,078	6,260	6,448	6,641	6,841	7,046	7,257	7,475	7,699
Plus: Net Expenses (Taxes, Insurance, CAM)	35,280	36,338	37,429	38,551	39,708	40,899	42,126	43,390	44,692	46,032	47,413
Plus: Rental Income Accrual to CLT Operator	48,000	49,440	50,923	52,451	54,024	55,645	57,315	59,034	60,805	62,629	64,508
Net Cash Flows (Unlevered)	**$300,689**	**$309,710**	**$319,001**	**$328,571**	**$338,428**	**$348,581**	**$359,038**	**$369,809**	**$380,904**	**$392,331**	**$404,101**
PV factor	0.83	0.78	0.72	0.67	0.62	0.58	0.54	0.50	0.47	0.44	0.40
Present Value Rental Cash Flows	$250,955	$240,450	$230,385	$220,741	$211,500	$202,647	$194,164	$186,036	$178,249	$170,787	
Terminal Value											**$3,636,397**
NPV of Benefit Space Rental Cash Flow	$5,722,311										
Tenant Improvement Allowance	$300,000										
Leasing Commission Allowance	$60,000										
Total Value of Neighborhood Benefit Space	**$6,082,311**										

[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, insurance, repairs / maintenance and utilities

Attachment 2: Applicant Calculations of the Value of Providing the Office Space for Nonprofit Use, Alternative 2

Assumptions

Rent (NNN) / SF / month [1]	$6.00
Neighborhood Benefit Space SF	2,940
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	$211,680	$218,030	$224,571	$231,308	$238,248	$245,395	$252,757	$260,340	$268,150	$276,194	$284,480
Less: Commercial Parking Income	5,729	5,901	6,078	6,260	6,448	6,641	6,841	7,046	7,257	7,475	7,699
Plus: Net Expenses (Taxes, Insurance, CAM)	35,280	36,338	37,429	38,551	39,708	40,899	42,126	43,390	44,692	46,032	47,413
Net Cash Flows (Unlevered)	**$252,689**	**$260,270**	**$268,078**	**$276,120**	**$284,404**	**$292,936**	**$301,724**	**$310,775**	**$320,099**	**$329,702**	**$339,593**
PV factor	0.83	0.78	0.72	0.67	0.62	0.58	0.54	0.50	0.47	0.44	0.40
Present Value Rental Cash Flows	$210,894	$202,066	$193,608	$185,503	$177,738	$170,298	$163,169	$156,339	$149,794	$143,524	
Terminal Value											**$3,055,906**
NPV of Benefit Space Rental Cash Flow	$4,808,839										
Tenant Improvement Allowance	$300,000										
Leasing Commission Allowance	$60,000										
Total Value of Neighborhood Benefit Space	**$5,168,839**										

[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, insurance, repairs / maintenance and utilities

Attachment 3: BAE Calculations of the Value of Providing the Office Space for Nonprofit Use, Alternatives 1 and 2

Assumptions

Rent (NNN) / SF / month [1]	$6.00
Neighborhood Benefit Space SF	2,940
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
Standard Tenant Improvement Allowance / SF	$75

	Completion 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	$211,680	$218,030	$224,571	$231,308	$238,248	$245,395	$252,757	$260,340	$268,150	$276,194	$284,480
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	35,280	36,338	37,429	38,551	39,708	40,899	42,126	43,390	44,692	46,032	47,413
Net Cash Flows (Unlevered)	**$246,960**	**$254,369**	**$262,000**	**$269,860**	**$277,956**	**$286,294**	**$294,883**	**$303,730**	**$312,842**	**$322,227**	**$331,894**
PV factor	0.83	0.78	0.72	0.67	0.62	0.58	0.54	0.50	0.47	0.44	0.40
Present Value Rental Cash Flows	$206,113	$197,485	$189,218	$181,297	$173,708	$166,437	$159,470	$152,794	$146,398	$140,270	$134,398

	12	13	14	15	16	17	18	19	20	21	22
Year	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**	**2041**	**2042**	**2043**	**2044**
Less: Commercial Net Operating Income	$293,015	$301,805	$310,859	$320,185	$329,791	$339,684	$349,875	$360,371	$371,182	$382,318	$393,787
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	48,836	50,301	51,810	53,364	54,965	56,614	58,312	60,062	61,864	63,720	65,631
Net Cash Flows (Unlevered)	**$341,850**	**$352,106**	**$362,669**	**$373,549**	**$384,756**	**$396,298**	**$408,187**	**$420,433**	**$433,046**	**$446,037**	**$459,418**
PV factor	0.38	0.35	0.33	0.30	0.28	0.26	0.24	0.23	0.21	0.20	0.18
Present Value Rental Cash Flows	$128,772	$123,382	$118,217	$113,268	$108,527	$103,984	$99,631	$95,460	$91,464	$87,636	$83,967

Continued on following page.

Attachment 3: BAE Calculations of the Value of Providing the Office Space for Nonprofit Use, Alternatives 1 and 2 (continued)

	23	24	25	26	27	28	29	30	31	32	33
Year	**2045**	**2046**	**2047**	**2048**	**2049**	**2050**	**2051**	**2052**	**2053**	**2054**	**2055**
Less: Commercial Net Operating Income	$405,601	$417,769	$430,302	$443,211	$456,507	$470,202	$484,309	$498,838	$513,803	$529,217	$545,094
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	67,600	69,628	71,717	73,868	76,085	78,367	80,718	83,140	85,634	88,203	90,849
Net Cash Flows (Unlevered)	**$473,201**	**$487,397**	**$502,019**	**$517,079**	**$532,592**	**$548,570**	**$565,027**	**$581,977**	**$599,437**	**$617,420**	**$635,942**
PV factor	0.17	0.16	0.15	0.14	0.13	0.12	0.11	0.10	0.10	0.09	0.08
Present Value Rental Cash Flows	$80,452	$77,084	$73,858	$70,766	$67,804	$64,965	$62,246	$59,640	$57,144	$54,752	$52,460

	34	35	36	37	38	39	40	41	42	43	44
Year	**2056**	**2057**	**2058**	**2059**	**2060**	**2061**	**2062**	**2063**	**2064**	**2065**	**2066**
Less: Commercial Net Operating Income	$561,446	$578,290	$595,638	$613,508	$631,913	$650,870	$670,396	$690,508	$711,223	$732,560	$754,537
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	93,574	96,382	99,273	102,251	105,319	108,478	111,733	115,085	118,537	122,093	125,756
Net Cash Flows (Unlevered)	**$655,021**	**$674,671**	**$694,911**	**$715,759**	**$737,232**	**$759,349**	**$782,129**	**$805,593**	**$829,761**	**$854,653**	**$880,293**
PV factor	0.08	0.07	0.07	0.06	0.06	0.05	0.05	0.05	0.04	0.04	0.04
Present Value Rental Cash Flows	$50,264	$48,160	$46,144	$44,212	$42,361	$40,588	$38,889	$37,261	$35,701	$34,207	$32,775

	45	46	47	48	49	50	51	52	53	54	55
Year	**2067**	**2068**	**2069**	**2070**	**2071**	**2072**	**2073**	**2074**	**2075**	**2076**	**2077**
Less: Commercial Net Operating Income	$777,173	$800,488	$824,503	$849,238	$874,715	$900,957	$927,985	$955,825	$984,500	$1,014,035	$1,044,456
Less: Commercial Parking Income	0	0	0	0	0	0	0	0	0	0	0
Plus: Net Expenses (Taxes, Insurance, CAM)	129,529	133,415	137,417	141,540	145,786	150,159	154,664	159,304	164,083	169,006	174,076
Net Cash Flows (Unlevered)	**$906,702**	**$933,903**	**$961,920**	**$990,778**	**$1,020,501**	**$1,051,116**	**$1,082,649**	**$1,115,129**	**$1,148,583**	**$1,183,040**	**$1,218,531**
PV factor	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02
Present Value Rental Cash Flows	$31,403	$30,088	$28,829	$27,622	$26,466	$25,358	$24,296	$23,279	$22,305	$21,371	$20,477

Total Present Value Rental Cash Flows, Yrs 1 through 55	$4,455,124
Tenant Improvement Allowance	$300,000
Less: Standard TI Allowance	($220,500)
Net Value of TI Allowance	$79,500
Leasing Commission Allowance	$60,000
Less: Allowance Typically Paid by Owner	($60,000)
Net Value of TI Allowance	$0
Total Value of Neighborhood Benefit Space	**$4,534,624**

[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, insurance, repairs / maintenance and utilities