Memorandum

To: Matthew Pruter, City of Menlo Park

From: Stephanie Hagar and Chelsea Guerrero

Date: May 29, 2019

Re: Analysis of Proposed Public Benefit from a Proposed Project at 201 El Camino Real and 612 Cambridge Avenue, Menlo Park

Introduction and Purpose

This memorandum presents the findings of a static proforma analysis that BAE conducted to estimate the project profit from the proposed redevelopment of 201 El Camino Real and 612 Cambridge Avenue in Menlo Park. The proforma analysis compares the project profit of the proposed project, which is seeking a density bonus under the City's public benefit program for the El Camino Real/Downtown Specific Plan, to the potential project profit from an alternative project developed at the base level density for the site.

The proposed project consists of a mixed-use building at 201 El Camino Real, with approximately 3,000 square feet of medical office and 4,300 square feet of retail space on the ground floor and 12 residential units on the upper floors, along with two townhomes on the 612 Cambridge Avenue portion of the site. The proposed project includes two levels of underground parking that would serve the residential and non-residential uses.

The developer is proposing to satisfy the project's obligations under the City's Below Market Rate (BMR) Housing Program through the provision of two BMR units within the mixed-use building on the ECR SW parcel. Since the Bonus Project would have a BMR requirement of 1.4 BMR units, the proposed public benefit provided as part of this project would be 0.6 BMR units (i.e., the difference between the number of units in the project and the number of units required under the City's BMR ordinance).

Key Findings

Key findings from BAE's analysis of the proposed public benefit include:

- Both the public benefit project and the base zoning project result in negative residual project values in a speculative development scenario (i.e., a scenario in which the project applicant has not identified an end-user for the space), meaning that the cost

to develop these projects would exceed the project value at stabilization. The shortfall between the value of the completed project and the total development costs is significant, totaling approximately $5.8 million for the Base Project and $4.7 million for the Bonus Project, after accounting for site acquisition costs. These findings suggest that, under current development conditions, both the bonus project and the base project would not represent a feasible development opportunity for a typical developer that is pursuing development on a speculative basis. A project applicant might pursue entitlements for a project that is infeasible under current development conditions in order to have the entitlements in place when conditions change or to sell the entitled site to a developer that will construct the project once conditions change.

- An alternative scenario in which the residential units are sold as condominiums rather than rented would also result in an infeasible project with a negative residual project value after accounting for site acquisition costs.
- Several factors contribute to the infeasibility of the proposed project, most notably: 1) the high cost of underground parking; and 2) large residential unit sizes and a low residential efficiency/net rentable factor, which results in a relatively low level of rental revenue per square foot of built residential space from the proposed project.
- Since the analysis is primarily based on information provided by the developer for the proposed public benefit bonus project, the analysis does not include a full evaluation of all potential alternatives for the base project or the bonus project. It is possible that an alternative development program could result in a more profitable project. Additional design and financial analyses would be needed to determine if alternative designs or development program configurations could provide more favorable economics.
- The public benefit project would be financially feasible if the rental income from the non-residential portion of the project averages $120 per square foot per year, triple net. Although this is a relatively high rental rate, the project applicant could potentially expect to achieve these rents in a build-to-suit scenario in which the applicant constructs the space for specific tenants according to the tenants' specifications. This scenario demonstrates a possible outcome from a build-to-suit scenario in which the project applicant identifies the commercial tenants by the time the proposed project is constructed, and the occupants of the medical office and retail space are willing to pay a premium to locate within the project in order to obtain space in their desired location that would be built to their specifications.
- In the build-to-suit scenario, the increase in project value attributable to the public benefit bonus totals approximately $1.4 million, the entire residual project value of the proposed project. Using the same income assumptions as in the bonus project, the base project is not financially feasible, with a slight negative residual project value. This indicates that the property owner would not pursue development of the project at the base level density in the current development environment and that the residual

value of the base level project is effectively zero. Therefore, the entire residual project value associated with the bonus level project is attributable to the public benefit bonus.

- In all scenarios evaluated for this analysis, the bonus level project results in an increase in project value compared to the base level project. The increase in residual project value attributable to the public benefit ranges from approximately $868,000 for the to $1.7 million, depending on the scenario.
- The Project applicant has proposed including two BMR units in the project, thereby exceeding the BMR requirements for the proposed project by 0.6 units, and the additional 0.6 of a BMR unit constitutes the proposed public benefit from the Project. City policy does not specify the methodology that the City should use to quantify the value of the public benefit, and therefore this analysis quantifies the value of the public benefit based on two different methodologies:
    1) The City could choose to value the proposed public benefit based on the in-lieu fee equivalent to providing 0.6 BMR units, based on the City's BMR in-lieu fee formula. Based on the formula that the City uses to calculate BMR in-lieu fees, the additional 0.6 units would be equivalent to approximately $1.02 million in in-lieu fees (0.6 x estimated fee rate of $1.70 million per BMR unit).
    2) Alternatively, the City could choose to value the proposed public benefit based on the difference in residual project value between the proposed project and a hypothetical version of the project that pays an in-lieu fee for the fractional 0.4-unit requirement. If the project applicant were to satisfy the City's BMR requirements by providing one BMR unit in the project and paying an in-lieu fee for the remaining requirement for 0.4 BMR units, the residual project value from the project would be approximately $228,000 higher than the residual project value associated with the proposed project. In other words, the effect of rounding up the BMR requirements to provide two BMR units, rather than one BMR unit and a partial in-lieu fee, is to reduce the overall residual project value by $228,000. This figure captures the cost to the property owner – in the form of total project value at stabilization – to provide the proposed public benefit, relative to meeting the minimum standards required by the City's BMR ordinance.
- The proforma analysis indicates that none of the development scenarios evaluated as part of this analysis provide significant excess developer profit to support additional community benefits contributions beyond the fractional BMR unit that the project applicant has proposed. The proposed project is infeasible in the speculative development scenario and requires fairly high commercial rents to achieve feasibility in the build-to-suit scenario. Providing the additional BMR unit has a relatively small impact on overall residual project value compared to payment of a BMR in-lieu fee,

and therefore the proposed public benefit represents a benefit that the project can provide with a minimal impact on feasibility.

- To fully evaluate the proposed public benefit, the City may consider the tradeoffs between the creation of BMR units in the project and the demolition of the existing residential rental units on the project site. Development of the proposed project will require demolition of four existing residential rental units on the 612 Cambridge Avenue portion of the site. These units are currently vacant but were rented at rates that were affordable to moderate-income households when the project applicant purchased the property in 2015. The proposed project would replace these four units with 12 units that would not be affordable to households with moderate or lower incomes and two units that would be affordable to low-income households. Unlike the existing units on the project site, the BMR units in the proposed project would be deed-restricted to remain affordable for 55 years and would be means-tested to ensure that the units are reserved for low-income households.

The results of the public benefit analysis are summarized in Table 1 and Table 2 below.

Table 1: Summary of Proforma Analysis for Public Benefit Project and Base Project at 201 El Camino Real and 612 Cambridge Avenue, Speculative Development Scenario

	Rental Residential Scenario			Condominium Scenario	
Development Program	**Base Project**	**Public Benefit Bonus Project as Proposed**	**Public Benefit Bonus Project w/ BMR In-Lieu Fee (a)**	**Base Project**	**Public Benefit Bonus Project**
Residential Units	12	14	14	12	14
BMR Unit Requirement	1.2	1.4	1.4	1.2	1.4
BMR Units Provided	1	2	1	1	2
Medical Office sq. ft.	3,000	3,000	3,000	3,000	3,000
Other Commercial sq. ft.	3,960	4,322	4,322	3,960	4,322
Parking Spaces	54	60	60	54	60
Development costs					
Hard Costs	$15,448,418	$17,832,079	$17,832,079	$15,448,418	$17,832,079
Soft Costs	$3,089,684	$3,566,416	$3,566,416	$3,089,684	$3,566,416
Impact Fees	$194,814	$241,565	$241,565	$194,814	$241,565
BMR In-Lieu Fee	$328,742	$0	$679,812	$328,742	$0
Contingency	$926,905	$1,069,925	$1,069,925	$926,905	$1,069,925
Developer Fee	$741,524	$855,940	$855,940	$741,524	$855,940
Financing Costs	$757,943.84	$861,629	$886,485	$757,944	$861,629
Total Development Costs (b)	**$21,488,032**	**$24,427,553**	**$25,132,221**	**$21,488,032**	**$24,427,553**
Value Analysis					
Capitalized Value	$24,761,522	$29,152,388	$30,155,153	$25,679,119	$29,780,506
Less Development Costs (b)	($21,488,032)	($24,427,553)	($25,132,221)	($21,488,032)	($24,427,553)
Less Developer Profit	($2,148,803)	($2,442,755)	($2,513,222)	($2,148,803)	($2,442,755)
Residual Project Value (Shortfall), excl. Land Cost	**$1,124,688**	**$2,282,079**	**$2,509,711**	**$2,042,284**	**$2,910,197**
Less Site Acquisition Costs	($6,950,000)	($6,950,000)	($6,950,000)	($6,950,000)	($6,950,000)
Residual Project Value (Shortfall), incl. Land Cost	**($5,825,312)**	**($4,667,921)**	**($4,440,289)**	**($4,907,716)**	**($4,039,803)**

Notes:
(a) The figures in the "Public Benefit Bonus Project w/ BMR In-Lieu Fee column show findings for a project that is the same as the proposed project, except that the developer would meet the City's BMR requirements by providing one BMR unit and paying an in-lieu fee to satisfy the requirement for an additional 0.4 BMR units.
(b) Development costs exclude costs associated with land acquisition.

Sources: BAE, 2019.

Table 2: Summary of Proforma Analysis for Public Benefit Project and Base Project at 201 El Camino Real and 612 Cambridge Avenue, Possible Build-to-Suit Scenario

	Rental Residential Scenario			Condominium Scenario	
Development Program	**Base Project**	**Public Benefit Bonus Project as Proposed**	**Public Benefit Bonus Project w/ BMR In-Lieu Fee (a)**	**Base Project**	**Public Benefit Bonus Project**
Residential Units	12	14	14	12	14
BMR Unit Requirement	1.2	1.4	1.4	1.2	1.4
BMR Units Provided	1	2	1	1	2
Medical Office sq. ft.	3,000	3,000	3,000	3,000	3,000
Other Commercial sq. ft.	3,960	4,322	4,322	3,960	4,322
Parking Spaces	54	60	60	54	60
Development costs					
Hard Costs	$15,448,418	$17,832,079	$17,832,079	$15,448,418	$17,832,079
Soft Costs	$3,089,684	$3,566,416	$3,566,416	$3,089,684	$3,566,416
Impact Fees	$194,814	$241,565	$241,565	$194,814	$241,565
BMR In-Lieu Fee	$328,742	$0	$679,812	$328,742	$0
Contingency	$926,905	$1,069,925	$1,069,925	$926,905	$1,069,925
Developer Fee	$741,524	$855,940	$855,940	$741,524	$855,940
Financing Costs	$757,943.84	$861,629	$886,485	$757,944	$861,629
Total Development Costs (b)	**$21,488,032**	**$24,427,553**	**$25,132,221**	**$21,488,032**	**$24,427,553**
Value Analysis					
Capitalized Value	$30,540,624	$35,268,371	$36,271,137	$31,458,221	$35,896,489
Less Development Costs (b)	($21,488,032)	($24,427,553)	($25,132,221)	($21,488,032)	($24,427,553)
Less Developer Profit	($2,148,803)	($2,442,755)	($2,513,222)	($2,148,803)	($2,442,755)
Residual Project Value (Shortfall), excl. Land Cost	**$6,903,790**	**$8,398,063**	**$8,625,694**	**$7,821,386**	**$9,026,181**
Less Site Acquisition Costs	($6,950,000)	($6,950,000)	($6,950,000)	($6,950,000)	($6,950,000)
Residual Project Value (Shortfall), incl. Land Cost	**($46,210)**	**$1,448,063**	**$1,675,694**	**$871,386**	**$2,076,181**

Notes:
(a) The figures in the "Public Benefit Bonus Project w/ BMR In-Lieu Fee column show findings for a project that is the same as the proposed project, except that the developer would meet the City's BMR requirements by providing one BMR unit and paying an in-lieu fee to satisfy the requirement for an additional 0.4 BMR units.
(b) Development costs exclude costs associated with land acquisition.

Sources: BAE, 2019.

Overview of Proposed Project

The developer has proposed construction of a mixed-use project with residential, retail, and medical office uses on the site. The project site consists of three adjacent parcels, two of which are located within the El Camino Real/Downtown Specific Plan El Camino Real South-West (ECR SW) area. The third parcel is located outside of the Specific Plan area in the R-3 zoning district ("R-3 parcel"). As part of the project, the two ECR-SW parcels would be merged into a single parcel ("ECR SW parcel") and the R-3 parcel would remain a standalone parcel.

Public Benefit Bonus Project

The proposed public benefit bonus project (Bonus Project) would consist of two four-bedroom townhome units and a three-story mixed-use building with 12 residential rental units, approximately 7,300 square feet of retail and medical office space, and two levels of underground parking. The 12 residential units in the mixed-use building would consist of six one-bedroom units and six two-bedroom units and the project applicant has indicated that it is anticipated that all 14 units will initially operate as rental units. A total of 60 parking spaces (32 standard and 28 mechanical stacker spaces) would be provided in the underground parking garage, which would be located underneath the mixed-use building and have approximately the same footprint. The mixed-use building would contain approximately 25,920 square feet of gross building area and would be located on the ECR SW parcel. The two units on the R-3 parcel would be two-story, four-bedroom detached townhomes.

The City's Below Market Rate (BMR) Housing Program requires that ten percent of the units in the proposed project (1.4 units) will be reserved for and affordable to lower-income households. The BMR program requires that the project provide at least one BMR unit on site to fulfill the requirement for a full BMR unit, but provides the option for the applicant to satisfy the requirement for an additional 0.4 BMR units by paying an in-lieu fee, equal to 0.4 of the in-lieu fee associated with one full BMR unit. The project applicant has proposed providing two BMR units in the mixed-use building on the ECR SW parcel rather than providing one BMR unit and a partial in-lieu fee. The additional 0.6 BMR units that the proposed project would provide (i.e., the difference between the required 1.4 BMR units and the proposed two full BMR units) constitutes the proposed public benefit from the project.

Construction of either the Bonus or the Base Project would require demolition of an existing commercial building on the ECR SW parcel as well as four existing residential units on the R-3 parcel.

Base Zoning Project

Although the developer has not prepared plans for a project that would conform to the existing base zoning (i.e. without the public benefit bonus), the Project sponsor has indicated that the Base Project on the ECR SW parcel would consist of 10 rental units (five one-bedroom units and five two-bedroom units), approximately 7,000 square feet of retail/medical office space, and two levels of underground parking. A total of 54 parking spaces (38 standard and 16

mechanical stacker spaces) would be provided in the underground garage in the Base Project. As in the Bonus Project, the parking garage would be located underneath the mixed-use building and in approximately the same footprint. Although the four-bedroom townhome units would be the same in the Base Project and the Bonus Project, the average unit size on the ECR SW parcel would be considerably smaller in the Base Project than in the Bonus Project.

The Base Project would have a BMR requirement of 1.2 BMR units. To satisfy the requirements of the City's BMR Housing Program in the Base Project, one of the one-bedroom units on the ECR SW parcel would be a BMR unit and the developer would pay an in-lieu fee for the remaining 0.2 BMR units.

As noted above, construction of the either the Bonus or the Base Project would require demolition an existing commercial building and four existing residential units.

Methodology for the Financial Analysis

This analysis involved preparation of a static proforma financial feasibility models for each development program. The static proforma models represent a simplified form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial test of financial feasibility for a development concept, to screen for viability. This analysis uses a financial proforma model structured on the assumption that the developer of the proposed project is pursuing each element of the project on a speculative basis, rather than for a specific end-user.

BAE formulated assumptions for the proforma analysis using information provided by the developer as well as BAE's own research of development costs and market conditions. The developer provided a detailed contractor estimate for the Bonus Project, which was broken out by major component. BAE reorganized the detailed cost information to prepare a project proforma model for both the Base Project and the Bonus Project. The proforma models are set up to calculate project value as a residual value. The calculation for residual project value starts with the market value of the completed project at stabilization and then deducts total development costs and developer profit in order to obtain a residual land value that would be supported by each project. The residual project value is then determined by measuring the difference between the land value supported by each project and the actual price paid by the developer for the land in 2015. The residual project value for the Bonus Project, less the residual project value for the Base Project, represents the theoretical "increase" in value attributable to the public benefit bonus.

Key Assumptions

The attached proformas detail the assumptions that were used in the analysis. The following is an overview of key assumptions:

- The developer's plans for the Bonus Project show an average of 1,508 square feet per residential unit in the mixed-use building on the ECR SW portion of the site, including residential common areas. Net of common areas, the average unit size in the mixed-use building on the ECR SW portion of the site is 1,237 square feet, an 82-percent efficiency factor (i.e., 82 percent of the residential square footage is net rentable space). The townhouse units average 1,782 square feet per unit. These unit sizes are considerably larger than is typical in other market-rate developments in the area and may be more consistent with a luxury rental property or a condominium property than a typical multifamily rental development. The mixed-use building also has a fairly low residential efficiency factor, which further increases the average gross square footage per residential unit compared to a more typical building.
- Residential unit sizes in the Base Project average 1,251 square feet per unit in the mixed-use building on the ECR SW portion of the site, including residential common areas. While lower than the in the Bonus Project, the gross square footage per unit in the Base Project is relatively large compared to other recent multifamily rental projects in the area. On a net rentable basis, the average unit sizes in the Base Project are more similar to other recent projects in Menlo Park. The average unit sizes of the four-bedroom townhome units are the same in both the Bonus Project and the Base project and reflect the maximum buildable square footage on the R-3 parcel.
- The project applicant estimates that residential monthly rents in the Bonus Project will average $4.00 per square foot per month. This is significantly lower than the average per-square-foot rents for other recently-constructed multifamily rental properties in Menlo Park, which generally range from $4.50 and $5.00 per square foot per month for one-bedroom and two-bedroom units. However, because the unit sizes in the proposed project would be larger than the units in other recently constructed projects, it is reasonable to anticipate a lower residential rent per square foot from the project. The project applicant's assumption of $4.00 per square foot per month results in higher rental rates per unit than in other recently-constructed multifamily rental properties in Menlo Park, which is consistent with the larger unit sizes that the proposed project would offer. The attached proformas use the project applicant's assumption that residential rents will average $4.00 per square foot per month across the project. Based on this assumption, market-rate monthly rents in the Bonus Project would average $4,175 for a one-bedroom unit, $5,719 for a two-bedroom unit, and $7,130 for a four-bedroom townhouse. In addition to rental income from the residential units, the proforma includes $125 per month in parking revenue from all parking spaces that serve the residential units (assuming a five percent vacancy factor).
- Because the one-bedroom and two-bedroom units in the Base Project would be relatively similar to other recent multifamily rental projects in Menlo Park in terms of net rentable square footage, the proforma for the Base Project assumes that rental rates for the one-bedroom and two-bedroom units would be similar to rents for units

other new multifamily rental developments in Menlo Park. The monthly rent assumptions for the four-bedroom townhome units are the same in both the Base Project and the Bonus Project. The proforma shows market-rate monthly rents in the Base Project averaging $3,850 for a one-bedroom unit, $4,600 for a two-bedroom unit, and $7,130 for the four-bedroom townhome units. As in the proforma for the Bonus Project, the proforma for the Base Project includes $125 per month from all parking spaces that serve the residential units.

- Per the requirements of the City's BMR Housing Program, the monthly rents for the one-bedroom BMR unit that would be included in both the Base project and the Bonus project is $2,200. The monthly rent for the two-bedroom BMR unit that would be included in the Bonus Project is $2,640.
- This analysis assumes that, in a speculative development scenario, the retail space will rent for $72 per square foot per year, triple net. This is consistent with the project applicant's projected rental income from the retail space. Data from CoStar on retail space rents in Menlo Park and Palo Alto indicate that this is a reasonable rental rate assumption for high-quality retail space located outside of a primary retail node.
- This analysis assumes that, in a speculative development scenario, the medical office space will rent for $84 per square foot per year, triple net, which is higher than the project applicant's projected rental income from the medical office space ($72 per square foot per year) and slightly higher than the rent for recent office leases in the area. The supply of existing medical office space is extremely limited in the local area; according to CoStar, there is no vacant medical office space in Menlo Park and there is a low 2.8-percent vacancy rate among medical office space in Palo Alto. Due to the low medical office vacancy rate, data on medical office lease rates is relatively limited. This analysis assumes a rental rate that is slightly higher than the lease rates for recent medical office leases reported by CoStar on the basis that the proposed project will provide new, high-quality medical office space in a market with strong demand and limited supply.
- In addition to the speculative development scenario, BAE prepared a set of development proformas to demonstrate a potential build-to-suit scenario. The owner of the LLC that owns the project site and serves as the project sponsor is a doctor and a member of a network of medical professionals that includes medical professionals in Silicon Valley. While the project description indicates that no final decision has been made regarding the occupant of the medical office space, it is reasonable to expect that the one of the medical professionals affiliated with the project sponsor will occupy the medical office space in the proposed project and will be identified prior to completion of the project. Similarly, while the project description indicates that no final decision has been made regarding the occupant of the retail space, the applicant has previously proposed specific tenants for the space that would complement the medical office use, and may identify a tenant for this space prior to completion of the project.

The build-to-suit scenario demonstrates a possible scenario in which the future tenants of the non-residential space pay a premium in order to obtain space that is built to their specifications in a market with limited available supply, which is equal to the cost necessary to make the project financially feasible. To determine the rent necessary to make the project financially feasible, BAE adjusted the non-residential rent assumption to identify the rent that the tenants would have to pay to result in a yield on cost from the project that is equal to the 50 basis points more than the overall project cap rate. As shown in the attached proformas, this results in a relatively high assumed rental rate of $120 per square foot per year, triple-net.

- Using the contractor estimate prepared for the developer for the Bonus Project, BAE reclassified hard construction costs into the following categories: (1) onsite costs for demolition, underground utilities, landscaping and sitework; (2) hard construction costs for the shell and core building for the commercial space, townhomes, and apartments; and (3) hard construction costs for underground parking and mechanical parking lifts. Adjustments were made to remove the construction cost contingency of ten percent included in the contractor estimate to avoid duplication of contingency costs (discussed below). With the exception of costs for underground parking and the townhouse units, the hard costs provided by the developer are generally consistent with other small projects with similar levels of architectural detail and high-quality finishes. After making the adjustments described above, the analysis used the contractor's hard construction cost estimates for demolition, underground utilities, landscaping and sitework ($41 per site square foot); commercial space ($384 per square foot); and multifamily residential space ($374 per square foot).
- BAE reviewed recent hard cost estimates for underground parking in other projects, including projects in Menlo Park, and adjusted the construction hard cost estimate for the proposed project downward to $180 per square foot of garage space, plus $17,000 for each of the 14 mechanical parking lifts. The hard construction cost figures that the contractor provided for the underground parking garage totaled $308 per square foot of garage, or $143,000 per space, after making the hard cost adjustments described above, plus $17,000 for each of the 14 mechanical parking lifts. This figure is significantly higher than is typical for underground parking, both on a per-square-foot and a per-parking-space basis.
- BAE adjusted the construction hard cost estimate for the townhouse units downward to $374 per square foot, the same construction hard cost as the multifamily rental units and lower than the $448 per square foot hard cost estimate provided by the contractor. Townhouse hard construction costs can vary substantially based on the quality of interior and exterior finishes, but are generally lower than hard construction costs for multifamily units of a similar quality. Compared to multifamily rental units, townhouse units have a lower ratio of high-cost kitchen and bathroom space as a share of overall unit square footage, which tends to reduce the overall cost per square foot for townhouses relative to smaller multifamily units. This analysis used the same

cost for all residential units to reflect that the townhouse units may include higher-quality finishes than the condominium units, which would partially offset the per-square-foot cost differential between the unit types.

- BAE added a tenant improvement allowance of $60 per square foot of commercial space in both the Base Project and the Bonus Project.
- Soft costs are estimated at 20 percent of total hard costs, plus impact fees, developer profit, financing costs, and contingency. Soft costs total $6.6 million for the Bonus Project and $6.0 million for the Base Project.
- BAE assumed a developer profit equal to ten percent of hard and soft costs. This results in approximately $2.4 million in profit to the developer under the Bonus Project and approximately $2.1 million under the Base Project.
- BAE assumed a developer fee equal to four percent of hard and soft costs to cover the developer's overhead and management costs. This fee is separate from the developer's profit and equals roughly $856,000 for the Bonus Project and $742,000 for the Base Project.
- BAE assumed a contingency cost equal to 5 percent of hard and soft costs.
- Construction financing assumptions are based on current market rates and assume a construction loan interest rate of 5.5 percent and a loan fee equal to 1.5 percent.
- This analysis uses a commercial capitalization rate of 4.9 percent and a residential capitalization rate of 3.5 percent to value the finished projects.
- This analysis includes estimates of the BMR in-lieu fees in order to estimate the partial in-lieu fee that the developer would pay for the Base Project as well as to value the 0.6 BMR units that the developer has proposed to provide as a public benefit in the Bonus Project. The City's BMR Housing Program Guidelines for the in-lieu fee state:

  > *The fee shall be based on the cost to develop, design, construct, and maintain a standard one-bedroom unit in Menlo Park. The fee shall also include the proportionate costs of associated common area as well as land acquisition costs. The fee shall be adjusted on a project-by-project basis depending on size, location and other factors relevant to cost.*

  Based on the above guidelines and input from Menlo Park City staff and the City Attorney, BAE estimated the in-lieu fee as the sum of: 1) total hard and soft costs per square foot for the multifamily portion of each project, multiplied by the gross square footage for a one-bedroom unit in each project; 2) the net present value of the operating costs for a single unit over a 55-year period; and 3) the developer's purchase price for the land ($6.95 million), allocated to a one-bedroom unit based on the average one-bedroom unit's share of overall gross project square footage. Table 3 shows this in-lieu fee calculation for the Base Project and the Bonus Project, as derived for this analysis. These figures represent the fee equivalent to providing one

BMR unit, and would be pro-rated based on the portion of a unit for which the developer would pay fractional in-lieu fee. The figures in this table provide a fee estimate for the purpose of this public benefit analysis and could vary from any actual in-lieu fees that would apply to a project on the subject site or elsewhere in Menlo Park.

Table 3: Estimated BMR In-Lieu Fee for the Base Project, 201 El Camino Real/612 Cambridge Ave, Menlo Park

	Bonus Project	Base Project
Total Development Cost per Gross Residential Sq. Ft. (a)	$725	$809
Average One-Bedroom Unit Size w/ Common Area (b)	1,272	1,055
Average One-Bedroom Unit Development Cost	$922,738	$854,083
One-Bedroom Unit 55-year Operating Cost (c)	$476,876	$476,876
One-Bedroom Unit Land Costs (d)	$299,916	$312,753
Total BMR In-Lieu Fee (per whole unit)	**$1,699,530**	**$1,643,712**

Notes:
(a) Equal to all hard and soft costs for the multifamily residential portion of the project, excluding land and BMR in-lieu fees, divided by the gross multifamily residential square footage.
(b) Represents the average gross residential area for a one-bedroom unit. Figure is based on the overall residential efficiency ratio for units in the 201 ECR building and the estimated average net residential square footage for each development program.
(c) NPV of operating costs for a one-bedroom unit over a 55-year period.
Annual operating costs in year 1 (per unit): $13,000
Annual rate of operating cost inflation: 2.5%
Discount rate for NPV analysis: 4.0%
(d) The Developer purchased the project site for $6,950,000, or approximately $282 per site square foot, in August 2015. This analysis estimates the land cost for a one-bedroom unit based on the share of overall project square footage that an average one-bedroom unit in the project would account for.

Source: BAE, 2019.

Alternative Condominium Scenario

The applicant plans to file a condominium map for the proposed project, which would enable the property owner to sell the residential units as condominiums. City staff requested that BAE evaluate the Bonus Project and Base Project as condominium developments, assuming a sale of the multifamily units in the mixed-use building as well as the townhouse units, to determine the increase in value from the Bonus Project compared to the Base Project in a scenario in which the units are sold rather than rented.

The analysis of the alternative condominium scenario generally used the same assumptions and methodology as the analysis of the rental residential scenario described above, except that the condominium scenario uses residential sale price assumptions, rather than rental income and a capitalization rate, to value the residential units. The assumptions used for the condominium scenario are as follows:

- For the Bonus Project, this analysis uses an average market-rate sale price estimate of $1.205 million for the one-bedroom units and $1.606 million for the two-bedroom units. Estimated market-rate sale prices for the one- and two-bedroom units are

slightly lower in the Base Project due to the smaller average unit size in the Base Project, averaging $1.00 million for the one-bedroom units and $1.332 million for the two-bedroom units. The analysis uses an estimated sale price of $2.536 million for the four-bedroom townhouse units in both the Base Project and the Bonus Project. The sale price estimates for the one-bedroom units are based on the median price per square foot for existing one-bedroom condominium units in Menlo Park and Palo Alto that sold in the past year, while the sale price estimates for the two-bedroom units are based on the median price per square foot for existing two-bedroom condominium units in Menlo Park and Palo Alto that sold in the past year. BAE multiplied the median sale prices per square foot for each unit type by the square footage of each unit. BAE then cross-checked the resulting per-unit sale price estimates with the per-unit sale price among recent sales, giving a higher weighting to units with a similar square footage and units that are relatively close to downtown Menlo Park or Downtown Palo Alto, to verify that the estimates are reasonable. The sale price estimate for the four-bedroom townhomes is based on the price per square foot among three-bedroom townhomes that are relatively close to downtown Menlo Park or downtown Palo Alto and sold within the past year. The methodology for the townhouse units focused on units near one of the two cities' downtowns because the cost per square foot for townhouse units showed wide variation between units that are near one of the two downtowns and those that are not. This analysis used per-square-foot sale prices for three-bedroom units due to a lack of recent sales of comparable four-bedroom units in Menlo Park and Palo Alto.

- For both the Bonus Project and the Base Project, this analysis uses a sale price of $337,019 for a one-bedroom BMR unit and $390,331 for a two-bedroom BMR unit. These sale prices represent the affordable sale price for a household with an income equal to 110 percent of the Area Median Income, assuming a two-person household in the one-bedroom BMR unit and a four-person household in the two-bedroom BMR unit. The affordable sale price is based on the monthly affordable payment, assuming 33 percent of gross household income is spent on maintenance, principal, interest, insurance, utilities, property tax, and homeowners' association fees.

This analysis uses the same BMR in-lieu fees as in the rental scenario, as the applicant has indicated that the residential units will initially be rental units and City staff have indicated that the rental in-lieu will apply to the project.

Limiting Conditions

The above analysis is based on cost and valuation factors provided by the potential developer, as well as research conducted by BAE during the first quarter of 2019. The project is in pre-development, and as design and development work proceeds, it is possible that changes in design, building code requirements, construction costs, market conditions, interest rates, or other factors may result in significant changes in costs, profits, and development feasibility.

Proforma for Base-Level Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Speculative Development Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		23,454
Built Project FAR		0.93
Dwelling units per acre		21
Residential		
Gross residential area (sf)		16,070
Multifamily gross residential area (sf)		12,505
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		12
1 bedroom		4
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		0
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,384
Net retail area (sf)		3,960
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		54
Standard parking spaces		38
Stacker spaces		16
Mechanical parking lifts		8
Residential parking spaces		23

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, developer fee, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
(f) Yield = NOI / (Total Hard Costs & Soft Costs + Actual Land Sale Price)
Source: BAE, 2019.

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (excl. lifts) (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$95,479
General Development Costs			
Impact fees (c)			$194,814
BMR in-lieu fee			$328,742
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee as % of hard and soft costs (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Operating Revenues and Expenses			
Office rental rate, sf/yr, NNN			$84.00
Retail rental rate, sf/yr, NNN			$72.00
Residential rental rate, per du/mo			
1 bedroom			$3,850
1 bedroom BMR			$2,200
2 bedroom			$4,600
2 bedroom BMR			$2,640
4 bedroom townhouse			$7,130
Annual operating cost, per du			$13,000
Vacancy rate - residential / commercial	5%		5%
Residential parking rent, per mo			$125
Vacancy rate - residential parking			5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.5%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$20,730,088

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$2,837,707	$1,332,912	$4,675,473	$8,846,092
Tenant improvements	$417,600	$0	$0	$417,600
Underground garage costs	$2,881,760	$371,840	$1,766,240	$5,019,840
Mechanical parking lift costs	$0	$0	$136,000	$136,000
Demolition and site prep costs	$323,923	$156,390	$548,573	$1,028,886
Subtotal, Hard Costs	**$6,460,990**	**$1,861,142**	**$7,126,286**	**$15,448,418**
Soft costs (d)	$1,292,198	$372,228	$1,425,257	$3,089,684
Impact fees	$69,908	$12,887	$112,019	$194,814
BMR in-lieu fee	$0	$0	$328,742	$328,742
Contingency	$387,659	$111,669	$427,577	$926,905
Developer fee (e)	$310,128	$89,335	$342,062	$741,524
Construction financing - interest	$228,466	$65,617	$261,742	$555,825
Construction financing - loan fees	$83,079	$23,861	$95,179	$202,118
Subtotal, Soft Costs	**$2,371,438**	**$675,597**	**$2,992,578**	**$6,039,613**
Total Hard & Soft Costs	**$8,832,428**	**$2,536,739**	**$10,118,864**	**$21,488,032**
Total Costs per Unit	n/a	$1,268,370	$1,011,886	$1,790,669
Total Costs per sf	$1,196	$712	$809	$916

Income Capitalization

Projected Income	Commercial	Townhome	Multifamily	Total
Gross annual rents	$510,264	$162,564	$462,840	$1,135,668
Gross annual parking rent	0	$5,700	$27,075	$32,775
Less operating expenses	$0	($26,000)	($130,000)	($156,000)
Net Operating Income (NOI)	$510,264	$142,264	$359,915	$1,012,443
Capitalized Value				
Capitalization Rate	4.9%	3.5%	3.5%	4.1%
Capitalized Value	$10,413,551	$4,064,686	$10,283,286	$24,761,522

Residual Project Value

Residual Value	
Total Capitalized Value	$24,761,522
Less Hard and Soft Costs	($21,488,032)
Less Developer Profit	($2,148,803)
Residual Land Value	**$1,124,688**
Actual Land Sale Price (2015)	($6,950,000)
Residual Project Value	**($5,825,312)**
Yield as % of Total Development Cost (f)	3.56%

Proforma for Proposed Public Benefit Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Speculative Development Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		29,486
Built Project FAR		1.17
Dwelling units per acre		24
Residential		
Gross residential area (sf)		21,656
Multifamily gross residential area (sf)		18,091
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		14
1 bedroom		5
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		1
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,830
Net retail area (sf)		4,322
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		60
Standard parking spaces		32
Stacker spaces		28
Mechanical parking lifts		14
Residential parking spaces		27

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/ Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, developer fee, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
(f) Yield = NOI / (Total Hard Costs & Soft Costs + Actual Land Sale Price)
Source: BAE, 2019.

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$87,631
General Development Costs			
Impact fees (c)			$241,565
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee as % of hard and soft costs (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Operating Revenues and Expenses			
Medical office rental rate, sf/yr, NNN			$84.00
Retail rental rate, sf/yr, NNN			$72.00
Residential rental rate, per du/mo			
1 bedroom			$4,175
1 bedroom BMR			$2,200
2 bedroom			$5,719
2 bedroom BMR			$2,640
4 bedroom townhouse			$7,130
Annual operating cost, per du			$13,000
Vacancy rate - residential / commercial	5%		5%
Residential parking rent, per mo			$125
Vacancy rate - residential parking			5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.50%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$23,565,924

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$3,009,107	$1,332,912	$6,764,014	$11,106,033
Tenant improvements	$439,320	$0	$0	$439,320
Underground garage costs	$2,760,912	$334,656	$1,924,272	$5,019,840
Mechanical parking lift costs	$0	$0	$238,000	$238,000
Demolition and site prep costs	$273,220	$124,397	$631,268	$1,028,886
Subtotal, Hard Costs	**$6,482,560**	**$1,791,965**	**$9,557,554**	**$17,832,079**
Soft costs (d)	$1,296,512	$358,393	$1,911,511	$3,566,416
Impact fees	$73,642	$12,672	$155,252	$241,565
Contingency	$388,954	$107,518	$573,453	$1,069,925
Developer fee (e)	$311,163	$86,014	$458,763	$855,940
Construction financing - interest	$229,323	$63,185	$339,353	$631,861
Construction financing - loan fee	$83,390	$22,976	$123,401	$229,768
Subtotal, Soft Costs	**$2,382,983**	**$650,759**	**$3,561,733**	**$6,595,475**
Total Hard & Soft Costs	**$8,865,543**	**$2,442,724**	**$13,119,287**	**$24,427,553**
Total Costs per Unit	n/a	$1,221,362	$1,093,274	$1,744,825
Total Costs per sf	$1,132	$685	$725	$828

Income Capitalization

Projected Income	Commercial	Townhome	Multifamily	Total
Gross annual rents	$535,025	$162,564	$619,134	$1,316,723
Gross annual parking rent	$0	$5,700	$32,775	$38,475
Less operating expenses	$0	($26,000)	($156,000)	($182,000)
Net Operating Income (NOI)	$535,025	$142,264	$495,909	$1,173,198
Capitalized Value				
Capitalization Rate	4.9%	3.5%	3.5%	4.02%
Capitalized Value	$10,918,873	$4,064,686	$14,168,829	$29,152,388

Residual Project Value

Residual Value	
Total Capitalized Value	$29,152,388
Less Hard and Soft Costs	($24,427,553)
Less Developer Profit	($2,442,755)
Residual Land Value	**$2,282,079**
Actual Land Sale Price (2015)	($6,950,000)
Residual Project Value	**($4,667,921)**
Yield as % of Total Development Cost (f)	3.74%

Proforma for Public Benefit Level Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Partial BMR In-Lieu Fee, Speculative Development Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		29,486
Built Project FAR		1.17
Dwelling units per acre		24
Residential		
Gross residential area (sf)		21,656
Multifamily gross residential area (sf)		18,091
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		14
1 bedroom		5
1 bedroom BMR unit		1
2 bedroom		6
2 bedroom BMR unit		0
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,830
Net retail area (sf)		4,322
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		60
Standard parking spaces		32
Stacker spaces		28
Mechanical parking lifts		14
Residential parking spaces		27

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (excl. lifts) (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$87,631
General Development Costs			
Impact fees (c)			$241,565
BMR in-lieu fee			$679,812
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee as % of hard and soft costs (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Operating Revenues and Expenses			
Office rental rate, sf/yr, NNN			$84.00
Retail rental rate, sf/yr, NNN			$72.00
Residential rental rate, per du/mo			
1 bedroom			$4,175
1 bedroom BMR			$2,200
2 bedroom			$5,719
2 bedroom BMR			$2,640
4 bedroom townhouse			$7,130
Annual operating cost, per du			$13,000
Vacancy rate - residential / commercial	5%		5%
Residential parking rent, per mo			$125
Vacancy rate - residential parking			5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.5%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$24,245,736

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$3,009,107	$1,332,912	$6,764,014	$11,106,033
Tenant improvements	$439,320	$0	$0	$439,320
Underground garage costs	$2,760,912	$334,656	$1,924,272	$5,019,840
Mechanical parking lift costs	$0	$0	$238,000	$238,000
Demolition and site prep costs	$273,220	$124,397	$631,268	$1,028,886
Subtotal, Hard Costs	**$6,482,560**	**$1,791,965**	**$9,557,554**	**$17,832,079**
Soft costs (d)	$1,296,512	$358,393	$1,911,511	$3,566,416
Impact fees	$73,642	$12,672	$155,252	$241,565
BMR in-lieu fee	$0	$0	$679,812	$679,812
Contingency	$388,954	$107,518	$573,453	$1,069,925
Developer fee (e)	$311,163	$86,014	$458,763	$855,940
Construction financing - interest	$229,323	$63,185	$357,581	$650,089
Construction financing - loan fees	$83,390	$22,976	$130,029	$236,396
Subtotal, Soft Costs	**$2,382,983**	**$650,759**	**$4,266,400**	**$7,300,142**
Total Hard & Soft Costs	**$8,865,543**	**$2,442,724**	**$13,823,954**	**$25,132,221**
Total Costs per Unit	n/a	$1,221,362	$1,151,996	$1,795,159
Total Costs per sf	$1,132	$685	$764	$852

Income Capitalization

Projected Income	Commercial	Townhome	Multifamily	Total
Gross annual rents	$535,025	$162,564	$654,231	$1,351,820
Gross annual parking rent	$0	$5,700	$32,775	$38,475
Less operating expenses	$0	($26,000)	($156,000)	($182,000)
Net Operating Income (NOI)	$535,025	$142,264	$531,006	$1,208,295
Capitalized Value				
Capitalization Rate	4.9%	3.5%	3.5%	4.01%
Capitalized Value	$10,918,873	$4,064,686	$15,171,594	$30,155,153

Residual Project Value

Residual Value	
Total Capitalized Value	$30,155,153
Less Hard and Soft Costs	($25,132,221)
Less Developer Profit	($2,513,222)
Residual Land Value	**$2,509,711**
Actual Land Sale Price (2015)	($6,950,000)
Residual Project Value	**($4,440,289)**
Yield as % of Total Development Cost (f)	3.77%

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, developer fee, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
(f) Yield = NOI / (Total Hard Costs & Soft Costs + Actual Land Sale Price)
Source: BAE, 2019.

Pro Forma for Base-Level Condominium Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Speculative Development Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		23,454
Built Project FAR		0.93
Dwelling units per acre		21
Residential		
Gross residential area (sf)		16,070
Multifamily gross residential area (sf)		12,505
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		12
1 bedroom		4
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		0
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,384
Net retail area (sf)		3,960
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		54
Standard parking spaces		38
Stacker spaces		16
Mechanical parking lifts		8
Residential parking spaces		23

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (excl. lifts) (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$95,479
General Development Costs			
Impact fees (c)			$194,814
BMR in-lieu fee			$328,742
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Revenue and Sales Assumptions			
Office rental rate, sf/yr, NNN			$84.00
Retail rental rate, sf/yr, NNN			$72.00
Average sale price per unit	**Avg. Unit SF**	**Price/SF**	**Price/Unit**
1 bedroom	866	$1,154	$1,000,000
1 bedroom BMR		N/A	$337,019
2 bedroom	1,186	$1,123	$1,332,000
2 bedroom BMR		N/A	$390,331
4 bedroom townhouse	1,783	$1,423	$2,536,000
Marketing costs as % of sales revenue			5%
Vacancy rate - residential / commercial		n/a	5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.5%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$20,730,088

Development Costs (excluding land)

Development Costs	**Commercial**	**Townhome**	**Multifamily**	**Total**
Building hard construction cos	$2,837,707	$1,332,912	$4,675,473	$8,846,092
Tenant improvements	$417,600	$0	$0	$417,600
Underground garage costs	$2,881,760	$371,840	$1,766,240	$5,019,840
Mechanical parking lift costs	$0	$0	$136,000	$136,000
Demolition and site prep costs	$323,923	$156,390	$548,573	$1,028,886
Subtotal, Hard Costs	**$6,460,990**	**$1,861,142**	**$7,126,286**	**$15,448,418**
Soft costs (d)	$1,292,198	$372,228	$1,425,257	$3,089,684
Impact fees	$69,908	$12,887	$112,019	$194,814
BMR in-lieu fee	$0	$0	$328,742	$328,742
Contingency	$387,659	$111,669	$427,577	$926,905
Developer fee	$310,128	$89,335	$342,062	$741,524
Construction financing - intere	$228,466	$65,617	$261,742	$555,825
Construction financing - loan f	$83,079	$23,861	$95,179	$202,118
Subtotal, Soft Costs	**$2,371,438**	**$675,597**	**$2,992,578**	**$6,039,613**
Total Hard & Soft Costs	**$8,832,428**	**$2,536,739**	**$10,118,864**	**$21,488,032**
Total Costs per Unit	n/a	$1,268,370	$1,011,886	$1,790,669
Total Costs per sf	$1,196	$712	$809	$916

Income and Sales Revenue

	Commercial	**Townhome**	**Multifamily**	**Total**
Gross Sales Revenue	-	$5,072,000	$10,997,019	$16,069,019
Less Marketing Costs	-	($253,600)	($549,851)	($803,451)
Net Sales Revenue	-	$4,818,400	$10,447,168	$15,265,568
Gross Annual Rent	$510,264	-	-	$510,264
Less operating expenses	0	-	-	-
Net Operating Income (NOI	$510,264	-	-	$510,264
Capitalization Rate	4.9%	-	-	-
Capitalized Value	$10,413,551	-	-	$10,413,551

Residual Project Value

Project Value	$10,413,551	$4,818,400	$10,447,168	$25,679,119
Less Hard and Soft Costs	($8,832,428)	($2,536,739)	($10,118,864)	($21,488,032)
Less Developer Profit	($883,243)	($253,674)	($1,011,886)	($2,148,803)
Residual Land Value	**$697,880**	**$2,027,987**	**($683,582)**	**$2,042,284**
Actual Land Sale Price (2015)				($6,950,000)
Residual Project Value				**($4,907,716)**

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
Source: BAE, 2019.

Pro Forma for Public Benefit Level Condominium Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Speculative Development Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		29,486
Built Project FAR		1.17
Dwelling units per acre		24
Residential		
Gross residential area (sf)		21,656
Multifamily gross residential area (sf)		18,091
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		14
1 bedroom		5
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		1
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,830
Net retail area (sf)		4,322
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		60
Standard parking spaces		32
Stacker spaces		28
Mechanical parking lifts		14
Residential parking spaces		27

Cost and Income Assumptions

Development Costs	**Commercial**	**Residential Townhome**	**Residential Multifamily**
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$87,631
General Development Costs			
Impact fees (c)			$241,565
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Revenue and Sales Assumptions			
Office rental rate, sf/yr, NNN			$84.00
Retail rental rate, sf/yr, NNN			$72.00
Average sale price	**Avg. Unit SF**	**Price/SF**	**Price/Unit**
1 bedroom	1,044	$1,154	$1,205,000
1 bedroom BMR		N/A	$337,019
2 bedroom	1,430	$1,123	$1,606,000
2 bedroom BMR		N/A	$390,331
4 bedroom townhouse	1,783	$1,423	$2,536,000
Marketing costs as % of sales revenue			5%
Vacancy rate - residential / commercial		n/a	5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.50%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$23,565,924

Development Costs (excluding land)

Development Costs	**Commercial**	**Townhome**	**Multifamily**	**Total**
Building hard construction costs	$3,009,107	$1,332,912	$6,764,014	$11,106,033
Tenant improvements	$439,320	$0	$0	$439,320
Underground garage costs	$2,760,912	$334,656	$1,924,272	$5,019,840
Mechanical parking lift costs	$0	$0	$238,000	$238,000
Demolition and site prep costs	$273,220	$124,397	$631,268	$1,028,886
Subtotal, Hard Costs	**$6,482,560**	**$1,791,965**	**$9,557,554**	**$17,832,079**
Soft costs (d)	$1,296,512	$358,393	$1,911,511	$3,566,416
Impact fees	$73,642	$12,672	$155,252	$241,565
Contingency	$388,954	$107,518	$573,453	$1,069,925
Developer fee	$311,163	$86,014	$458,763	$855,940
Construction financing - interest	$229,323	$63,185	$339,353	$631,861
Construction financing - loan fees	$83,390	$22,976	$123,401	$229,768
Subtotal, Soft Costs	**$2,382,983**	**$650,759**	**$3,561,733**	**$6,595,475**
Total Hard & Soft Costs	**$8,865,543**	**$2,442,724**	**$13,119,287**	**$24,427,553**
Total Costs per Unit	n/a	$1,221,362	$1,093,274	$1,744,825
Total Costs per sf	$1,132	$685	$725	$828

Income and Sales Revenue

	Commercial	**Townhome**	**Multifamily**	**Total**
Gross Sales Revenue	-	$5,072,000	$14,782,350	$19,854,350
Less Marketing Costs	-	($253,600)	($739,117)	($992,717)
Net Sales Revenue	-	$4,818,400	$14,043,232	$18,861,632
Gross Annual Rent	$535,025	-	-	$535,025
Less operating expenses	-	-	-	-
Net Operating Income (NOI)	$535,025	-	-	$535,025
Capitalization Rate	4.9%	-	-	-
Capitalized Value	$10,918,873	-	-	$10,918,873

Residual Project Value

Project Value	$10,918,873	$4,818,400	$14,043,232	$29,780,506
Less Hard and Soft Costs	($8,865,543)	($2,442,724)	($13,119,287)	($24,427,553)
Less Developer Profit	($886,554)	($244,272)	($1,311,929)	($2,442,755)
Residual Land Value	**$1,166,776**	**$2,131,404**	**($387,983)**	**$2,910,197**
Actual Land Sale Price (2015)				($6,950,000)
Residual Project Value				**($4,039,803)**

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
Source: BAE, 2019.

Proforma for Base-Level Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Possible Build-to-Suit Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		23,454
Built Project FAR		0.93
Dwelling units per acre		21
Residential		
Gross residential area (sf)		16,070
Multifamily gross residential area (sf)		12,505
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		12
1 bedroom		4
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		0
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,384
Net retail area (sf)		3,960
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		54
Standard parking spaces		38
Stacker spaces		16
Mechanical parking lifts		8
Residential parking spaces		23

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (excl. lifts) (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$95,479
General Development Costs			
Impact fees (c)			$194,814
BMR in-lieu fee			$328,742
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee as % of hard and soft costs (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Operating Revenues and Expenses			
Office rental rate, sf/yr, NNN			$120.00
Retail rental rate, sf/yr, NNN			$120.00
Residential rental rate, per du/mo			
1 bedroom			$3,850
1 bedroom BMR			$2,200
2 bedroom			$4,600
2 bedroom BMR			$2,640
4 bedroom townhouse			$7,130
Annual operating cost, per du			$13,000
Vacancy rate - residential / commercial	5%		5%
Residential parking rent, per mo			$125
Vacancy rate - residential parking			5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.5%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$20,730,088

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$2,837,707	$1,332,912	$4,675,473	$8,846,092
Tenant improvements	$417,600	$0	$0	$417,600
Underground garage costs	$2,881,760	$371,840	$1,766,240	$5,019,840
Mechanical parking lift costs	$0	$0	$136,000	$136,000
Demolition and site prep costs	$323,923	$156,390	$548,573	$1,028,886
Subtotal, Hard Costs	**$6,460,990**	**$1,861,142**	**$7,126,286**	**$15,448,418**
Soft costs (d)	$1,292,198	$372,228	$1,425,257	$3,089,684
Impact fees	$69,908	$12,887	$112,019	$194,814
BMR in-lieu fee	$0	$0	$328,742	$328,742
Contingency	$387,659	$111,669	$427,577	$926,905
Developer fee (e)	$310,128	$89,335	$342,062	$741,524
Construction financing - interest	$228,466	$65,617	$261,742	$555,825
Construction financing - loan fees	$83,079	$23,861	$95,179	$202,118
Subtotal, Soft Costs	**$2,371,438**	**$675,597**	**$2,992,578**	**$6,039,613**
Total Hard & Soft Costs	**$8,832,428**	**$2,536,739**	**$10,118,864**	**$21,488,032**
Total Costs per Unit	n/a	$1,268,370	$1,011,886	$1,790,669
Total Costs per sf	$1,196	$712	$809	$916

Income Capitalization

Projected Income	Commercial	Townhome	Multifamily	Total
Gross annual rents	$793,440	$162,564	$462,840	$1,418,844
Gross annual parking rent	0	$5,700	$27,075	$32,775
Less operating expenses	$0	($26,000)	($130,000)	($156,000)
Net Operating Income (NOI)	$793,440	$142,264	$359,915	$1,295,619
Capitalized Value				
Capitalization Rate	4.9%	3.5%	3.5%	4.2%
Capitalized Value	$16,192,653	$4,064,686	$10,283,286	$30,540,624

Residual Project Value

Residual Value	
Total Capitalized Value	$30,540,624
Less Hard and Soft Costs	($21,488,032)
Less Developer Profit	($2,148,803)
Residual Land Value	**$6,903,790**
Actual Land Sale Price (2015)	($6,950,000)
Residual Project Value	**($46,210)**
Yield as % of Total Development Cost (f)	4.56%

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, developer fee, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
(f) Yield = NOI / (Total Hard Costs & Soft Costs + Actual Land Sale Price)
Source: BAE, 2019.

Proforma for Proposed Public Benefit Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Possible Build-to-Suit Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		29,486
Built Project FAR		1.17
Dwelling units per acre		24
Residential		
Gross residential area (sf)		21,656
Multifamily gross residential area (sf)		18,091
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		14
1 bedroom		5
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		1
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,830
Net retail area (sf)		4,322
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		60
Standard parking spaces		32
Stacker spaces		28
Mechanical parking lifts		14
Residential parking spaces		27

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$87,631
General Development Costs			
Impact fees (c)			$241,565
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee as % of hard and soft costs (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Operating Revenues and Expenses			
Medical office rental rate, sf/yr, NNN			$120.00
Retail rental rate, sf/yr, NNN			$120.00
Residential rental rate, per du/mo			
1 bedroom			$4,175
1 bedroom BMR			$2,200
2 bedroom			$5,719
2 bedroom BMR			$2,640
4 bedroom townhouse			$7,130
Annual operating cost, per du			$13,000
Vacancy rate - residential / commercial	5%		5%
Residential parking rent, per mo			$125
Vacancy rate - residential parking			5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.50%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$23,565,924

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$3,009,107	$1,332,912	$6,764,014	$11,106,033
Tenant improvements	$439,320	$0	$0	$439,320
Underground garage costs	$2,760,912	$334,656	$1,924,272	$5,019,840
Mechanical parking lift costs	$0	$0	$238,000	$238,000
Demolition and site prep costs	$273,220	$124,397	$631,268	$1,028,886
Subtotal, Hard Costs	**$6,482,560**	**$1,791,965**	**$9,557,554**	**$17,832,079**
Soft costs (d)	$1,296,512	$358,393	$1,911,511	$3,566,416
Impact fees	$73,642	$12,672	$155,252	$241,565
Contingency	$388,954	$107,518	$573,453	$1,069,925
Developer fee (e)	$311,163	$86,014	$458,763	$855,940
Construction financing - interest	$229,323	$63,185	$339,353	$631,861
Construction financing - loan fee	$83,390	$22,976	$123,401	$229,768
Subtotal, Soft Costs	**$2,382,983**	**$650,759**	**$3,561,733**	**$6,595,475**
Total Hard & Soft Costs	**$8,865,543**	**$2,442,724**	**$13,119,287**	**$24,427,553**
Total Costs per Unit	n/a	$1,221,362	$1,093,274	$1,744,825
Total Costs per sf	$1,132	$685	$725	$828

Income Capitalization

Projected Income	Commercial	Townhome	Multifamily	Total
Gross annual rents	$834,708	$162,564	$619,134	$1,616,406
Gross annual parking rent	$0	$5,700	$32,775	$38,475
Less operating expenses	$0	($26,000)	($156,000)	($182,000)
Net Operating Income (NOI)	$834,708	$142,264	$495,909	$1,472,881
Capitalized Value				
Capitalization Rate	4.9%	3.5%	3.5%	4.18%
Capitalized Value	$17,034,857	$4,064,686	$14,168,829	$35,268,371

Residual Project Value

Residual Value	
Total Capitalized Value	$35,268,371
Less Hard and Soft Costs	($24,427,553)
Less Developer Profit	($2,442,755)
Residual Land Value	**$8,398,063**
Actual Land Sale Price (2015)	($6,950,000)
Residual Project Value	**$1,448,063**
Yield as % of Total Development Cost (f)	4.69%

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/ Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, developer fee, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
(f) Yield = NOI / (Total Hard Costs & Soft Costs + Actual Land Sale Price)
Source: BAE, 2019.

Proforma for Public Benefit Level Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Partial BMR In-Lieu Fee, Possible Build-to-Suit Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		29,486
Built Project FAR		1.17
Dwelling units per acre		24
Residential		
Gross residential area (sf)		21,656
Multifamily gross residential area (sf)		18,091
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		14
1 bedroom		5
1 bedroom BMR unit		1
2 bedroom		6
2 bedroom BMR unit		0
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,830
Net retail area (sf)		4,322
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		60
Standard parking spaces		32
Stacker spaces		28
Mechanical parking lifts		14
Residential parking spaces		27

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (excl. lifts) (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$87,631
General Development Costs			
Impact fees (c)			$241,565
BMR in-lieu fee			$679,812
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee as % of hard and soft costs (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Operating Revenues and Expenses			
Office rental rate, sf/yr, NNN			$120.00
Retail rental rate, sf/yr, NNN			$120.00
Residential rental rate, per du/mo			
1 bedroom			$4,175
1 bedroom BMR			$2,200
2 bedroom			$5,719
2 bedroom BMR			$2,640
4 bedroom townhouse			$7,130
Annual operating cost, per du			$13,000
Vacancy rate - residential / commercial	5%		5%
Residential parking rent, per mo			$125
Vacancy rate - residential parking			5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.5%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$24,245,736

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$3,009,107	$1,332,912	$6,764,014	$11,106,033
Tenant improvements	$439,320	$0	$0	$439,320
Underground garage costs	$2,760,912	$334,656	$1,924,272	$5,019,840
Mechanical parking lift costs	$0	$0	$238,000	$238,000
Demolition and site prep costs	$273,220	$124,397	$631,268	$1,028,886
Subtotal, Hard Costs	**$6,482,560**	**$1,791,965**	**$9,557,554**	**$17,832,079**
Soft costs (d)	$1,296,512	$358,393	$1,911,511	$3,566,416
Impact fees	$73,642	$12,672	$155,252	$241,565
BMR in-lieu fee	$0	$0	$679,812	$679,812
Contingency	$388,954	$107,518	$573,453	$1,069,925
Developer fee (e)	$311,163	$86,014	$458,763	$855,940
Construction financing - interest	$229,323	$63,185	$357,581	$650,089
Construction financing - loan fees	$83,390	$22,976	$130,029	$236,396
Subtotal, Soft Costs	**$2,382,983**	**$650,759**	**$4,266,400**	**$7,300,142**
Total Hard & Soft Costs	**$8,865,543**	**$2,442,724**	**$13,823,954**	**$25,132,221**
Total Costs per Unit	n/a	$1,221,362	$1,151,996	$1,795,159
Total Costs per sf	$1,132	$685	$764	$852

Income Capitalization

Projected Income	Commercial	Townhome	Multifamily	Total
Gross annual rents	$834,708	$162,564	$654,231	$1,651,503
Gross annual parking rent	$0	$5,700	$32,775	$38,475
Less operating expenses	$0	($26,000)	($156,000)	($182,000)
Net Operating Income (NOI)	$834,708	$142,264	$531,006	$1,507,978
Capitalized Value				
Capitalization Rate	4.9%	3.5%	3.5%	4.16%
Capitalized Value	$17,034,857	$4,064,686	$15,171,594	$36,271,137

Residual Project Value

Residual Value	
Total Capitalized Value	$36,271,137
Less Hard and Soft Costs	($25,132,221)
Less Developer Profit	($2,513,222)
Residual Land Value	**$8,625,694**
Actual Land Sale Price (2015)	($6,950,000)
Residual Project Value	**$1,675,694**
Yield as % of Total Development Cost (f)	4.70%

Notes:
(a) Construction costs provided by Project sponsor were supported by contractor detail and reorganized by BAE for this proforma.
(b) Includes landlord share of tenant improvement costs.
(c) Includes the following FY 2017-18 development impact fees: Building Construction Road Impact Fee; Traffic Impact Fee; Supplemental Traffic Impact Fee; ECR/Downtown Specific Plan Prep Fee; Menlo Park City School District/Sequoia Union High School District Impact Fees. Excludes sewer connection fees, water capital facilities charges, and storm drainage connection fees, pending City calculations. Figures are net of existing uses to be demolished.
(d) Developer soft costs exclude impact fees, financing costs, contingency, developer fee, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
(f) Yield = NOI / (Total Hard Costs & Soft Costs + Actual Land Sale Price)
Source: BAE, 2019.

Pro Forma for Base-Level Condominium Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Possible Build-to-Suit Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		23,454
Built Project FAR		0.93
Dwelling units per acre		21
Residential		
Gross residential area (sf)		16,070
Multifamily gross residential area (sf)		12,505
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		12
1 bedroom		4
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		0
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,384
Net retail area (sf)		3,960
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		54
Standard parking spaces		38
Stacker spaces		16
Mechanical parking lifts		8
Residential parking spaces		23

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (excl. lifts) (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$95,479
General Development Costs			
Impact fees (c)			$194,814
BMR in-lieu fee			$328,742
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Revenue and Sales Assumptions			
Office rental rate, sf/yr, NNN			$120.00
Retail rental rate, sf/yr, NNN			$120.00
Average sale price per unit	**Avg. Unit SF**	**Price/SF**	**Price/Unit**
1 bedroom	866	$1,154	$1,000,000
1 bedroom BMR		N/A	$337,019
2 bedroom	1,186	$1,123	$1,332,000
2 bedroom BMR		N/A	$390,331
4 bedroom townhouse	1,783	$1,423	$2,536,000
Marketing costs as % of sales revenue			5%
Vacancy rate - residential / commercial		n/a	5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.5%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$20,730,088

Development Costs (excluding land)

Development Costs	**Commercial**	**Townhome**	**Multifamily**	**Total**
Building hard construction cos	$2,837,707	$1,332,912	$4,675,473	$8,846,092
Tenant improvements	$417,600	$0	$0	$417,600
Underground garage costs	$2,881,760	$371,840	$1,766,240	$5,019,840
Mechanical parking lift costs	$0	$0	$136,000	$136,000
Demolition and site prep costs	$323,923	$156,390	$548,573	$1,028,886
Subtotal, Hard Costs	**$6,460,990**	**$1,861,142**	**$7,126,286**	**$15,448,418**
Soft costs (d)	$1,292,198	$372,228	$1,425,257	$3,089,684
Impact fees	$69,908	$12,887	$112,019	$194,814
BMR in-lieu fee	$0	$0	$328,742	$328,742
Contingency	$387,659	$111,669	$427,577	$926,905
Developer fee	$310,128	$89,335	$342,062	$741,524
Construction financing - intere	$228,466	$65,617	$261,742	$555,825
Construction financing - loan f	$83,079	$23,861	$95,179	$202,118
Subtotal, Soft Costs	**$2,371,438**	**$675,597**	**$2,992,578**	**$6,039,613**
Total Hard & Soft Costs	**$8,832,428**	**$2,536,739**	**$10,118,864**	**$21,488,032**
Total Costs per Unit	n/a	$1,268,370	$1,011,886	$1,790,669
Total Costs per sf	$1,196	$712	$809	$916

Income and Sales Revenue

	Commercial	**Townhome**	**Multifamily**	**Total**
Gross Sales Revenue	-	$5,072,000	$10,997,019	$16,069,019
Less Marketing Costs	-	($253,600)	($549,851)	($803,451)
Net Sales Revenue	-	$4,818,400	$10,447,168	$15,265,568
Gross Annual Rent	$793,440	-	-	$793,440
Less operating expenses	0	-	-	-
Net Operating Income (NOI	$793,440	-	-	$793,440
Capitalization Rate	4.9%	-	-	-
Capitalized Value	$16,192,653	-	-	$16,192,653

Residual Project Value

Project Value	$16,192,653	$4,818,400	$10,447,168	$31,458,221
Less Hard and Soft Costs	($8,832,428)	($2,536,739)	($10,118,864)	($21,488,032)
Less Developer Profit	($883,243)	($253,674)	($1,011,886)	($2,148,803)
Residual Land Value	**$6,476,982**	**$2,027,987**	**($683,582)**	**$7,821,386**
Actual Land Sale Price (2015)				($6,950,000)
Residual Project Value				**$871,386**

Notes:
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(d) Developer soft costs exclude impact fees, financing costs, contingency, and other line items in this proforma.
(e) A developer fee is included to cover the costs of managing development of project; the developer fee does not represent profit.
Source: BAE, 2019.

Pro Forma for Public Benefit Level Condominium Project at 201 El Camino Real & 612 Cambridge Ave., Menlo Park, CA, Possible Build-to-Suit Scenario

Development Program Assumptions

Project Characteristics		
Site area - acres / square feet (sf)	0.58	25,170
Gross building area (sf)		29,486
Built Project FAR		1.17
Dwelling units per acre		24
Residential		
Gross residential area (sf)		21,656
Multifamily gross residential area (sf)		18,091
Townhouse gross residential area (sf)		3,565
Dwelling units (du) - number		14
1 bedroom		5
1 bedroom BMR unit		1
2 bedroom		5
2 bedroom BMR unit		1
3 bedroom townhouse		2
Commercial		
Gross commercial area (sf)		7,830
Net retail area (sf)		4,322
Net medical office area (sf)		3,000
Parking		
Below grade parking garage (sf)		27,888
Below grade parking spaces		60
Standard parking spaces		32
Stacker spaces		28
Mechanical parking lifts		14
Residential parking spaces		27

Cost and Income Assumptions

Development Costs	Commercial	Residential Townhome	Residential Multifamily
Construction hard costs, per sf (a)	$384	$374	$374
TI allowance, per rentable sf (b)	$60		
Parking			
Underground garage hard costs per sf (a)			$180
Mechanical parking lifts, per lift (a)			$17,000
Underground garage hard costs per space (incl. lifts) (a)			$87,631
General Development Costs			
Impact fees (c)			$241,565
Demolition/underground utilities/site cost, per site sf			$40.88
Soft costs as % of hard costs (d)			20%
Developer fee (e)			4%
Contingency as % of hard and soft costs			5%
Developer profit as % of hard and soft costs			10%
Revenue and Sales Assumptions			
Office rental rate, sf/yr, NNN			$120.00
Retail rental rate, sf/yr, NNN			$120.00
Average sale price	**Avg. Unit SF**	**Price/SF**	**Price/Unit**
1 bedroom	1,044	$1,154	$1,205,000
1 bedroom BMR		N/A	$337,019
2 bedroom	1,430	$1,123	$1,606,000
2 bedroom BMR		N/A	$390,331
4 bedroom townhouse	1,783	$1,423	$2,536,000
Marketing costs as % of sales revenue			5%
Vacancy rate - residential / commercial		n/a	5%
Construction Financing			
Construction loan to cost ratio			65%
Loan fee (points)			1.50%
Interest rate			5.5%
Loan period (months)			18
Drawdown factor			50%
Total construction costs (excl. land & financing costs)			$23,565,924

Development Costs (excluding land)

Development Costs	Commercial	Townhome	Multifamily	Total
Building hard construction costs	$3,009,107	$1,332,912	$6,764,014	$11,106,033
Tenant improvements	$439,320	$0	$0	$439,320
Underground garage costs	$2,760,912	$334,656	$1,924,272	$5,019,840
Mechanical parking lift costs	$0	$0	$238,000	$238,000
Demolition and site prep costs	$273,220	$124,397	$631,268	$1,028,886
Subtotal, Hard Costs	**$6,482,560**	**$1,791,965**	**$9,557,554**	**$17,832,079**
Soft costs (d)	$1,296,512	$358,393	$1,911,511	$3,566,416
Impact fees	$73,642	$12,672	$155,252	$241,565
Contingency	$388,954	$107,518	$573,453	$1,069,925
Developer fee	$311,163	$86,014	$458,763	$855,940
Construction financing - interest	$229,323	$63,185	$339,353	$631,861
Construction financing - loan fees	$83,390	$22,976	$123,401	$229,768
Subtotal, Soft Costs	**$2,382,983**	**$650,759**	**$3,561,733**	**$6,595,475**
Total Hard & Soft Costs	**$8,865,543**	**$2,442,724**	**$13,119,287**	**$24,427,553**
Total Costs per Unit	n/a	$1,221,362	$1,093,274	$1,744,825
Total Costs per sf	$1,132	$685	$725	$828

Income and Sales Revenue

	Commercial	Townhome	Multifamily	Total
Gross Sales Revenue	-	$5,072,000	$14,782,350	$19,854,350
Less Marketing Costs	-	($253,600)	($739,117)	($992,717)
Net Sales Revenue	-	$4,818,400	$14,043,232	$18,861,632
Gross Annual Rent	$834,708	-	-	$834,708
Less operating expenses	-	-	-	-
Net Operating Income (NOI)	$834,708	-	-	$834,708
Capitalization Rate	4.9%	-	-	-
Capitalized Value	$17,034,857	-	-	$17,034,857

Residual Project Value

Project Value	$17,034,857	$4,818,400	$14,043,232	$35,896,489
Less Hard and Soft Costs	($8,865,543)	($2,442,724)	($13,119,287)	($24,427,553)
Less Developer Profit	($886,554)	($244,272)	($1,311,929)	($2,442,755)
Residual Land Value	**$7,282,760**	**$2,131,404**	**($387,983)**	**$9,026,181**
Actual Land Sale Price (2015)				($6,950,000)
Residual Project Value				**$2,076,181**

Notes:
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Source: BAE, 2019.