

**NW 15<sup>th</sup> Street Site Analysis**  
**Prepared for Lincoln City, Oregon**  
**By**  
**Urban Advisors Ltd**  
October 2012

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## Introduction

As part of the Crandall Arambula team for Transit and Growth Management, Urban Advisors was asked to evaluate the potential for development on a site on the NW 15<sup>th</sup> Street Festival Street in Lincoln City. This report contains an overview of demographic and market information and trends relating to site development, assessments of development scenarios using order of magnitude cost estimates, and a discussion of opportunities for the site as well as barriers to implementation of the chosen scenario resulting from public workshops with the design team.

To begin any discussion of the site it is necessary to note an essential fact about the Lincoln City market that differs from similar sites in other location: the Lincoln City market for retail, lodging and residential use is driven by its seaside location and incoming dollars from tourism. As such, some basic market drivers, such as local population growth have less bearing on the feasibility of new construction for housing than would be usual.

The overwhelming constraint at the moment is the national economy and the state of housing markets locally and regionally. Current construction pricing has not declined to the point where the diminished values in housing will pay for higher intensity site use. The national economy also affects commercial real estate because of changes in employment and lower demand for retail and services. It is realistic to expect that any project for the site will require a return of the national economy before the risk of building new space is seen as attractive.

## Market Information

### Demographics

Demographic trends were gathered from ESRI Business Information Services (ESRI BIS) to estimate future change in Lincoln City and Lincoln County.

<b>Lincoln City Population and Income</b>	<b>2011</b>	<b>2016</b>	<b>Change</b>
Population	7,932	8,083	151
Households	3,643	3,738	95
Families	1,975	1,997	22
Non-family Households	1,668	1,741	73
Average Household Size	2.15	2.13	(0.02)
Owner Occupied Housing Units	1,728	1,795	67
Renter Occupied Housing Units	1,915	1,943	28
Median Age	46.8	48.8	2.0
Median Household Income	\$27,944	\$31,739	\$3,795
Average Household Income	\$40,846	\$44,485	\$3,639
Per Capita Income	\$18,927	\$20,760	\$1,833

Source: ESRI BS

Lincoln City is expected to grow by 95 households between 2011 and 2016, with approximately 76 percent of household change in non-family households. 2011 median income was approximately 57 percent of Oregon median 2010 income.

#### Lincoln City Population by Age

Age	2011	2016	Change
0 - 4	5.61%	5.52%	-0.09%
5 - 9	4.74%	4.59%	-0.15%
10 - 14	4.37%	4.26%	-0.12%
15 - 19	4.87%	4.38%	-0.49%
20 - 24	5.50%	5.13%	-0.36%
25 - 34	11.72%	11.67%	-0.06%
35 - 44	10.92%	10.22%	-0.70%
45 - 54	14.22%	12.73%	-1.49%
55 - 64	17.51%	18.38%	0.88%
65 - 74	11.96%	14.41%	2.45%
75 - 84	6.00%	5.99%	-0.01%
85+	2.60%	2.73%	0.14%

Source: ESRI BS

Projections of population by age indicate that all growth is expected to be in age cohorts older than 54 years, with the earlier age cohorts declining very slightly.

#### Lincoln City Households by Income

Income Group	2011	2016	Change
<\$15,000	22.8%	22.2%	-0.6%
\$15,000 - \$24,999	22.6%	18.5%	-4.1%
\$25,000 - \$34,999	12.6%	12.6%	0.0%
\$35,000 - \$49,999	11.5%	10.5%	-1.0%
\$50,000 - \$74,999	16.7%	20.1%	3.4%
\$75,000 - \$99,999	8.0%	9.6%	1.6%
\$100,000 - \$149,999	4.4%	4.9%	0.4%
\$150,000 - \$199,999	0.7%	0.9%	0.1%
\$200,000+	0.6%	0.6%	0.0%

Source: ESRI BS

Household incomes are expected to rise in Lincoln City by approximately 2.3 percent annually. Adjusted for inflation this means that incomes are essentially unchanged over the time period.

To understand the potential for housing it is necessary to look at projections for the wider area. Local projections are based upon past trends and cannot take into account projects planned for the future, and since housing markets are regional rather than local, countywide trends offer a better estimate for demand driven by household growth.

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<b>Lincoln County Population and Income</b>	<b>2011</b>	<b>2016</b>	<b>Change</b>
Population	46,457	47,692	1,235
Households	20,742	21,465	723
Families	12,497	12,768	271
Non-family Households	8,245	8,697	452
Average Household Size	2.20	2.19	(0.01)
Owner Occupied Housing Units	13,274	13,813	539
Renter Occupied Housing Units	7,468	7,652	184
Median Household Income	\$39,038	\$43,829	\$4,791
Average Household Income	\$51,941	\$56,308	\$4,367
Per Capita Income	\$23,284	\$25,438	\$2,154

Source: ESRI BS

Lincoln County is expected to grow by 723 households, and, as shown in the next table, growth is expected to be in households in age cohorts 55 years of age and older.

#### **Lincoln County Population by Age**

<b>Age</b>	<b>2011</b>	<b>2016</b>	<b>Change</b>
0 - 4	4.80%	4.71%	-0.09%
5 - 9	4.54%	4.38%	-0.16%
10 - 14	4.67%	4.56%	-0.11%
15 - 19	5.16%	4.70%	-0.45%
20 - 24	4.60%	4.33%	-0.28%
25 - 34	10.02%	9.93%	-0.09%
35 - 44	9.82%	9.16%	-0.66%
45 - 54	14.94%	13.34%	-1.60%
55 - 64	19.53%	20.36%	0.84%
65 - 74	12.92%	15.35%	2.43%
75 - 84	6.59%	6.62%	0.03%
85+	2.42%	2.57%	0.14%

Source: ESRI BS

Household income trends in Lincoln County, shown in the following table, indicate that growth is expected in households with incomes over \$50,000 annually. Households in the \$50,000 to \$75,000 income range are expected to comprise almost 21 percent of county households, and households in that income range can afford mortgage payments for a unit in the range of ±\$260,000 to ±\$325,000. This appears positive for the local housing market, but much of that demand is likely to be from retiree households.

**Lincoln County Households by Income**

Income Group	2011	2016	Change
<\$15,000	16.4%	15.6%	-0.8%
\$15,000 - \$24,999	17.2%	13.8%	-3.4%
\$25,000 - \$34,999	10.7%	10.6%	0.0%
\$35,000 - \$49,999	16.7%	15.1%	-1.6%
\$50,000 - \$74,999	17.7%	20.9%	3.2%
\$75,000 - \$99,999	9.5%	11.2%	1.7%
\$100,000 - \$149,999	8.5%	9.2%	0.6%
\$150,000 - \$199,999	2.1%	2.5%	0.3%
\$200,000+	1.1%	1.2%	0.1%

Source: ESRI BS

**Local Employment**

Employment located in Lincoln city is driven by tourism, with 61 percent in Accommodation and Food Services, Retail, and Arts, Entertainment and Recreation.

**Covered Employment Located in Lincoln City**

	2002	2010	Change
Accommodation and Food Services	1329	1386	57
Retail Trade	995	924	(71)
Arts, Entertainment, and Recreation	689	627	(62)
Health Care and Social Assistance	563	620	57
Public Administration	125	246	121
Administration, Waste Mgmt., Remediation	224	198	(26)
Educational Services	157	154	(3)
Other Services	129	127	(2)
Construction	117	125	8
Real Estate and Rental and Leasing	89	122	33
Professional, Scientific, and Technical Services	45	57	12
Finance and Insurance	54	56	2
Manufacturing	100	46	(54)
Information	56	44	(12)
Wholesale Trade	28	30	2
Transportation and Warehousing	21	18	(3)
Utilities	7	5	(2)
Agriculture, Forestry, Fishing and Hunting	0	0	0
Mining, Quarrying, and Oil and Gas Extraction	0	0	0
Management of Companies and Enterprises	0	0	0
Total Employment Located in Lincoln City	4728	4785	57

Typical office using categories, Real Estate, Finance, Professional Services and Information (but excluding Public Administration) comprise approximately 6 percent of local employment. Health Care and Social Services also use office space and comprise approximately 13 percent of local employment, but are often located in special purpose facilities such as local clinic or hospital space. The largest declines in employment were seen in Retail, Arts, Entertainment and Recreation, Manufacturing, Administration, and Information.

Employment of Lincoln City residents (as opposed to employment within Lincoln City) is led by Accommodation and Food Services and Retail, followed by Health Care and Social Assistance and Arts, Entertainment and Recreation.

Employment of Lincoln City Residents  
Jobs by NAICS Industry Sector

	2002	2010	Change
Accommodation and Food Services	910	870	(40)
Retail Trade	505	591	86
Health Care and Social Assistance	336	477	141
Arts, Entertainment, and Recreation	362	320	(42)
Public Administration	139	221	82
Administration, Waste Mgmt., Remediation	151	164	13
Educational Services	151	161	10
Construction	107	125	18
Real Estate and Rental and Leasing	73	98	25
Other Services	89	98	9
Manufacturing	91	79	(12)
Finance and Insurance	49	77	28
Professional, Scientific, and Technical Services	53	70	17
Wholesale Trade	45	66	21
Transportation and Warehousing	22	60	38
Information	46	47	1
Agriculture, Forestry, Fishing and Hunting	23	28	5
Management of Companies and Enterprises	11	12	1
Utilities	5	11	6
Mining, Quarrying, and Oil and Gas Extraction	3	1	(2)
Total Employment of Residents	3171	3576	405

Unlike employment located in Lincoln city, employment of residents rose in Retail. Health Care and Social Assistance employment of residents grew more than local employment did in that sector, as did Professional Services. A potential opportunity, although not large, is presented by these sectors that show outmigration of residents jobs. This is shown in the next table. The outflow of jobs versus the inflow may indicate some potential for capturing some of the outflow if appropriate space can be provided.

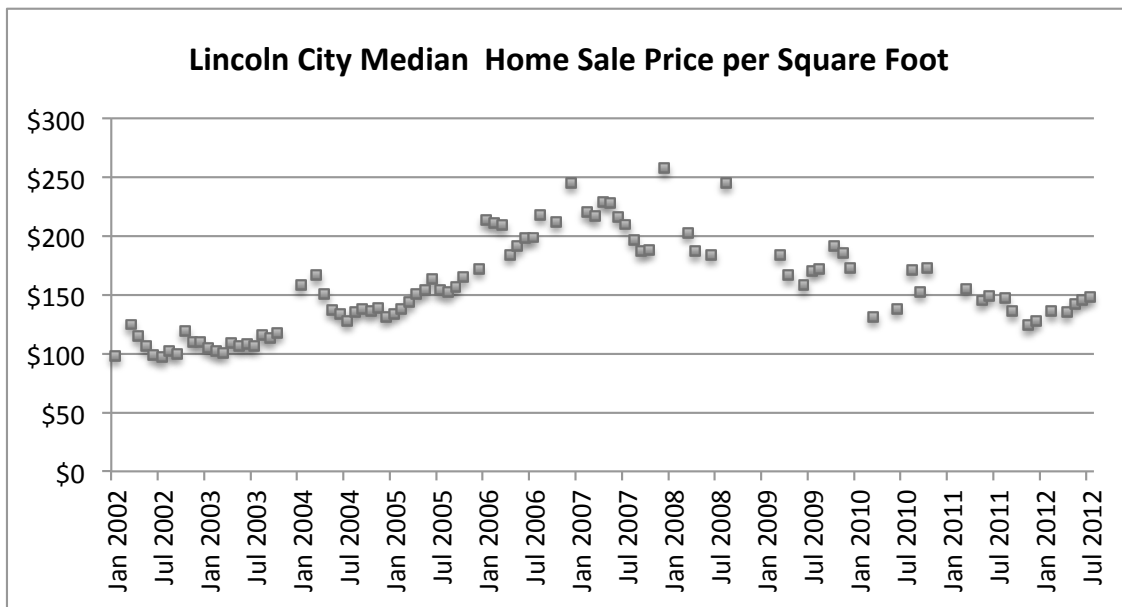
**Lincoln City Inflow and Outflow of Employment**

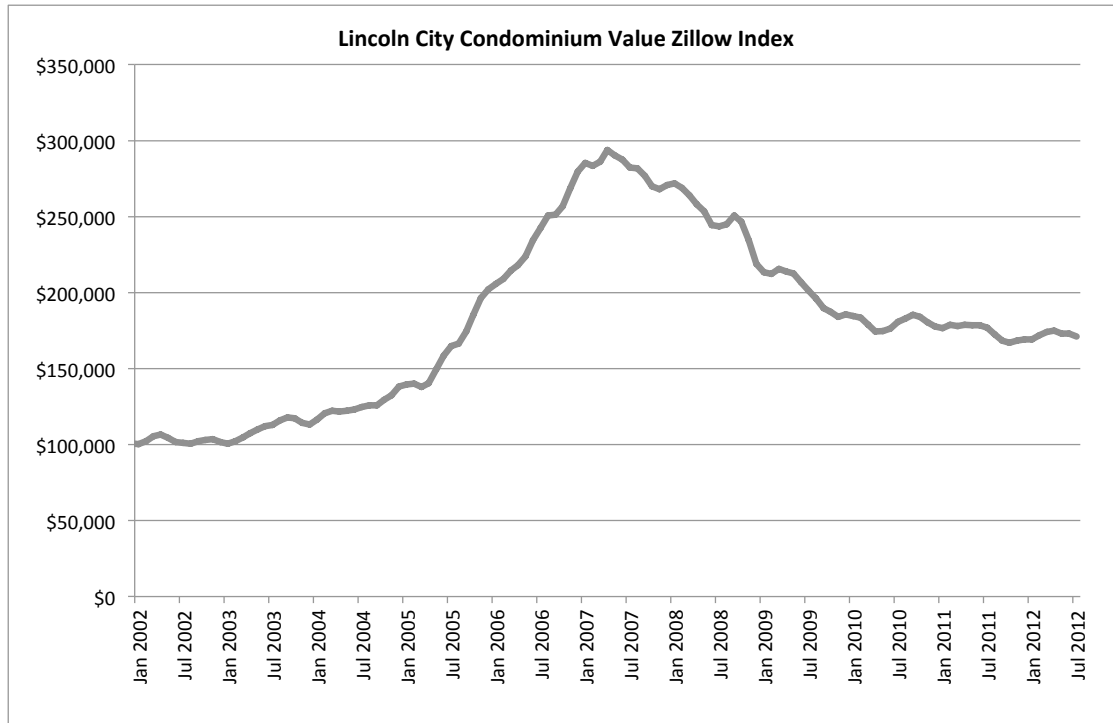
	2002	2010
Jobs Located in Lincoln City	4,728	4,785
Employed Residents of Lincoln City	3,171	3,576
Employed Residents Who Work in Lincoln City	1,935	1,716
Employed Residents Who Work Outside	1,236	1,860
Persons Who Work in Lincoln City and Live Elsewhere	2,793	3,069
Job Inflow (Jobs in Lincoln City less Employed Residents)	1,557	1,209
Lincoln City Jobs Held by Residents	40.9%	35.9%
Lincoln City Jobs Held by Non-Residents	59.1%	64.1%
Lincoln City Employed Residents with Jobs Elsewhere	39.0%	52.0%

Given the size of the subject site, filling a 5,000 square foot building catering to health services, real estate, finance, or professional services, would require between 10 and 20 employees depending upon the sector of employment. This amount of employment would comprise between 0.5 percent to 1 percent of 2010 job outflow.

**Housing Market**

The Lincoln City housing market, like the state and national markets, has seen a decline in prices since 2007 in both single family and condominium pricing.





There is currently an overhang of unsold or foreclosed units in Lincoln City. According to RealtyTrac.com, there are 25 bank-owned properties, and 218 unsold properties in Lincoln City. In Lincoln County, according to the same source, there are 97 bank-owned units and over 1,100 units for sale. Since a frictional vacancy of around 5 percent is expected one would expect around 90 units in Lincoln City to be unoccupied at any time. When taken together with the price declines, it appears that available units may be higher than projected demand from household growth.

There is demand for rental housing in Lincoln City sufficient to allow units on this site. As the population ages some of the demand will be for senior rental units and possibly assisted living for those who can no longer live independently in their owned units. This use may be feasible on the site partly because such housing has fewer cars per occupant, sometimes with parking only for caregivers.

Apartments for younger age cohorts or families require higher parking ratios that would limit the number of units that could be placed on the site. Another constraint for such units is that the median apartment rent, according to Zillow.com, is \$600 per unit. Construction costs for such units, including site acquisition, is in the range of \$160 per square foot, and requires a rental rate over \$1.40 per square foot for feasibility. Current listings for rentals in Lincoln City indicate square foot rents have square foot rents at or below \$1 per foot per month. As senior



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rentals, apartments of small size and high quality might capture higher rents, but for younger persons or families, the rental rates are unlikely to cover costs adequately.

#### Commercial Market for the Site

Current commercial properties list at prices from \$40 to over \$150 per square foot. At a 10 percent return on asset, those values require triple net leasing rates from \$4 to \$15 per square foot. There is some space available in the area within typical commuting distance with asking rates that vary from \$4 per square foot to over \$16 per square foot. Much of the space being leased however is not of high quality and is not well located.

The office market for Lincoln City is very small and has not been adding large numbers of employees, as noted in the section above regarding employment. As noted earlier, filling 5,000 square feet of commercial space would require between 10 to 20 employees on site.

The highest prices and leasing rates for retail commercial use are seen on the Pacific Highway, but this site is close to the highway and as such has reasonably good access, but not necessarily the visibility needed for retail use. Because of its location off the highway, on a low traffic street, the site is not suitable for retail that relies on traffic volumes. As a retail site, parking is a challenge because the surrounding low household (see the map on page x) density mandates that most customers will need to arrive by car rather than by pedestrian access, and would thus limit development to a very small footprint. A single destination use such as a restaurant is faced with the same constraint.

There are relatively few categories of retail use that can be expanded unless the location is on Highway 101. The table on the next page enumerates retail sales versus local support. It shows that the current retail sales are supported by visitors, not by local demand. Since this site will not automatically attract the drive-by traffic necessary to gain the attention of thousands of visitors, it is difficult to make a case for the site for retail use.

#### Mixed Use Housing over Retail or Office

Mixed use on the site is not feasible in the current economy. Mixed use residential suffers from the same economic problems currently with the added costs of fire separation, a residential lobby separate from the commercial entrances and separate mechanical and electrical systems. This site, while in a good location, is not a prime residential location with commanding views of the ocean in the midst of the best housing in the city. Because of cost, mixed use will need to be priced at the upper end of the market, and, to capture that price, located on a prime location.

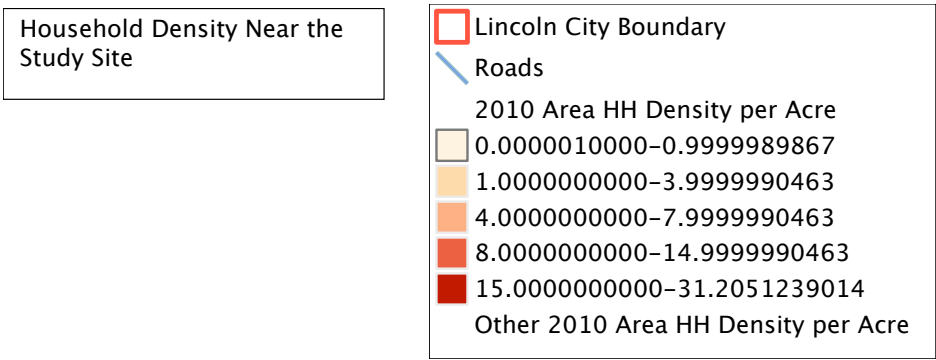
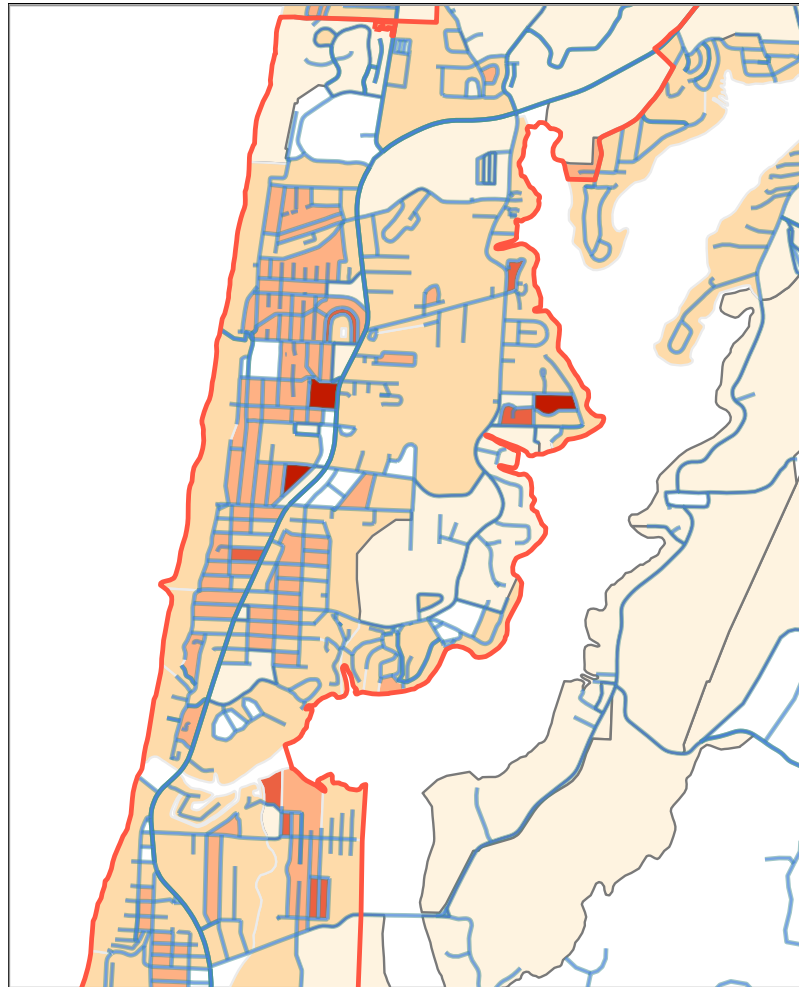
#### Lodging

Lodging occupancy began to decline statewide in 2008, and by December 2009, according to the Travel Oregon Tourism and Hospitality Report both occupancy and room rates were declining.

**Area Retail Demand and Sales**

<b>!5 Minute Drive Time Retail Demand and Sales</b>	<b>NAICS</b>	<b>Demand</b>	<b>Supply</b>	<b>Retail Gap</b>	<b>Businesses</b>
<b>Industry Summary</b>		(Spending)	(Retail Sales)		
Total Retail Trade and Food & Drink	44-45,722	\$78,121,602	\$146,452,921	-\$68,331,318	248
Total Retail Trade	44-45	\$67,770,261	\$119,143,538	-\$51,373,277	186
Total Food & Drink	722	\$10,351,341	\$27,309,382	-\$16,958,041	62
<b>Industry Group</b>	<b>NAICS</b>	<b>Demand</b>	<b>Supply</b>	<b>Retail Gap</b>	<b>Businesses</b>
		(Spending)	(Sales)	or Surplus	
Motor Vehicle & Parts Dealers	441	\$16,334,889	\$4,195,388	\$12,139,502	8
Automobile Dealers	4411	\$13,488,996	\$1,629,585	\$11,859,411	2
Other Motor Vehicle Dealers	4412	\$1,654,165	\$0	\$1,654,165	0
Auto Parts, Accessories & Tire Stores	4413	\$1,191,728	\$2,565,803	-\$1,374,075	6
Furniture & Home Furnishings Stores	442	\$2,012,835	\$5,888,239	-\$3,875,404	11
Furniture Stores	4421	\$1,155,847	\$1,219,470	-\$63,622	2
Home Furnishings Stores	4422	\$856,988	\$4,668,769	-\$3,811,781	9
Electronics & Appliance Stores	4431	\$1,581,582	\$3,052,986	-\$1,471,404	8
Bldg Materials, Garden Equip. & Supply Stores	444	\$2,654,851	\$2,628,671	\$26,180	16
Bldg Material & Supplies Dealers	4441	\$2,378,277	\$2,421,311	-\$43,034	12
Lawn & Garden Equip & Supply Stores	4442	\$276,573	\$207,360	\$69,214	4
Food & Beverage Stores	445	\$17,254,750	\$36,148,476	-\$18,893,726	18
Grocery Stores	4451	\$16,227,300	\$33,641,918	-\$17,414,618	7
Specialty Food Stores	4452	\$538,926	\$1,068,150	-\$529,224	8
Beer, Wine & Liquor Stores	4453	\$488,524	\$1,438,409	-\$949,885	3
Health & Personal Care Stores	446,4461	\$1,961,812	\$4,492,797	-\$2,530,985	12
Gasoline Stations	447,4471	\$10,645,636	\$21,997,025	-\$11,351,390	5
Clothing & Clothing Accessories Stores	448	\$3,372,459	\$24,199,089	-\$20,826,629	30
Clothing Stores	4481	\$2,691,034	\$20,646,320	-\$17,955,287	19
Shoe Stores	4482	\$376,229	\$2,676,715	-\$2,300,486	8
Jewelry, Luggage & Leather Goods Stores	4483	\$305,196	\$876,053	-\$570,857	3
Sporting Goods, Hobby, Book & Music Stores	451	\$1,123,190	\$2,777,216	-\$1,654,026	20
Sporting Goods/Hobby/Musical Instr Stores	4511	\$594,586	\$1,252,300	-\$657,714	13
Book, Periodical & Music Stores	4512	\$528,604	\$1,524,916	-\$996,313	7
General Merchandise Stores	452	\$7,075,753	\$5,422,239	\$1,653,514	3
Department Stores Excluding Leased Depts.	4521	\$4,943,476	\$1,939,738	\$3,003,738	2
Other General Merchandise Stores	4529	\$2,132,277	\$3,482,501	-\$1,350,224	1
Miscellaneous Store Retailers	453	\$3,192,061	\$8,341,412	-\$5,149,351	56
Florists	4531	\$103,794	\$119,977	-\$16,183	3
Office Supplies, Stationery & Gift Stores	4532	\$1,091,279	\$1,678,289	-\$587,010	14
Used Merchandise Stores	4533	\$126,062	\$500,802	-\$374,740	11
Other Miscellaneous Store Retailers	4539	\$1,870,925	\$6,042,343	-\$4,171,418	28
Nonstore Retailers	454	\$560,443	\$0	\$560,443	0
Electronic Shopping & Mail-Order Houses	4541	\$88,701	\$0	\$88,701	0
Vending Machine Operators	4542	\$88,357	\$0	\$88,357	0
Direct Selling Establishments	4543	\$383,385	\$0	\$383,385	0
Food Services & Drinking Places	722	\$10,351,341	\$27,309,382	-\$16,958,041	62
Full-Service Restaurants	7221	\$6,566,934	\$17,478,539	-\$10,911,605	40
Limited-Service Eating Places	7222	\$2,851,120	\$8,586,230	-\$5,735,109	21
Special Food Services	7223	\$23,468	\$0	\$23,468	0
Drinking Places - Alcoholic Beverages	7224	\$909,819	\$1,244,614	-\$334,795	2

Source: ESRI BIS



Data Source: 2010 Census Tiger Files

According to OLMIS, the State of Oregon information gateway for labor information:

Although the Great Recession began nationally in December 2007, Oregon's seasonally adjusted employment in leisure and hospitality continued to post gains from month to month until February 2008. At that time, employment was 2 percent higher than the prior year. As employment began to decline, the over-the-year growth also shrank. The loss of more than 1,000 jobs from September to October 2008 finally pushed the industry below its year-prior level by about 1 percent. Over-the-year job losses hit their deepest point (-7%) in April 2009, and continued to a lesser degree until the middle of 2010. Between January and November of 2011, the industry added over 4,000 jobs, but still sits more than 8,000 jobs below the February 2008 level.

The Oregon Department of Revenue State Lodging Report for 2012 indicated that while *hotels* were posting higher revenues, revenues to *motels* had still not recovered to their 2007 peak. The number of lodging providers on the central coast has increased from 234 in 2004 to 434 in 2011, while sales have declined from \$127.6 million in 2007 to \$117 million in 2011. The revenue and supply statistics indicate that the market for new motels is not likely to be supportive of new construction until a fuller recovery occurs.

#### Construction Costs and Feasibility

The following table lists construction costs by building type exclusive of permitting, professional fees, land cost, parking and landscaping, financing and other indirect costs.

Building Type and Cost	Low Estimate Per Square Foot			High Estimate Per Square Foot		
	Base	Contractor	Total	Base	Contractor	Total
Apartments 2 to 3 Story	\$88	\$13	\$101	\$109	\$16	\$125
Motel 2 to 3 Story	\$99	\$15	\$114	\$117	\$18	\$135
Office 1 Story	\$94	\$14	\$108	\$128	\$19	\$147
Office 2 Plus Story	\$94	\$14	\$108	\$130	\$20	\$150
Restaurant 1 Story	\$113	\$17	\$130	\$139	\$21	\$160
Retail 1 Story	\$66	\$10	\$76	\$87	\$13	\$100
Structured Parking	\$28	\$4	\$32	\$43	\$6	\$49
Underground Parking	\$43	\$6	\$49	\$48	\$7	\$55

Based upon order of magnitude cost estimates for the scenarios developed by the design team, it became clear that mixed use commercial-residential or rental apartments generated insufficient revenue at market rents to cover acquisition and construction costs. The tables below show costs and returns for the design options, both with land cost included and without land cost.

Project Option: For Sale Units		Pricing at Market			
	Project Cost	Residential Sale Price	Residential Net	Commercial Rate	Commercial Return
Option A	\$847,000			\$15.00	8.3%
Option B	\$848,000			\$15.00	8.3%
Option C	\$1,102,000	\$200	-\$191,000	\$15.00	5.5%
Option D	\$1,439,000	\$200	-\$252,000	\$15.00	7.3%
Option E	\$1,260,000	\$200	-\$256,000	\$15.00	6.3%

Project Option: For Sale Units		Market Price/Land Writedown			
	Project Cost	Residential Sale Price	Residential Net	Commercial Rate	Commercial Return
Option A	\$710,000			\$15.00	8.9%
Option B	\$830,000			\$15.00	9.7%
Option C	\$966,000	\$200	-\$115,000	\$15.00	5.6%
Option D	\$1,303,000	\$200	-\$153,000	\$15.00	7.6%
Option E	\$1,123,000	\$200	-\$153,000	\$15.00	6.5%

In both cases, standalone commercial space renting at \$15 per square foot made sufficient return to be feasible. For sale residential in a mixed-use configuration is not currently feasible because of current market pricing and the housing cost lowers the return to the commercial portion of the project.

An estimate was prepared for the residential mixed use options with rental housing at market rates and project returns are shown in the table below.

Project Options: Rental Residential		Pricing at Market		
	Project Cost	Residential Rent/SF	Commercial Rate/SF	Project Return
Option C	\$916,000	\$1	\$15.00	5.0%
Option D	\$1,222,000	\$1	\$15.00	3.9%
Option E	\$1,063,000	\$1	\$15.00	2.2%

In addition, an apartment only scenario was evaluated. The return was negative 6.9 percent.

**Preferred Options: Phase One and Phase Two**

The preferred options resulting from public involvement and work by the design team were evaluated and shown in the following tables.

**Preferred Option: Phase One**

<b>Program</b>	<b>Stories</b>	<b>Units</b>	<b>Pct/SF</b>	<b>Totals</b>
Site Area Acres				0.23
Circulation			5%	0.01
Dev't Envelope				9,500
Commercial Space	2		2,000	5,000
Building Site Coverage				25%
Surface Parking Footprint		6	325	1,950
Area in Courtyards, Walks, Greens				5,050

**Preferred Option: Phase One**

Site Acquisition				120,000
Building Construction	\$109	SF		545,000
Landscape, Walks	\$6	SF		30,300
Surface Parking	\$16	SF		31,200
Soft Costs	20%			121,300
Base Cost Commercial	\$145			727,800
Land Cost Allocation				120,000
Total Base Estimate				847,800
Commercial Equity Required	30%			254,340
Gross Rent NNN	\$15.00	SF/yr		75,000
Com'l Vacancy Credit Loss	10%			(7,500)
Effective Gross Rent				67,500
Less Commercial Mgmt	4%			(2,700)
Less Maint Reserve	3%			(1,688)
Net Income				63,113
Less Com'l Debt Service	25 yr		7.50%	(41,986)
Less Residential Debt Service				-
Cash Flow Before Tax				21,127
Return on Equity				8.3%

**Preferred Option: Phase 2**

<b>Program</b>	<b>Stories</b>	<b>Units</b>	<b>Pct/SF</b>	<b>Totals</b>
Site Area Acres				0.22
Circulation			5%	0.01
Devt Envelope				9,251
Commercial Space	2		4,000	10,000
Building Site Coverage				25%
Surface Parking Footprint		17	300	5,100
Area in Courtyards, Walks, Greens				907

**Preferred Option: Phase 2**

Site Acquisition				341,880
Building Construction	\$55	SF		545,000
Landscape, Walks	\$6	SF		907
Surface Parking	\$16	SF		81,600
Soft Costs	20%			223,387
Base Cost Commercial	\$145			1,340,322
Land Cost Allocation				3,418,800
Total Base Estimate				1,682,202
Commercial Equity Required	30%			504,660
Gross Rent NNN	\$15.00	SF/yr		150,000
Com'l Vacancy Credit Loss	10%			(15,000)
Effective Gross Rent				135,000
Less Commercial Mgmt	4%			(5,400)
Less Maint Reserve	3%			(3,375)
Net Income				126,225
Less Com'l Debt Service	25 yr		7.50%	(74,106)
Less Residential Debt Service				-
Cash Flow Before Tax				52,119
Return on Equity				10.3%

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**Conclusion**

Because of current national economic constraints it may take four years for economic recovery to lower perceived risk to enable new construction. A recovery of the housing market and the elimination of the current overhang of units for sale and bank-owned are necessary before housing construction is likely. For employment, it may be possible to proceed earlier if the national unemployment rate continues to decline and when local employment recovers more fully.